MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

Minister	Hon Simeon Brown	**Portfolio**	Energy
Title of Cabinet paper	Gas (Levy of Industry Participants) Regulations 2024	**Date to be published**	14 June 2024

List of documents that have been proactively released		
Date	**Title**	**Author**
May 2024	*Gas (Levy of Industry Participants) Regulations 2024*	Office of the Minister for Energy
9 May 2024	*LEG-24-MIN-0080 Minute*	Cabinet Office
15 April 2024	*Stage 2 Cost Recovery Impact Statement: Setting the Gas (Levy of Industry Participants) Regulations 2024*	MBIE

Information redacted **YES / NO**

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Stage 2 Cost Recovery Impact Statement

Setting the Gas (Levy of Industry Participants) Regulations 2024

Agency Disclosure Statement

This Cost Recovery Impact Statement has been prepared by the Ministry of Business, Innovation and Employment (**MBIE**). It provides an analysis of whether the Minister for Energy (the Minister) should accept or reject Gas Industry Company Limited's (**GIC**) annual levy recommendation. The Minister must accept this recommendation if certain conditions are met.[1]

The levy recommendation process is an established and well-understood cost recovery mechanism. A new recommendation must be made every year, as regulations may only apply to the financial year for which they are recommended. The overall design is the same as in previous years.

Analysis in this Cost Recovery Impact Statement has relied on information provided by GIC in its recommendation to the Minister. No additional analysis on different levy options has been conducted. MBIE's role is limited to providing advice to the Minister on whether the levy recommendation meets the criteria specified in the Act.

Levy rates are determined by forecasts

Overall levy rates and the level of funding provided through the levy recommendation are determined by forecasts about the performance of the gas sector in the next year. GIC consults with the industry on these forecasts as part of its levy recommendations to ensure they are robust. The two key forecasts are:

- The estimated number of ACTIVE-CONTRACTED Installation Control Points (**ICP**s) in the gas registry (i.e., the number of connected households and businesses). The number of ICPs assumed by GIC determines the total amount collected under the 'retail levy'.
- The estimated amount of gas purchased by industry participants from gas producers. Changes in gas supply can affect the amount recovered through the 'wholesale levy', which is charged per gigajoule (**GJ**) of gas purchased.

Constraints

A key constraint is the need for new levy regulations to come into effect on 1 July 2024, as the current levy only applies to the financial year ending 30 June 2024. The Minister received the GIC's levy recommendation in March 2024, therefore limited additional time is available for analysis beyond what GIC has recommended. MBIE is comfortable that this provides sufficient information for decision making, because, as noted above, the Minister may only accept or reject the levy recommendation and must accept it if certain conditions are met.

[1] Section 43ZZD(2) of the Gas Act 1992

Dominic Kebbell

Manager, Gas and Fuel Policy Team

15 /04 / 2024

Executive summary

Under the Gas Act 1992 (the **Act**), Gas Industry Company Limited (**GIC**) can recommend to the Minister for Energy (the **Minister**) that regulations be made to require gas industry participants to pay a levy to GIC.[2]

A new recommendation for a levy rate is made by GIC every financial year, because the regulations only apply for the year in respect of which they are made.[3] The design of the levy is well-understood, and the levy recommendation process standardised. The new levy rates would be in effect from 1 July 2024 to 30 June 2025.

The levy may only fund a list of activities specified in the Act.[4] If a new levy is not approved and in place by 1 July 2024, GIC will be required to rely on its other forms of funding, which are insufficient to deliver its work programme. The levy is made up of two components, which are informed by estimates determined by GIC:

- A **retail levy** component that is apportioned based on the estimated number of ACTIVE-CONTRACTED Installation Control Points (**ICP**) in the next financial year.
- A **wholesale levy** 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.

The proposed levy rates are as follows:

Table One: Comparison of retail and wholesale levy rates FY2024 and FY2025

	FY2024	FY2025	% Change
Retail levy Per ICP	$6.54	$6.53	-$0.01
Wholesale levy Cents per gigajoule	1.4326c	1.5952c	0.1626c
Total levy funding requirement	$4,455,703	$4,422,758	-$32,945

The costs imposed on end users are relatively small. It is estimated to represent approximately 0.69 per cent of residential gas consumers' annual gas bills. Large industrial users, who consume the most gas, pay the majority of the levy. No costs will be imposed on the government as the levy will be recovered from gas industry participants.

The Minister must accept the recommendation[5] if they are satisfied that:

- the levy rate or amount is reasonable having regard to GIC's Statement of Intent, GIC's latest annual report and any Government Policy Statement on Gas Governance 2008 (**GPS**)[6] objectives and outcomes;

[2] Section 43ZZB of the Act.

[3] Section 43ZZE(3) of the Act

[4] Section 43ZZC of the Act.

[5] Section 43ZZD(2) of the Act.

[6] The GPS on Gas Governance sets out the objectives and desired outcomes for consumers, retail arrangements, the wholesale of gas, infrastructure access, contingency management and other gas matters.

- industry have been consulted; and
- the requirements of section 43ZZB to 43ZZE (which prescribe the costs that may be funded from the levy and various legal aspects of making the regulations) are met.

MBIE considers that the levy meets the requirements of the Act and therefore the Minister must accept the recommendation.

Legislative and Policy Framework

The Act sets out a co-regulatory approach to governing the gas industry in New Zealand. GIC is the approved industry body that co-regulates the gas industry and has powers under the Act to make recommendations to the Minister.

The Act and the GPS, as well as the GIC's Statement of Intent (**SOI**), establish the policy framework in which GIC performs its role as the approved industry body. The GPS provides the Government's objective for the entire gas industry: "*To ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable, and environmentally sustainable manner.*"

It is towards this objective that GIC must work to achieve when recommending rules, regulations, or non-regulatory arrangements for the gas industry. A full list of the Gas Act requirements and GPS Objectives and Outcomes that the GIC has considered in developing their work programme is available in **Annex Four**. GIC details its full analysis on how their work programme aligns with these criteria in their SOI.

GIC is also required its constitution[7] to report regularly to the Minister on the industry body's performance and achievements of its objectives. It submits an annual report to the Minister which outlines its achievements and progress for each workstream set out in the work programme. GIC's annual report, including GIC's audited financial statements, is tabled in the House annually.

Why a levy

For GIC to perform its role as the approved industry body,[8] funding is required to support its activities and costs.

GIC is principally reliant on annual levies to perform its role as the approved industry body, and to provide the effective governance of the gas sector. A levy of industry participants enables GIC to recover some of its costs from the industry. Approximately three quarters of GIC's costs are met through the levy. Other sources of funding are market fees[9] and an annual fee of $2000 (excl. GST) per GIC shareholder.

GIC's services and work programme can therefore be considered a 'club-good', in that the activities benefit a specified group. It covers a range of users (both large and small), including, industry, business, and householders that have a gas connection.

A levy is considered an appropriate and well-established mechanism to meet GIC's costs. The requirements for the levy are set out in the Act that enable GIC to recover certain costs from gas industry participants (or prescribed class of industry participant). While the levy may only be applied to industry participants, the cost of the levy is passed through to consumers as part of the price of their gas supply. The levy rates and a schedule of levy-funded activities are publicly available on GIC's website.[10]

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[7] Section 43ZL(2)(f)

[8] Gas (Approval of Industry Body) Order 2004: Gas (Approval of Industry Body) Order 2004 (SR 2004/476) (as at 24 December 2004) – New Zealand Legislation

[9] 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 other expected direct costs related to the monitoring of the arrangements.

[10] Levy - Gas Industry

Recovery principles and objectives

The levy is a key financial enabler for GIC to deliver its work programme and meet its principal policy objective. As set out in the Act, GIC is able to recommend to the Minister that regulations be made to set levy rates that require gas industry participants to pay a levy to GIC.[11]

The levy methodology is the same as used in previous years and is primarily based on the principle of beneficiary pays. This means the costs of regulation development and implementation should be allocated in a way that reflects the cause of the regulation and/or the incidence of the benefits from regulation. GIC has a statement of levy principles. The principles are economic efficiency, beneficiary pays, rationality, simplicity, equity, and revenue sufficiency. These are outlined in **Annex One**.

Statutory criteria for a levy recommendation include that the levy recommendation must be reasonable, having regard to GIC's SOI, annual report, and any GPS objectives and outcomes.

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

Levy design

Levy regulations can only apply to the financial year in which they are made, therefore, new recommendations are made each year.[12] Levy regulations have been in place since July 2005 and are well understood by gas industry participants.[13]

The recommended levy rate is based on the estimated cost of delivering GIC's levy funded work programme for the upcoming financial year, which is not covered by market fees. This arrangement has remained unchanged since 2007, with levy rates varying year to year.

The levy recommendation consists of two components:

- **Retail levy**: this is apportioned based on ICP market shares, underpinned by an estimate of the number of ACTIVE-CONTRACTED ICP's in the gas registry for the period of the levy. Every gas retailer must pay the retail gas levy for each ICP that they are the retailer for.
- **Wholesale levy**: based on the estimated energy quantity of gas (in GJ) that industry participants purchase from gas producers in the relevant financial year (e.g., FY2025). Every industry participant is obligated to pay the wholesale levy for the gas they purchase from gas producers.[14]

The costs are allocated between GIC's wholesale and retail workstreams through estimating the 'direct costs' that can be attributed to each, then apportioning the 'indirect costs' based

[11] Section 43ZZB of the Act.

[12] Section 43ZZ2(3) of the Act.

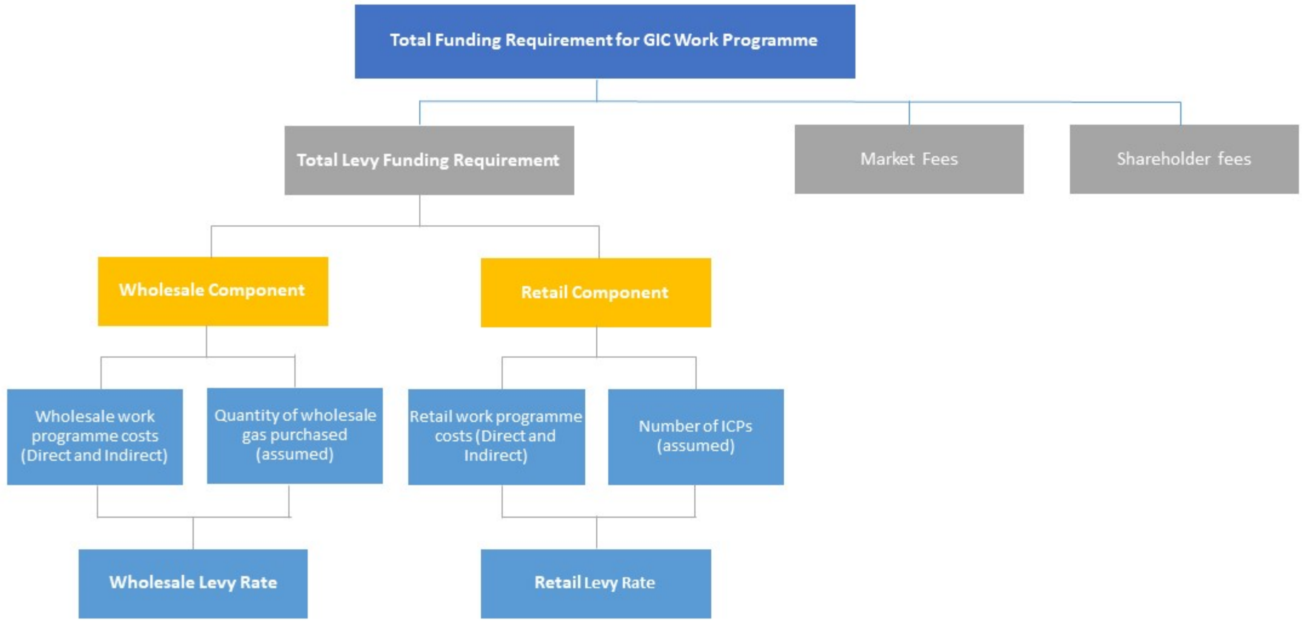
[13] GIC consults with industry participants on its work programme, and the proposed levy rate and amount. See the consultation and feedback section.

[14] Industry participants is a defined term under the Act.

on the relative proportion of activities in each work programme. *Figure One* below shows the work programme funding components.

In years when the work programme focusses primarily on retail issues for example, the retail levy rate will increase while the wholesale levy rate will decrease.

Figure One: Work Programme Funding Components



There is a mechanism if Gas Industry Company collects too much revenue from participants

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 GIC calls a 'wash-up'. These 'wash-ups' may occur due to differences in the actual versus forecasted number for ICPs or gas sold due to underspend in GIC's work programme.

Any 'wash-up' usually happens as soon as practicable after the annual accounts have been received by shareholders at GIC's Annual Meeting. During the FY2023 financial year, lower gas production reduced revenue, however this was offset by expenditure being less than forecast, resulting in a small surplus. No amounts were refunded to levy payers.

The Act enables GIC to make up for any under recovered revenue.[15] This usually occurs in the next year's recommendation. Although this is provided for in the Act, it is not something that is done in practice. For example, in FY2021, GIC funded the under recovery in levy revenue by utilising retained earnings.

Levy recommendation process

For a levy to be made, GIC must recommend to the Minister that regulations be made under section 43ZZE to require industry participants to pay a levy to the industry body.

These levy costs are then passed on to gas consumers through billing by the industry participants (see impact section below).

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[15] Section 43ZZC(3) of the Act.

Comprehensive consultation is undertaken each year. GIC consults on all aspects of its work programme, and the proposed levy rate and amount, consistent with section 43ZZD(2)(b) of the Act.

Once the Minister receives the recommendation from GIC, they must accept the levy recommendation if satisfied that it meets the below requirements:

(a) The levy rate is reasonable, having regard to GIC's SOI, GIC's annual report, and any GPS objectives and outcomes

(b) GIC has consulted with industry participants on the levy rate or amount

(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.

Should the Minister accept the recommendation, regulations are then made, which come into force on 1 July annually, in line with the beginning of the financial year.

If the Minister rejects the recommendation, this would result in another levy recommendation process being conducted with GIC, including needing to reconsult with stakeholders on a new work programme and associated budget and make a new recommendation to the Minister. This would result in GIC operating without levy funding until new regulations are made. GIC would be reliant on market fees and equity reserves, which are insufficient to deliver its work programme.

The levy process is outlined below:

Date	Description
1 July 2023	*Gas (Levy of Industry Participants) Regulations 2023* came into force.
September 2023	GIC commences work for the FY2024/25 work programme and levy.
October 2023	GIC presents its indicative work programme and budget to its Board.
November 2023	GIC holds the co-regulatory forum with industry participants.
December 2023	GIC's Board approves the release of the Consultation paper.
February 2024	Submissions from industry participants are due to GIC.
	GIC's Board approves the FY2024/25 Levy Recommendation.
March 2024	GIC submits its draft Statement of Intent FY2025-2027 and FY2024/25 Levy Recommendation to the Minister.
March – June 2024	MBIE provides advice to the Minister on the recommendations.
	If Minister accepts the levy recommendation, regulations are drafted for submission to Cabinet and Executive Council, and new levy regulations are then made.
1 July 2024	New levy regulations come into force.

FY2025 Levy Recommendation

The recommendation

Pursuant to section 43ZZB of the Act, GIC has recommended to the Minister that regulations be made to require industry participants to pay levies to the industry body for the year commencing 1 July 2024 (FY2025). The recommendation may recommend different levies or levy rates for different classes of industry participants.[16]

The total levy recommendation for FY2025 is $4,422,758, a 0.74 per cent decrease compared to FY2024's levy funding requirement. Total work programme costs (funded by levies and market fees) are expected to be $6,177,324 for FY2025, compared to budgeted costs of $5,943,453 in FY2024 (a 2.93 per cent increase).

The recommendation contains the following levy rates:

- A **retail levy** of $6.53[17] per ACTIVE-CONTRACTED ICP per annum
- A **wholesale levy** of 1.5952 cents per GJ of gas purchased from gas producers.

These figures are based on GIC's projections as to how the market will operate over FY2025. The total, and indirect/direct cost apportionment for the levy recommendation is set out in **Annex Two**.

If the market changes, this could result in an over or under collection of levies by GIC. The FY2025 GIC levy proposal is underpinned by two key forecasts:

- The **retail** levy is based on the forecasted number of ACTIVE-CONTRACTED ICPs in the gas registry of 311,000. The forecast is calculated based on the current number of ACTIVE-CONTRACTED ICPs plus the percentage uplift expected, based on the historic growth of ICPs. If the number if ICPs change, this will impact the total revenue collected from the retail levy.
- The **wholesale** levy is charged per GJ of gas purchased from gas producers. The estimated gas production is 150 petajoules (**PJ**) (or 150,000,000 GJ), based on forecasts from gas producers. If the amount of gas purchased varies from this estimate, it will impact the total revenue collected from the wholesale levy. This can occur for reasons such as gas supply interruptions.

Table Two: Comparison of retail and wholesale levy rates FY2024 and FY2025

	FY2024	FY2025	Change
Retail Levy Per ICP	$6.54	$6.53	-$0.01
Wholesale Levy Cents per GJ	1.4326c	1.5952c	0.1626

[16] Section 43ZZB(2) of the Act

[17] The retail levy rate equates to 54.42 cents per month for each ACTIVE-CONTRACTED ICP.

Total levy funding requirement	$4,455,703	$4,422,758	-$32,945

The total levy funding requirement for FY2025 is lower than last year. However, the 20 PJ decrease in estimated wholesale gas consumption has led to the wholesale levy rate increasing by 11.3 per cent to 1.5952c in FY2025 (1.4326c in FY2024), as the amount of wholesale levy funding is applied over lower gas volumes.

Cost drivers

The cost driver for the levy is GIC's proposed work programme for 2024/25. This consists of multi-year workstreams, which includes activities to meet statutory requirements. Examples include changes to existing gas governance regulations, and projects considered to meet key government and industry priorities as set out in the GPS, GIC's SOI and levy recommendation. The administration of existing gas governance regulations is also included.

Based on the combination of the levy recommendation and indicative market fees, GIC's total work programme costs are expected to be $6,117,324 for FY2025, with the levy funding being $4,422,758 of this total cost. *Figure Two* (below) shows a comparison of budgeted work programme costs.

GIC has allocated its levy costs associated with the work programme under the three main roles that GIC sees for itself:

- trusted advisor to the Government and industry
- gas governance
- facilitating industry systems and processes.

The planned work programme responds to the Government and industry priorities, meeting statutory requirements (like the administration of existing gas governance regulations), and existing multi-year workstreams. Key work programme items for FY2025 include:

- **Gas Transition Plan**: continuing to support MBIE on further work stemming from the Gas Transition Plan Issues Paper consultation, which may include measures to bring renewable gases to the market, new regulatory arrangements for CCUS, or measures to support and strengthen gas security of supply, including security for industrial use and electricity.
- **Energy Transition:** dedicating resources to transition issues including investment confidence, measures to ensure gas is available, and consideration of whether additional or changed mechanisms are needed to ensure security of supply.
- **Review of the Existing Levy Methodology:** the current levy funding method may not be fit for purpose with the forecast declining wholesale gas volume. GIC will explore any viable alternatives and consult with industry.
- **Critical Contingency Management (CCM):** progressing some amendments to the CCM Regulations to improve the efficiency and effectiveness.
- **Advanced Gas Metering:** in December 2023, GIC released a Statement of Proposal on amendments to gas governance arrangements to support the roll-out of advanced gas meters. GIC expect to make a recommendation to the Minister to amend the rules in the final quarter of FY2024.

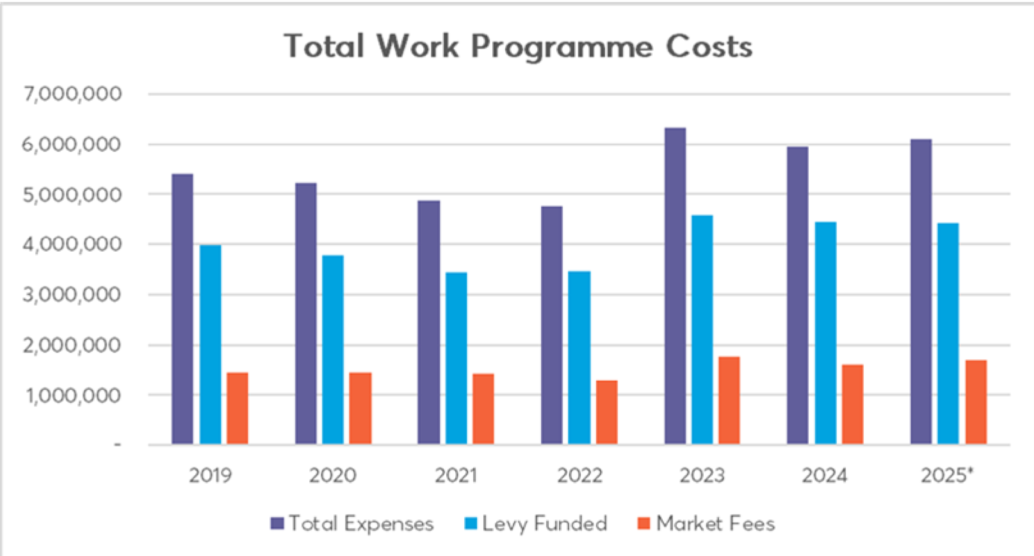
An overview of the workstreams and estimated costs is outlined in **Annex Three**.

We consider the work programme being developed by GIC aligns with the Government's objectives and outcomes for the gas sector. The levy funding requirement for FY2025 has decreased slightly from the previous year (0.74 per cent decrease).

Table Three: Calculation of levy funding

Description	Total Work Programme Cost	Indicative Market Fees		Levy Funding Requirement	
		Wholesale	Retail	Wholesale	Retail
Gas Governance	3,254,416	549,250	1,145,316	732,474	827,376
Facilitating Industry Systems and Processes	1,327,459			724,798	602,661
Trusted Advisor to Government and Industry	1,535,449			935,479	599,970
Total	6,117,324	1,694,566		4,422,758	

Figure Two: Total Work Programme Costs 2019 to 2025



Consultation and feedback

GIC conducts comprehensive consultation when developing the levy recommendation each year. This includes consultation on all aspects of the proposed work programme for the upcoming financial year, and the proposed levy rates and amount.

Consultation commenced with the annual co-regulatory forum on 30 November 2023. The co-regulatory forum gives stakeholders, including major users and industry participants an opportunity to provide GIC with feedback on the FY2025 work programme.

In December 2023, GIC released its consultation paper which sets out its strategic role, work programme and proposed levy rates. Consultation closed in February 2024. The consultation contributes to the development of the SOI and its work programme.

Ten submissions were received. Submitters generally supported GIC's FY2025 work programme, and some called on the government to clarify the direction of work stemming from the Gas Transition Plan consultation which make up a significant portion of the programme.

All submissions supported the process for developing the FY2025 work programme and budget as being a well-established and fit-for-purpose process. Submitters found the levy rate to be reasonable.

All but one submitter welcomed the levy review, with that submitter noting it did not deserve attention "at this point" as the increase in the wholesale levy in real terms (less than 0.2c/GJ of gas purchased) is immaterial to levy payers. In its response, GIC noted that the majority of submissions supported the work being undertaken. Submissions are published on GIC's website.[18]

Impact analysis

The recommended levy is set to recover GIC's estimated costs of delivering the FY2025 work programme, which aligns with the estimate costs that can be covered by the levy.[19]

MBIE considers that the proposed work programme aligns with government objectives and outcomes for the gas sector. It also aligns with GIC's SOI. As noted previously, the estimated total levy funding required is based on the cost of delivering that work programme.

In evaluating appropriateness, the levy rate to collect up to $4,422,758 recommended by GIC is reasonable when considering the extent of the proposed work programme. While a slight decrease this year, the levy funding requirement still remains higher than it was in FY2022 (see *Figure Two*). MBIE considers that this reflects the increased workload in association with the broader energy transition programme.

The increase in total work programme costs compared to FY2024 is $173,871 (2.93 per cent).

There are, across the industrial, commercial, and residential sectors, approximately 311,000 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.

The levy costs imposed on end users are relatively small, approximately 0.69 per cent of residential gas consumers' annual gas bill. This means that each residential gas consumer will pay around $6.93 total levies per annum. As outlined above, the proposed rates are in line with previous levies (0.75 per cent in FY2024). Levy rates change year to year depending on work programme needs and, in the past, have had a slightly higher impact on residential consumers.

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[18] https://www.gasindustry.co.nz/our-work/work-programmes/levy/#developing-2

[19] Section 43ZZC of the Act.

Large industrial users, who consume the most gas, pay the majority of the levy. For these users, the amount of levy paid is proportionate to wholesale gas purchases and adds about 0.14 per cent or less to the unity cost of gas. Large consumers are active participants in the consultation process.

Table Four: Estimated impact of the FY2025 levy on gas industry participants[20]

Proposed FY2025 Levy Regulations			
Figures GST exclusive where applicable	**Typical residential consumer**	**Typical commercial consumer**	**Typical industrial consumer**
Annual gas usage	25 GJ	1,000 GJ	50,000 GJ
Estimated annual gas bill	$1,008	$25,002	$518,074
Estimated total annual levy	**$6.93**	**$22.48**	**$804.13**
Estimated proportion of total gas bill	0.69 per cent	0.10 per cent	0.16 per cent

No costs will be imposed on the government as the levy will be recovered from gas industry participants and collected by GIC.

Because of the unique regulatory regime for New Zealand's natural gas sector, no international comparisons on the cost of GIC's activities are appropriate.

Analysis against statutory criteria

No changes to the design of the levy, or the process for developing the levy for the FY2025 recommendation have been indicated by GIC. The only changes are the levy rates. GIC has indicated that during FY2025 they will review the existing levy methodology to determine whether the current levy model is fit for purpose with the forecast declining wholesale levy volume. Any changes to the levy model will apply to future levies only.

MBIE's analysis of the recommendations against sections 43ZZB to 43ZZE of the Act, is set out below:

- GIC as the industry body has recommended that the Minister make regulations, with the levy design consistent with the requirements of the Act.
- The amount is reasonable having regard to GIC's SOI, GIC's annual report and GPS objectives and outcomes. We consider the work programme developed by GIC aligns with the Government's objectives and outcomes for the gas sector as set out in the GPS (see the requirements outlined in **Annex Four**). This is also evident in the draft

[20] We note that there is no "typical" commercial or industrial customer. To provide some indication of the impact on users, we have assumed a typical annual gas usage of 25 GH for residential consumers, 1,000 GJ for commercial consumers and 50,000 GJ for industrial consumers. It also assumes, based on 2023 nominal average fuel prices, an average price of gas of $40.33/GJ for residential consumers, $25/GJ for commercial users, and $10.36/GJ for industrial users (these numbers have been rounded).

SOI.[21] The overall costs are reasonable in the context of a larger work programme and an emerging role for GIC for facilitating the decarbonisation of the gas industry. MBIE also notes that there is a slight decrease (0.74 per cent) in the levy funding requirement from the last financial year.

- GIC has consulted with industry.
- The recommendations prescribe the amount of the levy, which only applies for a financial year (1 July 2024 to 30 June 2025), and applies to all industry participants.

Therefore, we consider the statutory criteria for the levy have been met.

Recommendation

After an assessment of the levy recommendation against the statutory criteria, we recommend accepting the levy recommendation. We recommend that regulations be made requiring industry participants to pay the recommended levy to GIC to fund its operations in FY2025.

Implementation Plan

If approved, the new regulations will come into effect on 1 July 2024. These will replace the current regulations which cease to have effect on 30 June 2024.

The proposed levy amounts are exclusive of GST and are paid in monthly instalments. Due to the levy being put in place annually, it is a well-known process by industry participants and will not impose any substantive additional compliance costs on levy payers.

If approved, GIC is responsible for communicating the new rates for the levy. We do not see any risks associated with implementing the levy. If rejected, GIC would have to conduct another levy recommendation process, including reconsulting with stakeholders. This would result in GIC operating without levy funding until new regulations are made, relying on market fees and equity reserves which are insufficient to deliver its work programme.

Monitoring and evaluation

GIC undertakes monitoring of the wholesale levy. The levy regulations enable 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 the wholesale levy for a month must supply to GIC a written return stating the total gigajoules of gas that industry participant has purchased during the previous month from a gas producer. Gas producers are also required to supply GIC with a return stating the total gigajoules of gas sold to each of its customers during the previous month. This gives verification that the levy is being paid correctly.

MBIE oversees and monitor GIC's activities throughout the year. The Minister also meets frequently with GIC to discuss work programme progress, and to discuss issues the industry is facing. GIC provide the Minister and MBIE with quarterly performance reports.

GIC's accounts audited and tabled in the House annually. GIC's annual report also outlines achievements and progress for each workstream set out in the work programme.

[21] See pages 41-43 of the SOI for a breakdown of how GIC's work programme aligns with the Gas Act requirements and GPS Objectives and Outcomes.

Review

The Act states that the levy regulations must apply only to the financial year in respect of which the regulations are made. GIC therefore makes a new levy recommendation to the Minister for each financial year.[22] For FY2026, both the wholesale and retail levy rates will be reviewed again, and new regulations made if the Minister decides to accept GIC's levy recommendations for FY2026.

Annexes

Annex One: Levy principles

Annex Two: Direct and Indirect work programme costs

Annex Three: Proposed work programme overview and associated levy costs

Annex Four: List of Gas Act requirements and GPS Objectives and Outcomes

[22] Section 43ZZE(3)

Annex One: Levy principles

#	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 pays	• 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.
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.

Annex Two: Direct and indirect work programme costs

	FY2024			FY2025		
	Retail	**Wholesale**	**Total**	**Retail**	**Wholesale**	**Total**
Direct costs	$1,306,229	$1,574,676	$2,880,905	$1,304,826	$1,537,987	$2,842,813
Indirect costs	$714,028	$860,770	$1,574,798	$725,181	$854,764	$1,579,945
Total Levy Funding Requirement	$2,020,258	$2,435,446	$4,455,703	$2,030,007	$2,392,751	$4,422,758
Basis of apportionment	*Per ICP*	*Per GJ*		*Per ICP*	*Per GJ*	
Number	309,000	170,000,000		311,000	150,000,000	
Levy rate	$6.54/ICP	1.4326c/GJ		$6.53/ICP	1.5952c/GJ	
Projected levy revenue	$2,020,258	$2,435,446	$4,455,703	$2,030,007	$2,392,751	$4,422,758

Annex Three: Proposed work programme overview and associated levy costs

FY2025			
Work Programme		Levy funding requirement $4,422,758	
		Wholesale	Retail
Trusted Advisor to Government and Industry	• Work stemming from the Gas Transition Plan • Energy Transition	$935,479	$599,970
Gas Governance	• Review of Existing Levy Methodology • Critical Contingency Management • Advanced Gas Metering • Retail Gas Contracts Oversight Scheme • Gas Distribution Contracts Oversight Scheme • Downstream Reconciliation/D+1 • Switching and Registry • Compliance and Enforcement • Statement of Intent and Annual Report • Other Reporting	$732,474	$827,376
Facilitating Industry Systems and Processes	• Information Disclosure • Guidelines to Enhance Consumer Outcomes • Gas Transmission	$724,798	$602,661

Annex Four: Categorisation of Gas Act requirements and GPS Objectives and Outcomes

Objective or Outcome	Description
Gas Act s43ZN(a)	The principal objective is to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner.
Gas Act s43ZN(b)(i)	Facilitation and promotion of the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements.
Gas Act s43ZN(b)(ii)	Barriers to competition in the gas industry are minimised.
Gas Act s43ZN(b)(iii)	Incentives for investment in gas processing facilities, transmission, and distribution are maintained or enhanced.
Gas Act s43ZN(b)(iv)	Delivered gas costs and prices are subject to sustained downward pressure.
Gas Act s43ZN(b)(v)	Risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties.
Gas Act s43ZN(b)(vi)	Consistency with the Government's gas safety regime is maintained.
GPS Item 12(a)	Energy and other resources used to deliver gas to consumers are used efficiently.
GPS Item 12(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.
GPS Item 12(c)	The full costs of producing and transporting gas are signalled to consumers.
GPS Item 12(d)	The quality of gas services where those services include a trade-off between quality and price, as far as possible, reflect customers' preferences.
GPS Item 12(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
GPS Item 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.
GPS Item 13 Point 1	An efficient market structure for the provision of gas metering, pipeline and energy services.
GPS Item 13 Point 2	The respective roles of gas metering, pipeline and gas retail participants are able to be clearly understood.
GPS Item 13 Point 3	Efficient arrangements for the short-term trading of gas.
GPS Item 13 Point 4	Accurate, efficient and timely arrangements for the allocation and reconciliation of upstream gas quantities.
GPS Item 13 Point 5	Gas industry participants and new entrants are able to access transmission pipelines on reasonable terms and conditions.

GPS Item 13 Point 6	Gas governance arrangements are supported by appropriate compliance and dispute resolution processes.