

# Draft Government Policy Statement on Gas Governance

Hon David Parker, Minister of Energy

December 2007

## 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 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 the 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. 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.

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

## Background

1. In December 2004 a co-regulatory model commenced with the approval of Gas Industry Co as 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. In particular, Gas Industry Co has focused on enhancing consumer outcomes, making improvements to the operation of the retail market, developing wholesale market trading arrangements, reviewing infrastructure access arrangements and establishing sound contingency management systems.
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.

## **Government's overall policy objective and outcomes for the gas industry**

3. The Government's overall policy objective for the gas industry is:

To ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable, and environmentally sustainable manner.

4. Consistent with this overall objective, the Government seeks that:

- 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. Energy and other resources are used efficiently;
- c. Barriers to competition in the gas industry are minimised to the long-term benefit of end-users;
- d. Incentives for investment in gas processing facilities, transmission and distribution, energy efficiency and demand-side management are maintained or enhanced;
- e. The full costs of producing and transporting gas are signalled to consumers;
- f. Delivered gas costs and prices are subject to sustained downward pressure;
- g. The quality of gas services and in particular trade-offs between quality and price, as far as possible, reflect customers' preferences;
- h. Risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties;
- i. Consistency with the Government's gas safety regime is maintained; and
- j. The gas sector contributes to achieving the Government's climate change objectives by minimising gas losses and promoting demand-side management and energy efficiency.

## **Co-regulatory governance and Government oversight**

5. To meet the policy objectives and outcomes, Gas Industry Co is required to operate with the Government in a co-regulatory governance setting in accordance with the Gas Act.

6. Gas Industry Co is required to operate within the collective framework of the Gas Act, this policy statement and Gas Industry Co's constitution.

## **Gas Industry Co's work programme**

7. The Government expects Gas Industry Co to pursue the matters below, and to develop and submit to the Minister of Energy for approval, proposals for effective industry arrangements on those matters.

8. Gas Industry Co may recommend non-regulatory arrangements (including voluntary codes or multilateral contracts) or rules or regulations to be made under the Gas Act, whichever Gas Industry Co considers most practicable to achieve the objectives and outcomes described in this policy statement.

### **Consumer Outcomes**

- Ensure that all gas consumers have effective access to a complaints resolution system
  - 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 system would provide benefits such as ease of access, consistency of outcomes and efficiencies of scale.
  - The Government expects any consumer complaints resolution system to be free to complainants and to meet appropriate international benchmarks such as accessibility, independence, fairness, accountability, efficiency and effectiveness.
  - The Government expects the 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 the Government's expectations are met.
- Review, monitor and where warranted recommend appropriate actions to the Minister of Energy on the relationship between the gas industry and consumers for the supply of gas, including ensuring the contractual arrangements adequately protect consumer interests.
- Work with other agencies to improve the information available to consumers regarding the options available to them for energy supply - including but not limited to gas.

### **Improve efficiency of the retail market**

- Establish and maintain effective and efficient customer switching arrangements, so that barriers to customer switching are minimised.

- Establish and maintain effective and efficient arrangements for the allocation and reconciliation of downstream gas quantities.
- Consider whether the market structure for the provision of gas metering, pipeline and energy services is efficient and whether there is sufficient clarity regarding the respective roles of the different participants in the supply chain.

### **Improve efficiency of the wholesale market**

- Develop more efficient arrangements for the short term trading of gas.
- Establish and maintain effective and efficient arrangements for the allocation and reconciliation of upstream gas quantities.
- Consider whether requiring the disclosure of information by relevant gas industry participants could improve competition in relation to medium and longer term wholesale gas contracts.

### **Improve arrangements for access to key infrastructure**

- Design and recommend rules setting out a regime for the disclosure of information about gas processing facilities (including information regarding third party approaches to access those facilities) and, if appropriate, establish protocols that set reasonable terms and conditions for access to gas processing facilities.
- Design and recommend an open access regime (including transportation, interconnection and balancing services) across transmission pipelines that provides for gas market participants and new entrants to access transmission pipelines on reasonable terms and conditions.
- Establish consistent standards and protocols across distribution pipelines so that gas market participants and new entrants can access distribution pipelines on reasonable terms and conditions.

### **Security of Supply**

- Develop, implement and monitor sound arrangements for contingency management in the gas industry.

### **Other Gas Governance Matters**

- Implement, where required by the relevant arrangements, the approved compliance and dispute resolution processes for each of the arrangements approved by the Minister of Energy

- Monitor the ongoing relevance and effectiveness of all gas arrangements approved by the Minister of Energy.
- Gather information on the performance and present state of the gas sector and publish such information, as appropriate.
- Advise the Minister of Energy whether rules, regulations or industry arrangements recommended under Part 4A of the Gas Act 1992 should be extended to include liquid petroleum gas.

### **Support implementation of NZES**

- Provide advice to the Minister of Energy on the extent to which the direct use of gas would contribute towards the objectives of the NZES and recommend appropriate policies and strategies.
- Provide advice to the Minister of Energy on the extent to which the development of gas storage facilities would be consistent with the NZES.