Stage 2 Cost Recovery Impact Statement

Regulations to set the Gas Industry Company Levy 2018/19

Agency Disclosure Statement

This statement has been prepared by the Ministry of Business, Innovation and Employment. It provides an analysis of options to set the rate of the gas industry levy, as provided for under section 43ZZE of the Gas Act 1992.

1 This statement provides an analysis of the Gas Industry Company's (GIC) annual recommendation to the Minister of Energy and Resources (the Minister) to make levy regulations to recover up to $3.98 million of its costs from gas industry participants for the financial year beginning 1 July 2018 (ie 2018/19).

2 Section 43ZZE of the Gas Act 1992 (the Act) sets out the basis for the GIC's annual levy recommendation. The levy is principally used to fund the GIC's industry governance activities. Section 43ZZE (3) of the Act requires that the GIC submit a new levy recommendation to the Minister each year.

3 Only two options (either accepting or rejecting the levy rates proposed in the GIC's recommendation) have been assessed because the Act provides that the Minister can only accept or reject the GIC's recommendation. Further, the Minister must accept the recommendation if satisfied that the recommendation meets certain requirements in the Act. These are that:

a. the levy rate 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 (GPS) on Gas Governance 2008;

b. the GIC has consulted with industry participants on the levy rate or amount; and

c. 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.

4 MBIE has assessed the two options against the objective of enabling the GIC to deliver on its principal objective and against the requirements in the Act and we have found that the recommendation meets the requirements and objective and therefore should be accepted by the Minister.

Dr Marcos Pelenur
Manager, Resource Markets Policy
Energy and Resource Markets Branch

Executive summary

1 The Gas Act 1992 (the Act) sets out New Zealand's co-regulatory governance approach to the gas industry. Since 2004, the Gas Industry Company (GIC) has been the approved industry regulator. The GIC is registered under the Companies Act and is owned by gas industry participants.

2 As set out in the Act, the GIC's principal policy objective, to which it must give regard when making rules or recommending regulations is *'to ensure that gas is delivered to existing and new customers in a safe, efficient and reliable manner*'.

3 To meet the costs of the GIC's activities in working to achieve this objective, section 43ZZC of the Act provides for the GIC to make a recommendation to the Minister of Energy and Resources on the rate of a levy on industry participants. The activities which may be funded by the levy are set out in section 43ZZC of the Act.

4 The Minister must accept the levy recommendation if she or he is satisfied that it meets certain requirements of the Act. These are that the levy rate must be reasonable, having regard to the GIC's SOI, annual report, and the objectives and outcomes in the GPS on Gas Governance 2008, the GIC has consulted with industry participants on the levy rate and 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.

5 The levy of gas industry participants has two components:

a. A wholesale component based on the energy quantities of gas, underpinned by an estimate of the amount of gas (in gigajoules) that will be purchased in the following year; and

b. A retail component that is apportioned based on Installation Control Point (ICP) market shares ie the number of customers, underpinned by an estimate of the number of active ICP's for the period of the levy.

6 For 2018/19, the GIC's proposed levy rates will meet $3.98 million of the GIC's estimated costs. This is an increase of $71,070 (or 1.82 per cent) for 2018/19. The proposed levy rates are as follows:

Table one: Comparison of retail and wholesale levy rates 2017/18 and 2018/19

	2017/18 rate	**2018/19 rate**	**Change**
Retail Levy	$6.18 per ICP	$6.18 per ICP	0 per cent
Wholesale Levy	1.236 cents per gigajoule	1.2374 cents per gigajoule	0.11 per cent

7 If a new levy is not approved by 1 July, the GIC will be required to rely on revenue through 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. Rejecting the GIC's levy recommendation would require the GIC to re-consult with stakeholders on a new work programme and associated budget, and then make a new recommendation to the Minister.

8 MBIE's preferred option is to accept the GIC's recommendation and make the necessary levy regulations. MBIE views the levy rate to be reasonable as 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.

9 The levy recommendation is also consistent with the Auditor-General and Treasury's respective guidelines on public sector charging.

Status quo

Governance of the New Zealand Gas Industry

1 The Government has adopted a co-regulatory governance approach for New Zealand's gas industry that is set out in the Gas Act 1992 (the Act). This approach means that an industry body 'co-regulates' the gas sector by having the power to recommend arrangements to the Minister of Energy and Resources (the Minister). Those arrangements include rules and regulations on gas wholesaling, processing, transmission, distribution, and retailing. The Gas Industry Company (GIC) has been the approved co-regulator of the gas industry since December 2004[1].

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

3 Section 43ZZE(3) of the Act sets out that the levy regulations can only apply to the financial year in which they are made, so new levy regulations must be made every year. The levy, as set out in the Act, has been in place since 2005, and is well understood by industry participants. Minor adjustments have been made to its structure over time eg last year changes were made to enable the GIC to verify the correctness of levy payments by participants.

4 The GIC recovers most (approximately 73 per cent) of the cost of its total work programme through a levy on gas industry participants. The remaining costs are met through market fees. Market fees are payable in accordance with certain gas governance rules and regulations to recover actual expenses directly required to administer service provider arrangements and any other expected direct costs related to the monitoring of those arrangements.

Levy rates

5 The Gas (Levy of Industry Participants) Regulations 2017 set the current rate of wholesale and retail levy rates as follows:

a. a retail levy rate is $6.18 per Installation Control Point (ICP[2]); and

b. a wholesale levy rate is 1.236 cents per gigajoule.

6 The GIC estimated that these rates would enable the GIC to collect $3.911 million for the 2017/18 year. The amount that will be actually collected depends on the accuracy of assumptions underpinning the retail and wholesale levy rates (discussed in the levy methodology section of this document). To counterbalance any levy overpayment, the GIC has a 'wash-up' process for returning unspent levies to industry participants.

[1] Through the making of the Gas (Approval of Industry Body) Order 2004 under the Act.

[2] 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.

Reviews of cost recovery charges

7 New regulations for the levy of gas industry participants are made each year (rather than reviewed) but are largely based on the regulations made for the previous financial year. The levy is the principal mechanism for the GIC to meet the costs of its activities, with the activities that the levy can fund being set out in section 43ZZC of the Act. The levy rates and a schedule of levy funded activities are publicly available on the GIC's website[3].

8 Changes to the rate of the levy charged on industry participants for the 2018/19 financial year are driven by the proposed activities for GIC work streams. The primary cost driver is increasing work stream costs for streams dealing with gas transmission issues. The status quo will not allow the GIC to meet these increased costs.

Cost Recovery Principles and Objectives

9 The Act, the GPS on Gas Governance 2008 and the SOI establish a policy framework within which the GIC makes rules and recommends regulations. The levy is the key financial enabler for the GIC to deliver its principal policy objective as set out in the Act, which is '*to ensure that gas is delivered to existing and new customers in a safe, efficient and reliable manner*.'

10 This objective must be applied to all recommendations and achieved while considering the requirements of the Act. For the levy recommendation, it must be reasonable, having regard to the GIC's SOI, Annual Report, and the objectives and outcomes in the GPS. In addition, any levy recommendation made by the GIC must also be consistent with the Auditor-General and Treasury's respective guidelines on public sector charging.

11 Alongside this policy framework, the GIC has developed principles that it uses when developing its annual levy recommendation:

Table two: Decision making principles for setting the methodology and rate of the levy

#	**Levy Principle**	**Description**
1	Economic Efficiency	The levy structure should promote efficient market behaviour (or at least not detract from it significantly).
2	Beneficiary/causer payers	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	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	• 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.

[3] http://gasindustry.co.nz/work-programmes/levies/background/previous-levies/2016-2017/

5	Equity	• 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	• 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: Consultation on Gas Industry Co FY2018 Statement of Intent and Levy, Gas Industry Company[4]

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

12 The GIC is owned by industry shareholders, and is an incorporated company under the Companies Act 1992, governed by a Board of Directors. The GIC's work programme priorities are set in consultation with industry, and are driven by industry's priorities.

13 The GIC's activities can be considered as 'club goods', as they are non-rivalrous, and excludable ie the benefits are limited to a certain industry. As the benefits of the GIC's services accrue to one particular group it is reasonable that the industry should bear the costs of these activities. A levy applied to industry participants continues to be the most appropriate mechanism to best meet the GIC's cost in achieving the Government's objectives for the gas industry.

14 The GIC utilises a 'beneficiary pays' approach to setting the levy, in part achieved by using two levy components (the retail levy and the wholesale levy). These components allow the GIC to balance the levy rates based on the likely beneficiary of a work stream (eg the Gas Transmission Access Code work which is primarily addressing wholesale gas issues but has little or no relevance to retail users).

15 The levy does not recover all of the costs of the GIC's activities, with the scope of activities that the levy is able to fund set out in section 43ZZC of the Act. The other main sources of funding are:

a. Market fees provided for under part 43S of the Act. Market fees are payable in accordance with certain gas governance rules and regulations to recover actual expenses directly required to administer service provider arrangements and any other expected direct costs related to the monitoring of those arrangements; and

b. The GIC's shareholders are required to pay an annual fee of $2,000 (excl. GST) per shareholder. This is set aside as a financial reserve for contingencies and these do not impact on the levy calculation.

16 The levy is charged to all industry participants. In practice, the cost of the levy is passed on to consumers. For the 2018/19 financial year, the GIC expects there to be 280,000 gas consumers (up from 275,000 in the 2017/18 financial year). This growth is primarily expected from residential ICP connections. Large industry users, who consume the most gas, pay the bulk of the levy.

4 http://www.gasindustry.co.nz/dmsdocument/5448

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

Proposed Levy Rates

17 The levy has two components:

a. A wholesale component based on the energy quantities of gas, underpinned by an estimate of the amount of gas (in gigajoules) that will be purchased in the following year; and

b. 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.

18 For 2018/19, the GIC's proposed levy rates will meet $3.98 million of the GIC's costs. This is an increase of $71,070 (or 1.82 per cent) for 2018/19. The proposed levy rates are set out in table three.

Table three: Comparison of retail and wholesale levy rates 2017/18 and 2018/19

Figures in table GST exclusive where applicable	**2017/18 rate**	**2018/19 rate**	**Percentage Change**
Retail Levy	$6.18 per ICP	$6.18 per ICP	0 per cent
Wholesale Levy	1.236 cents per gigajoule	1.2374 cents per gigajoule	0.11 per cent

19 Table four compares the 2016/17, 2017/18 and the proposed 2018/19 levy rates. In particular, it shows how the total levy funding requirement is collected through gas retailers via the retail levy, and on the wholesale market via the wholesale levy. The total GIC levy funding requirement has remained relatively constant over the past two years, with this year's increase largely driven by increasing costs for the GIC's Gas Transmission Access Code work programme.

20 For 2018/19 the GIC estimates the gas industry to grow (both in terms of ICP's and the amount of gas purchased). Projected growth of the gas industry has reduced the need for the GIC to increase the levy rates to meet increasing levy funded work programme costs.

Table four: Levy funding requirements comparison

Figures in table GST exclusive where applicable	**2016/17 Levy Regulations**	**2017/18 Levy Regulations**	**Proposed 2018/19 Levy Regulations**
Retail Levy rate	$6.92 per ICP	$6.18 per ICP	$6.18 per ICP
Wholesale Levy rate	1.15 cents per gigajoule	1.236 cents per gigajoule	1.2374 cents per gigajoule
Total GIC Levy funding requirement	$3,913,060	$3,911,481	$3,982,551

Levy methodology

21 The primary cost driver for the recommended levy rate is 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 work streams 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 work stream. These costs allocated to the retail and wholesale work streams are net of market fees.

22 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.

Primary Cost driver – GIC's proposed 2018/19 work programme

23 The proposed work programme for 2018/19 largely continues existing multi-year work streams, including activities to meet statutory requirements (such as the administration of existing gas governance regulations), but also the delivery of key projects to address government and industry priorities.

24 The GIC's work streams continue to be balanced between those funded by the retail levy and wholesale levy. The former includes continuing the D+1 pilot scheme, which, if fully implemented, aims to provide gas retailers with more timely information about their customer's gas usage. The latter includes continuing a programme of work, which aims to ensure that transmission pipeline access arrangements transparently provide for the efficient utilisation of physical capacity and effectively signal any need for efficient investment in additional capacity.

25 The key work item in 2018/19 will be the continued development of the Gas Transmission Access Code (GTAC). In February 2018, the GIC released its preliminary assessment of the GTAC. The GIC's preliminary view is that the GTAC is not 'materially better' than the old codes due to a variety of issues. Industry participants are now providing submissions on GIC's assessment. This work stream is ongoing, but may require the GIC to develop recommendations for regulations to the Minister if industry agreement cannot be reached. A number of other work streams such as gas balancing and quality, and transmission interconnection are closely associated with the GTAC development.

26 Ongoing projects in the retail space include the D+1 pilot programme that will need to continue at least until the outcome of the GTAC project is known. At that point, it will become clear whether D+1 continues to be required (in which case it will need to be incorporated into the Downstream Reconciliation Rules) or whether a different approach is needed.

27 The D+1 work stream is a process that sets rules for the fair, efficient and reliable allocation and reconciliation of downstream gas quantities. The term itself refers to a system of allocating gas usage to retailers a day after gas flow.

Work Programme Costs

28 The GIC reports how its levy costs and associated work streams are allocated against four strategic objectives. Table five provides an overview of how the levies are allocated against each of these GIC's strategic objectives.

29 Note that indicative Market Fees are entirely allocated against strategic objective three, with the indicative total for the 2018/19 year being $1.441 million. This is split across retail ($0.874 million) and wholesale ($0.567 million).

Table five: Comparison of levy requirements across strategic objectives 2017/18 and 2018/19

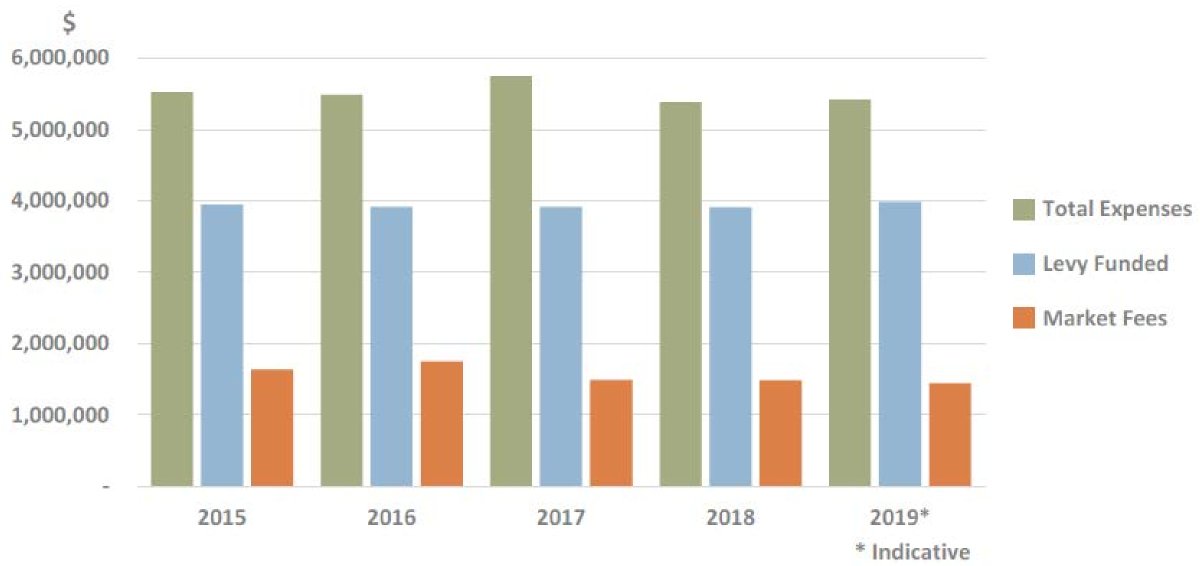
Figures in table GST exclusive where applicable	**2017/18**		**2018/19**	
	Wholesale	Retail	Wholesale	Retail
Strategic Objective One Promote efficient, competitive and confident gas markets.	$0	$804,669	$0	$751,438
Strategic Objective Two Facilitate efficient use of, and investment in, gas infrastructure.	$1,240,384	$0	$1,357,072	$0
Strategic Objective Three Deliver effectively on the GIC's accountabilities as the gas industry body.	$734,308	$966,188	$803,387	$902,272
Strategic Objective Four Develop and communicate the role of gas in meeting New Zealand's energy needs.	$83,808	$82,123	$91,692	$76,690
Total	**$3,911,481**		**$3,982,551**	

Forecasted GIC Revenue

30 Figure one shows the breakdown of the GIC's funding requirements since 2014/15. The GIC's total funding requirement has remained fairly stable over this time period. Levy funding requirements have remained close to $4 million per annum over this time period, with $3.982 million being proposed for 2018/19. When added to the Market Fees for year 2018/19 of $1.441 million, the GIC's total work programme requirements for 2018/19 are approximately $5.423 million.

31 Between 2017/18 and 2018/19 levy funding requirements have increased 1.82 per cent, a substantial increase over the slight 0.04 per cent decrease between 2016/17 and 2017/18, with this increase largely driven by the costs associated with the development of the GTAC.

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



Levy Cost Breakdown – Direct and Indirect costs

32 Table six shows how the levy funding is allocated across indirect and direct costs. For 2018/19 both the indirect and direct costs across the retail and wholesale levies has increased.

Table six: Comparison of direct and indirect costs of levy

Figures in table GST exclusive where applicable	2017/18			2018/19		
	Retail	**Wholesale**	**Total**	**Retail**	**Wholesale**	**Total**
Direct costs	$1,067,420	$1,367,573	$2,434,993	$1,104,807	1,411,232	$2,516,039
Indirect costs	$632,080	$844,408	$1,476,488	$625,593	$840,919	$1,466,512
Total levy funding requirement	**$1,699,500**	**$2,211,981**	**$3,911,940**	**$1,730,400**	**$2,252,151**	**$3,982,551**
Basis of apportionment	per ICP	per GJ		per ICP	per GJ	
Number	275,000	179,000,000		280,000	182,000,000	
Levy rate	**$6.18/ICP**	**1.236cents/GJ**		**$6.18/ICP**	**1.2374cents/GJ**	
Projected levy revenue	**$1,699,500**	**$2,212,440**	**$3,911,940**	**$1,730,400**	**$2,252,068**	**$3,982,468**

Assumptions underpinning levy model

33 There are two key assumptions underpinning the GIC's 2018/19 proposal:

a. The retail levy is estimated based on the number of active ICP's (estimated to be 280,000 for the 2018/19 levy regulations). If the number of active ICP's changes, then this will impact on the amount collected under the retail levy.

b. The wholesale levy is charged per gigajoule of gas purchased. The GIC's estimate for gas consumption is 182 petajoules. If the amount of gas decreases or increases, this will impact amount recovered through the wholesale levy.

34 Any overpaid levies will be returned to industry participants at the end of the financial year. The GIC calls this process a 'wash up'. In 2016/17, GIC returned $464,508 which represented a refund of historic wholesale levy amounts and repayment of amounts paid in error.

Impact analysis

35 There are, across the industrial, commercial and residential sectors, over 280,000 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.

36 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.

Overview of costs imposed on industry participants

Table seven: Estimated impact of the 2018/19 levy on gas industry participants

Proposed 2018/19 Levy Regulations			
Figures in table 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	$961	$15,190	$306,500
Estimated total annual levy	$6.49	$18.55	$624.88
Estimated proportion total gas bill	0.67 per cent	0.12 per cent	0.20 per cent

37 Assuming that natural gas demand is relatively inelastic and/or there is an absence of readily available alternative energy supply options (eg high heat industrial applications), retailers and wholesalers will be able to pass costs on to gas customers without distorting demand. The total levy amount of $3.982 million represents less than 0.24 per cent of the total annual turnover of the gas industry.

38 The largest consumers who consume the majority of the gas supply in New Zealand (eg Methanex New Zealand, Refinery New Zealand) 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.

39 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 reserves, which are supported by levy payers. No costs will be imposed on government as the levy will be paid by gas industry participants and collected by the GIC.

Options Analysis

40 Regulatory analysis identifies only two options as the Act provides that the Minister can only accept or reject the levy recommendation from the GIC. The options are assessed against certain requirements in the Act, and the overall objective of the GIC to have appropriate funding for its work programme.

Option 1: Accept the GIC's recommendation

41 The first option is to accept the GIC's recommendation and make levy regulations to recover up to $3.982 million in 2018/19. This levy will allow the GIC to deliver on its proposed work programme and will enable it to meet the government's policy objectives for the gas sector.

42 Without new levy regulations, the GIC will be unable to meet its principal objective under the Act, which is to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner. The GIC would also be unable to meet the Government's other objectives set out in the Act and the GPS.

43 We consider that the levy recommendation is also consistent with the Auditor-General and 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 outlined in paragraph 12.

Option 2: Reject the GIC's recommendation

44 The second option is to reject the GIC's recommendation. This would result in the GIC operating without levy revenue from 1 July 2018, 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.

45 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.

46 In our assessment, there are not any grounds to reject the GIC's 2018/19 levy recommendation, as it has fulfilled its requirements under the Act.

Preferred Option: Accept the GIC's recommendation

47 Option 1 is MBIE's preferred option as we consider that the levy rate is reasonable, because 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.

Consultation

48 The GIC undertakes extensive consultation each year when developing its levy recommendation, as required by the Act. The consultation process included end users who account for approximately 75 per cent of gas consumption in New Zealand. The initial round of consultation took place at a co-regulatory forum organised by the GIC in November 2017. This forum provided industry participants with an opportunity to supply the GIC with feedback on priorities for the 2018/19 work programme.

49 The co-regulatory forum was followed by the release of a consultation document on the proposed work programme and levy rates. Six submissions were received from industry participants and were generally supportive of the proposed work programme and the levy rates. Although consumers were part of the consultation process, none made a formal submission.

50 There was broad industry support for the small increase in the levy rate for 2018/19. Submissions generally commented on specific aspects of the proposed work programme and relative work priorities, these comments have been considered by the GIC. In particular, submitters acknowledged the significant work and associated costs expected for the development of the Gas Transmission Access Code.

Conclusions and recommendations

51 The GIC, as the gas sector's approved co-regulatory body, requires levy revenue of $3.982 million to implement its work programme for 2018/19. The GIC has recommended a levy comprising two components – a wholesale levy and a retail levy. The wholesale levy is 1.2374 cents per gigajoule of gas purchased from the wholesale market. The retail levy is $6.18 per customer (measured through ICP).

52 In assessing the options of either accepting or rejecting the GIC's levy recommendation, accepting the recommendation is the preferred option as it meets the overall objective of the GIC having appropriate funding for its work programme.

53 It is recommended that regulations be made requiring industry participants to pay the recommended levy to GIC to fund its operations in 2018/19.

Implementation plan

54 The proposed new levy regulations will replace the existing levy regulations, which end on 30 June 2018. If approved, the new levy rates will start on 1 July 2018.

55 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.

Monitoring and evaluation

56 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. The levy proposal also includes a minor change to the information verification requirements this year. This proposal has been granted an exemption from the RIA requirements due to minor impacts.

57 If the proposal is approved, starting 1 July 2018, every industry participant who is liable to pay a wholesale gas levy for a month must supply to GIC a written return stating the total number of gigajoules of gas that the industry participant purchased during the previous month from each gas producer. Accordingly, gas producers will also provide the total number of gigajoules of gas sold to each industry participant. This allows verification that the levy being paid is correct.

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

59 MBIE will continue to oversee and monitor the activities of the GIC throughout the year. MBIE meets bi-monthly with the GIC to discuss how projects and other work in the work programme are progressing and any real or potential issues facing the industry. The GIC also provide the Minister and MBIE with quarterly performance reports.

Review

60 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 2019/20 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.