

Cost Recovery Impact Statement

Regulations to set the Gas Industry Company Levy 2021/22

Agency Disclosure Statement

This statement has been prepared by the Ministry of Business, Innovation and Employment (MBIE). It provides an analysis of whether the Minister of Energy and Resources (the Minister) should accept or reject the Gas Industry Company's (GIC) annual levy recommendation.

The Gas Act 1992 (the Act) enables the GIC to make an annual recommendation to the Minister that regulations be made to set levy rates and require gas industry participants to pay the levy to the GIC to fund the GIC's industry governance activities (Sections 43ZZB-43ZZF).

This year the GIC is recommending that regulations be made to recover up to \$3.47 million for the financial year beginning 1 July 2021 (i.e. 2021/22). Like previous years the levy recommendation has two components: wholesale and retail (\$1.88million and \$1.59million respectively).

These are underpinned by two key assumptions:

- the retail levy is estimated based on the number of active Installation Control Points (ICPs) in the gas registry (estimated to be 300,000 for the 2021/22 levy regulations). If the number of active ICPs changes, then this will impact on the amount collected under the retail levy; and
- the wholesale levy is charged per gigajoule of gas purchased. The GIC's estimate for gas consumption is 165 petajoules. If the amount of gas purchased decreases or increases, this will impact the amount recovered through the wholesale levy.

The decision-making under the Act is constrained. The Act requires the Minister to either accept or reject the levy recommendation (section 43ZZD). The Act further requires the Minister to accept the recommendation if satisfied that it meets the below requirements:

- the levy rate or amount must be reasonable, having regard to the GIC's Statement of Intent (SOI), annual report, and the objectives and outcomes in the Government Policy Statement on Gas Governance 2008 (the GPS);
- the GIC has consulted with industry participants on the levy rate or amount; and
- the requirements of sections 43ZZB to 43ZZE of the Act (which prescribe the costs that may be funded from the levy and various legal aspects of making the regulations) are met.

The levy amount required is determined by the GIC's work programme. The GIC's work programme is a binding constraint on analysis. This work programme is agreed with the industry through the levy recommendation process. Combined with the decision-making constraints noted above, options to change or re-phase the work programme are not available to decision makers (although may be able to be achieved outside the levy recommendation process).

Consistent with previous years, our analysis focuses on whether or not the GIC's levy recommendation meets the above requirements set out in the Act.

The levy recommendation is normally made in February, with the new regulations required to be in force by 1 July. While this somewhat limits the amount of time available for analysis, the levy is well established and changes little year to year. Consistent with assessment of the

levy recommendation in previous years, MBIE's analysis is solely based on the information provided by the GIC as part of its levy recommendation to the Minister.

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Executive summary

Under the Act, each year the Gas Industry Company (GIC) is able to recommend to the Minister of Energy and Resources (the Minister) that regulations be made to set levy rates and require gas industry participants to pay the levy to the GIC¹. The Act sets out the activities for which costs may be met from the levy².

The levy has a wholesale component based on the energy quantities of gas, underpinned by an estimate of the amount of gas that will be purchased in the following year; and a retail component that is apportioned based on Installation Control Point (ICP) market shares.

For 2021/22, the GIC's proposed levy rates will meet \$3.47 million of the GIC's estimated costs. This is a 0.64 per cent increase from 2020/21. The proposed levy rates are as follows:

Table one: Comparison of retail and wholesale levy rates 2020/21 and 2021/22

	2020/21	2021/22	Percentage Change
Retail Levy Per ICP	\$5.16	\$5.28	+2.33%
Wholesale Levy Cents per gigajoule (GJ)	1.1164c	1.1445c	+ 2.51%

The costs imposed on end users are relatively small, approximately 0.60 per cent of residential gas consumers' annual gas bill. Large industry users, who consume the most gas, pay the bulk of the levy. No costs will be imposed on government as the levy will be paid by gas industry participants and collected by the GIC.

The Minister must accept the levy recommendation if she or he is satisfied that it meets certain requirements laid out in the Act.³

MBIE has found that the recommendation meets the requirements of the Act. Therefore, the Minister should accept it. If a new levy is not approved by 1 July 2021, the GIC will be required to rely on market fee⁴ revenue and equity reserves⁵, both expected to be insufficient to deliver its work programme.

Status quo

The Gas Act 1992 (the Act) sets out New Zealand's co-regulatory governance approach to the gas industry under which an approved industry body, the Gas Industry Company (GIC), co-regulates the gas industry, by having the power to recommend arrangements to the Minister of Energy and Resources (the Minister).

The principal policy objective of the GIC is '*to ensure that gas is delivered to existing and new customers in a safe, efficient and reliable manner*'. In order for the GIC to meet the costs of its activities in working to achieve this objective, the Act provides for the GIC to make a

¹ Section 43ZZB.

² Section 43ZZC.

³ Section 43ZZD.

⁴ Market fees are payable in accordance with certain gas governance rules and regulations to recover actual expenses directly required to meet GIC's obligations under those arrangements. These cover the contractually agreed costs of any service providers and any other expected direct costs related to the monitoring of those arrangements.

⁵ Equity reserve is money set aside made up of industry advance reserves and retained earnings (i.e. Shareholder fees).

recommendation to the Minister that regulations are made to set levy rates and require gas industry participants to pay the levy.

The Act sets out that the levy regulations can only apply to the financial year in which they are made, so new recommendations are made by the GIC every year⁶. Annual levy regulations have been made since 2005, and are well understood by industry participants.

The Gas (Levy of Industry Participants) Regulations 2020 set the current rate of wholesale and retail levy rates as follows:

- a retail levy rate of \$5.16 per Installation Control Point (ICP⁷); and
- a wholesale levy rate of 1.1164 cents per gigajoule.

The GIC estimated that these rates would enable it to collect \$3.45 million for the 2020/21 year. The actual amount that will be collected depends on the accuracy of assumptions underpinning the retail and wholesale levy rates (as discussed in the levy methodology section of this document).

Due to the timing of the expiry of these regulations, the level of overpayment (or underpayment) is not yet known. A mechanism is in place for any overpaid levies to be refunded to industry participants at the end of the financial year through a process the GIC calls a 'wash-up'. These wash-ups may occur due to these assumptions being incorrect, or due to underspend in the GIC's work programme. Any refund of overpayment usually happens as soon as practicable after the annual accounts have been received by shareholders at the GIC's Annual Meeting. For example, at the end of the 2019/20 financial year, total refunds of \$243,507 were reimbursed to levy payers.

The GIC recovers most (approximately 73 per cent for FY2021/22) of the cost of its total work programme through the levy on gas industry participants. The other main sources of funding are market fees and an annual fee of \$2,000 (excl. GST) per GIC shareholder. The levy rates and a schedule of levy funded activities are publicly available on the GIC's website⁸.

Cost Recovery Principles and Objectives

The Act, the GPS on Gas Governance 2008, and the SOI establishes a policy framework within which the GIC makes rules and recommends regulations.

In section 43ZN the Act sets out the objectives of the GIC in recommending gas governance regulations related to the gas wholesale market, processing facilities, transmission, and distribution of gas. The levy is the key financial enabler for the GIC to deliver its principal policy objective to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner.

In section 43ZZD it specifies that the Minister must accept the levy recommendation if she/he is satisfied that it meets the below requirements:

- the levy rate must be reasonable, having regard to the GIC's Statement of Intent (SOI)⁹, annual report, and the objectives and outcomes in the Government Policy Statement on Gas Governance 2008 (the GPS)¹⁰;

⁶ Section 43ZZE(3) of the Act.

⁷ Installation Control Points (ICPs) are the physical point of connection of a consumer with the gas distribution network, and the point at which a gas retailer supplies gas to a consumer.

⁸ <https://www.gasindustry.co.nz/work-programmes/levies/overview/>

⁹ Section 43ZQ of the Act requires for the GIC to prepare and submit a Statement of Intent to the Minister for the new financial year and at least the following two, which should outline the nature and scope of GIC's intended operations, its objectives, path to achieving outcomes in relation to the GPS, and such other matters regarding its operations.

¹⁰ Section 43ZO of the Act provides for a Government Policy Statement on Gas Governance, which sets out the objectives and outcomes for the GIC in relation to the governance of the gas industry which aligns with

- the GIC has consulted with industry participants on the levy rate or amount¹¹; and
- the requirements of sections 43ZZB to 43ZZE of the Act (which prescribe the costs that may be funded from the levy and various legal aspects of making the regulations) are met.

In addition, any levy recommendation made by the GIC must also be consistent with the Auditor-General and The Treasury's respective guidelines on public sector charging.

Alongside this policy framework, the GIC has developed principles that it uses when developing its annual levy recommendation, attached as Annex One.

Policy Rationale: Why a user charge? And what type is most appropriate?

Section 43ZZC sets out the different costs that the GIC may recover from the levy. The levy is the key financial enabler for the GIC to deliver its 'principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient and reliable manner'.

This levy will allow the GIC to deliver on its proposed work programme. Without new levy regulations, the GIC will be unable to meet its principal objective under the Act, and the other objectives set out in the Act and the GPS.

The design of the levy has not changed from previous years. We consider that the levy design meets the requirements of the Act.

MBIE's assessment is that the levy rates to collect up to \$3.47 million recommended by the GIC is **reasonable**, and in line with the levy rates approved in previous years. There has been little change from previous years in the set levy rate and revenue. The increase from \$3.45 million to \$3.47 million enables the GIC to implement its work programme and meet its costs.

The work programme **aligns** with government objectives and outcomes for the gas sector, and the estimated total levy funding requirement is based on the cost of delivering that work programme. Projects set out in the GIC's recommendation align with the SOI.

Industry participants have been **consulted** on the proposed levy rate. The GIC consulted with industry participants at its annual co-regulatory forum in November 2020, the feedback from this was generally positive. An open consultation was also undertaken, with submissions published on the GIC's website¹². The consultation contributed to the development of the SOI and the work programme (alongside associated costs). See the consultation section of this document for further information on the GIC's consultation process.

MBIE considers that **sections 43ZZB to 43ZZE**, which set out what the levy may do, are met. As prescribed in the sections, the industry body has recommended two different types/rates of levy- a retail and wholesale levy, which may be paid by every industry participant (or prescribed class of industry participants). The recommended levy is set to recover the GIC's estimated costs of delivering its work programme in line with the costs outlined in section 43ZZC. The levy regulations are meant for the financial year 2021/22. The design of the levy has not changed from previous years.

We consider that the levy recommendation is also consistent with the Auditor-General and The Treasury's respective guidelines on public sector charging, in addition to being consistent with the GIC's own principles used when determining the levy recommendation, as highlighted in Annex One.

Government's policy objectives. The GIC must have regard to these objectives and outcomes while making recommendations and also report to the Minister against them.

¹¹ See Footnote 8

¹² See Footnote 8

The level of the proposed fee and its cost components (cost recovery model)

Proposed levy rates

Consistent with previous years, the levy has two components:

- A **wholesale component** based on the energy quantities of gas, underpinned by an estimate of the amount of gas (in GJ/gigajoules) that will be purchased in the following financial year.
- A **retail component** that is apportioned based on ICP market shares, underpinned by an estimate of the number of active ICP's for the period of the levy.

For 2021/22, the GIC's proposed levy rates will meet \$3.47 million of the GIC's costs. This is an increase of \$22,185 (or 0.64 per cent) from 2020/21. The proposed levy rates are set out in table two (below).

Table two: Comparison of retail and wholesale levy rates, and funding requirements 2020/21 and 2021/22

Figures GST exclusive where applicable	2020/2021	2021/22 (Proposed)	% change
Retail Levy (per ICP)	\$5.16	\$5.28 per ICP	+2.33%
Wholesale Levy (cents per GJ)	1.1164c	1.1445c	+2.51%
Total levy funding requirement	\$3,450,182	\$3,472,367	+0.64%

Overall GIC levy funding requirements are similar compared to last year's.

For 2021/22, the GIC estimates the number of ICP's to grow, but the amount of gas purchased to decline. Both the wholesale and retail levy show small increases from FY2021 (2.51 per cent and 2.33 per cent respectively), with a similar level of budget previously allocated to gas transmission access work now being earmarked for strategic issues such as green gas and hydrogen.

Levy methodology

The recommended levy rate is based on the estimated cost of the GIC's levy funded work programme for the next financial year.

The GIC allocates costs between its wholesale and retail workstreams by estimating the 'direct costs' that can be attributed to each, then apportioning the 'indirect costs' based on the relative proportion of activity in each workstream. These costs allocated to the retail and wholesale workstreams are net of market fees.

In years where the GIC's work programme primarily focusses on retail issues, the retail levy rate will increase while the wholesale levy will decrease, and vice versa. This is consistent with the GIC's cost allocation principles (particularly beneficiary pays principle) for the levy.

Assumptions underpinning levy model

There are two key assumptions underpinning the GIC's 2021/22 proposal:

- The retail levy is estimated based on the number of active ICPs (estimated to be 300,000 for the 2021/22 levy regulations). If the number of active ICPs changes, then this will impact on the amount collected under the retail levy.
- The wholesale levy is charged per gigajoule of gas purchased. The GIC's estimate for gas consumption is 165 petajoules (PJ). If the amount of gas decreases or increases, this will impact the amount recovered through the wholesale levy.

Due to the nature of these assumptions, changes in the market could result in an over or underpayment of levies to the GIC.

A mechanism is in place for any overpaid levies to be refunded to industry participants at the end of the financial year through a process the GIC calls a 'wash-up'. These wash-ups may occur due to these assumptions being incorrect, or due to underspend in the GIC's work programme. At the end of the 2019/20 financial year, total refunds of \$243,507 were reimbursed to levy payers.

An outbreak of COVID-19 in FY2021/22 may impact levy revenue depending on the alert levels. If New Zealand goes to Alert level 2 or 3 the GIC expects revenue will be largely unaffected. However, it may be affected if New Zealand moves to Alert Level 4 for an extended amount of time during FY2021/22. The magnitude of the impact is dependent on the specific circumstances of the lockdown (e.g. national vs regional, length etc.).

Primary cost driver – GIC's proposed 2021/22 work programme

The proposed work programme for 2021/22 largely continues existing multi-year workstreams, including activities to meet statutory requirements (such as the administration of existing gas governance regulations), but also the delivery of the projects GIC considers key to meet government and industry priorities as outlined in the GPS, and GIC's SOI and levy recommendation.

GIC has allocated its levy costs associated with different workstreams under the three main roles that GIC sees for itself. These relate to governance of gas, facilitating industry systems and processes, and work performed by GIC as an advisor to Government and Industry. Annex Two provides an overview of these costs against its strategic objectives.

As noted in the Agency Disclosure Statement section, the GIC's work programme is a significant contributor to the overall amount required to be recovered through the levy. The GIC consults on this work programme at the same time as the levy recommendation process. Combined with the limitations on decision making (ie. accept or reject if the statutory criteria are met), there is limited ability to influence the GIC's work programme through the levy-making process.

The GPS also provides a mechanism for the Minister to commission GIC to undertake work from time-to-time. These requests can influence the GIC's work programme, and the amount of actual levy funding required by the GIC within a financial year. These projects are normally time dependent. This mechanism does introduce uncertainty into the work programme and the level of funding required.

Key workstreams performed in each role are outlined below:

Role 1: Gas Governance

The Gas Act and GPS guide GIC in these activities where it has a statutory role as well as oversight of the industry processes or regulations with the intention of ensuring appropriate activities are undertaken. This includes Critical Contingency Management, Electricity Price Review, Advanced Gas Metering, Retail Gas Contracts Oversight Scheme, Gas Distribution Contracts Oversight Scheme, Downstream Reconciliation, Switching and Registry, Compliance and Enforcement, Statement of Intent and Annual Report, and other Reporting.

Among these, three key workstreams on Electricity Price Review, Advanced Gas Metering, and Critical Contingency Management are discussed below:

- The GIC intends to progress their work on whether the recommendations put forward by the Electricity Price Review (EPR) should be extended to the gas market. In November 2020 GIC released a consultation paper *“Extending the Electricity Price Review’s Final Recommendations to the Gas Market - An Assessment”*. For the coming year this work will involve:
 - determining whether to amend existing or introduce new, gas governance arrangements (including having regard to the effectiveness of any non-regulatory arrangements);
 - consult with stakeholders on the content and form of any proposed changes to gas governance arrangements; and
 - make recommendations to the Minister accordingly.
- GIC intends to continue to work with the industry and provide support to the roll-out of advanced gas metering to ensure associated gas industry systems and rules are fit for purpose. This work might involve making changes to the registry or switching and making a recommendation to the Minister for changing the rules, if needed.
- GIC is currently undertaking a review of the Critical Contingency Management (CCM) Regulations. The regulations provide for the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply. GIC expects to make a recommendation to the Minister to amend the CCM Regulations during FY2022. The CCM Regulations also provide for the appointment of a Critical Contingency Operator (CCO) whose role is to determine, manage, and terminate critical contingencies, as well as associated activities such as stakeholder training and running exercises. The appointment of the current CCO expires on 1 March 2022. GIC will undertake work prior to this to renew or appoint a new CCO.

Role 2: Facilitating Industry Systems and Process

GIC has regulatory defined roles and has undertaken activities were requested by industry to deliver independent or centralised services. Examples of the facilitation role include implementing a formal D+1 System¹³, Information Disclosure, and Gas transmission pipeline access. The key workstream on Information Disclosure is discussed below:

- GIC intends to continue its information disclosure workstream. This work started in 2018, to assess the level of information disclosure and consider options to address any issues found. A Problem Assessment Paper was published in October 2019, and from it three projects were identified where further work was required: a statement of proposal (SOP) for disclosure of gas production and storage facility outage information; a paper on gas contract price and volume information; and another paper on major user outages. GIC will continue working on these papers. The work in FY2022 will depend on the outcomes from SOP process and the separate papers on contract price and volume information, and major user outages.

Role 3: Trusted Advisor to Government and Industry

The Trusted Adviser role reflects the activities GIC undertakes to inform about the gas industry, and includes monitoring and supporting the potential use of hydrogen and biogas in transmission and distribution pipelines, work on a green gas certification scheme for Biogas and Hydrogen, undertake sector coordinating entity role for COVID-19 pandemic, and provide gas market information and analysis. Under this workstream, a key work programme

¹³ The D+1 system provides a mechanism for gas allocation on the day following gas flow. It enables more timely information to retailers about customer gas consumption. This enables more efficient gas balancing across the pipeline system. The system is currently a pilot, with GIC looking to formalise the implementation of this system in 2021/2022.

that GIC is undertaking is about investigating the current settings in the natural gas market which is as below:

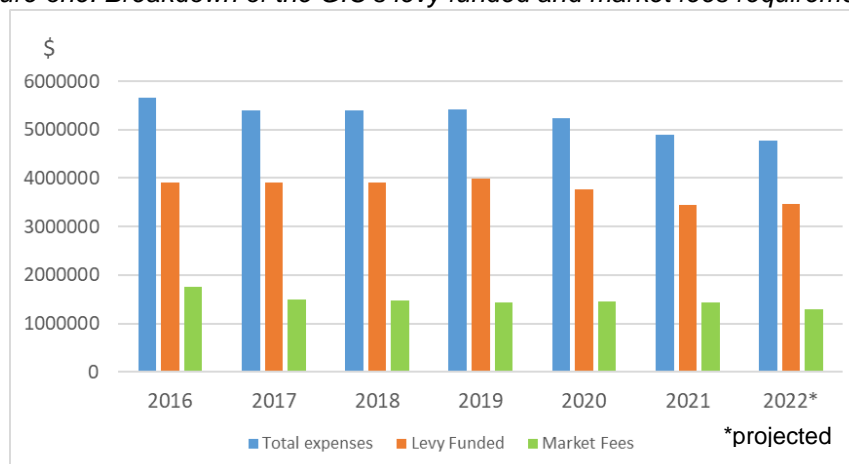
- At the request of the Minister, in FY2020 GIC commenced a project that investigates the current settings in the natural gas market and the role of gas in New Zealand to assess the market's ability to support New Zealand's transition to a renewables electricity and a net zero emissions economy in the long run. GIC aims to prioritise this work in the coming financial year. Outcomes of this work are important for informing the government's climate change response, including the development of the Emissions Reduction Plan by the end of calendar year 2021, as required by the Climate Change Response Act 2008.

Forecasted GIC revenue

Figure one shows the breakdown of the GIC's funding requirements since 2016. The GIC's total funding requirements have remained fairly stable over this time period. Levy funding requirements have remained closer to \$4 million per annum, with slightly lesser amounts of \$3.77 million for 2019/20, \$3.45 million for 2020/21, and \$3.47 million for 2021/22. When added to the market fees for year 2021/22 of \$1.299 million, the GIC's total work programme requirements for 2021/22 are expected to be \$4.77 million. Between 2020/21 and 2021/22 levy funding requirements have increased by 0.64 per cent. If a new levy is not approved by 1 July 2021, the GIC will be required to rely solely on market fee revenue and equity reserve¹⁴, both insufficient to deliver its work programme.

Annex Three shows the allocation of the levy funding across direct and indirect costs for 2021/22. While there is a slight decrease in direct costs, indirect costs have increased a little leading to an overall 0.64 per cent increase in the levy requirement for 2021/22.

Figure one: Breakdown of the GIC's levy funded and market fees requirements



Impact analysis

There are, across the industrial, commercial, and residential sectors, over 290,000 gas consumers in New Zealand. The impact on all types of consumers by the proposed levy is small when compared to the total amount paid for gas. For example, assuming the levy is passed through to end users, residential gas consumers would each pay around \$5.57 per annum, or 0.60 per cent of their annual gas bill. Due to the unique model of New Zealand's regulatory regime for natural gas, international comparisons on the cost of the GIC's activities are not appropriate.

14 Equity reserve is money set aside made up of industry advance reserves and retained earnings (i.e. Shareholder fees).

The Major Gas Users Group, gas wholesalers, distributors, retailers, and producers such as Vector Limited, Greymouth Gas New Zealand Limited, Genesis Energy, OMV New Zealand Limited have been consulted on the proposed levy rate and have raised no objections. In terms of residential gas consumers, whilst not direct beneficiaries of the GIC's work programmes, the expected benefits of these programmes on the gas market will indirectly flow through to end consumers.

The administrative costs of paying this levy are assumed to be negligible compared to the levy itself. The GIC has established processes for managing any levy overpayments, which are supported by levy payers. It has a 'wash-up' process for refunding unspent levies to industry participants. No costs will be imposed on the Government as the levy will be paid by gas industry participants and collected by the GIC. The levy represents a very small proportion of most consumer's gas bills. We do not consider that COVID-19 will have material impacts on the ability of gas consumers to pay the levy.

Table three: Estimated impact of the 2021/22 levy on gas industry participants¹⁵

Proposed 2021/22 Levy Regulations			
Figures GST exclusive where applicable	Typical Residential consumer	Typical Commercial consumer	Typical Industrial consumer
Annual gas usage	25 gigajoules	1000 gigajoules	50,000 gigajoules
Estimated annual gas bill	\$931.25	\$16,040	\$359,500
Estimated total annual levy	\$5.57	\$16.72	\$577.53
Estimated proportion total gas bill	0.60 per cent	0.10 per cent	0.16 per cent

Consultation

The GIC undertakes extensive consultation when developing its levy recommendation each year. The process includes consultation on all aspects of its work programme and the proposed levy rate and amount, consistent with the Act. The GIC engaged with interested stakeholders, including gas industry participants and major gas users.

The consultation process commenced at the annual Co-Regulatory Forum in November 2020. This forum provided industry participants with an opportunity to supply the GIC with feedback on the 2021/22 work programme. Feedback was generally positive.

In December 2020, the GIC released its consultation paper in respect of the proposed strategy, work programme and levy rates. Nine submissions were received from industry participants who were broadly supportive of the proposed work programme and levy. Submissions were received from a range of industry participants including gas producers, retailers and the Major Gas Users Group (established in 2010 to promote the interest of a number of industrials as major consumers of natural gas).

¹⁵ There is no "typical" commercial or industrial customer and so these figures are intended to be indicative. To provide some indication of the impact on users, we have assumed a typical annual gas usage of 25 GJ for residential consumers, 1,000 GJ for commercial consumers and 50,000 GJ for industrial consumers. It also assumes, based on 2020 nominal average fuel prices, an average price of gas of \$37.25 per GJ for residential consumers, \$16.04 per GJ for commercial consumers and \$7.19 per GJ for industrial consumers.

Submitters expressed their support for the proposed levy rates in submissions. Submissions generally commented on specific aspects of the proposed work programme, which were responded to and considered by the GIC.

Conclusions and recommendations

The GIC, as the gas sector's approved co-regulatory body, requires levy revenue of \$3.47 million to implement its 2021/22 work programme. The GIC has recommended a levy comprising two components— a wholesale levy and a retail levy. The wholesale levy is 1.1445 cents per gigajoule of gas purchased from gas producers. The retail levy is \$5.28 per customer per annum (measured through ICP).

After an assessment of the levy recommendation against the criteria in the Act (section 43ZZD), we recommend accepting the levy recommendation. We consider levy revenue of up to \$3.47 million by the GIC to be reasonable, the work programme aligns with government objectives and outcomes for the gas sector, and the estimated total levy funding requirement is based on the cost of delivering that work programme.

Accepting the GIC's recommendation enables the GIC to continue to operate, deliver its work programme, and support the objectives and outcomes in the GPS.

It is recommended that regulations be made requiring industry participants to pay the recommended levy to GIC to fund its operations in 2021/22.

If the levy recommendation is rejected, it would result in the GIC operating without levy revenue from 1 July 2021, relying on revenue from market fees and equity reserves. Both are insufficient to deliver its work programme as its financial reserves would run out in approximately two to three months.

Forecast reserves for FY2021 are estimated to be \$475,427 for the Industry Advances Reserves.¹⁶ Rejection would also require the GIC to re-consult with stakeholders on a new work programme and associated budget, and make a new recommendation to the Minister.

Implementation plan

The proposed new levy regulations will replace the existing levy regulations, which end on 30 June 2021. If approved, the new levy rates will start on 1 July 2021.

The proposed levy amounts are GST exclusive and are to be paid in monthly instalments. This process is well known within the industry and will not impose any substantive additional compliance costs on levy payers.

We do not consider that there are any risks associated with the implementation of the levy. If the levy is approved, GIC will be responsible for managing any communications.

Monitoring and evaluation

Monitoring of wholesale levy payments will be undertaken by the GIC. The levy regulations enable the GIC to require information from industry participants that purchase gas from gas producers for the purposes of calculating the levy.

Every industry participant who is liable to pay a wholesale gas levy for a month must supply to the GIC a written return stating the total number of gigajoules of gas that the industry participant purchased during the previous month from a gas producer. Gas producers are also required to supply to GIC a written return stating the total number of gigajoules of gas

¹⁶ The Industry Advances Reserves is used to hold surplus levy income to meet unexpected, or unplanned GIC costs. These unplanned costs can occur due to the nine month planning cycle run by GIC for levy recommendations. The annual \$2000 shareholder's fee is used to build cash reserves.

sold to each of its customers during the previous month. This allows verification that the levy is being paid correctly.

The GIC's accounts are audited and tabled in the House annually. The GIC's annual report also outlines achievements and progress for each workstream.

MBIE will continue to oversee and monitor the activities of the GIC throughout the year. MBIE meets bi-monthly with the GIC to discuss work programme progress, and to discuss issues facing the industry. The GIC also provide the Minister and MBIE with quarterly performance reports.

Review

There is a legislative requirement that the GIC make a new levy recommendation to the Minister of Energy and Resources for each financial year. For the 2022/23 financial year, both the wholesale and retail levy rate will be reviewed again and new regulations made. This is set out in section 43ZZE(3) of the Gas Act 1992.

Annexes

Annex One	Decision making principles for setting the methodology and rate of the levy
Annex Two	Table of levy costs against GIC's three classes of activities
Annex Three	Comparison of direct and indirect costs of levy for 2020/21 and 2021/22

Annex One: Decision making principles for setting the methodology and rate of the levy

	Levy Principle	Description
1	Economic Efficiency	<ul style="list-style-type: none"> The levy structure should promote efficient market behaviour (or at least not detract from it significantly).
2	Beneficiary / Causer pays	<ul style="list-style-type: none"> The costs of regulation development and implementation should be allocated in a way that reflects the cause of regulation (causer pays) and/or the incidence of the benefits from regulation.
3	Rationality	<ul style="list-style-type: none"> Where levies are to recover costs that are allocated to participant classes, there should be a relatively strong logical nexus between the participants on whom a levy is imposed and the costs being recovered through that levy.
4	Simplicity	<ul style="list-style-type: none"> The levy structure should not create undue transaction costs for the organisation which implements and administers it, nor for the participants who must pay it. The levy structure should only consist of as many individual levies as are necessary to recover the costs in an efficient manner, taking account of all the other principles applying. The levy structures should be transparent to industry participants.
5	Equity	<ul style="list-style-type: none"> Users in similar situations should pay similar amounts. Competitive neutrality should be preserved, so that within a class of participants the allocation of costs should not competitively advantage one participant over another.
6	Revenue Sufficiency	<ul style="list-style-type: none"> The levies, together with other sources of revenue such as penalty payments, need to be sufficient to recover the costs borne by the organisation collecting the levy. Levy setting must nevertheless be in accordance with section 43ZZC(3) of the Act, which says that the levy may be adjusted in any year to take account of under-recoveries and over-recoveries in previous years.

Source: Statement of Levy Principles 2009 (last updated 2013)¹⁷

¹⁷ <https://www.gasindustry.co.nz/work-programmes/levies/background/document/4580>

Regulatory Impact Analysis: Cost Recovery Impact Statement:
Gas Governance (Levy of Industry Participants) Regulations 2021

Annex Two: Table of levy costs against GIC's three classes of activities:

2021/22				
			Wholesale	Retail
1	Gas Governance	<ul style="list-style-type: none"> • Electricity Price Review • Critical Contingency Management • Advanced Gas Metering • Retail Gas Contracts Oversight Scheme • Gas Distribution Contracts Oversight Scheme • Downstream Reconciliation • Switching and Registry • Compliance and Enforcement • Statement of Intent and Annual Report • Other Reporting 	\$616,490	\$601,850
2	Facilitating Industry Systems and Processes	<ul style="list-style-type: none"> • D+1 • Info disclosure • Gas transmission pipeline access 	\$618,450	\$447,395
3	Trusted Advisor to Government and Industry	<ul style="list-style-type: none"> • Hydrogen and Biogas • Green gas Certification Scheme for Biogas and Hydrogen • Sector Coordinating Entity Role-COVID-19 Pandemic • Provide gas market information and analysis 	\$649,460	\$538,722
Total			\$3,472,367	

Annex Three: Comparison of direct and indirect costs of levy

Figures in table GST exclusive where applicable	2020/21			2021/22		
	Retail	Wholesale	Total	Retail	Wholesale	Total
Direct costs	\$868,231	\$1,130,169	\$1,998,400	\$891,924	\$1,058,423	\$1,950,347
Indirect costs	\$630,745	\$821,037	\$1,451,782	\$696,044	\$825,977	\$1,522,021
Total levy funding requirement	\$1,498,976	\$1,951,206	\$3,450,182	\$1,587,967	\$1,884,400	\$3,472,367
Basis of apportionment	per ICP	per GJ		per ICP	per GJ	
Number	290,000	175,000,000		300,000	165,000,000	
Levy rate	\$5.16/ICP	1.1164c/GJ		5.28/ICP	1.1445c/GJ	
Projected levy revenue	\$1,498,976	\$1,951,206	\$3,450,182	\$1,587,967	\$1884,400	\$3,472,367