

## Regulatory Impact Statement

### GAS INDUSTRY CO. 2011/2012 LEVY

#### AGENCY DISCLOSURE STATEMENT

This Regulatory Impact Statement has been prepared by the Ministry of Economic Development.

Under section 43ZZD(2) of the Gas Act 1992 the Minister must accept a recommendation for a levy from Gas Industry Co. if the recommendation meets the requirements of that section. Gas Industry Co. has made a levy recommendation which meets these requirements. Therefore, there are no other options for funding Gas Industry Co. available without altering the Gas Act 1992. Accordingly no other options have been developed in this analysis.

The Ministry of Economic Development considers that the disclosure of information is adequate, and the level of analysis is appropriate given the likely impacts of the proposal.

Gareth Wilson, Manager, Energy Markets Group



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## STATUS QUO AND PROBLEM DEFINITION

### *Status quo*

Gas Industry Co. (GIC), as the approved co-regulating industry body under that Gas Act 1992 (the Act), has made a recommendation to the Acting Minister of Energy and Resources that regulations be made requiring industry participants to pay a levy to GIC for FY2012. Given that this recommendation satisfies the requirements in section 43ZZD(2) of the Act, the Minister must accept this recommendation in accordance with that section<sup>1</sup>.

The current FY2011 levy regulations allowed GIC to recover \$4.299 million, which is divided between a retail levy of \$6.40 per installation control point, and a wholesale levy of 1.84 cents/gigajoule.

### *Problem Definition*

GIC requires \$3.962 million to fund its operational costs for FY2012. If no action is taken, GIC will have insufficient funding to implement the work programme for FY2012. Without sufficient funding, GIC will be incapable of delivering its work programme to meet the Government's policy expectations, as it is tasked to do under the Act. The status quo, therefore, is not a feasible option.

## OBJECTIVES

The objectives of the regulations are to allow appropriate funding for GIC's work programme, enabling it to meet the Government's policy expectations for the gas sector, which is to ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable, and environmentally sustainable manner.

## REGULATORY IMPACT ANALYSIS

GIC's levy recommendation meets the requirements of section 43ZZD(2) of the Act, therefore, alternative options for funding GIC for FY2012 are not available under the present regulatory setting. Accordingly alternative options are not developed in this analysis.

GIC's proposed levy regime has two components – a wholesale levy and a retail levy. The wholesale levy is 1.66 cents/gigajoule paid on all gas purchased from producers by the buyers of that gas. The retail levy is \$5.76 per installation control point per annum. The total levy funding requirement is \$3.962 million<sup>2</sup>. The proposed levy amounts are GST exclusive and are to be paid in monthly instalments.

<sup>1</sup> Refer paragraphs 4 - 20 of cabinet paper.

<sup>2</sup> Refer paragraphs 9 – 10 of cabinet paper.

The regulations will enable GIC to require information from industry participants that purchase gas from gas producers for the purposes of calculating the levy. In cases where an industry participant fails to pay any amount of the levy by the due date, the participant is liable to pay an additional levy of 10% of the amount that was unpaid on that date. These are the same generic provisions that have applied in past years.

Officials have analysed GIC's estimates of workstream costs and have had discussions with GIC about a number of their estimates. We are satisfied that GIC's estimated costs are commensurate with the work programme contained in GIC's FY2012-14 Strategic Plan, and that this strategic plan is sufficiently aligned with Government Policy Statement on Gas Governance objectives and outcomes. GIC has also consulted extensively with industry (see below). Accordingly, officials are satisfied that the requirements of section 43ZZD(2) of the Act have been met, and therefore that the Minister is required to accept GIC's levy recommendation in accordance with that section.

## **Impacts of the Levy**

### *Government*

Adequate funding will enable GIC to deliver its work programme and meet the Government's policy objectives for the gas sector set out in the Government Policy Statement on Gas Governance and in the Act. There will be no costs imposed on the Government because the levy will be paid by gas industry participants and collected by the GIC.

### *Gas suppliers*

Gas retailers and wholesalers will face costs of \$3.962 million for FY2012 in paying the levy. This represents an 8.5% decrease on FY2011 costs. The administrative costs of paying this levy are assumed to be negligible compared to the levy itself.

Assuming demand is relatively inelastic and/or there is an absence of readily available alternative energy supply options, retailers and wholesalers will be able to pass costs on to gas customers without distorting demand. The total levy amount of \$3.962 million represents less than 0.4% of the total annual turnover of the gas industry which is around \$1 billion.

### *Gas consumers (residential)*

The size of the proposed levy is small in comparison with the value of a residential consumers' gas take. Assuming the full pass-through of these levies to end users, an average residential consumer consuming 25 gigajoules per annum will pay a total levy of \$6.18 per annum. This compares to an estimated annual gas bill for that

consumer of \$780. The levy thus represents 0.79% of the total gas bill for that consumer<sup>3</sup>.

There is a small risk that there will be enquiries and complaints from consumers about the levy, both to gas retailers and to the Minister.

#### *Gas consumers (commercial)*

Assuming the full pass-through of these levies to end users, an average commercial consumer of 1000 gigajoules per annum will pay a total levy of \$22.36 per annum. This compares to an estimated annual gas bill for that consumer of \$10,500. The levy thus represents 0.21% of the total gas bill for that consumer.

#### *Gas consumers (industrial)*

Assuming the full pass-through of these levies to end users, an average industrial consumer of 1 million gigajoules per annum will pay a total levy of \$16,605.76 per annum. This compares to an estimated annual gas bill for that consumer of \$7 million. The levy thus represents 0.24% of the total gas bill for that consumer.

### **CONSULTATION**

GIC undertakes extensive consultation each year when developing its levy recommendation. The initial round of consultation took place at a "co-regulatory forum" organised by GIC on 10 November 2010. This forum provided industry participants with an opportunity to supply GIC with feedback on priorities for the FY2012 work programme.

The co-regulatory forum was followed by GIC's release on 20 December 2010 of a consultation document on the proposed levy regulations. Submissions were received by 4 February 2011 and were generally supportive of GIC's proposed work programme and the levy rate.

There was broad industry support for the significant reduction in the levy rate for FY2012 relative to FY2011, and also for their proposal to refund any levy over-recovery at the end of every financial year, rather than deduct it from subsequent years' levies.

### **CONCLUSIONS AND RECOMMENDATIONS**

GIC, as the gas sector's approved industry body, requires annual levy revenue of \$3.962 million to fund its operating costs for FY2012. This funding will enable it to pursue the Government's policy objectives for the gas sector. GIC has recommended a levy comprising two components – a wholesale levy and a retail levy. The wholesale levy is 1.66 cents/gigajoule paid on all gas purchased from

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<sup>3</sup> Refer paragraph 9 of cabinet paper for discussion of cost allocation to market segments.

producers by the buyers of that gas. The retail levy is \$5.76 per installation control point per annum.

GIC's levy recommendation meets the requirements of section 43ZZD(2) of the Act, therefore, alternative options for funding GIC for FY2012 are not available under the present regulatory setting. It is therefore recommended that regulations be made requiring industry participants to pay the recommended levy to GIC to fund its operations in FY2012.

### **IMPLEMENTATION**

Levy payers will continue using similar processes as in previous financial years to pay levies to GIC.

### **MONITORING, EVALUATION AND REVIEW**

Monitoring of levy payments will be undertaken by GIC. The proposed levy regulations do not overlap with existing regulations. They replace the existing levy regulations which expire at the end of FY2011. As the gas levy regulation is only effective for FY2011, no review of the regulation is planned.