

**TDB Advisory report on Gas Industry Governance – Incentives, Regulation and Outcomes**

The spring 2018 high electricity spot price event heightened concerns about the strategic dependencies between the electricity and gas sectors given the impact of the unplanned Pohokura gas field outage. Higher spot prices, driven at least in part by constrained gas supply, cost industry tens of millions of dollars over and above anticipated electricity charges.

MEUG commissioned TDB Advisory to prepare a high-level assessment of alternative institutional arrangements for governing the gas sector. TDB was to identify and consider the policy and operational issues common to the gas and electricity sectors, and the advantages and disadvantages of including the option of establishing a joint gas and electricity regulator.

In relation to the Gas Industry Company's (GIC) governance [TDB's final report](#) concludes: "The co-regulation model is fit for purpose for New Zealand's gas sector. Legislation gives the GIC power and sufficient incentive to act, including when it is against the industry's interests. Ministerial powers provide protections against the potential for gridlock on particular issues. Enabling amendments to the Gas Act will provide the GIC with the authority to deliver new disclosure rules. The distinct characteristics of electricity and gas and the type of problems confronting the gas sector mean it is unlikely a joint gas and electricity regulator offers advantages over co-regulation sufficient to justify the costs and risks of establishing a new regulator."

MEUG's focus now is to promote the enabling amendments to the Gas Act to have a high priority in the government's legislative agenda for this year.

In relation to information disclosure, TDB recommend the introduction of disclosure obligations on upstream gas producers regarding planned and unplanned outages including force majeure events, that those disclosure obligations be regulated rather than rely on a voluntary solution, and that GIC should aim to be in a position to send its recommendation for regulation of disclosure the day after the amendment to the Gas Act passes. TDB advise that, unless justified by a clear problem, disclosure obligations should not extend to cover commercial information.

**At the Executive Committee**

MEUG was pleased to again host New Zealand First co-leader and energy spokesperson Fletcher Tabuteau, and we wish to thank Mr Tabuteau for his ongoing willingness to engage with MEUG. The Executive Committee also hosted Meridian for an interesting presentation and discussion on the impact of climate change on wind and hydro generation, and Transpower to discuss their management of risk, service and assets, and outage planning.

## Key dates

What's on	Who	When	Notes for members
Meeting: MEUG monthly Executive Committee	MEUG	1 May	Guests from NZ First, Meridian Energy, TDB Associates and Transpower as noted on cover page.
Submission: Retail fuel market study: Working paper on assessing profitability	Commerce Commission	7 May	Commission rejected MEUG's preferred Economic Value Added (EVA) approach, instead using an ad hoc margin approach that MBIE unsuccessfully tried to use in their 2017 analysis of the fuel market. MEUG recommended an EVA approach to the Electricity Price Review to assess if electricity suppliers were earning excess profitability.
Draft determinations: <ul style="list-style-type: none"> <li>Transpower Individual Price-Quality Path (IPP). Consultation rounds to mid-July.</li> <li>EDB Default Price-Quality Path (DPP). Consultation rounds to early August.</li> </ul>	Commerce Commission	29 May	Important once every 5-year reset of annual revenues for Transpower (currently ~\$1b) and the 17 distributors subject to DPP (>\$2b) and regulated quality (service levels). The 12 small trust owned EDB are not subject to DPP. Lower cost of capital for this reset due to lower risk-free interest rates than 5-years ago should, everything else being equal, lead to materially lower line charges. If the monopolies have made efficiency gains that will also lead to lower charges. The question is whether for the next 5-years there are offsetting new or higher costs.
Meeting: MEUG monthly Executive Committee	MEUG	29 May	Guests include Cameron Burrows, CEO of ERANZ, and the Commerce Commission to discuss draft IPP and DPP announcements.
Decisions: The first ever Wellbeing Budget	Government	30 May	Development of wellbeing metrics over time will be important because getting the right indicators (including those for the energy sector) will facilitate policies to lift the wellbeing of New Zealanders. Poor targets will undermine that goal.