



## 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 2023	<b>Date to be published</b>	26 June 2023

### List of documents that have been proactively released

<b>Date</b>	<b>Title</b>	<b>Author</b>
May 2023	<i>Gas (Levy of Industry Participants) Regulations 2023</i>	Office of the Minister of Energy and Resources
18 May 2023	<i>LEG-23-MIN-0061 Minute</i>	Cabinet Office
12 April 2023	<i>Stage 2 Cost Recovery Impact Statement: Setting the Gas (Levy of Industry Participants) Regulations 2023</i>	MBIE

### Information redacted

**YES / NO**

Any information redacted in this document is redacted in accordance with MBIE's and MFAT'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 2023

### 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 on different levy options has been conducted.

### Levy rates are determined by forecasts

Overall levy rates are determined by overall work programme costs and forecasts about the performance of the gas sector in the next year. GIC consults with the industry of 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 (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 2023, as the old levy expires on 30 June 2023. The Minister received the GIC's levy recommendation in March 2023, therefore limited additional time is available 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.

Dominic Kebbell

**Manager, Resources Fuels and Gas Policy Team**  
MBIE

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

## Executive summary

Under the Gas Act 1992 (the Act), Gas Industry Company Limited (GIC) can 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 respect of 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 2023 to 30 June 2024.

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 2023 (beginning of FY2024), 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 FY2023 and FY2024

	FY2023	FY2024	Change
<b>Retail Levy</b> Per ICP	\$6.63	\$6.54	-\$0.09
<b>Wholesale Levy</b> Cents per gigajoule (GJ)	1.3997c	1.4326c	0.0329c
<b>Total levy funding requirement</b>	\$4,579,373	\$4,455,703	-\$123,670

The costs imposed on end users are relatively small. It is estimated to represent approximately 0.75 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<sup>4</sup> if he or she is satisfied that: 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 (which prescribe the costs that may be funded from the levy and various legal aspects of making the regulations) 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>

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<sup>6</sup> Gas (Approval of Industry Body) Order 2004:  
<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/>.

## 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>
10. 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 1.
11. 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.
12. 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

13. Levy regulations can only apply to the financial year in which they are made, therefore, new recommendations are made each year.<sup>10</sup> Levy regulations have been in place since July 2005 and are well understood by gas industry participants.
14. 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 from year to year.
15. The levy recommendation consists of two components:
  - **Retail levy:** 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. 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 gigajoules/GJ) that will be industry participants from gas producers in the relevant financial year (e.g. FY2024). Every industry participant is obligated to pay the wholesale levy for the gas they purchase from gas producers.<sup>11</sup>

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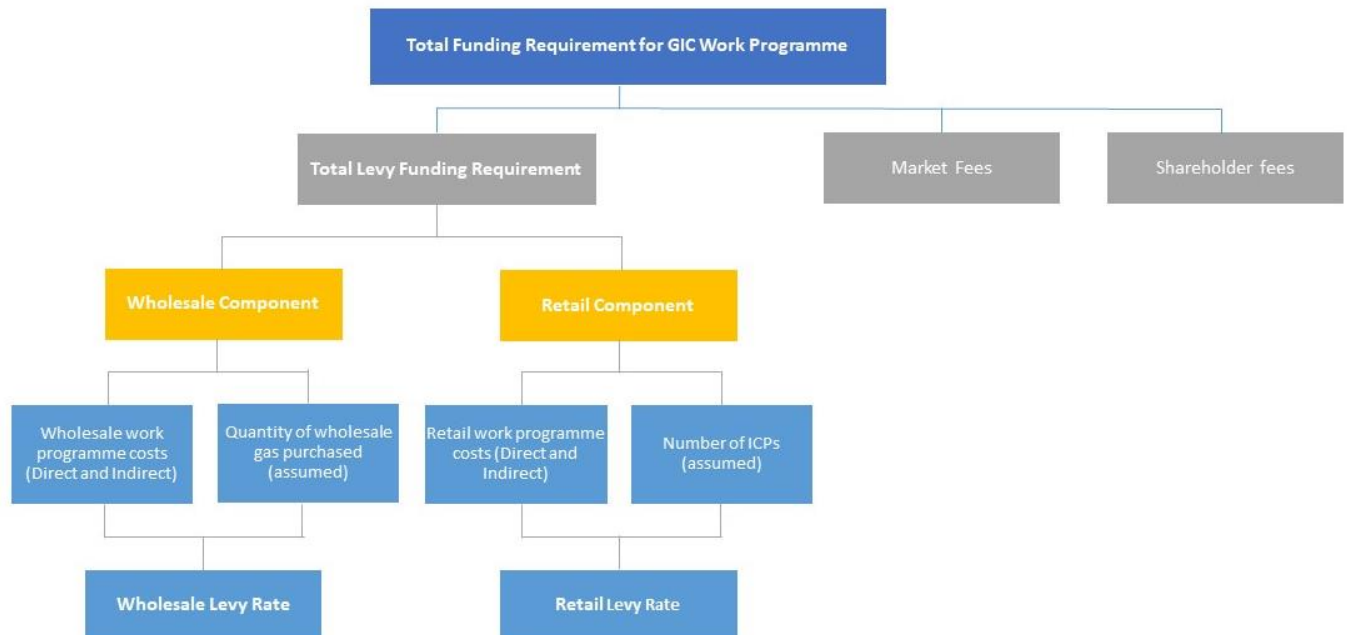
<sup>9</sup> Section 43ZZB of the Act.

<sup>10</sup> Section 43ZZE(3) of the Act.

<sup>11</sup> Industry participants is a defined term under the Act.

16. The reason for the split into these two components is to ensure that the costs of gas governance fall on the industry participants who derive benefit from the relevant workstreams. The retail levy funds activity in developing and operating 'retail' market mechanisms, such as switching and downstream reconciliation. The wholesale levy funds activity for designing 'wholesale' arrangements, such as balancing and interconnection.
17. The retail levy has been based off the number of ICPs (or connections) as gas consumers who purchase gas from a retailer (primarily small businesses and households) make up the vast majority of gas connections (approximately 290,000). However, these use a small proportion of the overall gas supply (about 9 per cent).
18. The wholesale levy is based on the amount of gas purchased by industry participants as larger consumers, such as electricity generators and large manufacturing facilities consume the majority of the gas supply.
19. While both groups are obligated to pay the levy, the levy funding requirements 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. This design recognises that some wholesale workstreams benefit retail consumers and vice versa. Figure One below shows the work programme funding components.
20. 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 the Gas Industry Company collects too much revenue from industry participants**

21. 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 vs forecasted number of ICPS or gas sold, or due to underspend in GIC's work programme.

22. 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, resulting in a deficit. As such, no amounts were available to refund to levy payers.
23. 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

24. 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.
25. These levy costs are then passed on to gas consumers through billing by the industry participants (see impact section below).
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, they must accept the levy recommendation if 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
  - (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 1 July annually, in line with the beginning of the financial year.
29. If the Minister rejects the recommendation, this would result in another levy recommendation process being conducted with GIC, including needing to reconult with stakeholders on a new work programme and associated budget and make a new recommendation to the Minister. This would likely result in GIC operating without levy recommendation until new regulations are made. GIC would be reliant on market fees and equity reserves, which are insufficient to deliver its work programme.

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



# FY2024 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 2023 (FY2024). The recommendation may recommend different levies or levy rates for different classes of industry participants.
31. The total levy recommendation for FY2024 is \$4,455,703, a 2.7 per cent decrease compared to FY2023's levy funding requirements. This reflects a small reduction in work programme costs funded by the levy in FY2024. Total work programme costs (funded by levies and market fees) are expected to be \$5,943,453 for FY2024, compared to budgeted costs of \$6,340,373 in FY2023 (a 6.3 per cent decrease).
32. The recommendation contains the following levy rates:
  - a **retail** levy of \$6.54<sup>13</sup> per ACTIVE-CONTRACTED ICP per annum
  - a **wholesale** levy of 1.4326 cents per GJ of gas purchased from gas producers.
33. These figures are based on projections as to how the market will operate over FY2024. 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 FY2024 GIC levy proposal is underpinned by two key forecasts:
  - The **retail** levy is based on the number of ACTIVE-CONTRACTED ICPs in the gas registry of 309,000. The amount of ICPs is based on the current utilisation plus the per centage uplift expected, based on the historic growth of ICPs. 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 170 petajoules (PJ) (or 170,000,000 GJ), based on forecast gas production 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 FY2023 and FY2024

	FY2023	FY2024	Change
<b>Retail Levy</b>			
Per ICP	\$6.63	\$6.54	-\$0.09
<b>Wholesale Levy</b>			
Cents per gigajoule (GJ)	1.3997c	1.4326c	0.0329c

<sup>13</sup> The retail levy rate equates to 54.5 cents per month for each ACTIVE-CONTRACTED ICP.

<b>Total levy funding requirement</b>	\$4,579,373	\$4,455,703	-\$123,670
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35. The total levy funding requirement for FY2024 is lower than last year. However, the 15 PJ decrease in estimated wholesale gas consumption has led to the wholesale levy rate increasing by 2.4 per cent to 1.4326c in FY2024 (1.3997c in FY2023). This is reflective of lower projected gas volumes for the next financial year compared to the previous. As such, the levy is being applied over lower gas volumes, resulting in a net increase of levy costs per unit volume of gas.

## Cost drivers

36. The cost driver for the levy is GIC's proposed work programme for 2023/24. 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, and GIC's SOI. The administration of existing gas governance regulations is also included.
37. Based on the combination of the levy recommendation for FY2024 and indicative market fees, GIC's total work programme costs are expected to be \$5,943,453 for FY2024, with the levy funding being \$4,455,703 of this total cost. Figure two (above) shows a comparison of budgeted work programme costs.
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
  - facilitating industry systems and processes.
39. 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 FY2024 include:
- Gas Transition Plan: ongoing development and implementation of any recommendations from the Gas Transition Plan, which may include recommending new gas governance arrangements or amendments to existing arrangements.
  - Energy Transition: dedicating significant resources to transition issues in anticipation of substantial changes to the role of gas as New Zealand transitions to a net-zero emissions economy by 2050.
  - Advanced Gas Metering: determining what changes are required to support the roll-out of advanced gas meters, including consulting on a Statement of Proposal for rule changes, making a recommendation to the Minister, beginning implementation of system changes, the go-live of new arrangements and monitoring of new processes.
  - Critical Contingency Management: make a recommendation to the Minister to amend the Gas Governance (Critical Contingency Management) Regulations 2008, support MBIE through the legislative change process, and implement proposed changes to the regulations (including consequential changes to existing industry processes).

- Guidelines to Enhance Consumer Outcomes: follow up on steps taken by dual fuel retailers to comply with new guidelines developed by GIC following the Electricity Price Review recommendations and commence work on any actions arising from the review of participants' processes.

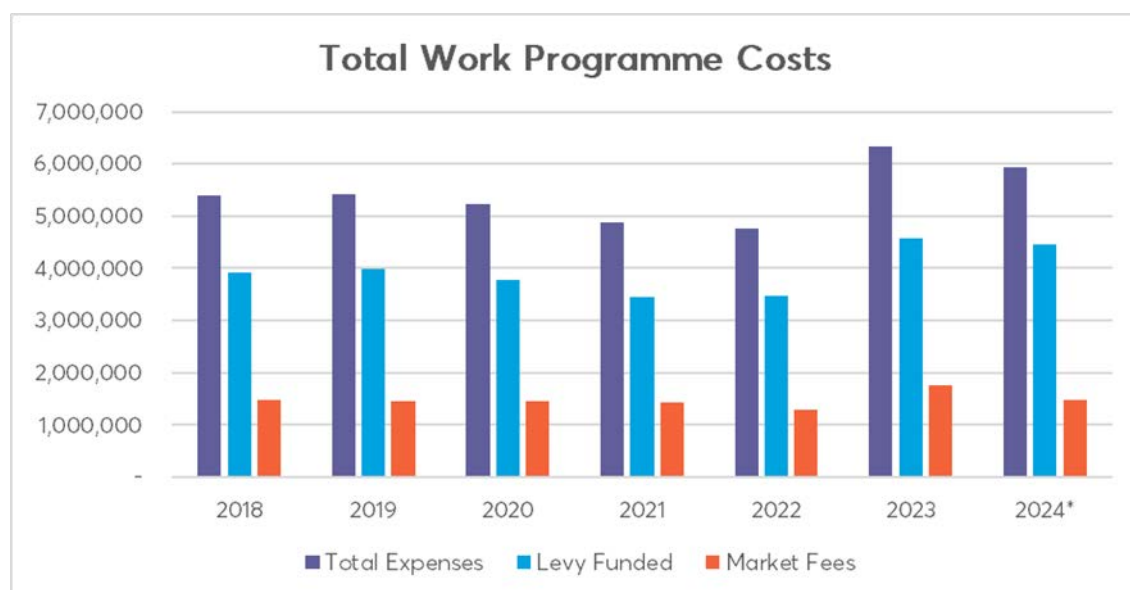
40. An overview of the workstreams and estimated costs is outlined in Annex 3.

41. We consider the work programme being developed by GIC aligns with the Government's objectives and outcomes for the gas sector. The overall levy costs are consistent with previous years of the levy (2.7 per cent decrease) despite maintaining an ambitious workload.

Table three: Calculation of levy funding

Description	Total Work Programme Cost	Indicative Market Fees		Levy Funding Requirement	
		Wholesale	Retail	Wholesale	Retail
Gas Governance	\$3,047,246	\$547,184	\$940,563	\$713,520	\$845,976
Facilitating Industry Systems and Processes	\$1,113,926			\$657,625	\$456,301
Trusted Advisor to Government and Industry	\$1,782,281			\$1,064,300	\$717,981
<b>Total</b>	<b>\$5,943,453</b>	<b>\$1,487,750</b>		<b>\$4,455,703</b>	

Figure Two: Total Work Programme Costs 2018 to 2024



## Consultation and feedback

42. 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 rates and amount.
43. Consultation commenced with the annual co-regulatory forum in December 2022. The co-regulatory forum gives stakeholders, including major users and industry participants an opportunity to provide GIC with feedback on the FY2024 work programme.
44. In December 2022, GIC released its consultation paper which sets out GIC's strategic role, work programme and proposed levy rates. Consultation closed in February 2023. The consultation contributes to the development of the SOI and work programme.
45. Seven submissions were received. Submitters commended GIC for the decrease in both the levy funding requirement and total work programme costs, despite an ambitious work programme and were in favour of the proposed levy rates. Submissions generally supported the work programme.
46. A point was raised about how a substantial part of the work programme was dependant on the development of the Gas Transition Plan and a general call was made for certainty around future policy and regulatory settings for gas in the wake of the transition. Submissions supported the process for developing the FY2024 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

47. The recommended levy is set to recover GIC's estimated costs of delivering its FY2024 work programme, which aligns with the costs that can be covered by the levy.<sup>15</sup>
48. 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.
49. In evaluating the appropriateness, the levy rate to collect up to \$4,455,703 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 2). MBIE considers that this reflects the increased workload in association with the broader energy policy transition programme.
50. The decrease in total work programme costs compared to FY2023 is \$396,920 (6.3 per cent).
51. There are, across the industrial, commercial, and residential sectors, approximately 309,000 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.

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<sup>14</sup> [Levy - Gas Industry](#)

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

- 52. The levy costs imposed on end users are relatively small, approximately 0.75 per cent of residential gas consumers’ annual gas bill. This means that each residential gas consumer will pay around \$6.90 total levies per annum. As outlined above, the proposed rates are in line with previous levies (0.70 per cent in FY2023). 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 0.12 per cent or less to the unit cost of gas. Large consumers are active participants in the consultation process.

Table four: Estimated impact of the FY2024 levy on gas industry participants<sup>16</sup>

<b>Proposed FY2024 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	\$912.50	\$23,585.21	\$578,406.87
<b>Estimated total annual levy</b>	<b>\$6.90</b>	<b>\$20.87</b>	<b>\$722.84</b>
<b>Estimated proportion total gas bill</b>	0.75 per cent	0.09 per cent	0.12 per cent

- 54. No costs will be imposed on the government as the levy will be recovered from gas industry participants and collected by GIC.
- 55. 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.

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16 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 GJ for residential consumers, 1,000 GJ for commercial consumers and 50,000 GJ for industrial consumers. It also assumes, based on 2022 nominal average fuel prices, an average price of gas of \$36.5 per GJ for residential consumers, \$23.59 per GJ for commercial consumers and \$11.57 per GJ for industrial consumers.

## Analysis against statutory criteria

56. 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.
57. 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 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 are reasonable in the context of larger work programme and an emerging role for GIC for facilitating decarbonisation of the gas industry. There is a 2.7 per cent decrease in the levy funding requirement from the last financial year despite a heavy workload for FY2024.
  - GIC has consulted with industry.
  - The recommendations prescribe the amount of the levy, which only applies for a financial year (1 July 2023 to 30 June 2024), and applies to all industry participants.
58. Therefore, we consider that the statutory criteria for the levy have been met.

## Recommendation

59. 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 FY2024.

## Implementation plan

60. If approved, the new regulations will come into effect on 1 July 2023. These will replace the current regulations which end on 30 June 2023.
61. 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.
62. 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

63. 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.

64. Every industry participant who is liable to pay the wholesale levy for a month must supply to GIC a written return stating the total number of 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 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.
65. 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.
66. 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

67. 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 FY2025, 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

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<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

	FY2023			FY2024		
	Retail	Wholesale	Total	Retail	Wholesale	Total
<b>Direct costs</b>	\$1,339,247	\$1,742,700	\$3,081,947	\$1,306,229	\$1,574,676	\$2,880,905
<b>Indirect costs</b>	\$650,700	\$846,726	\$1,497,426	\$714,028	\$860,770	\$1,574,798
Total Levy Funding Requirement	\$1,989,947	\$2,589,426	\$4,579,373	\$2,020,258	\$2,435,446	\$4,455,703
Basis of apportionment	Per ICP	Per GJ		Per ICP	Per GJ	
<b>Number</b>	300,000	185,000,000		309,000	170,000,000	
<b>Levy rate</b>	\$6.63/ICP	1.3997c/GJ		\$6.54/ICP	1.4326c/GJ	
Projected levy revenue	\$1,989,947	\$2,589,426	\$4,579,373	\$2,020,258	\$2,435,446	\$4,455,703

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

FY2024			
Work Programme		Levy funding requirement \$4,455,703	
		Wholesale	Retail
<b>Trusted Advisor to Government and Industry</b>	<ul style="list-style-type: none"> <li>Gas Transition Plan</li> <li>Energy Transition</li> </ul>	\$1,064,300	\$717,981
<b>Gas Governance</b>	<ul style="list-style-type: none"> <li>Critical Contingency Management</li> <li>Guidelines to Enhance Consumer Outcomes</li> <li>Advanced Gas Metering</li> <li>Retail Gas Contracts Oversight Scheme</li> <li>Gas Distribution Contracts Oversight Scheme</li> <li>Downstream Reconciliation/D+1</li> <li>Switching and Registry</li> <li>Compliance and Enforcement</li> <li>Statement of Intent and Annual Report</li> <li>Other Reporting</li> </ul>	\$713,520	\$845,976
<b>Facilitating Industry Systems and Processes</b>	<ul style="list-style-type: none"> <li>Information Disclosure</li> <li>Gas Transmission</li> </ul>	\$657,625	\$456,301