

GAS INDUSTRY
COMPANY LIMITED

Annual Report 2005

For the year ended June 2005



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The Gas Industry Co is a newly established entity, owned by New Zealand gas industry participants.

The Gas Industry Co is able to make recommendations to the Minister of Energy on a range of matters affecting governance of the gas sector including rules and regulations on the wholesaling, retailing, processing, transmission and distribution of gas. However, both the Government and gas industry seek the development of industry-led solutions, and it is this Company's strong desire to promote industry-based co-operative arrangements and/or market based contractual solutions.

Changes to the Gas Act 1992 in late 2004 provided for co-regulation of the gas industry by the Government and an industry body. The Gas Industry Co was established to fulfil the role of the industry body under the Act. It was approved by Order in Council on 22 December 2004.

The Gas Act states that the principal objective of the Gas Industry Co, in recommending gas governance regulations, is to ensure that gas is delivered to existing and new customers in a safe, efficient and reliable manner.

The Company recognises the importance of taking a balanced approach between the needs of consumers and the operational and commercial considerations of the industry. It is committed to maintaining a professional and independent approach, and acting with integrity at all times.

Our purpose:

- to fulfil the role of the industry body under the Gas Act 1992; and
- to work with the gas industry to develop outcomes that meet the Government's policy objectives as stated in the Government's Policy Statement on Gas Governance.

Our approach:

Gas Industry Co is committed to:

- wherever possible, developing industry-led solutions to issues facing the gas industry in New Zealand;
- being consultative with industry participants and consumers;
- adopting principled but pragmatic approaches to meeting its objectives;
- being professional and independent, with transparent processes;
- acting with integrity, responsibility and respect; and
- achieving high standards of excellence



The Year in Review



Rt Hon J Bolger
Chair



C Southey
Chief Executive

This is the first annual report of the Gas Industry Co. The Company was incorporated in 2004 in preparation for seeking the role of the industry body envisaged under amendments to the Gas Act that were being progressed through Parliament at that time.

The Gas Amendment Act 2004 was passed in October of last year, and the Board held its first meeting the following month. Thus, in practical terms, the Gas Industry Co has been in operation for eight months, and it is that period that is the focus of this first Annual Report.

Establishing the Gas Industry Co

The Gas Industry Co achieved an important milestone on 22 December 2004 when it was approved by Order in Council as the industry body under the amended Gas Act. This represented a significant achievement, due in large part to the work of the Gas Industry Steering Group which provided the platform, direction and framework for the establishment of the Company. The Gas Industry Co would like to take this opportunity to thank this group for creating the platform for moving forwards.

The work of the Gas Industry Steering Group has established a sound regulatory and commercial basis for the Gas Industry Co. The appointment of the chair and several members of that group to the present Board ensured a smooth transition, and means that the Company continues to benefit from the experience and expertise obtained during the development of the co-regulatory model.

Challenge of co-regulation

With the approval of the Gas Industry Co as the industry body under the Gas Act, the industry has achieved the first step in the path to successful co-regulation. The challenge now is to meet the Government's objectives and outcomes as set out in the Government's Policy Statement on Gas Governance - October 2004 (GPS), and to do so in a manner that appropriately balances the needs of all stakeholders.

The Gas Industry Co welcomes this challenge, and is committed to working in partnership with industry, consumers and the Government. Like any partnership, open and constructive communication and information-sharing are vital.

Initial Priorities

In its first months of operation, the Company has focused on establishing itself as a stand alone entity, developing its work programme to address the requirements of the GPS, and developing its internal capabilities to progress that work.

The Board appointed Christine Southey as Chief Executive in May 2005. Ms Southey was a Commissioner on the Electricity Commission from 2003 to immediately prior to joining the Gas Industry Co. The Chief Executive intends to recruit a core team of internal advisers to support the Company's work programme. In the interim the Company has relied on the support of PricewaterhouseCoopers as secretariat and a small group of external consultants to progress the initial work programme.

The initial work programme is set out in the Company's Strategic Plan. It is based primarily on the GPS which in effect constitutes the Government's advice to the gas industry on what it considers to be the priority issues.

Diversity of gas supplies

Underlying many of the GPS goals and objectives is the theme of facilitating diversity of gas supplies. It is considered that addressing such issues as gas specification on the common grid, quality standards, balancing, reconciliation, access to gas processing facilities and the development of a secondary market will all contribute to facilitating diversity of supply in the post Maui era. Diversity will in turn deliver the benefits of increased competition and security of supply.

The GPS accordingly specifies a number of areas where Government is seeking effective industry arrangements.

The Gas Industry Co has established the Wholesale Markets Working Group (WMWG) to be the focus for progressing these arrangements, supported by specialist advice and consultative processes. This is a large task, and it will take time to develop the resources to undertake this work. In progressing these matters, the Company is building on the work already undertaken, and seeking to develop industry-based cooperative arrangements and/or market-based contractual solutions. Where this proves impracticable, regulations and rules will be developed for recommendation to the Minister.

Establishing wholesale market arrangements are central to the role of the Gas Industry Co. Although the work is in the early stages, there is a strong commitment to progressing these development areas as a matter of priority.

Enhanced Retail Arrangements

In parallel with its work in the wholesale market area, the Gas Industry Co has also been invited through the GPS to develop arrangements to enhance retail competition for the benefit of consumers.

Accordingly, the Switching and Registry Working Group (SWRG) was established in May 2005 to consider mechanisms to facilitate effective and accurate switching and other relevant processes. The working group has the benefit of accessing the work previously undertaken by the Gas Reconciliation Code Working Group in early 2003, including



draft revised protocols for customer switching and registering. The SWRG is making good progress towards preparing a set of arrangements for consultation, and the Company is encouraged by the level of participation and commitment demonstrated.

Protecting consumer interests

In addition, the development of model contract terms and conditions between consumers and retailers has also been identified in the GPS as an important means of enhancing retail arrangements and protecting the interests of gas consumers.

Therefore in May 2005 the Gas Industry Co established the Model Contracts Working Group (MCWG) to address these matters. The group is now well-advanced in its development of proposals for consideration of the Board and consultation with stakeholders. The Company is encouraged by the group's breadth of experience, perspectives and expertise, and looks forward to working with the industry to complete this important work.

The GPS also invited the Gas Industry Co to recommend an arrangement for the proper handling of consumer complaints about their gas supply. In April, gas complaints were added to the existing electricity consumer complaints scheme ahead of the GPS timelines. This augmentation of the existing Electricity Complaints Commission was developed in close consultation with industry participants, Government agencies and consumer representatives, and is the culmination of a significant industry-led work stream.

The outcome demonstrates the industry commitment to

promoting the interests of gas consumers. The scheme provides consumers with access to an independent disputes resolution service through the Electricity and Gas Complaints Commission for complaints about their gas company. The Gas Industry Co is grateful for the support of Vector who project managed the development of the gas consumer complaint scheme, and to the staff and stakeholders at the Electricity Complaints Commission for allowing their scheme to be widened to provide for gas consumers.

Funding

The Gas Act enables the Gas Industry Co to recover the cost of its activities from industry participants. In March 2005 the Company published a discussion paper and sought comment on the best way to structure a levy. Following consideration of the submissions received, a further consultation paper was published. The levy proposal was then finalised and submitted to the Minister of Energy. The Gas (Levy of Industry Participants) Regulations apply to the year commencing 1 July 2005.

In the interim, the Gas Industry Co has been funded predominantly from limited recourse loans from its shareholders. In the period to 30 June 2005, these totalled \$1.6 million. The loans will be repaid over the next two years from levy funding.

Commitment to consultation and information sharing

The Gas Industry Co is committed to full and open consultation on the output of its working group and consultants' reports, and this is a prominent component of its work programme.

For its part, the Gas Industry Co will seek to ensure all its stakeholders have a meaningful opportunity to participate in its consultative processes. However, effective consultation relies on all stakeholders actively and constructively participating in the consultative processes.

The Gas Industry Co has been encouraged by the contributions made by industry participants and stakeholders to date, particularly in the development of the consumer complaints scheme and the levy arrangements. The year ahead will see a series of major consultation programmes in the wholesale and retail areas, and the Company looks forward to this support continuing.

Support of Shareholders and Board

Throughout its inaugural year, the Gas Industry Co has relied heavily on its shareholders for its existence. Ten players in the sector responded to the need to establish an appropriate commercial vehicle to take on the role of the industry body, and provided the necessary resources and capital for the establishment of this Company. Their on-going support is a foundation of the Company's success.

The Board has also had an extensive role in the Company's establishment phase. The Company is grateful for the contribution of individual board members and would like to take this opportunity to thank Phil James and Don Morgan for their respective contributions. Phil James had a significant role in the design of the co-regulatory regime as a member of the Gas Industry Steering Group. Phil James was also a director of the Gas Industry Co in its initial establishment months. Don Morgan was a Board member from 25 February to 29 June 2005.

Concluding Remarks

Through the vision and commitment of the Gas Industry Steering Group and the founding shareholders, the Gas Industry Co has now become a reality and the gas sector has been given a unique opportunity to make an active contribution to its own regulatory environment.

The recently released Strategic Plan sets out the Gas Industry Co's intentions regarding strategy, operations, capability and performance over the next three years, against the backdrop of the GPS. The Company is committed to achieving these goals and objectives. Your support in meeting this commitment is welcomed.



Rt Hon J Bolger
Chair

C Southey
Chief Executive



Formation of the Gas Industry Co

2001/2002

Review of The Gas Sector

2003/2004

Gas Industry Steering Group recommends Co- Regulation of the Gas Industry

OCTOBER 2004

Government Policy Statement on Gas Governance published

DECEMBER 2004

Gas Industry Co approved as an Industry Body by Order in Council

APRIL 2005

The Office of the Electricity and Gas Complaints Commissioner established

MAY 2005

Chief Executive Christine Southey appointed
Industry Working Groups established



Governance Overview

Introduction

The Gas Industry Co is a newly established entity, owned by New Zealand gas industry participants. This is the first Annual Report prepared by the Company, and covers the period from its incorporation in July 2004 to the end of its first financial year on 30 June 2005.

While the Company was incorporated in July 2004, it was not until the appointment of the Board and engagement of consultants in November 2004 that the Company commenced operations.

Gas industry participants

The Gas Act defines an industry participant as being any of the following:

- a gas retailer
- a gas distributor
- a gas producer
- a pipeline owner
- a gas wholesaler
- a person who purchases gas directly from a gas producer or gas wholesaler or on any wholesale gas market
- a service provider appointed under any gas governance regulations
- a gas metering equipment owner
- a data administrator that provides data administration services to the gas industry

Policy context

The changes to the Gas Act made in late 2004 that enabled the establishment of the Gas Industry Co as the industry body were as a result of a comprehensive review of the gas sector undertaken by the Government during 2001 and 2002. The objective of that review was to ensure the gas sector could meet the Government's overall energy policy objective, which is to ensure that energy is delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner.

In its Policy Statement released in March 2003, the Government invited the gas industry to establish a governance structure and work programme to deliver on the expectations set by the Government in that statement. The Policy Statement set out that the Government favoured industry-led solutions where possible, but that it was prepared to use regulatory solutions where necessary.

The Gas Industry Steering Group was formed to respond to the Policy Statement. Following consideration of the requirements and the proposed self regulatory governance structure, that group advised the Government that the industry would require some form of regulatory backing to achieve the Government's objectives and outcomes. The Government agreed with the Gas Industry Steering Group's position and changes to the Gas Act were enacted to give effect to a co-regulatory model of governance.

To provide for the co-regulatory model the Government published a new policy statement in October 2004 entitled the Government Policy Statement on Gas Governance (GPS).

The GPS sets out the specific outcomes that the Government expects the Gas Industry Co and/or the gas industry to develop. The Gas Act provides for the Government to create an Energy Commission if the industry body does not achieve the Government's required objectives. Thus, the current regime operates under the threat of direct regulation if the industry is unable to develop its own solutions.

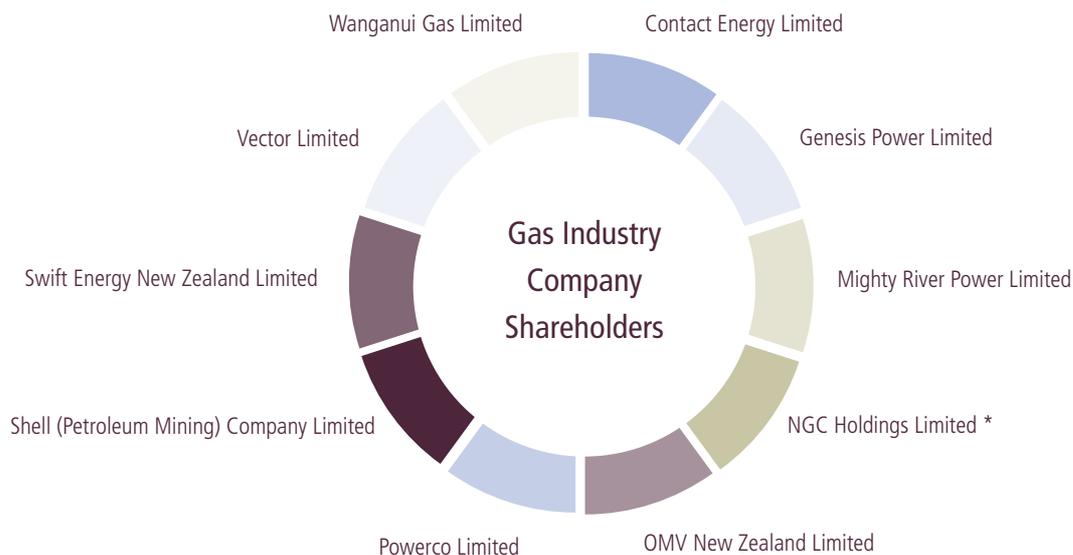
Approval as the industry body

The Gas Industry Co was established to fulfil the role of the industry body under the Act. The Act requires that any body to be approved as the industry body needs to:

-
- *be broadly inclusive of industry participants (membership is not compulsory);*
 - *have a board with a majority of independent members, including an independent chair;*
 - *be capable of delivering outcomes that meet the Government's objectives for the gas industry;*
 - *have governing rules with objectives consistent with the objectives set out in section 43ZN of the Gas Act relating to developing recommendations on the wholesaling, processing, transmission, distribution and retailing of gas;*
 - *allow all industry participants, except service providers appointed under any gas governance regulation, to become members of the industry body; and*
 - *have rules requiring it to regularly report to the Minister on the performance and state of the gas industry, the body's performance and achievement of its objectives and other relevant matters.*
-

Under the leadership of the Gas Industry Steering Group and with the support of the industry, the entity that is now the Gas Industry Co was designed and established. The Company's constitution was adopted in November 2004 and is available from the Gas Industry Co's website. As well as fulfilling the general requirements for a corporate of this nature, the constitution was designed to meet the specific requirements in the Gas Act for approval as the industry body.

The Gas Industry Co was approved as the industry body by Order in Council on 22 December 2004. This was the first step in the co-regulatory regime, and represents a significant milestone for the Company and the industry.



* The voting rights attached to the shares of NGC Holdings are suspended as at 30 June 2005 under the related shareholding provisions of the Company's constitution, by virtue of Vector's majority shareholding in NGC. No application for exemption from these provisions has been sought by NGC Holdings.

Gas Industry Co Directors

The Gas Industry Co has a board comprising seven non-executive directors, four of whom (including the Chairman) are independent of the gas industry.

			
RT HON JAMES B BOLGER	ROBIN G HILL	DENIS K CLIFFORD	MARK J VERBIEST
ONZ, Chairman and Independent Director	Deputy Chairman, and Independent Director B Comm, FCA Fellow of ICANZ	Independent Director BA, LLB (Hons)	Independent Director LLB
<p>Jim has had a distinguished career in politics, which includes being Prime Minister of New Zealand from October 1990 to December 1997, holding ministerial positions for 16 years and leading the National Party for 12 years. He was New Zealand's Ambassador to the United States of America from June 1998 to January 2002.</p> <p>Jim is currently chairman of several organisations in addition to the Gas Industry Co, including New Zealand Post and its subsidiary Kiwibank, Express Couriers Limited, the Advisory Board of the World Agricultural Forum and the Ian Axford Fellowships in Public Policy. He is also a Trustee of the Rutherford Trust, President of the NZ/US Council and a Patron of the Institute of Rural Health.</p>	<p>Robin has an extensive background in financial and business management. He was Chairman and Chief Executive of PricewaterhouseCoopers New Zealand from 1992 to 2003. He was also a member of the firm's Global Board from 1992 to 1995 and the Executive Advisory Group from 1999 to 2000.</p> <p>Robin has provided a wide range of advisory services to a number of large corporates, including several energy companies.</p>	<p>Denis has significant experience in the areas of commercial law (particularly banking, company and securities) and public law. He is also chair of the Electricity Commission's Transmission Advisory Group.</p> <p>Prior to working as an independent barrister, Denis was a Senior Partner at Buddle Findlay and held the positions of Senior Banking and Commercial Partner, 1990 to 2001, Managing Partner, 1991 to 1993, and Board Member, 1990 to 2001. Since commencing practice as an independent barrister, Denis has undertaken work on a range of commercial and public law matters.</p>	<p>Mark has extensive experience of regulatory structures and competition law, as well as previous involvement in the energy sector. Mark is Group General Counsel for Telecom Corporation of New Zealand and is a member of the Telecom Senior Executive Committee.</p> <p>Prior to joining Telecom in 2000, he was a senior partner at Simpson Grierson specialising in corporate, securities, competition and energy-related law.</p>



STEPHEN P BARRETT

BSc - Electrical Engineering
BA - Mathematics

Steve is the Chief Executive of Contact Energy and has a broad background in gas wholesaling and retailing, and electrical power generation. Steve worked for Edison International (Contact Energy's former majority owner) from 1972 to 2004, holding various management positions in the utility, Southern California Edison, and the independent power company, Edison Mission Energy.

Prior to taking up his current role with Contact Energy, Steve was EME's Regional Vice President, responsible for Business Development in the Asia Pacific Region.



MARK X FRANKLIN

Bachelor of Electrical Engineering

Mark is the Chief Executive Officer of Vector Limited and is a Director of NGC. He has experience in the energy and technology sectors in New Zealand, Australia and Japan.

Mark has held a number of leadership roles including Chief Executive of Orion Energy in the Hunter Valley, NSW, and Asia Pacific General Manager of IBM Global Services Australia for utilities.

Mark also spent ten years with the Electricity Commission of NSW and three years with Pacific Power Australia. He was also previously general manager of WELNet, a subsidiary of the WEL Energy Group.



BOARD OF DIRECTORS

- | | |
|-----------------------|-------------------|
| RT HON JAMES B BOLGER | MARK J VERBIEST |
| ROBIN G HILL | STEPHEN P BARRETT |
| DENIS K CLIFFORD | MARK X FRANKLIN |

CHIEF EXECUTIVE

CHRISTINE SOUTHEY

**POLICY ANALYSTS
& SECRETARIAT**

**INDUSTRY
WORKING GROUPS**

MODEL CONTRACTS
Retail Contracts

SWITCHING & REGISTRY
Protocols For
Customer Switching

WHOLESALE MARKET
Transmission, Distribution
& Wholesale Market Outcomes

At the time of preparation of this Report the Board had a casual vacancy, following the resignation of Don Morgan on 29 June 2005, to take up the position of President, Swift Energy International, based in the United States.



Purpose of the Company

The purpose of the Gas Industry Co, as prescribed in its constitution, is to perform the functions and duties, and exercise the powers of, the industry body under Part 4A of the Gas Act, including, to the extent permitted by the Gas Act or regulations:

- *to recommend gas governance regulations and gas governance rules under Part 4A of the Gas Act*
- *to administer, monitor compliance with, investigate, enforce, and apply penalties or other remedies for contraventions of any or all of those gas governance regulations and gas governance rules*
- *to establish, operate, and facilitate the operation of, markets for industry participants*
- *to establish or implement one or more complaints resolution systems required by gas governance regulations or gas governance rules*
- *recommend regulations under section 43ZZB of the Gas Act that require industry participants to pay a levy to the Gas Industry Co, and collect any levy*
- *to advise and report to the Minister in relation to the New Zealand gas industry*

Levy and funding arrangements

The Gas Industry Co has been funded to 30 June 2005 predominately from loans provided by its shareholders. Limited recourse loans totalling \$1.6 million have been provided by NGC Holdings Limited, Contact Energy Limited, Vector Limited, Genesis Power Limited, Wanganui Gas Limited, Shell (Petroleum Mining) Company Limited, Powerco Limited, and Mighty River Power Limited.

The Gas Act provides for the Gas Industry Co to recover the costs of exercising its powers under the Gas Act through levies on industry participants. The shareholder loan arrangements require the loans to be repaid over the two years following the implementation of the levy, or by 31 December 2007, whichever is the earlier.

In March 2005 the Company published a discussion paper and sought comment on the best way to structure a levy. The Gas Industry Co reviewed the feedback received from this consultation and published a follow-up paper to respond to the issues raised, advise of modifications to the levy proposals and provide additional detail on implementation. Following this second round of consultation, the levy proposal was reviewed and finalised for submission to the Minister of Energy.

The Minister approved the proposed arrangements, and the levy regulations were made on 18 July 2005. These will apply to the year commencing 1 July 2005. In summary:

- *The wholesale gas levy applies for each quarter of the 2005/06 financial year, and is payable by three equal monthly instalments for each quarter. The rate is 1.5 cents for each gigajoule of gas that was purchased by an industry participant from gas producers during the quarter before the last completed quarter.*
 - *The retail gas levy applies to all gas retailers and is payable in 12 monthly instalments. It has two components. The first is 6 cents for each gigajoule of gas supplied by a gas retailer to retail customers during the 2003/04 gas year. The second is \$4.00 for each ICP for each retail customer with whom a gas retailer has a contract to supply gas as at 30 September 2004.*
-

The Board and Executive of the Gas Industry Company will continue to manage the Company in a prudent and efficient manner, seeking to control the costs of the organisation. The Strategic Plan sets out the forecast statement of financial performance for the 2005/06 budget year. The Board will monitor the expenditure of the Company to ensure that there are strong disciplines in place to prevent unnecessary expansion of the costs of the co-regulatory arrangements. The Company is committed to industry-based solutions to meet the requirements of the GPS, achieved at least cost to the industry and consumers.

GPS Objectives and Outcomes

The Minister of Energy may set objectives and outcomes that the Government wants the industry body to pursue in relation to the governance of the gas industry, and against which the industry body must report. These are set out in the Government Policy Statement (GPS) published by Government in October 2004.

The Government's overall policy objective for the gas industry is to ensure that gas is delivered to existing and new customers in a safe, efficient and reliable manner.

Consistent with this overall objective, the Government is seeking the following specific outcomes for the gas industry:

-
- *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;*
 - *energy and other resources are used efficiently;*

- *barriers to competition in the gas industry are minimised to the long-term benefit of end-users;*
- *incentives for investment in gas processing facilities, transmission and distribution, energy efficiency and demand-side management are maintained or enhanced;*
- *the full costs of producing and transporting gas are signalled to consumers;*
- *delivered gas costs and prices are subjected to sustained downward pressure;*
- *the quality of gas services and in particular trade-offs between quality and price, as far as possible, reflect customers' preferences;*
- *risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties;*
- *consistency with the Government's gas safety regime is maintained; and*
- *the gas sector contributes to achieving the Government's climate change objectives by minimising gas losses and promoting demand-side management and energy efficiency.*

As the industry body under the Gas Act, the Gas Industry Co is able to make recommendations to the Minister of Energy on a range of matters affecting governance of the gas sector including rules and regulations on the wholesaling, retailing, processing, transmission and distribution of gas. The Gas Industry Co is required to have regard to these GPS objectives and outcomes when making recommendations for gas governance regulations.



Operations Review

Against this background, the key achievements and activities of the Company and its working groups in their first year of operation are summarised in this Operations Review. Although the reporting period is for the twelve months since incorporation of the Company in July 2004, the Company has only been operational since November 2004 when the Board held its first meeting.

Work programme

The Gas Industry Co has developed a set of strategic goals to guide its delivery of the GPS objectives and outcomes. These are set out in the Company's first Strategic Plan, published in July 2005.

A work programme for the next three years has been developed around these goals, against the backdrop of the priority activities prescribed in the GPS. The work programme is set out in the Strategic Plan, together with performance measures and target timeframes. The Gas Industry Co intends to fully consult with the gas industry to understand what other outcomes are sought. As a consequence, the work programme might change, however, delivery of outcomes required by the GPS will be a priority.

The work of earlier industry groups has provided

a valued and robust starting point for many of the Gas Industry Co's activities moving forward. The Gas Industry Co is committed to continuing to fully utilise working groups to assist in the development of gas governance arrangements and the delivery of its work programme targets.

The Gas Industry Co has established three working groups currently: Wholesale Markets (WMWG), Model Contracts (MCWG), and Switching and Registry (SRWG). Each has an independent chair, and is comprised of employees of industry participants and consumer representatives. The working groups were appointed following a request for nominations, and the Gas Industry Co appreciated the number and calibre of nominations it received. The groups' terms of reference are available on the Gas Industry Co website, together with meeting papers, minutes and other relevant material.

Central to the work programme is the delivery of the GPS objectives and outcomes in the areas of Wholesale Markets and Processing, Transmission and Distribution Networks, and Retail and Consumer Arrangements. To assist in understanding how the Gas Industry Co intends addressing these, they are set out in the table below, together with a commentary on each.

As a recently established entity, the Gas Industry Co work programme also includes a number of activities aimed at developing its own capabilities and processes. Under the leadership of the Chief Executive, the Company is establishing a small and efficient internal team to manage its overall work programme and to liaise with working groups and specialist advisers. Operating processes and procedures are also in development, in particular, financial controls, a communications programme and a formalised reporting regime.

GPS Objective	Commentary
Wholesale Markets and Processing GPS Objectives and Outcomes	
<i>The development of protocols and standards applying to wholesale gas trading, including quality standards, balancing and reconciliation</i>	The WMWG has been tasked with addressing how the specification of the gas allowed into the common grid should be determined and developing an appropriate, efficient and effective balancing and reconciliation mechanism.
<i>The development of a secondary market for the trading of excess and shortfall quantities of gas</i>	Many market participants have entitlements to gas reserves with varying degrees of flexibility in the delivery profiles over time. These entitlements are mostly matched to electricity generation requirements and to wholesale and retail gas market shares, but clearly adjustments will be required over time. At present, exchanges are achieved through non-standardised bilateral agreements. The GPS invites the Gas Industry Co to explore whether there are cost effective ways of facilitating these trades. Similarly, the GPS raises the possibility that there may be cost effective ways of facilitating exchanges of contracted entitlements to transmission. The WMWG has been given this task.
<i>The development of capacity trading arrangements</i>	The WMWG is tasked with investigating the issues relating to capacity trading arrangements.
<i>The establishment of protocols that set reasonable terms and conditions for access to gas processing facilities</i>	The WMWG is tasked with investigating the issues relating to access to gas processing facilities and the options for enhancing competition in the production and wholesale markets.
Transmission and Distribution Networks GPS Objectives and Outcomes	
<i>The establishment of an open access regime across transmission pipelines so that the gas market participants can access distribution pipelines on reasonable terms and conditions</i>	An industry-led process was well underway for the development of an interim open access regime for the Maui Pipeline at the time of the Gas Industry Co's formation, and the Minister advised the Gas Industry Co not to become actively involved in the initial development of the open access regimes. As a consequence, the Gas Industry Co did not have any substantive involvement in this process. The outcome of the process will, however, be relevant to its wholesale market work, and will be reviewed by the Gas Industry Co in this context.

GPS Objective	Commentary
Transmission and Distribution Networks GPS Objectives and Outcomes (cont)	
<p><i>The establishment of consistent standards and protocols across distribution pipelines</i></p> <p>and</p> <p><i>The establishment of gas flow measurement arrangements to enable effective control and management of gas</i></p>	<p>The WMWG will investigate the access arrangements provided by distribution networks and assess those arrangements against the GPS competition objectives. It will also consider the merits of a more standardised approach across various distribution pipelines to reduce the costs of entry for retailers and enhance retail competition.</p>
Retail and Consumer Arrangements GPS Objectives and Outcomes	
<p><i>The standardisation and upgrading of protocols relating to customer switching, so that barriers to customer switching are minimised</i></p>	<p>The SRWG has been tasked with designing and recommending suitable protocols for customer switching and registry arrangements. The group has the benefit of accessing work previously undertaken by the Gas Reconciliation Code Working Group in early 2003 on these matters.</p>
<p><i>The development of efficient and effective arrangements for the proper handling of consumer complaints</i></p>	<p>This work was initiated in mid 2003 by the former Gas Industry Steering Group in close co-operation with the Electricity Complaints Commission. The Electricity and Gas Complaints Commission came into effect on 1 April 2005.</p>
<p><i>The development of model contract terms and conditions between consumers and retailers</i></p>	<p>The MCWG has been tasked with developing design guidelines and model consumer contracts.</p>



Wholesale Markets Working Group activity

The Wholesale Markets Working Group (WMWG) is chaired by Chris Graham, an experienced consultant to the energy industry and formerly a member of the establishment team for the Electricity Commission and a senior executive with both NGC Holdings and the Transpower Establishment Board. The members of the working groups are:

Chris Graham	Independent Chair
Liz Kelly	Contact Energy
Syd Hunt	MultiGas/E-Gas
Duncan Jarad	Mighty River Power
Roger Johnston	Genesis Power
Brian McLaughlin	Powerco
Rodney Deppe	Todd Energy
Paul Hodgson	NGC Holdings
James Flexman	Carter Holt Harvey
Murray Jackson	Shell Oil New Zealand
Terrence Currie	Independent

In establishing its Wholesale Markets Working Group, the Gas Industry Co has combined the issues relating to transmission and distribution outcomes and the wholesale markets and processing outcomes contained in the GPS for consideration by one working group. The transmission and distribution objectives of the GPS are largely dependent on the interim open access regime currently being negotiated, for the Maui transmission pipeline (independently of the Gas Industry Co).

Against this background the WMWG work programme has been prepared, focusing around certain immediate priorities, but with a view to the wider issues in this area. The activities and targets are set out in the Strategic Plan, and the WMWG has initiated appropriate work streams to meet these targets. In particular, the WMWG has:

- *initiated work in the area of wholesale market design;*
- *established a sub-group to commence development of a report on gas processing issues;*
- *initiated preliminary work on gas specification issues;*
- *commenced work on security of supply and contingency arrangements for gas outages.*

Model Contracts Working Group activity

The Model Contracts Working Group (MCWG) is chaired by Bill Heaps, an experienced energy sector participant and consultant. The working group comprises:

Bill Heaps	Independent Chair
Pamela Caird	Contact Energy
Clive Bull	Vector
Gavin Chambers	E-Gas
Steve Rawson	Mighty River Power
Trevor Starr	Genesis Power
Stephen Nicholls	Powerco
Lucie Daniels	NGC Holdings
David Russell	Consumers Institute
Catherine Ansley	Min of Consumer Affairs
Peter Rutledge	GreyPower

In addition, Judi Jones, the Electricity and Gas Complaints Commissioner, sits on the working group as an observer.

The Model Contracts Working Group has been established to examine contractual issues arising between retailers and their customers and develop model arrangements for domestic retail contracts.

The MCWG activities and targets are set out in the Strategic Plan, and the group has initiated appropriate work streams to meet these targets. The early focus for the group has been initiating research on retail contract issues, design guidelines and model contracts.

Switching and Registry Working Group activity

The Switching and Registry Working Group (SRWG) is also chaired by Bill Heaps.

The working group members are:

Bill Heaps	Independent Chair
Rod Crone	Contact Energy
Gavin Chambers	E-Gas
Nigel Bonser	Vector
John Candy	Mighty River Power
Tracey Kaio	Genesis Power
Sue Simons	Powerco
Ewan Gebbie	NGC Holdings
Pat Cunnise	Consumer representative
Carol Stigley	Consumer representative

The Switching and Registry Working Group has been established to consider mechanisms to facilitate effective and accurate switching and other relevant processes. The working group has the benefit of accessing the work previously undertaken by the Gas Reconciliation Code Working Group in early 2003, including draft revised protocols for customer switching and registering.

The SRWG activities and targets are set out in the Strategic Plan, and the group has initiated appropriate work streams to meet these targets. The activity to date has been built around the need to design the scope and functionality of appropriate registry arrangements for gas customer switching.

Website establishment

The Gas Industry Co is committed to keeping all stakeholders fully informed and involved in its processes, and to operating in a transparent manner. An early focus for the Company was the establishment of its website to aid in transparency and information-sharing, and to provide a cost-effective means of facilitating stakeholder communication.

The web address is www.gasindustry.co.nz. Quarterly newsletters, consultation material and working group papers are all available from the website. Background information about the Company and contact details can also be found on the site. The site is updated regularly, and new areas will be developed as the Company progresses its various work programme activities over the coming year.



Consumer complaints scheme

It was with great pleasure that the Gas Industry Co submitted a Complaints Resolution Scheme in March 2005 to the Minister of Energy for approval. This marked the culmination of considerable effort across the sector and the invaluable co-operation of what was then the Electricity Complaints Commission. The approach adopted in developing the Scheme was to add gas consumer complaints to the existing electricity complaints scheme which had been operational since January 2002. The Scheme was approved and came into effect on 1 April 2005. As part of the implementation, the Electricity Complaints Commission is now known as the Office of the Electricity and Gas Complaints Commissioner.

 <p>electricity complaints commission</p>	 <p>electricity & gas complaints commission</p>
FROM JANUARY 2002	FROM APRIL 2005

“The development of efficient and effective arrangements for the proper handling of consumer complaints” is a key expectation in the GPS and has been accorded a high priority by Government.

The Scheme provides gas consumers with access to an independent disputes resolution service through the Complaints Commission for complaints about their gas company. The Scheme covers both gas retail and gas distribution companies on a voluntary membership basis. Most gas retailers were already members of the Scheme as electricity companies and have now joined as gas members. Some gas distributors are also electricity distributors and as such were also current members of the electricity complaints scheme. The funding requirements of the Scheme are covered by a levy on members – split into a fixed levy portion and a complaint-based levy portion (a 60 – 40 split).

The GPS requires that arrangements for the proper handling of consumer complaints be efficient and effective:

- *efficiency in relation to industry based consumer complaint resolution schemes requires that the scheme keeps track of complaints, ensures that complaints are dealt with by the appropriate process and regularly reviews its performance.*
- *effectiveness relates to having appropriate and comprehensive terms of reference and periodic independent reviews of its performance.*

The Scheme has been designed around these criteria; the constitution requires the Commission to keep track of complaints, have streamlined processes for dealing with different types of complaints, have terms of reference and monitor progress and report regularly on the progress of

complaints to member companies. The constitution also provides for the Scheme to be monitored by an independent review. The review measures the Scheme against the Australasian benchmarks for industry-based customer dispute schemes and the report is made public.

Consumers are made aware of the Scheme by the member companies as part of the companies' in-house complaint resolution service. Complainants are also referred by consumer advocacy organisations. The Scheme has a website and the Electricity and Gas Complaints Commission has embarked on a publicity campaign to promote the extension of the Scheme to include gas complaints.

The Scheme was developed in close consultation with industry participants, Government agencies and consumer representatives. An open and transparent process was commenced by the former Gas Industry Steering Group in mid 2003. The Gas Industry Steering Group set the broad policy direction of the initiative and, in close co-operation with the Electricity Complaints Commissioner and the Scheme's Council, developed a workable revised Constitution document. Two rounds of open consultation by way of formal submissions enabled a wide range of stakeholders to provide input into the finalised Scheme.

The successful completion of this work and the level of membership in what is a voluntary arrangement is testament to the benefits of industry-led solutions.

In his letter to the Chair dated 23 May 2005,

THE MINISTER SAID:

"I believe that the [Gas Industry Co's] decision to join with the existing Electricity Complaints Scheme, and expand its remit to cover gas complaints is a sensible approach. It provides an effective, lower cost means of meeting the Government's objectives in this regard. I am pleased to see that you consulted with consumer groups and that they strongly support the proposal to incorporate gas consumer complaints into the Electricity Complaints Scheme."

Looking forward, the Gas Industry Co is now participating in a working group convened by the Office of the Electricity and Gas Complaints Commissioner to develop a complaints scheme for land owner and land occupier disputes as they relate to gas and electricity. This is a requirement of the Gas Act. The current electricity and gas consumer complaints scheme does not provide for such disputes and a similar expanded scheme is required to be developed for the electricity industry.



Financial Statements

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Directors' Report

Interests register

The Company is required to maintain an interests register in which the particulars of certain transactions and matters involving the directors must be recorded. The interests register for Gas Industry Company Limited is available for inspection at its registered office.

The following entries were made in the interests register in relation to the Directors who held office during the period:

- **M X Franklin** : That he is an officer of Vector Limited and subsidiaries.
- **P M James** : That he is an officer of NGC Holdings Limited and subsidiaries.
- **S P Barrett** : That he is an officer of Contact Energy Limited.
- **M J Verbiest** : That he is an officer of Telecom Corporation of New Zealand Limited.
- **D L Morgan** : That he is an officer and Chairman of Swift Energy New Zealand Limited.
- **Messrs Bolger, Hill, Verbiest and Clifford** : Their interest with respect to their remuneration.
- All directors noted their interest with respect to the Directors and Officers insurance purchased by the Company.

Where a director has declared an interest in a particular entity, as a shareholder and/or director, the declaration serves as notice that the director may benefit from any transactions between the Company and the identified entities.

Information used by directors

No member of the Board of Gas Industry Company Limited issued a notice requesting to use information received in their capacity as directors which would not otherwise have been available to them.

Indemnification and insurance of current officers and directors

The Company indemnifies all current directors named in this report and officers of the Company against all liabilities (other than that to the company) which arise out of the performance of their normal duties as director or executive officer, unless the liability relates to conduct involving lack of good faith. To manage this risk, the Company has indemnity insurance. The total cost of this insurance during the financial period was \$373. The annual cost of this insurance is \$15,156.

Directors of Gas Industry Company Limited*

	Directors' Fees	Remuneration
Rt Hon J B Bolger (Chairperson)	56,667	-
R G Hill (Deputy Chairperson)	32,000	-
M J Verbiest	32,000	-
D K Clifford	32,000	-
M X Franklin	-	-
S P Barrett	-	-
D L Morgan <i>(from 25 February 2005 to 29 June 2005)</i>	-	-
P M James <i>(resigned 16 December 2004)</i>	-	-

The fees and remuneration have been entered in the interests register.

**The Directors listed were appointed on 4 November 2004 unless otherwise noted. The Company was incorporated on 27 July 2004 by Mr R S Clarke, QC who was the Company's sole Director until the appointment of the Directors listed above. During this period the Company did not trade.*

Employees

Executive remuneration

For the period covered by this report, no employees of the Company received remuneration and benefits above \$100,000.

The Company effectively commenced operations in November 2004 and as at 30 June 2005 had only one employee, being the Chief Executive who commenced employment on 16 May 2005. The Chief Executive's annual remuneration and benefits are up to \$300,000.

Auditors

The auditor for the Company is Grant Thornton. Grant Thornton did not provide any additional services to the Company other than audit services.

Donations

The Company did not make any donations during the period covered by this report.

The annual report and the financial statements presented on pages 25 to 32 are signed for and on behalf of the Board and were authorised for issue on the date set out below.

Directors' Responsibility Statement

The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company as at 30 June 2005 and its financial performance and cash flows for the period ended on that date.

The directors consider that the financial statements of the Company have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider they have taken adequate steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

For and on behalf of the Board.



Rt Hon J B Bolger
Chairperson



R G Hill
Director

Date: 4 August 2005

Audit Report

To the Shareholders of Gas Industry Company Limited

We have audited the financial report on pages 25 to 32. The financial report provides information about the past financial performance of Gas Industry Company Limited and its financial position as at 30 June 2005. This information is stated in accordance with the accounting policies set out on page 28 and 29.

Directors' Responsibilities

The Director's are responsible for the preparation of a financial report, which gives a true and fair view of the financial position of Gas Industry Company Limited as at 30 June 2005 and of the results of its operations for the period ended on that date.

Auditors' Responsibilities

It is our responsibility to express to you an independent opinion on the financial report presented by the Directors.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial report. It also includes assessing:

- The significant estimates and judgements made by the Directors in the preparation of the financial report, and
- Whether the accounting policies are appropriate to Gas Industry Company Limited's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial report is free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial report.

Other than in our capacity as auditors we have no relationship with or interests in Gas Industry Company Limited.

Unqualified Opinion

We have obtained all the information and explanations that we have required.

In our opinion:

- proper accounting records have been kept by Gas Industry Company Limited as far as appears from our examination of those records; and
- the financial report on pages 25 to 32:
 - complies with generally accepted accounting practice in New Zealand;
 - gives a true and fair view of the financial position of Gas Industry Company Limited as at 30 June 2005 and the results of its operations for the period ended on that date.

Our audit was completed on 4 August 2005 and our unqualified opinion is expressed as at that date.



GRANT THORNTON WELLINGTON

Statement of Financial Performance

For the period ending 30 June 2005	Notes	2005
		\$
Operating revenue	1	115,792
Operating expenses	2	(1,205,894)
Operating surplus/(deficit) before income tax		(1,090,102)
Income tax	6	(5,211)
Net surplus/(deficit)		\$(1,095,313)

Statement of Movements in Equity

For the period ending 30 June 2005	Notes	2005
		\$
Equity at beginning of the year		-
Net surplus/(deficit)	5	(1,095,313)
Redeemable shares	4	10
Equity at end of period		\$(1,095,303)

The above statements should be read in conjunction with the accompanying notes

Statement of Financial Position

For the period ending 30 June 2005	Notes	2005
Equity		\$
Share capital	4	10
Accumulated losses	5	(1,095,313)
Total equity		(1,095,303)
Liabilities		
Non-current liabilities		
Unsecured shareholder loans	3	1,600,000
Total non-current liabilities		1,600,000
Current liabilities		
Payables and accruals	7	283,138
Total current liabilities		283,138
Total liabilities		1,883,138
Total equity and liabilities		\$787,835
Assets		
Non-current assets		
Property, plant and equipment	8	16,180
Total non-current assets		16,180
Current assets		
Cash and bank balances		284,154
Accounts receivable	10	487,501
Total current assets		771,655
Total assets		\$787,835

The above statements should be read in conjunction with the accompanying notes

Statement of Cash Flows

For the period ending 30 June 2005	2005
Operating activities	\$
Cash was provided from	
Annual fees	100,000
Interest received	15,792
	115,792
Cash was applied to	
Payments to suppliers	(950,473)
Payments to employees	(21,013)
Net GST paid	(37,800)
Income tax paid	(6,136)
	(1,015,422)
Net cash inflows from operating activities	(899,630)
Investment activities	
Cash was applied to	
Purchase of property plant and equipment	(16,226)
	(16,226)
Net cash inflows from investment activities	(16,226)
Financing activities	
Cash was provided from	
Proceeds from shareholder loans	1,200,000
Issue of redeemable shares	11
	1,200,011
Cash was applied to	
Shares redeemed	(1)
	(1)
Net cash inflows from financing activities	1,200,010
Net increase in cash held	284,154
Cash at end of period	284,154
Reconciliation with operating surplus	
Reported surplus/(deficit) after tax	(1,095,313)
Items not involving cash flows	
Depreciation expense	46
Impact of changes in working capital items	
Prepayments	(28,936)
Accounts payable	201,550
Accruals	78,259
Employee Entitlements	3,329
GST receivable	(57,640)
Tax provision	(925)
	195,637
Net cash flow from operating activities	\$(899,630)

The above statements should be read in conjunction with the accompanying notes

Statement of Accounting Policies

Reporting entity

The Company is a limited liability company registered under the Companies Act 1993. It was approved as the industry body under part 4A of the Gas Act on 22 December 2004 by the Gas (Approval of Industry Body) Order 2004.

The Company was incorporated on 27 July 2004.

The financial statements are for the Gas Industry Company Limited as a separate legal entity.

Statutory base

These financial statements have been prepared in accordance with section 43ZW to 43ZY of the Gas Act 1992 and in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

The financial statements have been prepared on a going concern basis. This basis was supported prior to the enactment on 18 July 2005 of the Gas (Levy of Industry Participants) Regulations 2005 by the terms of the limited recourse shareholder loans which require that the Company is able to meet the solvency test after any repayment or partial repayment of the loans before any liability to repay the loans exists. The basis is further supported by the Gas (Levy of Industry Participants) Regulations 2005 which come into force on 19 August 2005. Those regulations provide for an industry levy to be paid to the Company. The levy amount is sufficient to enable the Company to meet its current and prior budgeted commitments, including a progressive repayment of shareholder loans.

Measurement base

The financial statements have been prepared on the historical cost basis.

Accounting policies

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below.

Revenue

Goods and services

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

Investment income

Interest income is accounted for as earned.

Income Tax

The income tax expense recognised for the year is based on the accounting surplus, adjusted for permanent differences between accounting and tax rules.

The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method.

A deferred tax asset, or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

Goods and Services Tax (GST)

The statement of financial performance and statement of cashflows 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, with the exception of receivables and payables, which include GST invoiced.

Property, plant and equipment

Initial recording

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets, and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Depreciation

Depreciation is calculated on a straight line basis so as to expense the cost of the assets, or the revalued amounts, to their residual values over their useful lives as follows:

Category	Estimated useful life
Office Equipment <i>(computers and related equipment)</i>	4 years
Office Equipment <i>(other)</i>	10 years
Leasehold Improvements	Amortised over period of lease

Leased assets

As lessee

Operating leases

Leases that are not finance leases are classified as operating leases. Operating lease payments are recognised as an expense in the periods the amounts are payable.

Accounts receivable

Accounts receivable are carried at estimated realisable value after providing against 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

Recognised

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.

Statement of cash flows

The following are the definitions of the terms used in the statement of cash flows:

- (a) *Operating activities include all transactions and other events that are not investing or financing activities.*
- (b) *Investing activities are those activities relating to the acquisition, holding and disposal of noncurrent assets.*
- (c) *Financing activities comprise changes in the capital structure.*
- (d) *Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.*

Changes in accounting policies

These accounting policies for the 2004/2005 financial period are the first set of policies prepared by the Company.

As the 2004/2005 financial period is the Company's first reporting period, there are no comparative figures presented in the financial statements.

Notes to the Financial Statements

① Operating revenue

	2005/\$
Operating income	
Annual fees	100,000
Interest received	15,792
Total operating revenue	\$115,792

② Operating expenses

	2005/\$
Operating expenses	
Depreciation - office furniture and equipment	46
Auditor remuneration	5,000
Other expenses	1,200,848
Total Expenses	\$1,205,894

To assist with the interpretation of the operating expenses for the period ended 30 June 2005, the following expense breakdown is provided:

Accounting and taxation advice	29,380
Consumer Complaints Scheme development	71,038
Directors fees	152,667
General expenses	13,068
Legal	115,800
Other development expenses	16,302
Recruitment expenses	86,311
Secretariat and establishment fees*	308,168
Technical and economic advice*	320,343
Wages and salaries	35,700
Working Group expenses	52,071
Total other expenses	1,200,848

* includes expenses relating to the establishment and support of the working groups

③ Shareholder loans

	2005/\$
Shareholder loans	1,600,000
	\$1,600,000

The company has entered into limited recourse loans with the following shareholders:

Contact Energy Limited	250,000
NGC Holdings Limited	250,000
Genesis Power Limited	250,000
Vector Limited	250,000
Energy Finance NZ Limited (related party to Shell (Petroleum Mining) Company Limited)	250,000
Mighty River Power Limited	150,000
Powerco Limited	150,000
Wanganui Gas Limited	50,000

The terms of the shareholder loans recognise that the loans have been made to fund the establishment of the Company and provide for the loans to be of a limited recourse, repayable only if the Company has sufficient cash resources to make repayment. All loans are to be repaid proportionately. The loans are due for repayment the earlier of two years after the commencement of the levy on industry participants or 30 December 2007. No liability to repay the loans (in part or in full) exists unless the Company would meet the solvency test immediately after making the repayment.

The loans from Energy Finance NZ Limited and Powerco Limited were entered into prior to 30 June 2005 although the funds were not received by the Company until after that date. The funds from the loan from Energy Finance NZ Limited were received on 1 July 2005, and the proceeds from the loan from Powerco Limited were received on 20 July 2005. The proceeds of these two loans are recognised as a receivable in these financial statements.

④ Share capital

	2005/\$
Issued and Paid up Capital	
Redeemable shares	
Share issued	11
Shares redeemed	(1)
Balance at end of period	10

On incorporation Mr R S Clarke, QC subscribed for a redeemable share which was redeemed following the first issuance of shares to industry participants. As at 30 June 2005 there were 10 redeemable shares on issue. The shares are redeemable at any time for the consideration of \$1 payable by the company on redemption. The redeemable shares confer on the shareholders the rights set out in section 36(1) of the Companies Act 1993.

⑤ Accumulated losses

	2005/\$
Net deficit for the period	(1,095,313)
Balance at end of period	\$(1,095,313)

⑥ Income tax

	2005/\$
Operating deficit before tax	(1,090,102)
Permanent differences	
Nontaxable deficit	1,105,894
Income subject to tax	15,792
Tax at 33%	5,211
Income tax recognised in the statement of financial performance	\$5,211

⑦ Payables and accruals

	2005/\$
Unsecured	
Accounts payable	201,550
Accruals	78,259
Employee entitlements	3,329
	\$283,138

⑧ Property, plant and equipment

	2005		
	Cost or valuation	Acc dephn	Book value
	\$	\$	\$
Office equipment			
Office equipment at cost	4,150	(46)	4,104
Total office equipment	4,150	(46)	4,104
Leasehold improvements			
Leasehold improvements at cost	12,076	-	12,076
	\$16,226	\$(46)	\$16,180

⑨ Commitments

The following amounts have been committed to by the Company, but not recognised in the financial statements.

	2005/\$
Operating leases	
Non cancellable operating lease commitments:	
Within one year	82,680
One to two years	82,680
Two to five years	165,360
	\$330,720

The Company leases premises. The lease does not provide the Company with a right of renewal. The Company is also finalising arrangements as at balance date for the fitout of the Company's office premises. It is anticipated that the fitout will be in the order of \$185,000, excluding GST.

Notes to the Financial Statements (cont)

10 Accounts receivable

	2005/\$
Other debtors	400,000
Goods and services tax (GST) receivable	57,640
Prepayments	28,936
Provision for taxation	925
Current receivables	\$487,501

Other debtors comprise shareholder loans totalling \$400,000 were entered into prior to 30 June 2005 and have been recognised as a receivable. \$250,000 of the loan proceeds were received on 1 July 2005 and the balance of \$150,000 was received on 20 July 2005.

The Company anticipates receiving a payment from the Council of the Electricity and Gas Complaints Commission of \$175,000 (plus GST) towards the costs incurred in establishing the gas consumer complaints scheme. \$71,038 (plus GST) of those costs are recognised in these financial statements. The remainder of the costs were incurred by the Gas Industry Steering Group, the predecessor group to the Gas Industry Company.

11 Financial instruments

The Company is subject to a number of financial instrument arrangements as part of its everyday operations. These financial instruments include bank accounts, accounts receivable and accounts payable.

Interest rate risk

Interest rate risk is the risk that the Company's return on any funds it has invested and the cost of borrowed funds will fluctuate due to changes in market interest rates. The shareholder loans provide for interest to be paid on those

loans if requested by the lender. The interest rate applicable is determined by reference to the deposit rates of registered banks for a deposit equivalent to the value of the loan amount and for an 18 month duration. As at 30 June 2005 no shareholder requested interest be paid on their loan to the Company and consequently no interest expense has been recognised.

Credit risk

Credit risk is the risk that a third party will default on its obligations to the Company, causing the Company to incur a loss.

In the normal course of business, the Company incurs credit risk from financial institutions.

The Company does not require collateral or other security to support financial instruments with credit risk, as the Company deals with financial institutions that have high credit ratings. The Company does not have any significant concentrations of credit risk.

Fair values

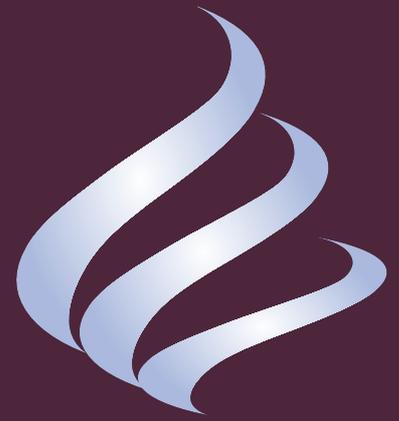
The fair value of all financial instruments is equivalent to the carrying amount disclosed in the statement of financial position.

12 Contingent gains and losses

As at 30 June 2005 the Company had no contingent liabilities.

13 Related party information

Other than the shareholder loans detailed in note 3, the Company has no related party transactions. Various shareholders have from time to time provided administrative assistance to the Company at no cost.



Directory (as at 30 June 2005)

Gas Industry Company Limited

P O Box 10 646 Wellington

Telephone +64 4 472 1800

Facsimile +64 4 472 1801

Email info@gasindustry.co.nz

Internet www.gasindustry.co.nz

From August 2005 the Gas Industry Co will occupy offices at Level 9, State Insurance Tower, 1 Willis Street, Wellington.

Prior to that the offices are on Level 16, 113-119 The Terrace, Wellington

Gas Industry Company Directors

Right Honourable James (Jim) Bolger, ONZ, *Chairman*

Robin Hill, *B Comm, FCA, Deputy Chairman, Independent Director*

Mark Verbiest, *LLB Independent Director*

Denis Clifford, *BA, LLB (Hons) Independent Director*

Stephen Barrett, *BSc – Electrical Engineering, BA – Mathematics*

Mark Franklin, *BE (Electrical)*

Gas Industry Company Executive

Christine Southey, *BA (Hons), LLB, Chief Executive*

Legal Adviser Richard Clarke, QC

Secretariat PricewaterhouseCoopers, Wellington

Auditors Grant Thornton, Wellington

Bankers Westpac Banking Corporation Limited

Gas Industry Company Shareholders

Contact Energy Limited

Swift Energy New Zealand Limited

Shell (Petroleum Mining) Company Limited

NGC Holdings Limited

Vector Limited

Wanganui Gas Limited

OMV New Zealand Limited

Genesis Power Limited

Powerco Limited

Mighty River Power Limited



Gas Industry Company Limited
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