

Cost Recovery Impact Statement

Regulations to set the Gas Industry Company Levy 2020/21

Agency Disclosure Statement

This statement has been prepared by the Ministry of Business, Innovation and Employment (MBIE). 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 (for both a wholesale and a retail levy) to recover up to \$3.45 million of its costs from gas industry participants for the financial year beginning 1 July 2020 (i.e. 2020/21).
- 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 Section 43ZZD of the Act provides that the Minister must accept or reject the GIC's recommendation; only these two options have been assessed. Further, the Minister must accept the recommendation if satisfied that the recommendation meets certain requirements in the Act. These requirements are:
 - 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's analysis solely relies on the analysis provided by the GIC as part of its levy recommendation to the Minister. This approach is consistent with MBIE's assessment of GIC levy recommendations in previous years.
- 5 Two key assumptions made by the GIC underpin the proposed option:
 - a. The retail levy is estimated based on the number of active Installation Control Points (ICP's) in the gas registry (estimated to be 290,000 for the 2020/21 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 175 petajoules. If the amount of gas purchased decreases or increases, this will impact the amount recovered through the wholesale levy.

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Executive summary

- 1 The Gas Act 1992 (the Act) sets out New Zealand's co-regulatory governance approach to the gas industry with the Gas Industry Company (GIC) being the approved industry regulator since 2004. 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'*.
- 2 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.
- 3 The levy of gas industry participants has a wholesale component based on the energy quantities of gas, underpinned by an estimate of the amount of gas that will be produced in the following year, and a retail component that is apportioned based on Installation Control Point (ICP) market shares. For 2020/21, the GIC's proposed levy rates will meet \$3.45 million of the GIC's estimated costs. This is an 8.6 per cent decrease from 2019/20. The proposed levy rates are as follows:

Table one: Comparison of retail and wholesale levy rates 2019/20 and 2020/21

	2019/20 rate	2020/21 rate	Change
Retail Levy	\$6.12 per ICP	\$5.16per ICP	15.69 per cent decrease
Wholesale Levy	1.1279 cents per gigajoule	1.1164 cents per gigajoule	1.02 per cent decrease

- 4 If a new levy is not approved by 1 July 2020, the GIC will be required to rely on market fee revenue and equity reserve, both insufficient to deliver its work programme.
- 5 The costs imposed on end users are relatively small, approximately 0.55 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.
- 6 Under section 43ZZD of the Act, the Minister must accept the levy recommendation if she or he is satisfied that it meets certain requirements laid out in the Act. MBIE has found that the recommendation meets the requirements of the Act and the objectives of the industry, so therefore, should be accepted by the Minister.

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). Since 2004¹, the Gas Industry Company (GIC) has 'co-regulated' the gas sector by having the power to recommend arrangements to the Minister of Energy and Resources (the Minister).
- 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. Only minor adjustments have been made over time.
- 4 The GIC's work programme priorities are set in consultation with industry, and are driven by industry's priorities. A levy applied to industry participants continues to be the most appropriate mechanism to best meet the GIC's costs in achieving the Government's objectives for the gas industry.
- 5 The levy is charged of all industry participants. In practice, the cost of the levy is passed on to consumers. For the 2020/21 year, the GIC expects there to be 290,000 gas consumers (up from 285,000 in 2019/20). Large industry users, who consume the most gas, pay the bulk of the levy.
- 6 The GIC recovers most (approximately 71 per cent) of the cost of its total work programme through a levy on gas industry participants. The other main sources of funding are market fees² and an annual fee of \$2,000 (excl. GST) per GIC shareholder.

Levy rates

- 7 The Gas (Levy of Industry Participants) Regulations 2019 set the current rate of wholesale and retail levy rates as follows:
 - a. a retail levy rate is \$6.12 per Installation Control Point (ICP)³
 - b. a wholesale levy rate is 1.1279 cents per gigajoule.

¹ Through the establishment of the Gas (Approval of Industry Body) Order 2004 under the Act.

² 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.

³ 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 The GIC estimated that these rates would enable the GIC to collect \$3.77 million for the 2019/20 year. The actual amount that will be 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 refunding unspent levies to industry participants. Due to the timing of the expiry of these regulations, the level of overpayment (or underpayment) is not yet known. This repayment happens as soon as practicable after the annual accounts have been received by shareholders at the GIC's Annual Meeting.

Cost recovery principles and objectives

- 9 New regulations for the levy of gas industry participants are made each financial year. The levy is the principal mechanism for the GIC to meet the costs of its activities, with section 43ZZC of the Act setting out the activities the levy can fund. The levy rates and a schedule of levy funded activities are publicly available on the GIC's website.⁴
- 10 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.'*
- 11 The levy recommendation 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 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.

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

Proposed levy rates

- 12 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 financial year.
 - 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.
- 13 For 2020/21, the GIC's proposed levy rates will meet \$3.45 million of the GIC's costs. This is a decrease of \$324,154 (or 8.6 per cent) from 2019/20. The proposed levy rates are set out in table three.
- 14 *Table two: Comparison of retail and wholesale levy rates, and funding requirements 2019/20 and 2020/21*

Figures in table GST exclusive where applicable	2019/20 rate	Proposed 2020/21 rate	Change
Retail Levy	\$6.12 per ICP	\$5.16 per ICP	15.69 per cent

⁴ <https://gasindustry.co.nz/work-programmes/levies/background/previous-levies/2018-2019/>

			decrease
Wholesale Levy	1.1279 cents per gigajoule	1.1164 cents per gigajoule	1.02 per cent decrease
Total GIC Levy funding requirement	\$3,774,336	\$3,450,182	8.59 per cent decrease

- 15 For 2020/21, the GIC estimates the number of ICP's to grow, but the amount of gas purchased to decline. Coupled with operational efficiency improvements, this has reduced the need for the GIC to increase the levy rates as levy funded work programme costs have decreased.

Levy methodology

- 16 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 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.
- 17 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

- 18 There are two key assumptions underpinning the GIC's 2020/21 proposal:
- The retail levy is estimated based on the number of active ICP's (estimated to be 290,000 for the 2020/21 levy regulations). If the number of active ICP's 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 175 petajoules. If the amount of gas decreases or increases, this will impact the amount recovered through the wholesale levy.
- 19 Any overpaid levies will be refunded to industry participants at the end of the financial year through a process the GIC calls a 'wash up.' At the end of the 2018/19 financial year, total refunds of \$155,946 were reimbursed to levy payers.
- 20 The GIC expects that the outbreak of COVID-19 will have no material impact on levy revenue. At alert levels 3 and 4 the GIC expect revenue will be largely unaffected. However, this could be affected if we moved back to alert level 4 during FY2021 and how long alert level 4 applied.

Primary cost driver – GIC's proposed 2020/21 work programme

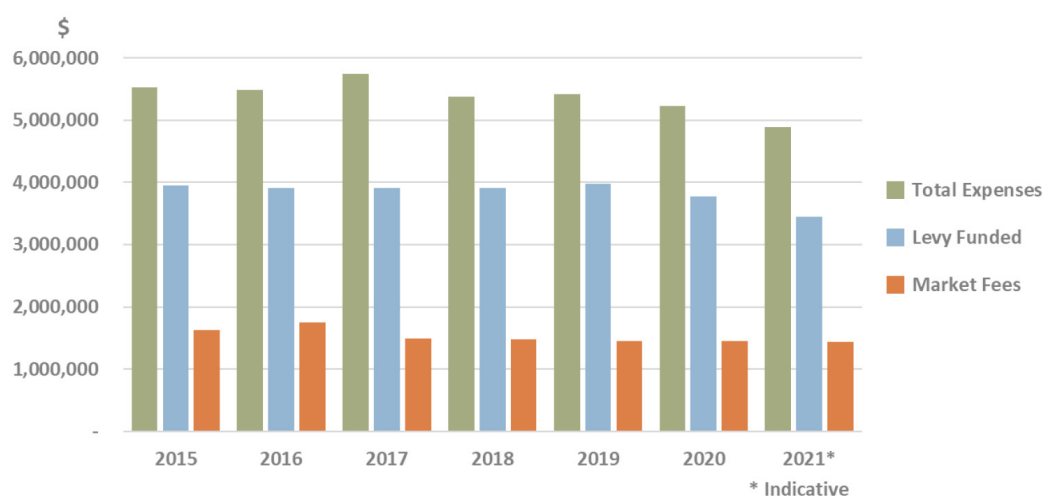
- 21 The proposed work programme for 2020/21 largely continues existing multi-year work streams, including activities to meet statutory requirements (such as the administration of existing gas governance regulations), but also the delivery of the projects GIC considers key to meet government and industry priorities as outlined in the GPS, and GIC SOI and levy recommendation.

- 22 In the past few years the GIC has dedicated an intense amount of activity to the development of the **Gas Transmission Access Code (GTAC)**, a single transmission access code. This work is led by First Gas to replace the Maui and Vector Transmission Codes, with GIC providing an assessment role of the proposed GTAC. Implementation of the GTAC has now been delayed until 2021/22 which has resulted in decreased costs associated with this work stream. However, once the GTAC is in place, work will be needed to implement these arrangements which may increase associated costs for future levy recommendations.
- 23 The Government has accepted the majority of the 32 recommendations from the electricity industry as part of the **Electricity Price Review (EPR)**. Some of the recommendations relate to industry practices and arrangements in the electricity industry that are also present in the gas industry. The GIC's view is that it is appropriate for it to consider whether these recommendations should result in changes to existing gas governance arrangements, or the introduction of new arrangements. This EPR workstream will involve:
- a. Reviewing the recommendations from the EPR and identifying which are relevant to the gas industry.
 - b. Liaising with the Electricity Authority and other government agencies to understand their approaches and responses to the EPR.
 - c. Considering whether any existing gas governance arrangements should be amended or new gas governance arrangements be introduced. This includes an assessment of the extent of changes that can be made under the empowering provisions in the Act.
 - d. Consulting on any proposed changes to gas governance arrangements and making recommendations to the Minister of Energy and Resources where appropriate.
- 24 It was recently announced that Genesis Energy will be rolling out **advanced gas meters** to its customers in FY2021. In the coming year, the GIC will be working alongside industry to ensure that the industry rules and systems are suitable for advanced gas metering. Work is underway to consider changes that may be required to the industry rules and systems, with the GIC assessing whether there is still merit in producing a minimum voluntary standard for advanced gas metering. Advanced gas metering provides customers with greater visibility around energy usage, giving them freedom to make energy usage decisions before bills arrive.
- 25 One of the GIC's main priorities will be a workstream for determining if current settings around **information disclosure** in the gas industry are adequate, and what options may address identified issues. The GIC are working to determine if regulated or non-regulated interventions are required, and it aims to make a Statement of Proposal (SOP) to address these issues. If the SOP indicates a non-regulated solution is feasible then the work to implement that solution will continue. Alternatively, if an industry-led approach is not feasible, then the GIC will make a recommendation to the Minister and the GIC will subsequently implement a regulated solution (subject to Ministerial approval).
- 26 The GIC reports how its levy costs and associated work streams are allocated against four strategic objectives. Annex Two provides an overview of how the levies are allocated against each of these GIC's strategic objectives as set out in the GIC's recommendation and SOI.

Forecasted GIC revenue

- 27 Figure one shows the breakdown of the GIC's funding requirements since 2014/15. 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 and \$3.45 million for 2020/21.
- 28 When added to the market fees⁵ for year 2020/21 of \$1.436 million, the GIC's total work programme requirements for 2020/21 are expected to be \$4.89 million. Between 2019/20 and 2020/21 levy funding requirements have decreased by 8.6 per cent. This is slightly more than 5.2 per cent decrease in levy funding requirements between 2018/19 and 2019/20. The GIC have stated that due to market fees being a set amount, COVID-19 will not impact the amounts collected, but it may impact the costs covered by market fees with a flow on effect to the amounts washed up. At this stage it is considered unlikely this will occur.
- 29 If a new levy is not approved by 1 July 2020, the GIC will be required to rely solely on market fee revenue and equity reserve⁶, both insufficient to deliver its work programme.
- 30 Annex Three shows the allocation of the levy funding across indirect and direct costs⁷ for 2020/21. The increase in indirect costs has been completely offset by a decrease in direct costs, leading to a lower levy funding requirement for 2020/21.

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



Impact analysis

- 31 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 \$5.45 per annum, or 0.55 per cent of their annual gas bill.
- 32 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.

⁵ Refer to footnote 2 above.

⁶ Equity reserve is money set aside made up of industry advance reserves (i.e. Shareholder fees), and retained earnings.

⁷ Direct costs include costs for staff contributing director to either the wholesale gas or retail gas work streams. Indirect costs are unrelated to staff salaries, and includes office infrastructure and other governance costs.

- 33 The largest consumers of the gas supply in New Zealand (e.g. Methanex New Zealand and 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.
- 34 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 (as outlined in paragraph 19), which are supported by levy payers. No costs will be imposed on the Government as the levy will be paid by gas industry participants and collected by the GIC
- 35 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.

Overview of costs imposed on Consumers

Table four: Estimated impact of the 2020/21 levy on gas industry participants⁸

Proposed 2020/21 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	\$1003.75	\$11,970	\$335,000
Estimated total annual levy	\$5.45	\$16.80	\$587.16
Estimated proportion total gas bill	0.55 per cent	0.14 per cent	0.17 per cent

Options analysis

- 36 Consistent with section 43ZZD of the Act providing that the Minister can only accept or reject the levy recommendation from the GIC, regulatory analysis identifies only these two options.

Criteria

- 37 We have used the following criteria, as set out in section 43ZZD as the basis for analysing whether to accept or reject the recommendation. The criteria are as follows:

⁸ There is no "typical" commercial or industrial customer and so these numbers are intended to be indicative only. To provide some indication of the impact on users, the paper assumes 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 2019 nominal average fuel prices, an average price of gas of \$40.15 per GJ for residential consumers, \$11.97 per GJ for commercial consumers and \$6.70 per GJ for industrial consumers.

- a. the levy rate or amount is reasonable, having regard to the industry body SOI, the latest industry body annual report, and any GPS objectives and outcomes; and
- b. the industry body has consulted with industry participants on the levy rate or amount; and
- c. the requirements of sections 43ZZB to 43ZZE are met.

Assessment against criteria

38 Our analysis of the levy recommendation against the criteria is as follows:

The levy amount or rate is reasonable

- 39 There has been little change from previous years in the set levy rate and revenue. The decrease from \$3.77 million to \$3.45 million still enables the GIC to implement its work programme and meet its costs.
- 40 The work programme is shaped by the objectives set out in the Act and GPS for the gas industry in New Zealand. Projects set out in the GIC's recommendation align with the SOI, with information disclosure and advanced gas metering being priority projects. The work programme also aligns with the future strategic issues for the sector and the GIC as set out in the SOI.
- 41 MBIE's assessment is that this levy rate is reasonable, and in line with the levy rates approved in previous years.

Industry participants have been consulted on the proposed levy rate

- 42 The GIC consulted with industry participants at its annual co-regulator forum in November 2019, the feedback from this was generally positive. An open consultation was also undertaken⁹, with submissions published on the GIC's website¹⁰. 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.
- 43 This achieves the consultation criterion under the Act.

The legislative requirements have been met

- 44 MBIE considers that the sections 43ZZB to 43ZZE, that sets out what the levy may do, are met. The industry body has recommended both a retail and wholesale levy; which contribute to the costs of delivering the GIC's work programme. The levy regulations prescribe the wholesale and retail levy amounts for the 2020/21 financial year and meet the requirements of section 43ZZE of the Act; and every industry participant (or prescribed class of industry participants) must pay the prescribed GIC levy.
- 45 The design of the levy has not changed from previous years. MBIE's view is that the levy design meets the requirements of the Act, as set out in sections 43ZZB to 43ZZE.

Options

- 46 As the Minister may only accept or reject a recommendation for levy regulations from the GIC, there are only two options:

⁹ <https://gasindustry.co.nz/dmsdocument/6665>

¹⁰ <https://gasindustry.co.nz/dmsdocument/6904>

Option 1: Accept the GIC's recommendation

- 47 The first option is to accept the GIC's recommendation and make levy regulations to recover up to \$3.45 million in 2020/21. 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.
- 48 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.
- 49 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.

Option 2: Reject the GIC's recommendation

- 50 The second option is to reject the GIC's recommendation. This would result in the GIC operating without levy revenue from 1 July 2020, 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.
- 51 In our assessment, there are no grounds to reject the GIC's 2020/21 levy recommendation as it has fulfilled its requirements under the Act.

Preferred option: Accept the GIC's recommendation

- 52 Option 1 is MBIE's preferred option. This aligns with the criteria set out in section 43ZZD of the Act.
- 53 We consider the levy rate of up to \$3.45 million recommended 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.
- 54 Accepting the GIC's recommendation enables the GIC to continue to operate, deliver its work programme, and support the Government in its response to COVID-19. The GIC has played an active role as the Sector Coordinating Entity for the New Zealand gas industry for our COVID-19 response.
- 55 As noted above, while there could be some impact on consumer demand as the result of COVID-19 which may impact on the GIC's levy receipts. However, GIC advised that (if necessary), it can manage the financial consequences within their cost structures, and expect to deliver on our work programme.

Consultation

- 56 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.
- 57 The consultation process commenced at the annual Co-Regulatory Forum in November 2019. This forum provided industry participants with an opportunity to supply the GIC with feedback on the 2020/21 work programme. Feedback was generally positive.
- 58 In December 2019, the GIC released its consultation paper in respect of the proposed strategy, work programme and levy rates. Ten submissions were received from

industry participants who were broadly supportive of the proposed work programme and levy. Although consumers were part of the consultation process, none made a formal submission.

- 59 Submitters either did not address the proposed levy rates in submissions, or were comfortable with them. Submissions generally commented on specific aspects of the proposed work programme, which were responded to and considered by the GIC.

Conclusions and recommendations

- 60 The GIC, as the gas sector's approved co-regulatory body, requires levy revenue of \$3.45 million to implement its 2020/21 work programme. The GIC has recommended a levy comprising two components – a wholesale levy and a retail levy. The wholesale levy is 1.1164 cents per gigajoule of gas purchased from the wholesale market. The retail levy is \$5.16 per customer (measured through ICP).
- 61 In assessing the options of either accepting or rejecting the GIC's levy recommendation, accepting the recommendation is the preferred option as it ensures the GIC have appropriate funding for its work programme to meet its principle policy objective.
- 62 It is recommended that regulations be made requiring industry participants to pay the recommended levy to GIC to fund its operations in 2020/21.

Implementation plan

- 63 The proposed new levy regulations will replace the existing levy regulations, which end on 30 June 2020. If approved, the new levy rates will start on 1 July 2020.
- 64 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

- 65 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.
- 66 If the proposal is approved, starting 1 July 2020, 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 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 is being paid correctly.
- 67 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.
- 68 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

- 69 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 2020/21 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	Comparison of levy requirements across GIC's strategic objectives 2019/20 and 2020/21
Annex Three	Comparison of direct and indirect costs of levy

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: Consultation on Gas Industry Co FY2018 Statement of Intent and Levy, Gas Industry Company¹¹

¹¹ <http://www.gasindustry.co.nz/dmsdocument/5448>

Annex Two: Comparison of levy requirements across strategic objectives 2019/20 and 2020/21

Figures in table GST exclusive where applicable	2019/20		2020/21	
	Wholesale	Retail	Wholesale	Retail
Strategic Objective One Promote efficient, competitive and confident gas markets.	\$0	\$758,361	\$490,945	\$450,032
Strategic Objective Two Facilitate efficient use of, and investment in, gas infrastructure.	\$1,222,002	\$0	\$501,173	\$0
Strategic Objective Three Deliver effectively on the GIC's accountabilities as the gas industry body.	\$723,426	\$910,584	\$705,815	\$795,670
Strategic Objective Four Develop and communicate the role of gas in meeting New Zealand's energy needs.	\$82,566	\$77,397	\$253,274	\$253,273
Total	\$3,774,336		\$3,450,182	

Annex Three: Comparison of direct and indirect costs of levy

Figures in table GST exclusive where applicable	2019/20			2020/21		
	Retail	Wholesale	Total	Retail	Wholesale	Total
Direct costs	\$1,149,392	\$1,323,229	\$2,472,621	\$868,231	\$1,130,169	\$1,998,400
Indirect costs	\$596,950	\$704,765	\$1,301,715	\$630,745	\$821,037	\$1,451,782
Total levy funding requirement	\$1,746,342	\$2,027,994	\$3,774,336	\$1,498,976	\$1,951,206	\$3,450,182
Basis of apportionment	per ICP	per GJ		per ICP	per GJ	
Number	285,000	180,000,000		290,000	175,000,000	
Levy rate	\$6.12/ICP	1.1279c/GJ		\$5.16/ICP	1.1164c/GJ	
Projected levy revenue	\$1,746,342	\$2,027,994	\$3,774,336	\$1,498,976	\$1,951,206	\$3,450,182