



## COVERSHEET

<b>Minister</b>	Hon Dr Megan Woods	<b>Portfolio</b>	Energy and Resources
<b>Title of Cabinet paper</b>	Gas (Levy of Industry Participants) Regulations 2022	<b>Date to be published</b>	12 July 2022

### List of documents that have been proactively released

<b>Date</b>	<b>Title</b>	<b>Author</b>
May 2022	<i>Gas (Levy of Industry Participants) Regulations 2022</i>	<i>Office of the Minister of Energy and Resources</i>
12 May 2022	<i>LEG-22-MIN-0059 Minute</i>	<i>Cabinet Office</i>
14 April 2022	<i>Stage 2 Cost Recovery Impact Statement: Setting the Gas (Levy of Industry Participants) Regulations 2022</i>	<i>MBIE</i>

### Information redacted

**NO**

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

# Stage 2 Cost Recovery Impact Statement:

## Setting the Gas (Levy of Industry Participants) Regulations 2022

### Agency Disclosure Statement

This statement has been prepared by the Ministry of Business, Innovation and Employment (MBIE). It provides an analysis of whether the Minister of Energy and Resources (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.<sup>1</sup>

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 upon information provided by GIC in its recommendation to the Minister. No additional analysis has been conducted.

### Key Assumptions

Overall levy rates and the level of funding provided through the levy recommendation are determined by the amount of gas purchased and the number of active gas connections. The projected overall levy funding is determined by two key assumptions:

- The estimated number of ACTIVE-CONTRACTED Installation Control Points (ICPs) 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'; and
- 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 2022, as the old levy expires on 30 June 2022. The Minister received GIC's levy recommendation in March 2022. This has meant that there is limited additional time for analysis beyond what GIC has recommended. MBIE is comfortable that this provides sufficient information for decision-making.

As noted above, a key constraint is that the Minister may only accept or reject the levy recommendation and must accept it if certain conditions are met.

Lena MacCarthy



14/04/2022

---

<sup>1</sup> Section 43ZZD of the Gas Act 1992.

## Executive summary

Under the Gas Act 1992 (the Act), Gas Industry Company Limited (GIC) is able to recommend to the Minister of Energy and Resources (the Minister) that regulations be made to require gas industry participants to pay a levy to GIC.<sup>2</sup>

A new recommendation for a levy rate is required every financial year, because the regulations may only apply for the year in which they are made. 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 2022 to 30 June 2023.

The levy may only fund a list of activities specified in the Act.<sup>3</sup> If a new levy is not approved and in place by 1 July 2022 (beginning of FY2023), 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; and
- 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 FY2022 and FY2023*

	FY2022	FY2023	Change
<b>Retail Levy</b> Per ICP	\$5.28	\$6.63	\$1.35
<b>Wholesale Levy</b> Cents per gigajoule (GJ)	1.1445c	1.3997c	0.2552c
<b>Total levy funding requirement</b>	\$3,472,368	\$4,579,373	\$1,107,005

While the increase from the previous year is high, the costs imposed on end users are relatively small. It is estimated to represent approximately 0.70 per cent of residential gas consumers' annual gas bill. 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 if he or she is satisfied that<sup>4</sup> the levy rate or amount is reasonable having regard to GIC's Statement of Intent, annual report and the Government Policy Statement on Gas Governance 2008 (GPS)<sup>5</sup> objectives and outcomes; industry have been consulted; and sections 43ZZB to 43ZZE are met.

<sup>2</sup> Section 43ZZB of the Act.

<sup>3</sup> Section 43ZZC of the Act.

<sup>4</sup> Section 43ZZD of the Act.

<sup>5</sup> The GPS on Gas Governance sets out the objectives and desired outcomes for consumers, retail arrangements, the wholesaling of gas, infrastructure access, contingency management and other gas matters.

MBIE recommends that the Minister should accept the recommendation, as it meets the requirements of the Act.

## Legislative and Policy Framework

1. 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.
2. The Act and the GPS, as well as GIC's Statement of Intent (SOI), establish the policy framework in which GIC performs its role as the approved industry body. These documents also provide 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."*
3. It is towards this objective that GIC must work to achieve when recommending rules, regulations or non-regulatory arrangements for the gas industry.

## Why a levy

4. For GIC to perform its role as the approved industry body<sup>6</sup>, funding is required to support its activities and costs.
5. GIC is principally reliant on annual levies to perform its role as 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<sup>7</sup> and an annual fee of \$2,000 (excl. GST) per GIC shareholder.
6. 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.
7. 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.
8. The levy rates and a schedule of levy-funded activities are publicly available on GIC's website.<sup>8</sup>

## Recovery principles and objectives

9. 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 of Energy and Resources (the Minister) that regulations be made to set levy rates that require gas industry participants to pay a levy to GIC.<sup>9</sup>

---

<sup>6</sup> <https://www.legislation.govt.nz/regulation/public/2004/0476/latest/whole.html>.

<sup>7</sup> 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 any other expected direct costs related to the monitoring of those arrangements.

<sup>8</sup> <https://www.gasindustry.co.nz/work-programmes/levies/overview/>.

<sup>9</sup> Section 43ZZB of the Act.

10. The levy methodology is the same as used in previous years and is based on the principle of beneficiary pays. This means the costs of regulation development and implementation should be allocated in way that reflects the cause of the regulation and/or the incidence of the benefits from regulation.
11. GIC has a statement of levy principles.<sup>10</sup> The principles are economic efficiency, beneficiary pays, rationality, simplicity, equity, and revenue sufficiency. These are outlined in Annex 1.
12. Statutory criteria for a levy recommendation include that the levy recommendation must be reasonable, having regard to GIC's SOI, annual report, and the objectives and outcomes in the GPS.
13. 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

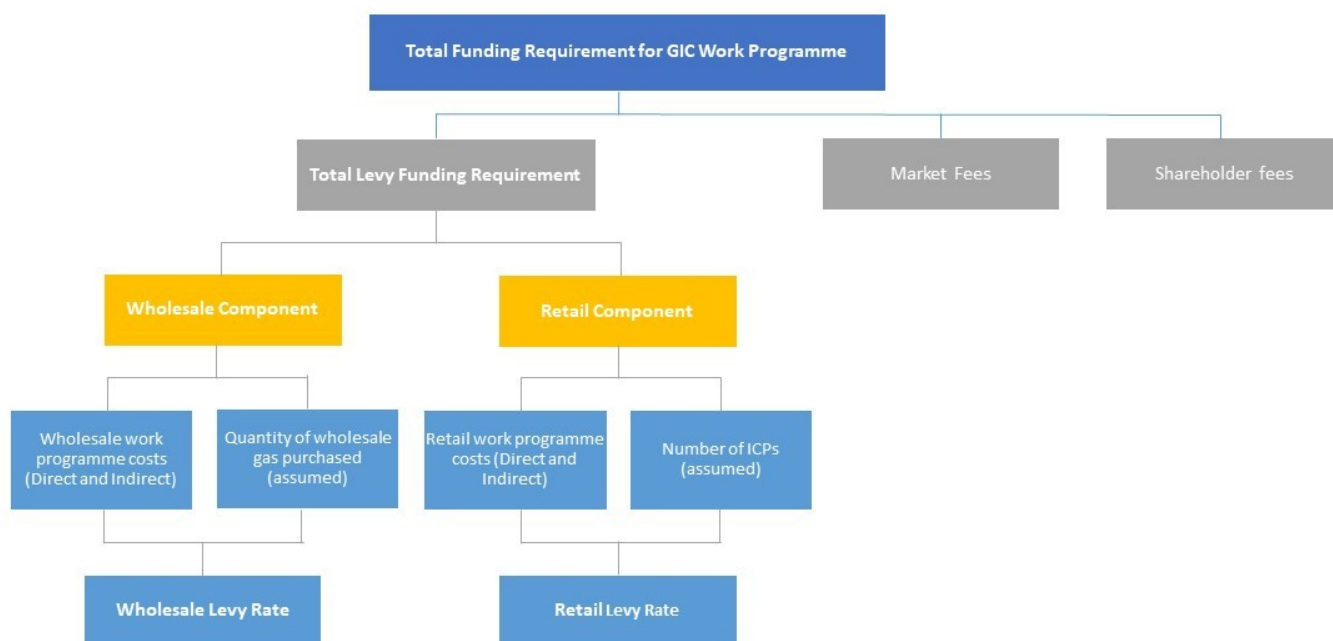
14. Levy regulations can only apply to the financial year in which they are made, therefore, new recommendations are made each year.<sup>11</sup> Levy regulations have been in place since July 2005 and are well understood by gas industry participants.
15. The recommended levy rate is based on the estimated 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 and is based on the principles of beneficiary pays. Levy rates vary from year to year.
16. The levy recommendation consists of two components:
  - **Retail:** this is apportioned based on Installation Control Points (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.
  - **Wholesale:** based on the estimated energy quantity of gas (in gigajoules/GJ) that will be purchased in the following financial year (e.g., FY2023).
17. 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 on the relative proportion of activities in each work programme. Figure One below shows the work programme funding components.
18. In years when the work programme focusses on retail issues, for example, the retail levy rate will increase while the wholesale levy rate will decrease.

---

<sup>10</sup> <https://www.gasindustry.co.nz/work-programmes/levies/background/document/4580>.

<sup>11</sup> Section 43ZZE(3) of the Act.

Figure One: Work Programme Funding Components



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

19. 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 assumptions about the number of ICPs, or gas sold, being incorrect, or due to underspend in GIC’s work programme.
20. 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 FY2021 financial year, the combination of lower gas production, which reduced revenue, as well as unbudgeted workload, which increased operating expenditure, resulted in a deficit. As such, no amounts were available to refund to levy payers.
21. The Act enables GIC to make up for any under recovered revenue. 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**

22. For a levy to be made, the industry body (GIC) must recommend to the Minister that regulations are made under section 43ZZE that require industry participants to pay a levy to the industry body.
23. The recommended funding requirement is based on estimated costs of delivering GIC’s work programme for the upcoming financial year. The work programme includes both whole and retails workstreams. ‘Direct costs’ can be attributed to each, and the ‘indirect costs’ apportioned based on the relative proportion of activities in each work programme. The amount of levy required in a given year has fluctuated over time depending on GIC’s work programme.
24. As noted in the levy design section, the levy rates (wholesale and retail) are determined via the assumptions used and apportioned among levy payer pro rata with either their wholesale levy volumes (wholesale levy) and ICP market shares (retail levy).

25. These levy costs are then passed on to consumers through billing by the industry participants.
26. Comprehensive consultation is undertaken each year. GIC consults on all aspects of its work programme, and the proposed levy rate and amount, consistent with the Act. GIC engages with interested stakeholders, including gas industry participants and major gas users. The process includes consultation on the proposed levy rate and amount, consistent with section 43ZZD(2)(b) of the Act.
27. Once the Minister receives the recommendation from GIC, he/she must accept the levy recommendation if she/he is satisfied that it meets the below requirements.<sup>12</sup>
  - (a) the levy rate must be reasonable, having regard to GIC's SOI, annual report, and the objectives and outcomes in the GPS;
  - (b) 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.
28. Should the Minister accept the recommendation, regulations are then made, which come into force on the 1 July annually, in line with the beginning of the financial year.
29. If the levy recommendation is rejected, it would result in GIC operating without levy revenue for the next financial year. GIC would be reliant on market fees and equity reserves, which are insufficient to deliver its work programme. Rejection of the levy recommendation would also result in GIC needing to reconsult with stakeholders on a new work programme and associated budget and make a new recommendation to the Minister.

## FY2023 Levy Recommendation

### The recommendation

30. 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 2022 (beginning of FY2023). The recommendation may recommend different levies or levy rates for different classes of industry participants.
31. The total work programme costs are expected to total \$6,340,373 for FY2023. This consists of a levy funding requirement of \$4,579,373, and market fees of \$1,761,000. For FY2022, GIC's levy requirement was \$3,472,368. However, current forecasted total work programme costs are expected to substantially exceed this estimate. This is due to GIC funding a substantial portion of the additional work added into the work programme itself, rather than from the levy or market fees. As a result, GIC's actual total work programme costs for FY2022 are expected to be approximately \$6,000,000, which is higher than expected when the levy rate was set. When compared to the expected cost of delivering the FY2022 work programme, the proposed FY2023 work programme cost requirement of \$4,579,373 is expected to be \$340,373 higher (or 5.7 per cent overall increase).
32. The recommendation contains the following levy rates:

---

<sup>12</sup> Section 43ZZD of the Act.

- a **retail** levy of \$6.63<sup>13</sup> per ACTIVE-CONTRACTED ICP per annum; and
  - a **wholesale** levy of 1.3997 cents per GJ of gas purchased from gas producers.
33. These figures are based on projections as to how the market will operate over FY2023. The total, and indirect/direct cost apportionment for the levy recommendation is set out in Annex 2.
34. If the market changes, this could result in an over or under collection of levies by GIC. The FY2023 GIC levy proposal is underpinned by two key assumptions:
- The **retail** levy is based on the number of ACTIVE-CONTRACTED ICPs in the gas registry of 300,000. If the number of ICPs changes, this will impact the total revenue collected from the retail levy.
  - The **wholesale** levy is charged per GJ of gas purchased. The estimated gas consumption is 185 petajoules (PJ) (or 185,000,000 GJ). 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. This estimate is up 20 PJ from FY2022.

*Table Two: Comparison of retail and wholesale levy rates FY2022 and FY2023*

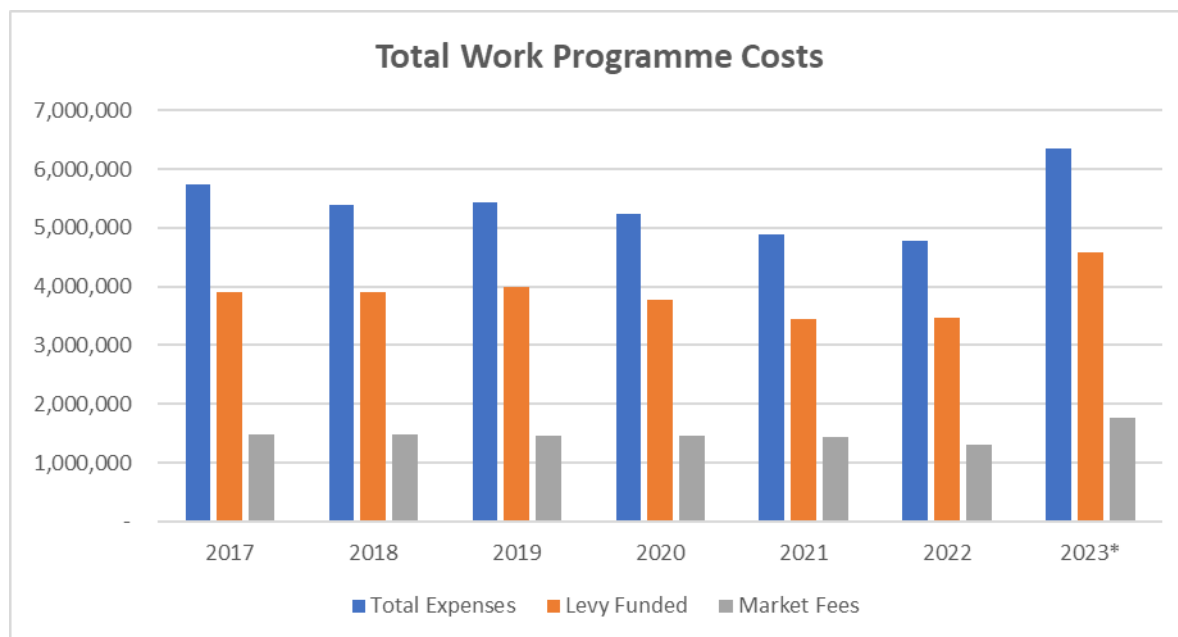
	<b>FY2022</b>	<b>FY2023</b>	<b>Change</b>
<b>Retail Levy</b> Per ICP	\$5.28	\$6.63	\$1.35
<b>Wholesale Levy</b> Cents per gigajoule (GJ)	1.1445c	1.3997c	0.2552c
<b>Total levy funding requirement</b>	\$3,472,368	\$4,579,373	\$1,107,005

35. The funding requirement is higher compared to last year; however, this increase reflects the proposed work programme costs. There have been years where the levy rates have been similar, for example, FY2011 (retail levy of \$6.40/ICP, wholesale levy 1.84c/GJ) and FY2013 (retail levy of 6.23/ICP, wholesale levy of 1.74c/GJ).

<sup>13</sup> The retail levy rate equates to 55.25 cents per month for each ACTIVE-CONTRACTED ICP.



Figure Two: Total Work Programme Costs 2017 to 2023



### Cost drivers

36. The cost driver for the levy is GIC’s proposed work programme for 2022/23. 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.
37. Based on the combination of the levy recommendation for FY2023 and indicative market fees, GIC’s total work programme costs are expected to be \$6,340,373 for FY2023, with the levy funding being \$4,579,373 of this total cost. Figure two shows a comparison of budgeted work programme costs. The actual year-on-year increase between FY2022 and 2023 is expected to be approximately \$340,373.
38. GIC has allocated its levy costs associated with the work programme under the three main roles that GIC sees for itself:
  - Trusted Advisor to Government and Industry;
  - Gas Governance; and
  - Facilitating Industry systems and Processes.
39. The proposed work programme is ambitious and has been updated to respond to the transition of the gas industry to a lower carbon future. It reflects a substantial programme of work to explore the main themes uncovered in our investigation of gas market settings. The work programme and levy has been approved by the GIC Board and has been consulted on with industry.
40. includes meeting statutory requirements, such as administration of existing gas governance regulations, and seeks to address Government and industry priorities through the completion of key project deliverables, and also work on existing multi-year workstreams.
41. There are many multi-year projects in the work programme, this includes:

- Gas market settings investigation workstreams: this supports work to ensure that current market, commercial and regulatory settings that provide for gas visibility and flexibility are fit for purpose in supporting the gas transition. This will feed into the national energy strategy.
- Electricity Price Review (EPR): continue work on investigating the application of the 32 recommendations from the EPR to the natural gas and LPG (Gas) markets.
- Information disclosure: continue work on implementing a regulated solution for the disclosure of gas production and storage facility outage information.
- Advanced Gas Metering: work to determine what changes are required to support the roll-out of advanced gas meters.

42. Other key work includes:

- Sector coordinating entity role (COVID-19 pandemic): involves collating information on any risks to the New Zealand gas industry arising from COVID-19 outbreak and to help with reporting.
- Critical Contingency Management: continue work on recommendation to the Minister on changes to the Gas Governance (Critical Contingency Management) Regulations 2008.

43. An overview of the workstreams and estimated costs is outlined in Annex 3.

*Table three: Calculation of levy funding*

Description	Total Work Programme Cost	Indicative Market Fees		Levy Funding Requirement	
		Wholesale	Retail	Wholesale	Retail
Gas Governance	\$3,294,603	\$496,000	\$1,265,000	\$700,319	\$833,283
Facilitating Industry Systems and Processes	\$1,130,050			\$680,599	\$449,452
Trusted Advisor to Government and Industry	\$1,915,720			\$1,208,508	\$707,212
<b>Total</b>	<b>\$6,340,373</b>	<b>\$1,761,000</b>		<b>\$4,579,373</b>	

### Consultation and feedback

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

45. Consultation commenced with the annual co-regulatory forum in December 2021. The co-regulatory forum gives stakeholders, including major users and industry participants an opportunity to provide GIC with feedback on the FY2023 work programme.
46. In December 2021, GIC released its consultation paper which sets out GIC's strategic role, work programme and proposed levy rates. Consultation closed in February 2022. The consultation contributes to the development of the SOI and work programme.
47. Eight submissions were received. Submitters acknowledged the ambitious work programme and were in favour of the proposed levy rates. Submissions generally supported the work programme. There was strong support for GIC initiating and progressing the workstreams identified in the Gas Market Settings Investigation final report (which makes up a substantial portion of the FY2023 work programme), with submitters noting it would potentially reduce uncertainty for gas industry participants. Submitters considered the proposed levy increase was justified based on the work programme presented. Submissions supported the process for developing the FY2023 work programme and budget, as being a well-established and fit-for-purpose process. Submissions are published on GIC's website.<sup>14</sup>

## Impact analysis

48. The recommended levy is set to recover GIC's estimated costs of delivering its FY2023 work programme, which aligns with the costs that can be covered by the levy.<sup>15</sup>
49. 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.
50. In evaluating the appropriateness, the levy rate to collect up to \$4,579,373 recommended by GIC is reasonable (although an increase from FY2022) when considering the extent of the proposed work programme. The increase in total work programme costs year-on-year (when compared to forecasts for FY2022) is \$340,373 (5.7 per cent), which is reasonable to meet projected work programme costs.
51. There are, across the industrial, commercial, and residential sectors, approximately 300,000 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.
52. The levy costs imposed on end users are relatively small, approximately 0.70 per cent of residential gas consumers' annual gas bill. This means that each residential gas consumer will pay around \$6.98 total levies per annum. As outlined above, the proposed rates are in line with previous levies. Although 0.70 per cent for FY2023 is higher than 0.60 per cent in FY2022 and other more recent years, it is still consistent with costs imposed on consumers in previous years. For example, in FY2013 the cost imposed to consumers was approximately 0.78 per cent of a residential gas consumers annual bill. Levy rates change year to year depending on work programme needs and, in the past, have had a slightly higher impact on residential consumers.
53. 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 0.16 per cent or less to the unit cost of gas. Large consumers, are active participants in the consultation process.

---

<sup>14</sup> <https://www.gasindustry.co.nz/work-programmes/levies/consultation-6/>.

<sup>15</sup> Section 43ZZC of the Act.

Table four: Estimated impact of the FY2023 levy on gas industry participants<sup>16</sup>

<b>Proposed FY2023 Levy Regulations</b>			
Figures GST exclusive where applicable	<b>Typical Residential consumer</b>	<b>Typical Commercial consumer</b>	<b>Typical Industrial consumer</b>
Annual gas usage	25 gigajoules	1000 gigajoules	50,000 gigajoules
Estimated annual gas bill	\$1,000.50	\$17,880	\$442,500
<b>Estimated total annual levy</b>	<b>\$6.98</b>	<b>\$20.63</b>	<b>\$706.48</b>
<b>Estimated proportion total gas bill</b>	0.70 per cent	0.12 per cent	0.16 per cent

54. The levy represents a very small proportion of most consumers' gas bills. We do not consider that COVID-19 will have material impacts on the ability of gas consumers to pay the levy. The current Omicron outbreak may impact levy revenue in FY2023 should an outbreak among critical workers lead to a reduction in gas production. The magnitude of any impact will depend on the gas field(s) impacted, and the length of any disruption.
55. No costs will be imposed on the government as the levy will be recovered from gas industry participants and collected by GIC.
56. 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

57. No changes to the design of the levy, or the process for the developing the levy have been indicated by GIC. The only changes are the levy rates.
58. 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 levy rate increase supports an increased work programme and will contribute to making recommendations on gas governance regulations and rules; governance of the industry body; and providing advice to the Minister on matters concerning the gas industry;

<sup>16</sup> 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 GJ for residential consumers, 1,000 GJ for commercial consumers and 50,000 GJ for industrial consumers. It also assumes, based on 2021 nominal average fuel prices, an average price of gas of \$40.02 per GJ for residential consumers, \$17.88 per GJ for commercial consumers and \$8.85 per GJ for industrial consumers.

- the amount is reasonable and has regard to the SOI, latest 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. This is also evident in the draft SOI. The overall costs, while a small increase on the previous year, are reasonable in the context of larger work programme and an emerging role for GIC for facilitating decarbonisation of the gas industry;
- GIC has consulted with industry; and
- prescribes the amount of the levy, which only applies for a financial year (1 July 2022 to 30 June 2023), and applies to all industry participants.

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

## Recommendation

60. 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 FY2023.
61. We consider levy revenue of up to \$4,579,373 million requested by GIC 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.
62. Accepting GIC's recommendation enables GIC to continue to operate, deliver its work programme, and support the objectives and outcomes in the GPS.
63. As mentioned above, if the recommendation is rejected it would result in GIC operating without levy revenue from 1 July 2022 and being unable to deliver its work programme. Rejecting the recommendation would also result in GIC having to reconsult with stakeholders on a new work programme and associated budget and making a new recommendation to the Minister.

## Implementation plan

64. If approved, the new regulations will come into effect on 1 July 2022. These will replace the current regulations which end on 30 June 2022.
65. 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.
66. If approved, GIC is responsible for communicating the new rates for the levy. We do not see any risks associated with implementing the levy.

## Monitoring and evaluation

67. 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.

68. Every industry participant who is liable to pay the wholesale levy for a month must supply a written return stating the total number of gigajoules of gas that industry participant has purchased during the previous month from a gas producer to GIC. Gas producers are also required to supply GIC with a return stating the total number of gigajoules of gas sold to each of its customers during the previous month. This gives verification that the levy is being paid correctly.
69. MBIE oversees and monitors 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 provides the Minister and MBIE with quarterly performance reports.
70. GIC's accounts are 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.

## Review

71. There is a legislative requirement that GIC makes a new levy recommendation to the Minister of Energy and Resources for each financial year.<sup>17</sup> For FY2024, both the wholesale and retail levy rates will be reviewed again, and new regulations made.

## Annexes

Annex 1: Levy Principles

Annex 2: Direct and Indirect work programme costs

Annex 3: Proposed work programme overview and associated levy costs

---

<sup>17</sup> Section 43ZZE(3).

## Annex 1: Levy Principles

#	Levy Principle	Description
1	Economic efficiency	<ul style="list-style-type: none"> <li>The levy structure should promote efficient market behaviour (or at least not detract from it significantly).</li> </ul>
2	Beneficiary/causer pays	<ul style="list-style-type: none"> <li>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.</li> </ul>
3	Rationality	<ul style="list-style-type: none"> <li>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.</li> </ul>
4	Simplicity	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>The levy structures should be transparent to industry participants.</li> </ul>
5	Equity	<ul style="list-style-type: none"> <li>Users in similar situations should pay similar amounts.</li> <li>Competitive neutrality should be preserved, so that within a class of participants the allocation of costs should not competitively advantage one participant over another.</li> </ul>
6	Revenue sufficiency	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>

## Annex 2: Direct and Indirect work programme costs

	FY2022			FY2023		
	Retail	Wholesale	Total	Retail	Wholesale	Total
<b>Direct costs</b>	\$891,924	\$1,058,423	\$1,950,347	\$1,339,247	\$1,742,700	\$3,081,947
<b>Indirect costs</b>	\$696,044	\$825,977	\$1,522,021	\$650,700	\$846,726	\$1,497,426
Total Levy Funding Requirement	\$1,587,967	\$1,884,400	\$3,472,367	\$1,989,947	\$2,589,426	\$4,579,373
Basis of apportionment	Per ICP	Per GJ		Per ICP	Per GJ	
<b>Number</b>	300,000	165,000,000		300,000	185,000,000	
<b>Levy rate</b>	\$5.28/ICP	1.1445c/GJ		\$6.63/ICP	1.3997c/GJ	
Projected levy revenue	\$1,587,967	\$1,884,400	\$3,472,367	\$1,989,947	\$2,589,426	\$4,579,373



## Annex 3: Proposed work programme overview and associated levy costs

FY2023			
Work Programme		Levy funding requirement \$4,579,373	
		Wholesale	Retail
<b>Gas Governance</b>	<ul style="list-style-type: none"> <li>• Critical Contingency Management</li> <li>• Electricity Price Review</li> <li>• Advanced Gas Metering</li> <li>• Retail Gas Contracts Oversight Scheme</li> <li>• Gas Distribution Contracts Oversight Scheme</li> <li>• Downstream Reconciliation</li> <li>• Switching and Registry</li> <li>• Compliance and Enforcement</li> <li>• Statement of Intent and Annual Report</li> <li>• Other Reporting</li> </ul>	\$700,319	\$833,283
<b>Facilitating Industry Systems and Processes</b>	<ul style="list-style-type: none"> <li>• Information Disclosure</li> <li>• Gas Transmission Pipeline Access</li> </ul>	\$680,599	\$449,452
<b>Trusted Advisor to Government and Industry</b>	<ul style="list-style-type: none"> <li>• Gas Market Settings Investigation Workstreams</li> <li>• Sector Coordinating Entity Role – COVID-19 Pandemic</li> </ul>	\$1,208,508	\$707,212