GAS INDUSTRY COMPANY LIMITED

2018 – 20

STATEMENT OF INTENT

CONTENTS

Cover photo: Kapuni Gas Treatment Plant
Credit: Rob Tucker www.robtucker.co.nz

STATEMENT OF INTENT FOR FINANCIAL YEARS 2018-2020

Gas Industry Company Limited (Gas Industry Co) was approved in 2004 as the 'industry body' under Part 4A of the Gas Act 1992 (Gas Act).

This *Statement of Intent* has been prepared by Gas Industry Co to meet the requirements of sections 43ZQ to 43ZV of the Gas Act. It sets out the intended scope and objectives of Gas Industry Co's operations for the financial years ended 30 June 2018 to 2020, and provides information about the Company and its operating environment. The Work Programme described in this *Statement of Intent* is designed to meet the governance objectives set out in section 43ZN of the Gas Act, with regard also to the objectives and outcomes of the April 2008 Government Policy Statement on Gas Governance (GPS), and the wider strategic objectives of the Company.

The Company's role is to:

- develop arrangements, including regulations where appropriate, which improve:
  - the operation of gas markets;
  - access to infrastructure; and
  - consumer outcomes;
- develop these arrangements with the principal objective of ensuring that gas is delivered to existing and new customers in a safe, efficient, reliable, fair and environmentally sustainable manner; and
- oversee compliance with, and review, such arrangements.

Gas Industry Co is required to report on the achievement of those objectives and on the performance and current state of the New Zealand gas industry.

Rt Hon James B. Bolger, ONZ
CHAIR

Robin Hill
DEPUTY CHAIR

JUNE 2017

FOREWORD

As highlighted recently by the Minister of Energy and Resources, the Honourable Judith Collins[1], gas is an important contributor to New Zealand industries and is used in around 260,000 homes.

Petrochemical production (particularly by Methanex's three methanol production trains at Motunui and Waitara Valley) accounts for nearly 50 percent of national demand of natural gas. Gas provides 15 percent of New Zealand's electricity generation and is an important fuel for supporting electricity security of supply during peak demand periods and dry years.

The New Zealand gas industry continues to evolve, particularly as a result of three global trends. Low global oil prices have seen a drop in the upstream investment needed to replace the country's gas reserves. New technologies and associated consumer preferences are transforming the wider energy sector. And global responses to climate change supporting the Paris Agreement are driving New Zealand to a low carbon future.

Understandably, Gas Industry Co needs to recognise and reflect this context of change, including because industry stakeholders continue to look to us to provide views on the future of New Zealand's gas industry. At the same time, our mandate under the Gas Act and the Government Policy Statement, reflected in this *Statement of Intent*, focuses on continued development of industry governance arrangements that *ensure gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner*.

Our proposed FY2018 Work Programme continues to focus on the Gas Transmission Access Code (GTAC) with last year's acquisition by First Gas Limited of the two transmission systems having fundamentally changed the dynamic of high pressure gas transportation arrangements. First Gas is working with stakeholders and Gas Industry Co on a new code design and its target is to have it and the new supporting IT system in place by 1 October 2018.

Through our unique co-regulatory model, we are committed to working closely with industry, Government, regulatory agencies, and other stakeholders in all aspects of our strategies to enhance arrangements within the gas industry and the contribution it makes to New Zealand.

This *Statement of Intent* accordingly sets out the following:

- work programme priorities;
- consultation process undertaken in its development;
- operating environment;
- industry performance;
- work programme FY2018 and indicative activities FY2019–20;
- financial matters;
- alignment with Government policy objectives and outcomes; and
- other information.

Rt Hon James B. Bolger, ONZ
CHAIR

Steve Bielby
CHIEF EXECUTIVE

JUNE 2017

[1] Opening address 2017 Downstream Conference

WORK PROGRAMME PRIORITIES

This chapter sets out the main elements of Gas Industry Co's Work Programme for FY2018, and indicatively for the following two financial years.

The Work Programme structure is designed to fulfil our statutory role through efficient governance arrangements, progressing new or committed/ongoing projects that are important to industry and other stakeholders, and facilitating forward-looking discussion on future strategic issues.

EFFICIENT GOVERNANCE ARRANGEMENTS

- administer existing rules and regulations:
  - Gas (Switching Arrangements) Rules 2008 (Switching Rules)
  - Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules)
  - Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations)
  - Gas Governance (Compliance Regulations) 2008 (Compliance Regulations)
- administer non-regulated monitoring arrangements, including:
  - Retail Gas Contracts Oversight Scheme
  - Gas Distribution Contracts Oversight Scheme
- review governance arrangements to ensure they remain fit for purpose and recommend changes where improvements can be made efficiently;
- monitor the compliance of industry participants and take enforcement action only where necessary; and
- monitor and report on metrics arising from the market and regulatory processes to enhance transparency and foster a well-informed market.

PRIORITY OR COMMITTED/ONGOING PROJECTS

There are a number of projects to which Gas Industry Co was committed prior to the FY2018 Work Programme. These projects continue to be regarded as important by stakeholders and Gas Industry Co, and are being undertaken to resolve priority issues within the industry:

- operating the D+1 pilot scheme that has been put in place to provide retailers with the information they need to manage successfully under market-based balancing;
- based on the outcomes of the D+1 pilot, and once the design of the GTAC is known, identifying changes needed to the Reconciliation Rules and any associated changes to the Allocation Agent's role and system.

The key workstream in FY2018 will be development of the GTAC. During FY2018, Gas Industry Co expects that work will entail supporting and assisting with implementation of a contract-based code, but it may include development of a recommendation for regulations if agreement cannot be reached. A number of other workstreams, such as gas balancing, gas quality, and transmission interconnection, are closely associated with the GTAC development.

FUTURE STRATEGIC ISSUES

As part of our requirement to report on the performance and current state of the New Zealand gas industry, as well as our strategic objective to communicate the role of gas in meeting New Zealand's energy needs, Gas Industry Co develops discussion and papers on the future role of gas in New Zealand.

This work builds on past reports commissioned by Gas Industry Co that look at consumer energy options, gas supply and demand, and the potential for demand management as a tool for managing transmission pipeline congestion. The Work Programme provides for an ongoing future focus involving updating and expanding on these studies.

FIGURE 1 / WORK PROGRAMME OBJECTIVES AND ACTIVITIES

STRATEGIC OBJECTIVE 1	STRATEGIC OBJECTIVE 2	STRATEGIC OBJECTIVE 3	STRATEGIC OBJECTIVE 4
Promote efficient, competitive and confident gas markets	Facilitate efficient use of, and investment in, gas infrastructure	Deliver effectively on Gas Industry Co's accountabilities as the industry body	Develop and communicate the role of gas in meeting New Zealand's energy needs
Comprising: » Retail gas contracts oversight scheme » Gas distribution contracts oversight scheme » Retailer insolvency » Gas quality » Regulation and rule changes » Gas measurement » Supply/demand model	Comprising: » Gas transmission access » Wholesale market » Transmission pipeline balancing » Transmission code changes » Transmission pipeline interconnection » Gas transmission security and reliability	Comprising: » Downstream reconciliation » Switching and registry » Critical contingency management » Compliance and enforcement » *Statement of Intent* and *Annual Report*	Comprising: » *New Zealand Gas Story* » Supply/demand reports, and other reporting

CONSULTATION PROCESS

Consultation with industry stakeholders on Gas Industry Co's intended Work Programme and budget requirements commenced with a Co-regulatory Forum, held in November.

The process led to the development of a *Statement of Intent* covering the next three years, and a recommendation to the Minister[2] for levy funding through regulations (Levy Recommendation) for the first financial year in that period.

The *Statement of Intent* and *Levy Recommendation* provided the basis for Gas Industry Co to deliver robust outcomes for gas consumers and the wider industry as part of our mandate as the industry body. The *Levy Recommendation* and a draft *Statement of Intent* are presented to the Minister in March each year.

These two documents are developed after consulting with stakeholders on strategic priorities. The Work Programme and budget addressing those priorities are detailed in a consultation paper, normally issued in December. Submissions on the consultation paper for FY2018 are taken into account prior to the Board finalising the *Levy Recommendation* to the Minister.

Figure 2 sets out the consultation and approval processes leading to the annual promulgation of Levy Regulations.

FIGURE 2 / CONSULTATION AND LEVY-SETTING PROCESS

NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	JULY
Initial industry engagement (Co-regulatory Forum)	Board approves *Consultation on Gas Industry Co FY2018 Statement of Intent and Levy*	Industry submissions received and analysed	Board approves the Recommendation for Levy Regulations	Board approves *Statement of Intent* draft for delivery to Minister for comment Recommendation to Minister to approve Levy Regulations	***STATEMENT OF INTENT* AND *LEVY REGULATIONS* TAKE EFFECT FROM 1 JULY 2017**

[2] 'Minister' is defined in the Gas Act as the Minister with responsibility for administration of the Gas Act. At the date of this *Statement of Intent*, the ministerial warrant for Gas Industry Co was held by the Minister of Energy and Resources. References to 'Minister' should read as references to the Minister of Energy and Resources, unless the context indicates otherwise.

OPERATING ENVIRONMENT

Gas Industry Co's Work Programme is directly influenced by the industry structure, the legislative and policy framework, and its own corporate strategy. Together these form the Company's operating environment.

INDUSTRY CONTEXT

Natural gas makes a substantial contribution to New Zealand's economy and quality of life. It is a vital input for some of the country's largest industries, including dairy, steel, forestry and petrochemicals; and it provides energy to more than 270,000 industrial, commercial and residential consumers.

Natural gas has a wide range of applications: cooking and heating in homes, providing energy for a variety of businesses and community amenities, and supplying process heat and serving as a feedstock for large industries.

Through thermal power plants, gas has an important role in supporting electricity supply security.

Over the past decade, as production from the formerly predominant Maui field has declined, the New Zealand gas market has transitioned to sourcing gas from multiple smaller fields. This has significantly changed the market's dynamics, with a marked increase in the number of participants at all levels and greater complexity in arrangements for transporting and selling gas at the wholesale and retail levels.

The gas industry comprises a number of interdependent segments: exploration and production, processing, and wholesale and retail markets. These segments are connected via the high pressure gas transmission system and local distribution networks.

Natural gas is available only in the North Island. Gas in the form of LPG (liquefied petroleum gas) is available in the North and South Islands in bulk and in bottles. In parts of the South Island LPG is also supplied through small LPG networks.

LEGISLATIVE AND POLICY FRAMEWORK

Since 2004, the gas industry downstream of the exploration and production sector has been governed by a unique co-regulatory model. As the industry body, Gas Industry Co creates the link between Government and industry to deliver improved governance arrangements for participants and consumers in gas markets.

Gas Industry Co's regulatory oversight encompasses the natural gas wholesale and retail markets, processing facilities, and the transmission and distribution sectors of the industry (see Figure 3, Gas Industry Structure). It does not include the upstream exploration and production sector, where the Ministry of Business, Innovation and Employment (MBIE) has regulatory and policy oversight through the Crown Minerals Act.

Gas Industry Co's role in relation to the gas transmission and distribution sector focuses on terms and conditions of access to open access pipelines. The Commerce Commission has a complementary role in relation to economic regulation of those pipelines. As provided for in the Gas Act, the two agencies work closely together on any areas of potential overlap.

The Gas Act empowers Gas Industry Co to make recommendations to the Minister on certain matters, having regard to the objectives for the industry body in the Gas Act and the objectives and outcomes in the GPS.

The Gas Act specifies that the industry body's principal objective in recommending regulations is to ensure that gas is delivered to existing and new customers in a safe, efficient and reliable manner. The GPS has a broader policy objective: it sets, for the entire gas industry, the objective of ensuring that gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner.

One aspect of the principal statutory objective is that formal gas governance arrangements ensure that 'gas is delivered to existing and new customers in a *safe*.... manner'. Gas Industry Co does not have powers and functions directed to safety *per se*, but it is required to ensure that gas governance arrangements it proposes are 'consistent with the Government's gas safety regime'. It does this by, where appropriate, scrutinising potential safety implications of proposed gas governance arrangements.

The Government's gas safety regime is principally administered by WorkSafe New Zealand, and incorporates safety of gas appliances, standards for gas pipelines, and the occupational licensing system for gasfitters[3].

Other objectives specified by the Gas Act for the industry body in recommending regulations include:

- the facilitation and promotion of the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements;
- barriers to competition are minimised;
- incentives for investment in gas processing facilities, transmission, and distribution are maintained or enhanced;
- delivered gas costs and prices are subject to sustained downward pressure; and
- risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties.

Additional objectives for Gas Industry Co and the gas industry are set out in the GPS and include:

- energy and other resources used to deliver gas to consumers are used efficiently;
- competition is facilitated in upstream and downstream gas markets by minimising barriers to access to essential infrastructure to the long-term benefit of end-users;
- the full costs of producing and transporting gas are signalled to consumers;
- the quality of gas services, where those services include a trade-off between quality and price, as far as possible, reflect customers' preferences; and
- the gas sector contributes to the Government's climate change objectives as set out in the New Zealand Energy Strategy, or any other document the Minister may specify from time to time, by minimising gas losses and promoting demand-side management and energy efficiency.

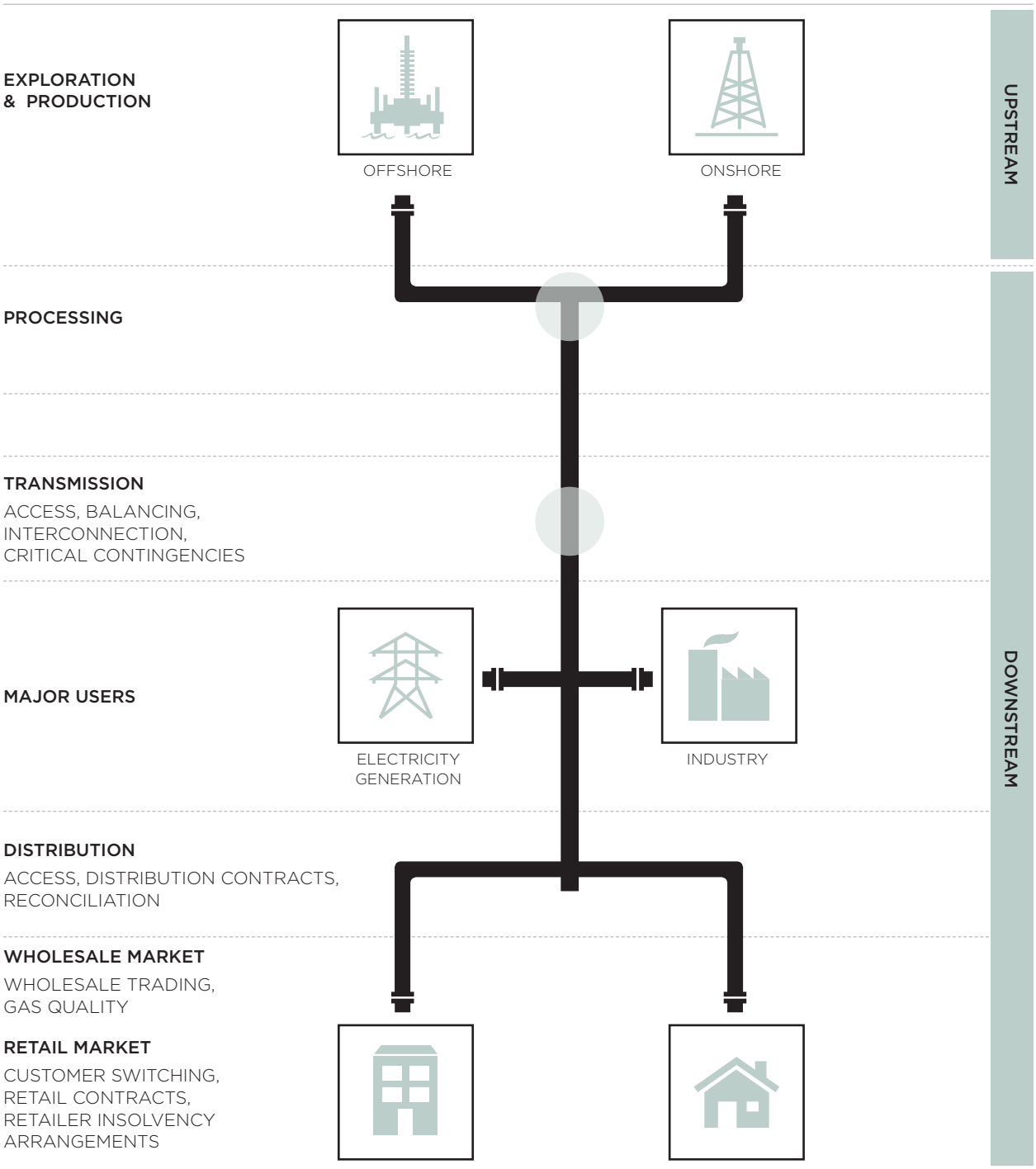
The Minister has statutory powers to make rules or to recommend regulations on a wide range of gas governance matters. Under the co-regulatory model, the industry body advises the Minister on the exercise of many of these powers and must follow prescribed procedures before making a recommendation. The procedures include requirements for consultation with affected stakeholders, and an obligation to assess the costs and benefits associated with any recommendation.

When developing advice on governance arrangements, Gas Industry Co must consider all reasonably practicable options, including non-regulated options that achieve the same outcome.

Existing arrangements are monitored for their ongoing effectiveness and relevance, and are refined as necessary.

[3] A more detailed description of the gas safety regime and Gas Industry Co's relationships with these other agencies can be found in Gas Industry Co's comprehensive review of the industry: *The New Zealand Gas Story* on the Company's website www.gasindustry.co.nz

FIGURE 3 / GAS INDUSTRY STRUCTURE



GAS INDUSTRY CO STRATEGY

Consistent with the legislative and policy framework described above, Gas Industry Co's Board has set a Corporate Strategy that assists in the delivery of its statutory role.

The Company's Strategic Goal, supported by the Company's Mission and Objectives together help frame the Work Programme for FY2018 and indicatively for the following two years. A set of overarching principles underpin how we set out to achieve these objectives.

STRATEGIC GOAL:

OPTIMISE THE CONTRIBUTION OF GAS TO NEW ZEALAND

Gas has made a key contribution to New Zealand since the development of the natural gas industry in the 1960s. There is an important future role for gas, particularly in terms of providing electricity supply security and supporting the New Zealand economy, all consistent with environmental sustainability goals. However, there is a range of scenarios as to future supply and demand. The challenge, in line with Government energy policy, is how New Zealand can make the most of its gas resources, for the benefit of all New Zealanders.

MISSION:

PROVIDE GOOD GOVERNANCE AND LEADERSHIP FOR THE GAS INDUSTRY

The gas industry is dependent on a range of players, from upstream explorers and producers through to consumers, and on competitive markets and ongoing investment at all stages. Gas Industry Co will be a leader, building on its statutory role as the industry body.

OBJECTIVES:

- promote efficient, competitive, and confident gas markets;
- facilitate efficient use of, and investment in, gas infrastructure;
- deliver effectively on Gas Industry Co's accountabilities as the industry body; and
- develop and communicate the role of gas in meeting New Zealand's energy needs.

In pursuing its strategic goal, mission and objectives, Gas industry Co conducts itself in accordance with the following key principles:

- fairness;
- independence and impartiality;
- openness and transparency;
- responsibility; and
- evidence-based decision-making.

GAS INDUSTRY CO GOVERNANCE

Gas Industry Co is owned by industry participant shareholders and is incorporated as a company under the Companies Act 1993. Strategic oversight of the Company is provided by the Board of seven Directors, all elected by the shareholders. Four Directors, including the Chairman, are independent (having no material or financial interest in an industry participant), and three are Industry-Associated Directors (usually senior executives of industry participants).

The Board meets on around eight scheduled occasions each year and will hold unscheduled meetings from time to time to consider matters requiring immediate attention. The Board has one standing committee, the Independent Directors' Committee, comprising the four Independent Directors. The Committee addresses matters where the Industry-Associated Directors have potential or actual conflicts of interest.

INDUSTRY PERFORMANCE

In addition to alignment with Government policy objectives and outcomes, Gas Industry Co's strategic and Work Programme objectives seek to support key areas of industry performance, particularly in relation to consumer switching, downstream reconciliation, critical contingency management and transmission system balancing.

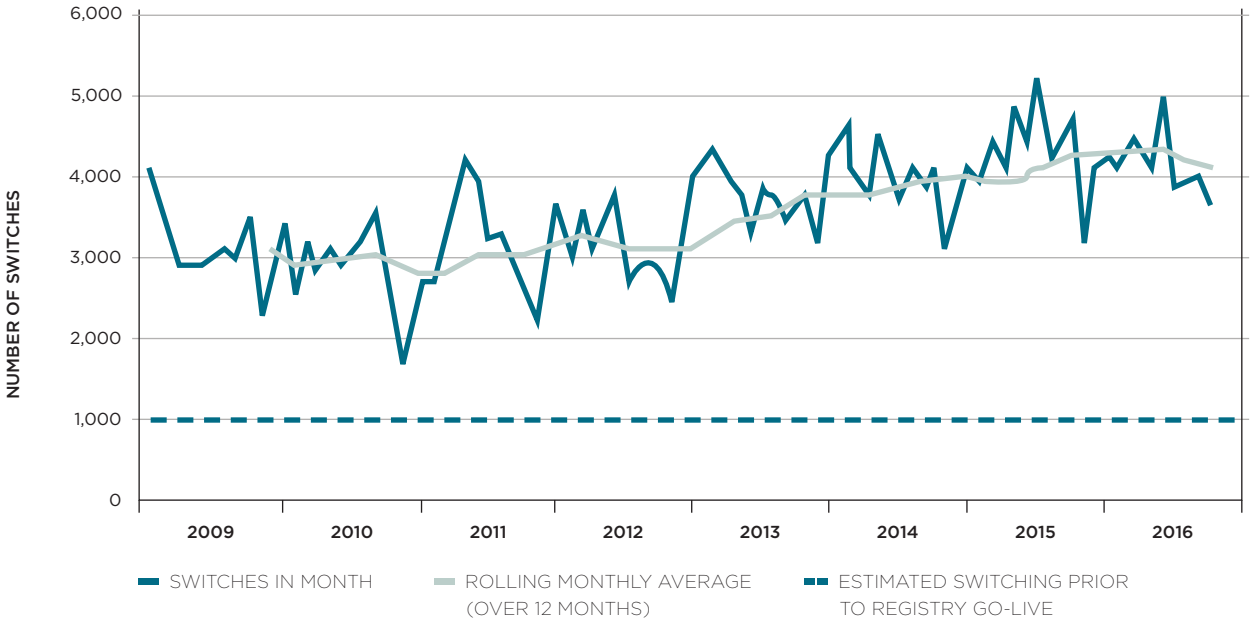
The Company tracks, and reports regularly upon, the performance of the Switching Rules, Reconciliation Rules and CCM Regulations in terms of their ongoing effectiveness, the competitive outcomes they foster, and industry participants' adherence to them.

HIGHLIGHTS

Gas Industry Co's work programme supports competitive activity within the downstream gas markets. Since the introduction of formal governance arrangements in 2009, industry performance indicators in the key areas of consumer switching, downstream reconciliation, and compliance have improved substantially. Together, they reflect a healthy downstream gas market:

- The time to process a customer switch has fallen to an average of two business days, compared to 10 or more business days in 2009.
- Switching rates have been over 18 percent for more than two years. About 4,200 gas consumers switch gas supplier each month.
- 61 percent of residential consumers, 65 percent of small commercial customers and 79 percent of large commercial sites have switched retailer at least once in the past five years.
- There are 10 retail gas brands owned by nine different retail companies.
- Over 99 percent of gas customers are connected to a gate where seven or more retailers trade, demonstrating that gas retailing is generally competitive throughout the North Island.
- Market concentration, as measured by the Herfindahl-Herschman Index (HHI) has decreased significantly in all regions since the commencement of the formal switching regime in 2009 as new retailers increase market share and incumbent retailers' share has declined.
- Average annual unaccounted-for gas (UFG) at shared gates has halved to about 1 percent of delivered gas volumes since 2009.

FIGURE 4 / CUSTOMER SWITCHING



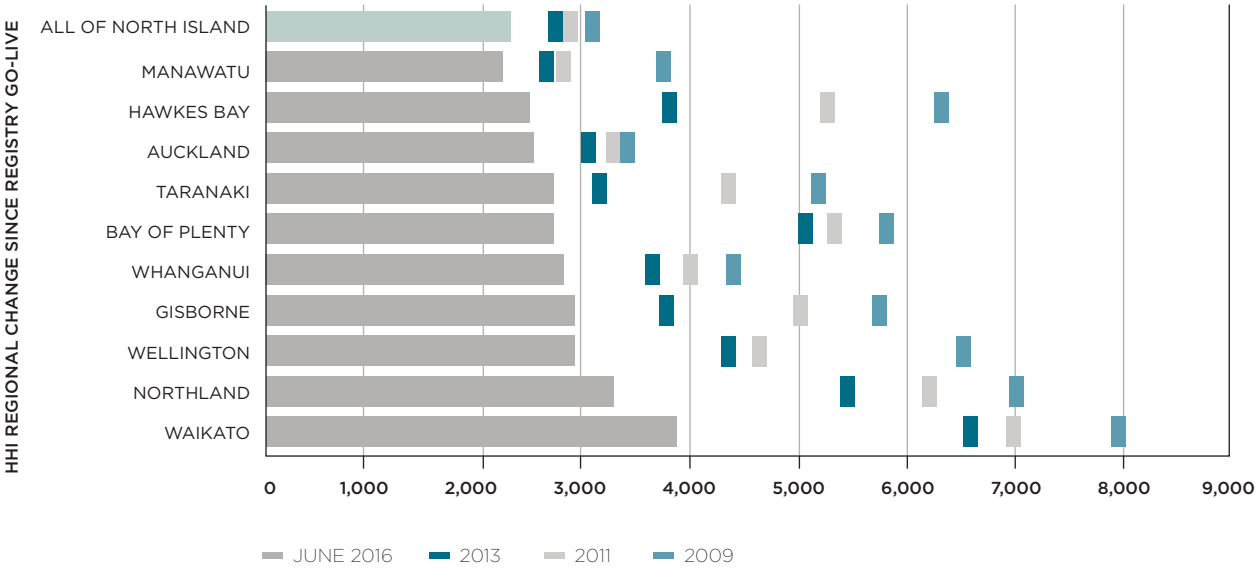
The Switching Rules became effective in 2009.

Switching rates, which are an indicator of contestability in the market, have since increased from less than 1,000 to more than 4,000 a month. The increased switching activity reflects, in part, greater consumer choice as more retailers have joined the market. In parallel, the disciplines of the Switching Rules have seen the time taken for consumer switching to be completed reduced from weeks or months, to an average of two business days.

Gas customers generally have access to multiple retailers. All 10 retailers are active at gas gates (where gas leaves the high pressure transmission system and enters the local gas distribution networks) that together represent 50 percent of consumers.

Market concentration, as measured by the HHI, has decreased in all regions. The retail gas markets in these areas have become less concentrated as new retailers have gained market share, diluting the dominance of previously incumbent retailers.

FIGURE 5 / RETAIL MARKET CONCENTRATION



Gas Industry Co considers there is potential for retail competition to strengthen further as more niche retailers join the market. Such retailers often set out with an electricity offering but subsequently look to expand to a dual electricity/gas platform to compete successfully.

While these sorts of market forces are outside Gas Industry Co's direct influence, the Company maintains a strong focus on ensuring market arrangements effectively support competitive activity and the best interests of consumers.

Consumers' interests are also promoted through a range of other arrangements implemented under the co-regulatory regime, including:

» implementation of the Retail Gas Contracts Scheme, which ensures contractual arrangements between gas retailers and small consumers adequately protect the long-term interests of small consumers; and

» a *Framework for Gas Retailer Insolvency Arrangements*, which sets out the process Gas Industry Co will follow in the event of a retailer insolvency.

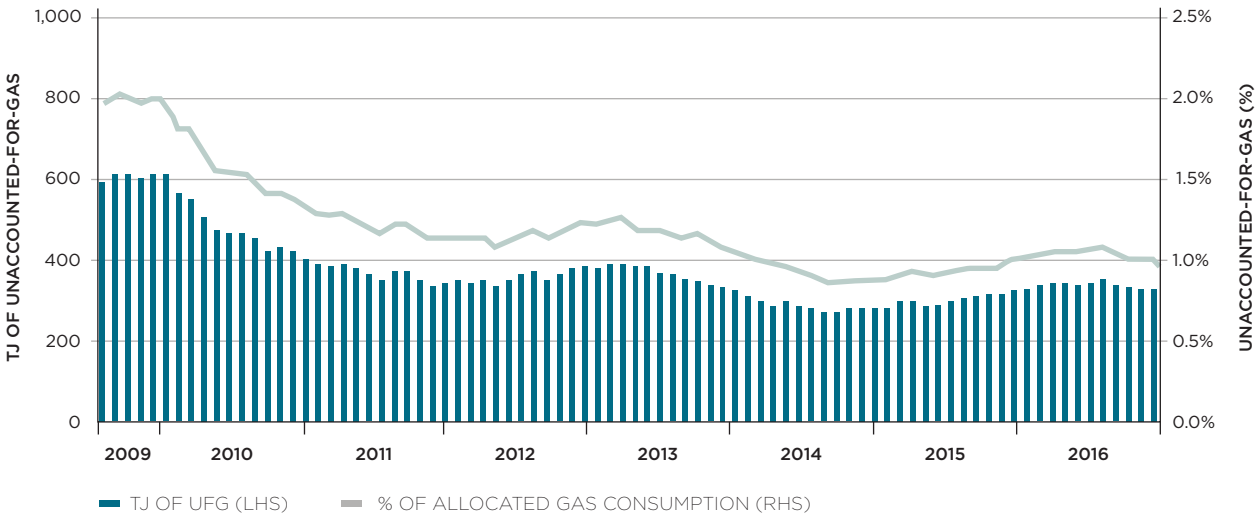
The Reconciliation Rules introduced formal arrangements to replace an industry code that was considered to be unfair to incumbent retailers and lacked transparency. These Rules provide a formal process for attributing volumes of gas used by consumers at shared gas gates to the retailers responsible for them.

The Reconciliation Rules have been instrumental in reducing the level of UFG, which is the difference between the amount of gas that retailers estimate their customers have used and the actual gas volume leaving the transmission system at a gas gate and entering the local distribution network. Since 2009, annual UFG has fallen from 600,000 gigajoules (GJ) to about 300,000 GJ, or from about 2 percent of gas consumed at shared gas gates to about 1 percent.

UFG imposes a cost on the market as it is gas that retailers must pay for, but cannot sell. As such, the extent of UFG is a measure of market efficiency.

The move to a rules-based regime has delivered an ongoing stream of cost savings to the industry in excess of $5 million a year. In addition to reduced UFG, benefits include improved market efficiency, more equitable allocation of UFG among retailers, and greater information transparency.

FIGURE 6 / DOWNSTREAM RECONCILIATION



CRITICAL CONTINGENCY MANAGEMENT

In 2009, the CCM Regulations replaced a voluntary industry arrangement, reflecting the increasing complexity of the gas industry and the need for greater certainty around the industry's response, including demand curtailment, during a serious supply emergency.

The CCM Regulations have been activated five times since they came into full effect in 2010. The most recent event was in May 2017, caused by a planned outage of the Pohokura Production Station. Gas Industry Co maintains a close watch on the effectiveness of the CCM Regulations through the monitoring of annual exercises and actual events as they happen. Experience from events and exercises is used to refine the critical contingency arrangements in a process of continual improvement.

COMPLIANCE WITH GOVERNANCE RULES AND REGULATIONS

The Compliance Regulations provide for the monitoring and enforcement of other gas governance rules and regulations. They are designed as an efficient, low-cost means of determining and, settling rules breaches that raise material issues.

Breach allegations are considered first by the Market Administrator, a role performed by Gas Industry Co. Where a material issue is deemed to exist, the matter is referred to an Independent Investigator for further examination and, where appropriate, settlement.

Settlements must be referred to the Rulings Panel for approval or rejection. The Rulings Panel, a one-person quasi-judicial body appointed by the Minister, also considers matters where parties are unable to agree on a settlement, and can issue fines, make orders for compensation, and make orders directing compliance or suspending or terminating participants.

Compliance activity is typically higher immediately following the introduction of, or a change to, regulated arrangements as industry participants adjust to those new arrangements. Breach statistics reported by Gas Industry Co demonstrate that 'teething troubles' with new rules and regulations are generally short-lived. At other times, enforcement activity is typically low, indicating that participants are generally diligent in ensuring their business processes are compliant.

Gas Industry Co liaises closely with participants to ensure there is a good understanding of regulatory requirements.

WORK PROGRAMME FY2018 AND INDICATIVE ACTIVITIES FY2019-20

This section outlines the scope of Gas Industry Co's operations for the financial years ended 30 June 2018 to 2020.

The FY2018 Work Programme has been developed having regard to the Gas Act and GPS objectives and outcomes for the gas industry, Gas Industry Co's statutory accountabilities under existing governance arrangements, and reporting requirements under the Gas Act and Companies Act. The multi-year scope of the *Statement of Intent*, with a focus on the first year of the three-year period and indicative activity in the subsequent years, reflects the requirement for Gas Industry Co's funding to be approved by regulation each year, as well as the changing nature of the industry and the Company's co-regulatory role. Further, it recognises that policy development requires comprehensive consultation which provides the opportunity for continual improvements in policy thinking, and consequently the Work Programme, year-on-year.

The Work Programme is substantially in the form consulted on with stakeholders, which was broadly supported in submissions. The submissions themselves, and the Company's *Analysis of Submissions,* can be found on Gas Industry Co's website www.gasindustry.co.nz.

STRATEGIC OBJECTIVE 1

Promote efficient, competitive and confident gas markets

RETAIL GAS CONTRACTS OVERSIGHT SCHEME (RETAIL SCHEME)

In 2010, Gas Industry Co established the Retail Gas Contracts Oversight Scheme that assesses retailers' posted contracts for residential and small commercial/industrial consumers against a series of benchmarks consistent with reasonable customer expectations and outcomes. Reviews are undertaken by an Independent Assessor with the most recent full review in FY2016 having shown 'substantial' compliance. Gas Industry Co aims to conduct full reviews at three-yearly intervals, so the next one is scheduled for FY2019.

FORECAST ACTIVITIES FY2018-20

1. Review contracts on an exceptions basis (e.g. new entrant retailers).
2. Publish compliance levels for such reviews.
3. Provide information to assist new entrant retailers to understand governance processes and their obligations.
4. Full review of contracts in FY2019.

GAS DISTRIBUTION CONTRACTS OVERSIGHT SCHEME (DISTRIBUTION SCHEME)

In 2012, Gas Industry Co established the Distribution Scheme, under which gas distributors' contracts with gas retailers are assessed against a common set of distribution principles. Over recent years, distributors have developed new agreements in consultation with their customers. The second assessment by an Independent Assessor in FY2014 found that the contracts offered by distributors exhibited 'substantial' alignment with the distribution principles. Checks with retailers and distributors in FY2015 and FY2016 identified that incremental changes continue to be made. In addition, the practice is to make those incremental changes available to retailers that have executed earlier versions of the distribution contracts.

FORECAST ACTIVITIES FY2018-20

1. Continue to assess progress with executing new distribution contracts consistent with the Distribution Scheme principles.
2. Review the Distribution Scheme, consider any changes or other actions required, and report.

RETAILER INSOLVENCY

Following a request from the Minister, this workstream was formed to consider the market issues created when a gas retailer becomes insolvent. The Minister accepted the Company's advice that the best solution was an agile approach that would see a recommendation for urgent regulations, as and when required, and tailored to the specific situation. Gas Industry Co consulted on drafting instructions in FY2015 and issued a *Final Decision Paper - Framework for Gas Retailer Insolvency Arrangements* in May 2015. With the framework set, it is not expected that any routine activity will be required in FY2018 beyond that already provided for within the audits under the Switching Rules (i.e. checking that registry participants are able to meet their obligations under those rules). Once the shape of the new transmission access arrangements becomes clear, it might be necessary to make minor amendments to related aspects of the drafting instructions.

CONTINGENT ACTIVITIES FY2018-20

1. Implement the new retailer insolvency arrangements as necessary in the unlikely event of a retailer insolvency.
2. Make any necessary amendment to the drafting instructions once new transmission arrangements are known and implemented.

GAS QUALITY

This workstream was originally developed in response to industry participant and large end-user concerns about the responsibility and liability for gas quality in New Zealand. Some participants believe responsibilities are unclear, or not well aligned with liabilities. In FY2015, the Company published a *Gas Quality Requirements and Procedures* document aimed at clarifying current arrangements and making them accessible. Gas Industry Co will continue to oversee industry-led work in this area, and will consider whether further action is required arising from that update.

FORECAST ACTIVITIES FY2018-20

1. Oversee industry-led work on gas quality.
2. Determine actions to address any remaining gas quality issues.
3. Update the *Requirements and Procedures* document as required.

REGULATION AND RULE CHANGES

The objective of this workstream is to ensure efficient, effective regulatory arrangements.

For the last 18 months, Gas Industry Co has produced and updated a voluntary daily allocation system. This work will continue into FY2018, steered by the progress in developing the GTAC, which will dictate any required changes to regulatory arrangements.

FORECAST ACTIVITIES FY2018-20

DOWNSTREAM RECONCILIATION (FY2018/19)

1. Keep the D+1 pilot scheme running.
2. Once the new GTAC is produced, develop any required changes to the Reconciliation Rules and consult.
3. Subject to submissions, make a recommendation to the Minister to amend the Reconciliation Rules.
4. Subject to Ministerial approval, develop, test and implement the supporting systems.

CRITICAL CONTINGENCY MANAGEMENT (CCM) (FY2018/19)

1. Review contingency pricing and imbalance arrangements.
2. Consult and work with stakeholders on any improvements to these arrangements.
3. Once the new GTAC is developed, review CCM arrangements for any required changes.
4. Consult and work with stakeholders to ensure alignment with final GTAC.
5. Recommend amendments and implement as required.

GAS MEASUREMENT

High level work to review the current contracting arrangements between metering equipment providers and retailers, and to consider the outlook for the introduction of gas smart metering technology is expected to be completed in FY2017. Current indications are that there will be little, if any, work required in FY2018 in this area.

CONTINGENT ACTIVITIES FY2018-20

1. Develop any future activity required in light of the findings from the initial review which commenced in FY2016.

SUPPLY/DEMAND STUDY

As part of the former Gas Transmission Investment Project (GTIP), Gas Industry Co commissioned the first dedicated study on gas supply and demand. The most recent update, *Long Term Gas Supply and Demand Scenarios Report* (Concept Consulting, 2016), was published in October 2016. It is clear that the contribution of this report is significant to the industry. Gas Industry Co aims to continue to publish an updated report biennially.

FORECAST ACTIVITIES FY2018–20

1. Review and update the Report every two years after first publication. New report due in FY2019.

STRATEGIC OBJECTIVE 2

Facilitate efficient use of, and investment in, gas infrastructure

GAS TRANSMISSION ACCESS

The objective of this workstream is to ensure that transmission pipeline access arrangements transparently provide for the efficient utilisation of physical capacity and effectively signal any need for efficient investment in additional capacity.

During FY2017, Gas Industry Co consulted on its *Gas Transmission Access Single Code Options Paper – Part 1 (SCOP1)*, aimed at establishing a problem definition and regulatory objective to underpin the reform of the access arrangements. *SCOP1* also described how Gas Industry Co and First Gas would co-lead the reform process. First Gas subsequently set out some possible pathways towards the new arrangements in a *SCOP2* document. Submissions on *SCOP2* were analysed by Gas Industry Co with a resulting workshop held in February 2017 to discuss stakeholder views and the next steps. We expect FY2018 will see considerable activity in this area, including the analysis of detailed design proposals as well as the commencement of implementation.

Gas Industry Co aims to update the Minister and MBIE at least quarterly on progress on the forecast activities below.

FORECAST ACTIVITIES FY2018-20

1. Work with First Gas and stakeholders on detailed design of GTAC.
2. Assess detailed design against Gas Act and GPS objectives and outcomes. Report to the Minister on suitability of GTAC and the likely uptake by customers.
3. If the industry process stalls or the arrangements otherwise do not meet the Gas Act objectives, Gas Industry Co will likely move to the development of regulation, including carrying out remaining Gas Industry Co consultation; drafting proposed regulations; and preparing in 2019/20 any recommendation to the Minister for regulation.

WHOLESALE MARKET

The emsTradepoint market (eTp) has now been in operation for over three years and has increased in both membership and volume over that time. We note that the GPS seeks an outcome of 'efficient arrangements for the short-term trading of gas' and eTp makes a clear contribution to that outcome.

As an industry initiative, Gas Industry Co is pleased with the progress to date.

Gas Industry Co intends to continue to monitor activity and developments in the wholesale market with a particular focus on the market's role as the source of volume and pricing for transmission balancing.

FORECAST ACTIVITIES FY2018-20

1. Monitor activity and developments.
2. Ensure that market information is delivered in a timely fashion to support this monitoring.

TRANSMISSION PIPELINE BALANCING

Market-based balancing (MBB) was implemented in FY2016 and Gas Industry Co has published a review that points to a number of improvements from its implementation. Those improvements have required improved information availability – the D+1 pilot scheme plus daily cash-out information delivered on business days – as well as greater attention by shippers and welded parties. The transmission access work will need to determine a set of balancing arrangements for the GTAC and Gas Industry Co will be monitoring those developments.

FORECAST ACTIVITIES FY2018-20

Work with stakeholders on balancing-related matters and incorporate findings from MBB review to enhance efficiency where warranted.

TRANSMISSION CODE CHANGES

Under a Memorandum of Understanding with the owner of the Maui pipeline, Gas Industry Co has a role in processing Maui Pipeline Operating Code (MPOC) change requests as they arise. In addition, the Company is invited to submit on change requests under the Vector Transmission Code (VTC). This role may be replaced by a regulatory role in the event that the GTAC process does not come to fruition and Gas Industry Co has to recommend regulation of transmission access arrangements.

FORECAST ACTIVITIES FY2018-20

1. Perform agreed role in relation to proposed MPOC changes.
2. Make submissions on proposed changes to the VTC where appropriate.
3. Review Gas Industry Co's role assuming the GTAC is adopted (FY2019).

TRANSMISSION PIPELINE INTERCONNECTION

Gas Industry Co has established *Interconnection Guidelines* (Guidelines) that set out our expectations with regard to transmission system owners' policies and procedures for connecting to their pipelines. We have previously commissioned independent reviews of new interconnections and, in recent years, these have shown that the Guidelines have been adopted by the transmission system owners.

Given this, we do not consider that formal reviews of each new interconnection are required. We will monitor interconnections at a high level and expect that any issues will be brought to our attention.

FORECAST ACTIVITIES FY2018-20

1. Review interconnections as required.
2. Address any concerns regarding reasonable access.
3. Amend the Guidelines if needed.

GAS TRANSMISSION SECURITY AND RELIABILITY

In FY2017, Gas Industry Co undertook a review of the information and requirements associated with gas transmission security and reliability, which span the responsibilities of several regulators and can be difficult to bring together and interpret.

Our findings were that information and arrangements give significant assurance about both standards and performance. However, further work may be required around provision of information and oversight of significant transmission investments. The latter falls clearly within the jurisdictions of the Commerce Commission and WorkSafe, but might be relevant to Gas Industry Co's powers, in relation to recommending regulations that require expansions, upgrades or service quality improvements. Gas Industry Co published the *Gas Transmission Security and Reliability Update* in March 2017.

CONTINGENT ACTIVITIES FY2018-20

1. Consider outcomes of the Commerce Commission's work relevant to gas transmission information disclosure and whether any further improvements are appropriate or necessary to achieve the relevant objectives and outcomes of the Gas Act and GPS.
2. In the unlikely event that agreed arrangements are not achieved or existing regulatory arrangements are inadequate, consider the need for additional governance arrangements.

STRATEGIC OBJECTIVE 3

Deliver effectively on Gas Industry Co's accountabilities as the industry body

DOWNSTREAM RECONCILIATION

The purpose of the Reconciliation Rules is to 'establish a set of uniform processes that will enable the fair, efficient, and reliable allocation and reconciliation of downstream gas quantities'. Gas Industry Co has an ongoing obligation to oversee the operation of the Allocation Agent. Gas Industry Co monitors allocation results so as to identify, at an early stage, any issues and ensure they are addressed in an appropriate and timely fashion. This work complements that of a number of industry participants who also undertake monitoring and, from time to time, bring issues to the attention of Gas Industry Co and/or the Allocation Agent.

The Reconciliation Rules have been instrumental in reducing the level of UFG at the final allocation stage. This is largely due to the efforts of industry participants, the increased transparency of the processes for reconciliation, the application of the global allocation methodology, incentives provided by the compliance and enforcement activities, and issues identified and resolved through the performance and event audits undertaken to date. Collectively, this reduction in UFG represents an ongoing stream of cost savings in excess of $5 million per annum.

FORECAST ACTIVITIES FY2018-20

1. Monitor Allocation Agent.
2. Assess ongoing performance of the Reconciliation Rules.
3. Monitor allocation results.
4. Commission performance and event audits as required.
5. Make determinations under the Reconciliation Rules as required.

In addition to the tasks that are required under the Reconciliation Rules, Gas Industry Co expects to be continuing to run the pilot scheme for D+1 allocations until it is either overtaken by changes to the Reconciliation Rules or a better solution identified. The issue is discussed further in the 'Regulation and Rule Changes' section.

SWITCHING AND REGISTRY

The Switching Rules have the purpose of enabling 'consumers to choose, and alternate, efficiently and satisfactorily between competing retailers'. The Switching Rules provide for a centralised database, the Gas Registry, which stores key technical parameters about every customer installation and facilitates and monitors each customer switch from initiation through to completion.

Introduction of the Switching Rules tripled the rate of switching, and the trend over the past six years has been increasing annual rates of customer switching.

FORECAST ACTIVITIES FY2018-20

1. Monitor the performance of the Registry Operator.
2. Assess ongoing performance of the Switching Rules.
3. Monitor and report on switching statistics.
4. Make determinations under the Switching Rules as required.

In addition, changes to the Switching Rules in September 2015 introduced the requirement for the industry body to arrange performance audits of registry participants. Baseline audits of retailers commenced in FY2016 and should be completed in the FY2017 year. Audits of distributors will follow in FY2017-FY2018.

CRITICAL CONTINGENCY MANAGEMENT

The purpose of the CCM Regulations is to 'achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply'. The nature of the gas system means that it is not possible to turn off customers remotely as is done in the electricity industry. Accordingly, to manage a reduction in gas supplies it is necessary to instruct consumers themselves to turn off their gas-using equipment and that, in turn, requires regulatory backing. The CCM Regulations provide for the appointment of a Critical Contingency Operator (CCO), who is responsible for determining, managing, and terminating critical contingencies, as well as associated activities such as stakeholder training and running exercises.

The CCM Regulations have been activated five times since they came into full effect in 2010, with one of those being the five-day outage as a result of a break in the Maui pipeline in October 2011.

FORECAST ACTIVITIES FOR FY2018-20

1. Monitor the CCO.
2. Assess ongoing performance of the CCM Regulations.
3. Appoint/monitor experts as required.
4. Monitor exercises and events as required.
5. Administer the contingency imbalance pool, as required.
6. Process applications for designations and/or renewals for critical care, essential services, critical processing, and electricity supply as required.

COMPLIANCE AND ENFORCEMENT

The Compliance Regulations provide for monitoring and enforcement of the other gas governance rules and regulations. The compliance arrangements are designed as an efficient, low-cost means of determining and, where appropriate, settling rules and regulations breaches that raise material issues. Where parties are unable to settle breaches, the last resort is a hearing before a one-person Rulings Panel, a quasi-judicial body. The Rulings Panel can issue fines, make orders for compensation, and make orders directing compliance and/or suspending or terminating participants.

Introduction of gas governance rules and regulations has typically been associated with an increased level of compliance activity as participants adjust to the new arrangements. The breach statistics reported in Gas Industry Co's *Quarterly Performance Reports* demonstrate that 'teething troubles' with new rules and regulations have been short-lived and enforcement activity currently sits at a fairly low level. This reflects that industry participants make great efforts to ensure their business processes are compliant and Gas Industry Co staff work hard with industry participants to ensure a good understanding of the various rules and regulations.

Gas Industry Co aims to make 90 percent of Market Administrator materiality determinations within 3 months (with the exception of the annual process for breaches of Rule 37 of the Reconciliation Rules).

FORECAST ACTIVITIES FY2018-20

1. Perform the Market Administrator role.
2. Assess ongoing performance of the Compliance Regulations.
3. Assist the Investigator and Rulings Panel as required.
4. Monitor compliance trends for indications of regulatory inefficiency.

STATEMENT OF INTENT AND ANNUAL REPORT

The Gas Act requires that the industry body provide an Annual Report to the Minister within three months of the end of the financial year (the Minister then tables it in the House of Representatives). Similarly, annual Statements of Intent are required to be submitted to the Minister for comment prior to being finalised and published.

FORECAST ACTIVITIES FY2018-20

1. Prepare and publish the *Statement of Intent* to meet statutory timeframes. Provide to the Minister for comment prior to publication.
2. Prepare and publish the *Annual Report*; and meet requirements for tabling in Parliament.

STRATEGIC OBJECTIVE 4

Develop and communicate the role of gas in meeting New Zealand's energy needs

NEW ZEALAND GAS STORY

During FY2013, Gas Industry Co published the first *New Zealand Gas Story*. Since then the publication has been updated annually to ensure the information is current and topical. Apart from fulfilling the statutory reporting requirement, this work is intended to help stakeholders to understand the industry and to assist industry participants to make informed investment and energy use decisions. In addition to the document itself, Gas Industry Co communicates the *New Zealand Gas Story* through its website, the Company's annual and quarterly reports, and presentations to various stakeholder groups. The latter has been highly successful over the past three years with a large number of stakeholders attending presentations in Wellington, Auckland, and Taranaki.

FORECAST ACTIVITIES FY2018-20

1. Update *The New Zealand Gas Story* each year and otherwise re-issue as new information comes to hand.
2. Continue *The New Zealand Gas Story* seminars and other communications for interested stakeholders as required.

OTHER REPORTING

Gas Industry Co is required by the Gas Act to report on the present state and performance of the gas industry. In addition to *The New Zealand Gas Story*, Gas Industry Co publishes *Quarterly Reports, Switching Statistics* and *Industry Performance Measures*.

Gas Industry Co has also commissioned reports focussing on particular aspects of the industry, such as the *Consumer Energy Options Report* (Concept Consulting, 2012/2016); *Commercialisation issues, opportunities and challenges in the event of substantive gas-rich exploration success in New Zealand* (Woodward Partners, 2013); and *Possible Commercialisation Options for New Gas Discoveries* (Concept Consulting, 2015). Further occasional reports will be published, and existing reports updated, where they are of value to the industry. Gas Industry Co will also continue to update the gas supply/demand report.

Gas Industry Co conducts a stakeholder survey at least biennially, and aims to maintain or improve its performance in communicating with stakeholders and the wider industry.

FORECAST ACTIVITIES FY2018-20

1. Continue to prepare and publish *Quarterly Reports, Switching Statistics*, *Industry Performance Measures*, and compliance reporting.
2. Commission occasional reports, and update existing reports where of value to industry participants.

FINANCIAL MATTERS

Gas Industry Co develops funding budgets to support its Work Programme proposals as part of the consultation process discussed in the section Work Programme Priorities above.

Gas Industry Co has three sources of funding to meet the expected costs of delivering effective co-regulation and fulfilling its statutory and GPS obligations. They are:

LEVY FUNDING

Section 43ZZB of the Gas Act enables Gas Industry Co to recommend to the Minister that industry participants be required to pay a levy to cover the costs of Gas Industry Co exercising its functions as the industry body. The levy covers the costs of the Company's policy work and market administration, excluding external service providers and some consultants. Any excess levy recovered in a financial year is generally refunded to levy payers in the following year unless special circumstances warrant otherwise.

MARKET FEES

Section 43S of the Gas Act enables gas governance regulations or rules to be made that provide for the funding by industry participants of the operation of those regulations or rules. The Switching Rules, Reconciliation Rules, CCM Regulations, and Compliance Regulations contain market fee provisions. These fees are used to recover costs of external service providers and consultants, as provided for in the relevant regulations.

ANNUAL FEES

Gas Industry Co's constitution requires all shareholders to pay an annual fee to Gas Industry Co. The fee is set by the Board and is $2,000 per shareholder per annum. The Board has resolved that these fees will be set aside to establish cash reserves.

Details of funding for the FY2018 year are included in industry consultation and the annual recommendation to the Minister, which results in annual Levy Regulations. In summary for FY2018:

- An annual levy of $3,911,481 from 1 July 2017, comprising a wholesale levy and a retail levy.
- The wholesale levy revenue is $2,211,981 for FY2018 and will be collected each month from the relevant levy payers at a rate of 1.236c/GJ based on each industry participant's volume of gas purchased from gas producers.
- The retail levy revenue is $1,699,500. This is calculated based on Gas Industry Co's estimate of 275,000 active ICPs, at a levy rate of $6.18/ICP per annum.

Gas Industry Co seeks to provide value for money in all we do. Gas Industry Co's aim is to keep its total underlying costs flat (subject to particular projects justifying increased expenditure in any year).

FINANCIAL STATEMENTS

In accordance with section 43ZR of the Gas Act, Gas Industry Co's forecast financial statements are set out as follows:

These statements have been prepared using information consistent with that used for the calculation of the FY2018 Gas Industry Co levy. Further detail about the assumptions, revenue calculations and workstream expenses used to calculate the FY2018 levy can be found in the document, *Consultation on Gas Industry Co FY2018 Statement of Intent and Levy*, issued in December.

The FY2017 forecast was approved by Gas Industry Co's Board and includes actual results for the period July 2016 to February 2017, and an up-to-date forecast for April, May and June 2017.

We acknowledge responsibility for the forecast financial statements contained in this report and for the judgments used in their preparation.

We certify that the information in this report is, except where noted, consistent with the budget estimates contained in Gas Industry Co's FY2018 *Levy Recommendation* that has been made to the Minister of Energy and Resources under section 43ZZB of the Gas Act.

Rt Hon James B. Bolger, ONZ
CHAIR

Robin Hill
DEPUTY CHAIR

JUNE 2017

FORECAST STATEMENT OF FINANCIAL PERFORMANCE

	BUDGET FY2018 $	FORECAST FY2017 $	ACTUAL FY2016 $
REVENUE			
Wholesale Levy*	2,211,981	2,568,407	2,449,569
Retail Levy	1,699,500	1,911,780	1,884,654
LEVY REVENUE SUBTOTAL	*3,911,481*	*4,480,187*	*4,334,223*
Market Fees	1,471,000	1,305,892	1,466,300
Annual Fees	28,000	26,000	55,000
Refunded Levies **	(323,711)	(1,329,790)	(163,568)
Interest Income	35,000	42,659	43,543
SUBTOTAL OTHER REVENUE	*1,210,289*	*44,761*	*1,401,275*
TOTAL REVENUE	**5,121,770**	**4,524,948**	**5,735,498**
EXPENSES			
Depreciation & Amortisation	34,531	48,163	44,730
Operating lease expenses	252,000	270,261	303,123
Fees paid to audit firm – financial statement audit	15,750	15,225	14,593
Fees paid to audit firm – other services	12,949	14,133	12,290
Directors' fees	265,000	262,460	262,460
General expenses	318,451	331,027	403,844
Bad Debts	–	–	(6,325)
Recruitment expenses	20,000	10,000	50,198
Technical, economic, and legal advice	768,449	694,037	770,399
Service Provider Fees	1,471,000	1,305,892	1,338,467
Kiwisaver contributions	52,167	49,667	44,049
Foreign exchange loss	–	–	–
Employee benefit expense	2,166,452	2,015,429	1,951,354
TOTAL EXPENSES	**5,376,749**	**5,016,294**	**5,189,182**
Finance Costs	5,731	5,089	4,601
TOTAL EXPENDITURE	**5,382,480**	**5,021,383**	**5,193,783**
PROFIT / (LOSS) BEFORE TAX	**(260,710)**	**(496,435)**	**541,715**
Income Tax Expense	9,800	11,945	12,192
PROFIT / (LOSS) FOR THE YEAR	**(270,510)**	**(508,380)**	**529,523**

* The 2016 and 2017 wholesale levy includes $501,334 and $496,699 of additional historical levies

** The 2017 figure includes $998,033 of prior years' wholesale levies, and the 2016 surplus of $331,757

FORECAST STATEMENT OF FINANCIAL POSITION

	BUDGET FY2018 $	FORECAST FY2017 $	ACTUAL FY2016 $
CURRENT ASSETS			
Cash and cash equivalents	949,845	1,216,324	2,088,022
Trade and other receivables	125,467	191,722	400,216
Prepayments	49,607	46,813	41,235
Income tax receivable	9,800	11,945	-
TOTAL CURRENT ASSETS	**1,134,719**	**1,466,804**	**2,529,473**
NON-CURRENT ASSETS			
Property, plant & equipment	62,931	37,568	66,679
Intangible assets	17,953	12,762	9,350
TOTAL NON-CURRENT ASSETS	**80,884**	**50,330**	**76,029**
TOTAL ASSETS	**1,215,603**	**1,517,134**	**2,605,502**
CURRENT LIABILITIES			
Trade and other payables	210,003	300,544	790,332
Asset restoration provision	51,571	48,776	43,648
Employee entitlements	224,814	168,089	263,419
Reedemable Shares	14	14	12
TOTAL CURRENT LIABILITIES	**486,402**	**517,423**	**1,097,411**
TOTAL LIABILITIES	**486,402**	**517,423**	**1,097,411**
NET ASSETS	**729,201**	**999,711**	**1,508,091**
REPRESENTED BY			
Industry Reserves	25,201	323,711	858,091
Retained Earnings	704,000	676,000	650,000
TOTAL SHAREHOLDERS' FUNDS	**729,201**	**999,711**	**1,508,091**

FORECAST STATEMENT OF MOVEMENT IN EQUITY

	INDUSTRY RESERVES	RETAINED EARNINGS	TOTAL	INDUSTRY RESERVES	RETAINED EARNINGS	TOTAL
	Budget FY2018			Forecast FY2017		
OPENING BALANCE	**323,711**	**676,000**	**999,711**	**858,091**	**650,000**	**1,508,091**
Net surplus/(deficit) for the year	–	(270,510)	(270,510)	–	(508,380)	(508,380)
Industry Advances Reserves transfer	(298,510)	298,510	–	(534,380)	534,380	–
FORECAST CLOSING BALANCE	**25,201**	**704,000**	**729,201**	**323,711**	**676,000**	**999,711**

FORECAST STATEMENT OF CASH FLOWS

	BUDGET FY2018 $	FORECAST FY2017 $	ACTUAL FY2016 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Levy revenue	3,911,481	4,759,391	4,020,302
Market fee revenue	1,471,000	970,543	1,712,090
Annual fees	28,000	26,000	55,000
Interest received	35,000	42,659	43,543
Net GST	–	–	7,000
	5,445,481	**5,798,593**	**5,837,935**
CASH WAS APPLIED TO			
Payments to suppliers	(2,874,130)	(2,789,824)	(3,133,544)
Payments to employees	(2,219,119)	(2,212,048)	(1,983,657)
Payments to directors	(265,000)	(266,387)	(262,460)
Refund of levy to industry participants	(323,711)	(1,365,788)	(163,560)
Taxes paid	–	(7,185)	(12,192)
Net GST	–	(9,473)	–
	(5,681,960)	**(6,650,705)**	**(5,555,413)**
NET CASH INFLOWS FROM OPERATING ACTIVITIES	**(236,479)**	**(852,112)**	**282,522**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(30,000)	(12,886)	(13,973)
Purchase of intangible assets	–	(6,700)	–
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(30,000)**	**(19,586)**	**(13,973)**
NET CASH FLOWS	**(266,479)**	**(871,698)**	**268,549**
Opening cash balance	1,216,324	2,088,022	1,819,473
CLOSING CASH BALANCE	**949,845**	**1,216,324**	**2,088,022**

STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS

Gas Industry Co has no known contingent liabilities or assets.

Gas Industry Co's lease commitment in relation to its premises commenced on 1 December 2008 and expires on 30 November 2017 at an annual rental of approximately $268,776. Gas Industry Co is currently negotiating a new six-year lease agreement at the same premises but at a lower rental per annum of approximately $251,350.

Other operating lease commitments are for office equipment.

Gas Industry Co has various ongoing commitments for the operation of the Company.

	BUDGET FY2018 $	FORECAST FY2017 $
OPERATING LEASE COMMITMENTS		
Within one year	–	111,990
Later than one year but not later than five years	–	–
Later than five years	–	–
TOTAL OPERATING LEASE COMMITMENTS	**–**	**111,990**
EQUIPMENT LEASE COMMITMENTS		
Within one year	–	2,862
Later than one year but not later than five years	–	–
Later than five years	–	–
TOTAL EQUIPMENT LEASE COMMITMENTS	**–**	**2,862**
SERVICE PROVIDER COMMITMENTS		
Within one year	501,796	1,110,700
Later than one year but not later than five years	–	501,796
Later than five years	–	–
TOTAL SERVICE PROVIDER COMMITMENTS	**501,796**	**1,612,496**

STATEMENT OF ACCOUNTING POLICIES

The following accounting policies apply to these financial statements:

Reporting Entity: Gas Industry Co is a company incorporated under the Companies Act 1993 that was approved as the co-regulator of the gas industry by Order in Council on 22 December 2004. These prospective financial statements have been prepared in accordance with section 43ZR of the Gas Act 1992 and the Financial Reporting Act 1993.

Measurement Base: These financial statements have been prepared on an historical cost basis.

Particular Accounting Policies: These financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The following particular accounting policies that materially affect the measurement of financial performance, financial position, and cash flows have been applied consistently.

Revenue: Revenue is derived from Gas Industry Co's levies and market fees imposed under subpart 2 of Part 4A of the Gas Act 1992; from annual fees charged to shareholders and from interest on deposits. Such revenue is recognised when earned and is reported in the financial period to which it relates.

Taxation: With the exception of its interest income, Gas Industry Co's revenue is not regarded as gross income in terms of section CB 1 of the Income Tax Act 2007.

Goods and Services Tax (GST): The Statement of Financial Performance and Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Statement of Financial Position are stated net of GST.

Accounts Receivable: These are carried at estimated realisable value after providing for debts where collection is doubtful.

Employee Entitlements: Employee entitlements to salaries and wages, annual leave, and other benefits are recognised when they accrue to employees.

Financial Instruments: Financial instruments carried on the Statement of Financial Position include cash and bank balances, investments, receivables, trade creditors, and borrowings. Except for those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.

Depreciation: Depreciation of fixed assets is provided on a straight line basis, so as to allocate the depreciable amount of assets over their useful lives. The depreciable amount is the historical cost.

The estimated useful lives are:

CATEGORY	ESTIMATED USEFUL LIFE
IT-Hardware & Software	3- 5 years
Office Equipment	4 – 10 years
Leasehold Improvements	Term of Lease

STATEMENT OF CASH FLOWS

- Operating activities include all transactions and other events that are not investing or financing activities.
- Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment, and of investments. Investments can include securities not falling within the definition of cash.
- Financing activities are those activities that result in changes in the size and composition of the capital structure of Gas Industry Co. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.

STATEMENT OF SIGNIFICANT UNDERLYING ASSUMPTIONS

The following assumptions have been made in the development of the forecast financial statements. These assumptions were adopted by resolution of the Board of Directors in March 2017:

- These forecast financial statements comply with New Zealand generally accepted accounting practice. The measurement base applied is historical cost.
- Accrual accounting has been used to prepare these financial statements.
- These statements have been prepared on a going-concern basis.
- The forecast financial statements have been presented for the purpose of providing financial information that underlies the work programme as set out in the 2018-2020 Statement of Intent. This financial information may not be appropriate for other purposes.
- It is not intended that these financial forecasts will be re-issued.
- Actual financial results achieved for the period covered are likely to vary from the information presented and the variations may be material.
- There is limited ability to alter Gas Industry Co's revenue other than through the annual levy process.
- Section 43S of the Gas Act enables Gas Industry Co to collect from industry participants fees relating to the ongoing costs associated with gas market rules and regulations.
- An annual levy of $3,911,481 is assumed to be effective from 1 July 2017 and is paid monthly. Any monthly levy not payable due to the date on which the levy regulations come into force will be paid on the 20th of the month following the levy regulations coming into force.
- The wholesale levy revenue is budgeted to be $2,211,981 for FY2018 and will be collected each month from the relevant levy payers at a rate of 1.236c/GJ based on each industry participant's volume of gas purchased from gas producers.
- The retail levy revenue is budgeted to be $1,699,500. This is calculated based on Gas Industry Co's estimate of 275,000 active ICP's, at a levy rate of $6.18/ICP per annum. Active Contracted ICPs indicate a customer at the ICP has a contract with the retailer. The retail levy is payable only on active ICPs. If the actual number of ICPs differs from the estimate, there may be a small difference in the retail levy revenue.
- The forecast FY2017 result includes unusual amounts of historical levies which will be refunded. The timing of the refunds are dependent on resolving all the matters in relation to them. Estimates are made in advance of year-end so actual expenditure may vary from forecast expenditure.
- The FY2018 levy calculation is based on a work programme consistent with the Government Policy Statement on Gas Governance 2008 (GPS). If, during the plan period, the current GPS is amended, there may be an impact on our operating costs, resulting in the possible over- or under-recovery of levy revenue in FY2018. Section 43ZZC(3) of the Gas Act provides that any over- or under-recoveries can be taken into account in setting the levy in subsequent financial years. However, to ensure transparency around the calculation of each year's levy, the Board has determined that, unless required for unanticipated or ongoing work programme costs, any surplus should be returned to levy payers by way of refund once the year-end accounts have been received by shareholders at the Annual Meeting.
- The forecast equity for the year ending 30 June 2017 is approximately $999,715. Of this, $323,711 is classified as Industry Advances Reserve and will be either returned to levy payers after the end of the financial year or, if special circumstances warrant, retained for the application to work programmes in the subsequent year(s) as per Board policy. The remainder, $676,000, is set aside to be held as cash reserves.
- Gas Industry Co's budget is based on a best estimate of the costs to deliver the Work Programme prepared for calculation of the FY2018 levy. Budgets are set significantly in advance of consultation on proposed new policy initiatives. Accordingly, actual expenditure may vary from budgeted expenditure as policy design is revised to reflect changes that may be required as a result of submissions received and further analysis. This also applies to the administration of gas governance rules and regulations (funded through market fees).

ALIGNMENT WITH GOVERNMENT POLICY OBJECTIVES AND OUTCOMES

Gas Industry Co's Strategic Objectives— delivering effectively on the Company's accountabilities as the industry body; building and communicating the New Zealand gas story; facilitating efficient use of, and investment in, gas infrastructure; and promoting efficient, competitive, and confident gas markets — stretch across all of the Company's objectives and are aligned with the objectives and outcomes contained in the Gas Act and GPS. The Company's diverse workstreams all help the Company move toward meeting those objectives and outcomes.

GAS ACT (AND GAS INDUSTRY CO CONSTITUTION) OBJECTIVES	GPS OBJECTIVES	GPS OUTCOMES
Ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, and environmentally sustainable manner	» The full costs of producing and transporting gas are signalled to consumers » The quality of gas services, where those services include a trade-off between quality and price, as far as possible, reflect customer's preferences » The gas sector contributes to achieving the Government's climate change objectives by minimising gas losses and promoting demand-side management and energy efficiency » Energy and other resources used to deliver gas to consumers are used efficiently	» Small consumers have effective access to a complaints resolution process » Contracts between gas retailers and small consumers adequately protect the long-term interests of small consumers
Facilitate and promote the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements		» Efficient arrangements for short-term gas trading » Accurate, efficient, and timely arrangements for the allocation and reconciliation of upstream and downstream gas quantities
Minimise barriers to competition in the gas industry	» Competition is facilitated in upstream and downstream gas markets by minimising barriers to access to essential infrastructure to the long-term benefit of end-users	» Accurate, efficient, and timely arrangements for the allocation and reconciliation of upstream and downstream gas quantities » Effective and efficient customer switching arrangements that minimise barriers to customer switching » Gas governance arrangements are supported by appropriate compliance and dispute resolution processes
Maintain or enhance incentives for investment in gas processing facilities, transmission, and distribution		» Provide an efficient market structure for the provision of gas metering, pipeline, and energy services
Subject delivered gas costs and prices to sustained downward pressure	» The full costs of producing and transporting gas are signalled to consumers » The quality of gas services, where those services include a trade-off between quality and price, reflect customers' preferences as far as possible	» Effective and efficient switching arrangements that minimise barriers to customer switching » Efficient arrangements for short-term gas trading
All parties properly and efficiently manage risks relating to security of supply, including transport arrangements		» Sound arrangements for the management of critical gas contingencies
Maintain consistency with the Government's gas safety regime		» Sound arrangements for the management of critical gas contingencies » Good information is publicly available on the performance and state of the gas sector

WHAT GAS INDUSTRY CO HAS DONE	FY2018 WORK PROGRAMME	FUTURE GAS INDUSTRY CO WORK AREAS
» Created the Retail Gas Contracts Oversight Scheme in 2010. It provides assurance that standard contracts protect small consumers' long-term interests » Carried out assessments in 2010, 2011, 2012 and 2015	» Assessing new entrant retailers » Continue to work with EGCC to identify and address any systemic issues that gas consumers raise » Continued oversight of the development of the GTAC	» Next full Retail Gas Contracts Oversight Scheme assessment will occur in FY2018 » Work with industry participants to assess transmission code changes and the GTAC
» A private company created a gas trading market in 2013 » D+1 implemented in December 2015 » Considered that further LPG regulation is not currently needed (FY2015). Further review undertaken in FY2017	» Refinement of D+1 and, depending on the form of the GTAC, identifying the changes required to the Reconciliation Rules to introduce D+1 » Review the effectiveness of the Distribution Contracts Oversight Scheme » Consider any activity in respect of non-open access LPG networks in light of FY2017 findings	» Develop D+1 rules in FY2018 » Monitor the efficiency of short-term gas trading and whether gas governance arrangements could improve the market
» Recommended the Gas (Downstream Reconciliation) Rules 2008; ongoing administration through the Allocation Agent » Recommended the Gas (Switching Arrangements) Rules 2008; ongoing administration through the Registry Operator » Recommended the Gas Governance (Compliance) Regulations 2008; ongoing administration through Market Administrator, Independent Investigator, and Rulings Panel » Continued involvement in the development of the GTAC	» Refinement of D+1 » Wholesale market monitoring » Determine the extent to which Gas Industry Co should continue to support Powerswitch » Continue Market Administrator work » Continued involvement in the GTAC development	» Monitor the efficiency of short-term gas trading and whether gas governance arrangements could improve the market » Continued involvement in the GTAC development including recommendation of regulations, if necessary
» Addressed in multiple workstreams, including switching, downstream reconciliation, and GTAC » Revoked Gas Processing Information Disclosure Rules in 2014		
» Recommended the Gas (Switching Arrangements) Rules 2008 » Provided assistance to emsTradepoint for it to create a gas trading market in 2013	» Determine the extent to which Gas Industry Co should support Powerswitch » Continue to publish monthly switching statistics	» Monitor the efficiency of short-term gas trading and whether gas governance arrangements could improve the market
» Recommended the Gas Governance (Critical Contingency Management) Regulations 2008; continuing to address this through the CCM designation process » *Gas Transmission Security and Reliability Issues Paper* released in April 2016 » Critical contingency designations expired in FY2017. Renewal applications have been considered and determined during FY2017.	» Work closely with the Commerce Commission to ensure that security and reliability are adequately reported on » Monitor the performance of the Critical Contingency Operator and industry participants through annual exercises	» Consider the outcomes of the Commerce Commission's work relevant to gas transmission information disclosure and whether any improvements are appropriate or necessary » Monitor the performance of the Critical Contingency Operator and industry participants through annual exercises
» Recommended the Gas Governance (Critical Contingency Management) Regulations 2008; continuing to address this through the CCM designation process » The Company publishes *The New Zealand Gas Story* annually in addition to information available through Company Quarterly and Annual Reports and other publications » *Gas Transmission Security and Reliability* Issues Paper released in April 2016	» Work closely with the Commerce Commission to ensure that security and reliability are adequately reported on » Continue involvement in the GTAC to promote industry agreed arrangements that are consistent with the Government's gas safety regime.	» Continue involvement in the GTAC to promote industry agreed arrangements that are consistent with the Government's gas safety regime or, if such arrangements are regulated, the regulated code is consistent with the Government's safety regime.

OTHER INFORMATION

ADDITIONAL REPORTING

In addition to the reporting described in the '*Statement of Intent* and *Annual Report,* and Other Reporting' (above), Gas Industry Co provides the Minister with briefings and advice as requested, or as necessary. There are no specific matters, outside those detailed in this *Statement of Intent*, on which Gas Industry Co expects to make a decision that would require it to consult or notify the Minister.

SERVICE PROVIDERS

The following entities and individuals provide specified services to Gas Industry Co:

GOVERNANCE ARRANGEMENT	ROLE	SERVICE PROVIDER
Switching Rules	Registry Operator	Jade Software Corporation
Reconciliation Rules	Allocation Agent	Energy Market Services
CCM Regulations	Critical Contingency Operator	Core Group
Compliance Regulations	Rulings Panel Independent Investigator	Hon Sir John Hansen KNZM (retired High Court Judge) Jason McHerron, Barrister
Retail Gas Contracts Scheme Distribution Contracts Scheme	Independent Assessor	Appointment pending

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KPMG, Wellington

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emsTradepoint Limited
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OMV New Zealand Limited
Powerco Limited
Shell (Petroleum Mining) Limited
Trustpower New Zealand Limited
Vector Limited