

18 October 2016

Ms. Glenda MacBain  
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Dear Glenda,

## [Submission on Wholesale Levy Assurance options paper](#)

This is a submission by First Gas on the options paper for Wholesale Levy Assurance issued by Gas Industry Co (GIC) on 14 September 2016.

### **Overview**

The options paper is intended to address the problem for GIC of “being unable to adequately verify industry participants’ wholesale levy returns submitted under the Levy Regulations”. To resolve this problem GIC is proposing the following four options:

1. require gas producers to provide volumes sold to each of their customers monthly;
2. amend the Gas Act to allow audits of reported volumes;
3. calculate wholesale levy payments using transmission billing volumes; or
4. base wholesale levy payments on a combination of downstream reconciliation volumes and direct-connect deliveries.

Our views, which we set out in more detail below, can be summarised as follows.

- A small problem requires simple solutions
- Options 2 and 4 are too expensive and complex
- Option 3 is sub-optimal
- Option 1 is best out of four
- Charging levies to producers directly would be the most simple solution

### **A small problem requires simple solutions**

We assume GIC’s initiative has been prompted by the discovery of \$501,334 in unpaid levies over a period of several years from one industry participant. While that discovery may have been a surprise, a key consideration should be that the payment shortfall was eventually discovered. Seeking verification of levy returns is a reasonable activity for GIC, but it may be considered a relatively small problem in the overall scheme of things. We do not propose that solutions be subjected to any specific cost-benefit analysis, but we do suggest that the ultimately chosen solution should be simple to implement and should not materially increase recurring costs.

## Options 2 and 4 are too expensive and complex

Viewed from that perspective, we consider that options 2 and 4 are too expensive and/or complex for implementation.

- Option 2 requires a change to the Gas Act first, followed by design of an audit regime that can be included in the Levy Regulations. Subsequently, GIC would need to implement procedures and arrangements to actually conduct the intended audits, or have them conducted by a third party. This may require a lengthy and relatively costly process for what we expect to be relatively small benefits.
- Option 4 seems needlessly complex. Imposing levies on every retailer and every directly connected transmission or distribution customer increases the number of parties needing to pay. Procedures for downstream allocation wash-ups add unnecessary complexity. Such wash-ups merely change allocations of the levies to individual participants, but should not change the aggregate amount of levies payable to GIC.
- Option 4 would presumably also require GIC to impose levies and collect information from participants connected to private pipelines. Implementing reliable arrangements for that could introduce additional costs and complexity.

## Option 3 is sub-optimal

GIC's options paper expresses a preference for using option 3. This involves changing GIC's approach to calculating the wholesale levy by applying the levy rate to each shipper's transmission billing volumes. We are willing to work with GIC on the arrangements to implement this option if it is ultimately selected. However, we believe GIC is underestimating the difficulties, complexities and disadvantages. We consider option 3 a sub-optimal choice and do not recommend it for the following reasons.

- GIC will still need to implement arrangements to charge a levy to users of private pipelines (e.g. Methanex). The concept of having a 'shipper' may not apply to those private pipelines. Levy and audit arrangements for private pipelines are more likely to reflect one of the other options instead of option 3.
- GIC will not be able to use aggregate billing volumes for each shipper because those volumes will include a multitude of receipt/delivery point combinations, including displaced gas nominations and nominations to and from the emsTradepoint Trading Hub under the Maui Pipeline Operating Code (MPOC). This means billing volumes will need to be broken out and reviewed on a line item basis.
- GIC will need to consider whether and how to impose levies on shipper mismatch – under the MPOC and under the Vector Transmission Code (VTC) – and on cash-outs or trades of operational imbalance for Welded Parties under the MPOC.
- Billing and volume information by shipper is classified as Confidential Information under both the MPOC and the VTC. Unless each shipper provides prior written consent, we can only provide such information "to the extent required by law".
- Under section 24.4 of the MPOC we are also required to ensure that "...appropriate safeguards shall be made as a pre-requisite to such disclosure by the Information Recipient to prevent that third party from making any further disclosure of such information without the consent of both the Disclosing Party and the Information Recipient ...". That provision can be overruled by law as well, but that still places us in an awkward position.

- We assume GIC only intends to impose levies on transmission volumes from gas production stations. (Otherwise, VTC shippers would in many cases be paying a levy twice.) Breaking out those levies by shipper is unnecessarily complex and costly.

### **Option 1 is best out of four**

In order to obtain information on volumes from gas production stations, the most simple and least costly solution is to obtain that information from the gas producers directly. We agree with the statement in the options paper that: "This places little burden on producers (as they already need to generate the data for billing purposes) ...". We do not understand the relevance of the follow-up statement that this would impose "... a reasonable amount of work by Gas Industry Co each month to analyse the data and verify returns". GIC would need to analyse data and verify returns regardless of who provides them. Using data from gas producers directly allows a simple collection of data at the source and eliminates the need to: a) break out data by shippers; and b) add arrangements to collect data (which may need to come from gas producers anyway) for use of private pipelines.

As an additional benefit, option 1 also avoids the need to make consequential changes to the CCM Regulations. In our view option 1 is clearly the best out of the four options proposed by GIC.

### **Charging levies to producers directly would be the most simple solution**

An even simpler option – we propose this could be option 0 – would be to charge the wholesale levy to producers directly, based on their aggregate primary sales volumes of gas. This would allow payment of levy at the source of production, and eliminate all need to break down further information on who purchased gas and who shipped it how and where. The aggregate sales volumes could be checked against MBIE statistics. This option provides the greatest cost savings compared to the status quo.

We also note that option 0 does not require consequential changes to the CCM Regulations, but it could be more convenient to make the CCM fees directly payable by producers as well. This would not change the economic value of gas being purchased, but it would simplify the allocation and collection of fees.

### **Conclusion**

We appreciate the opportunity to provide this submission. We would be happy to provide additional clarifications and information. Please feel free to contact me at any time at [jelle.sjoerdsma@firstgas.co.nz](mailto:jelle.sjoerdsma@firstgas.co.nz) or in our Wellington office on (04) 460 2535.

Yours sincerely



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