

Performance Measures Quarterly Report for the period ending 31 December 2010

1 Summary

This report provides an update on the performance measures that Gas Industry Co monitors on a regular basis. The purpose of these measures is to track the performance of the Gas (Switching Arrangements) Rules 2008 (the 'Switching Rules'), the Gas (Downstream Reconciliation) Rules 2008 (the 'Reconciliation Rules'), and the Gas Governance (Critical Contingency Management) Regulations 2008 ('CCM Regulations'), both in terms of activity related to these rules and the competitive outcomes that they foster. Because of the timing of the release of this report, data have been included to the end of January 2011.

A significant event in the past quarter was the liquidation of gas retailer E-Gas and the purchase of its customer base by Nova Energy. Nova is now the fourth largest gas retailer in terms of customer market share. The incident also seemed to spur other customers to switch retailer, as the switching statistics show; however, the associated rise in switching activity has proved to be temporary. Switching remains slightly over 3,000 per month on average, or about a 15.4% annual churn rate. In comparison, the electricity churn rate is about 17.5% per year.

The incidence of unaccounted-for gas, or UFG, continues to decrease. Retailers have reported anecdotally that they are improving their estimation algorithms for their initial consumption submissions. As well, performance and event audits continue to uncover sources of UFG, which industry participants are taking steps to address. The mild weather of 2010, in comparison to 2009, has likely also had a role in the recent decrease in UFG.

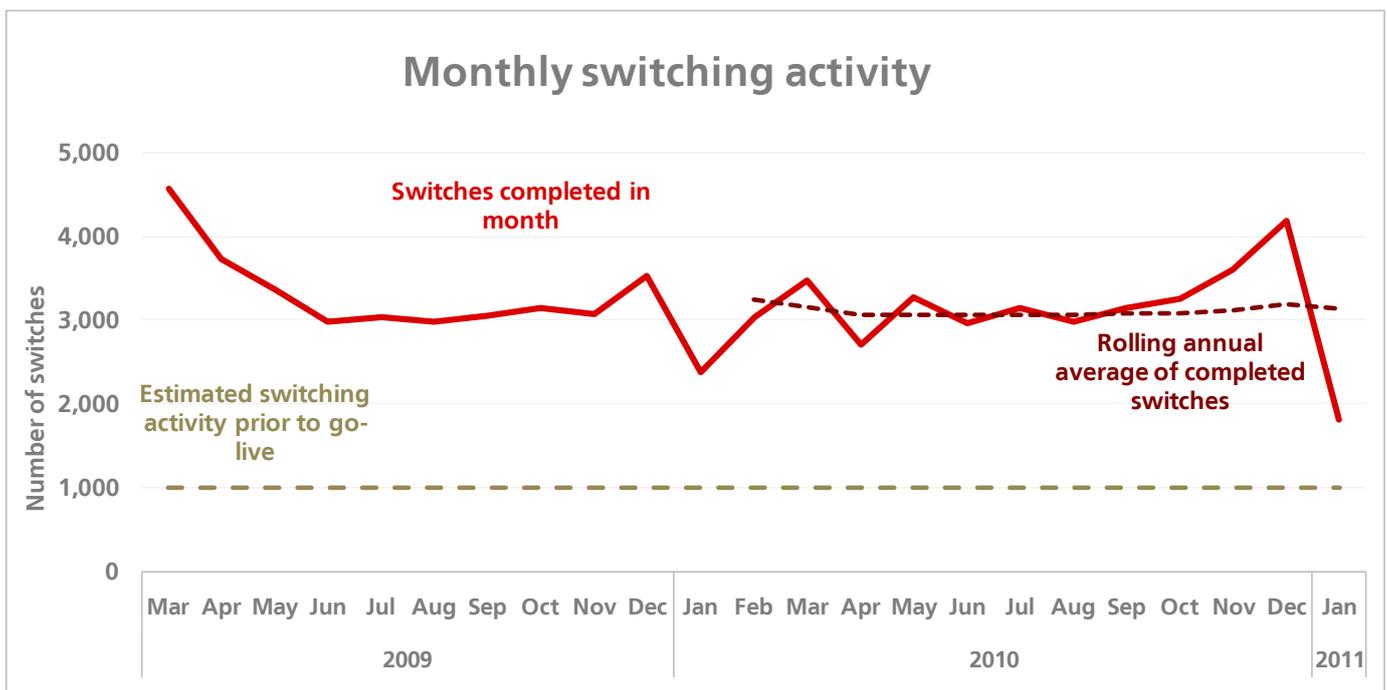
2 Switching performance measures

Monthly switching activity

The switching statistics in the chart below exclude the bulk transfers of former E-Gas customers to Nova. There was an uptick in switching activity in November and December of last year, as completed switches exceeded 4,000 per month for the first time since registry go-live. Some of this increased switching reflects active switches by former E-Gas customers to new retailers. The size of the increase suggests that non-E-Gas customers were also prompted to switch in larger numbers than usual, perhaps spurred by news reports of the liquidation or by retailers' increased advertising around that time.

Switching activity has dropped off at the beginning of 2011. To the extent that customers were prompted to switch in November and December, this drop off could represent a return to the baseline rate of switching.

The rolling annual average of monthly completed switches remains at slightly above 3,000 per month. The annual switching rate, also known as churn, is about 15.4%. This figure compares with the 17.5% annual churn rate in electricity. Prior to the gas registry going live, approximately 1,000 switches were processed on a monthly basis, and the annual churn rate was approximately 4.8%.

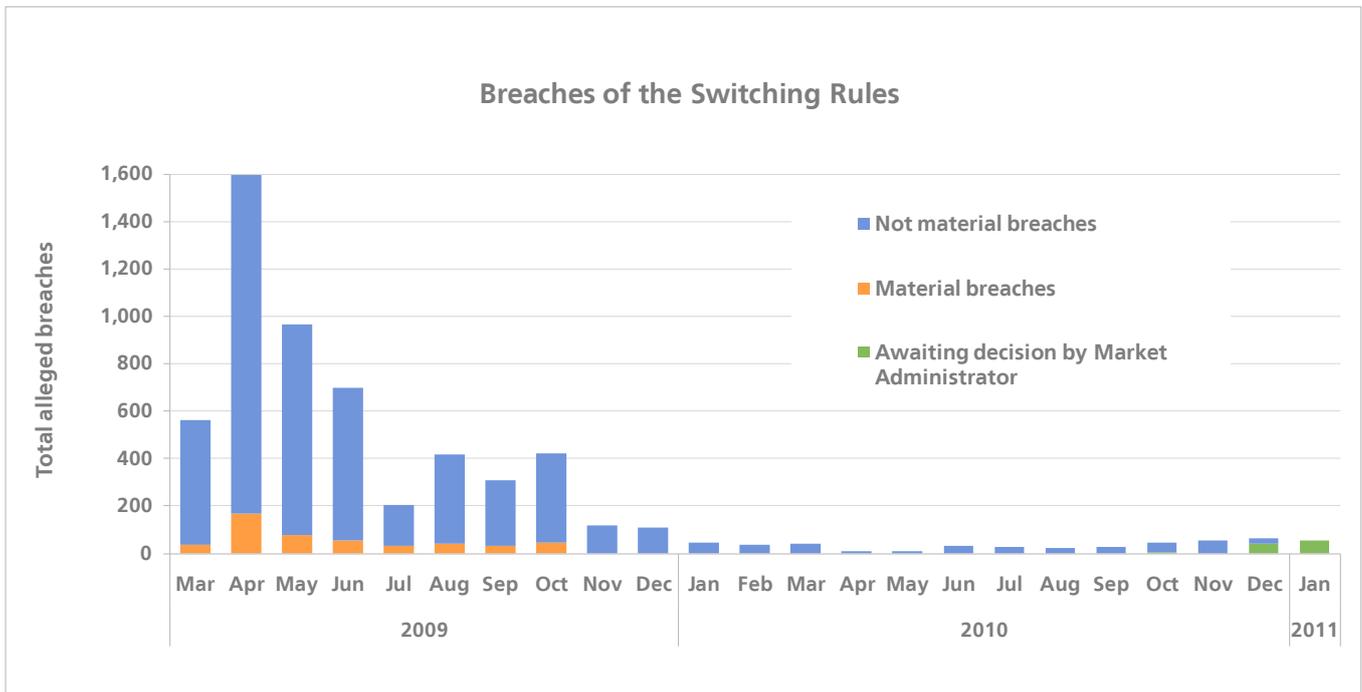


Note that the above chart includes only switches that occurred on open-access distribution networks; switches from open-access to bypass networks (or vice versa) would not be recorded as a switch in the Gas Registry.

Number and severity of breaches to the Switching Rules

The number of switching breaches has fallen significantly since the inception of the Switching Rules, as has the severity of the breaches. The slight increase in alleged breaches seen in November and December 2010 and January 2011 are due to issues a single retailer is experiencing in implementing a new billing system.

The Market Administrator has not determined a breach of the Switching Rules to be material since October 2009.

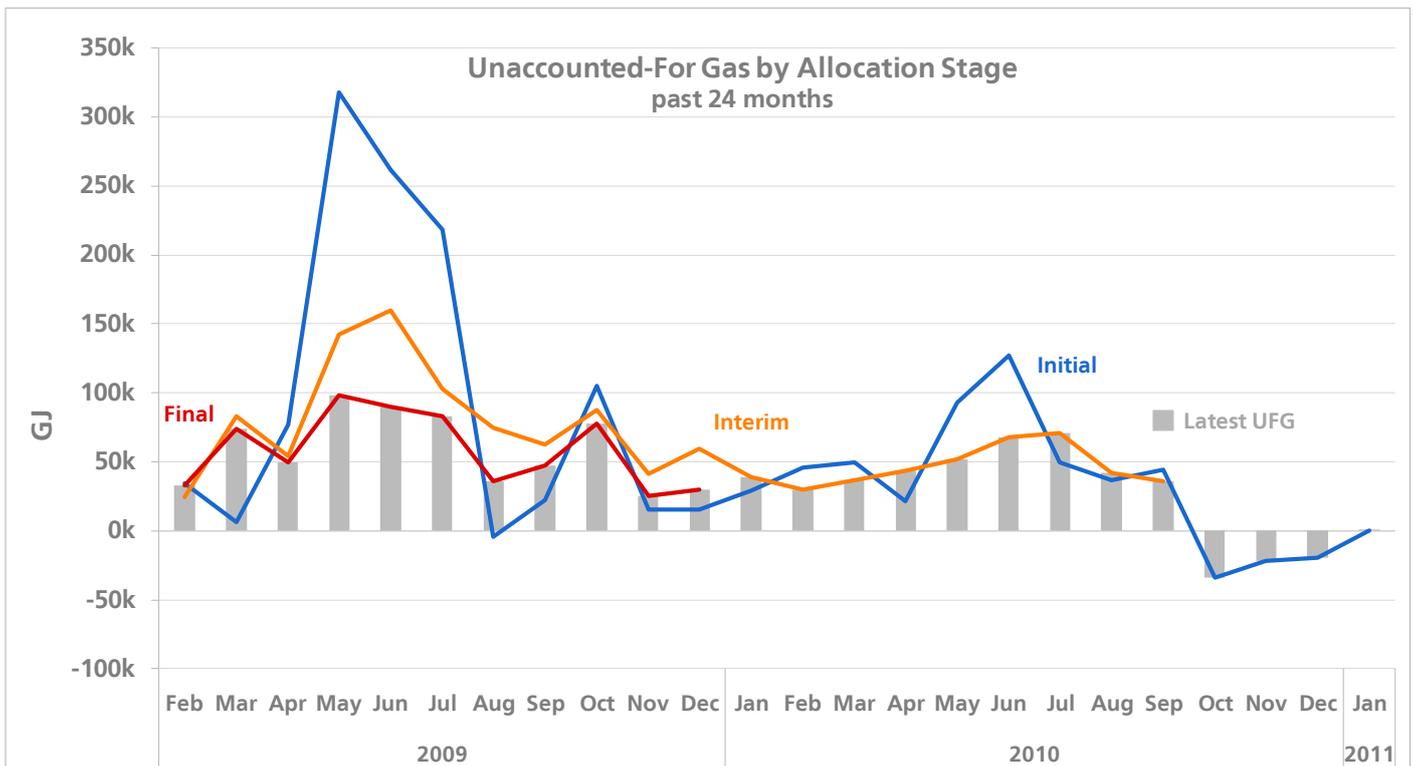


3 Allocation and reconciliation performance measures

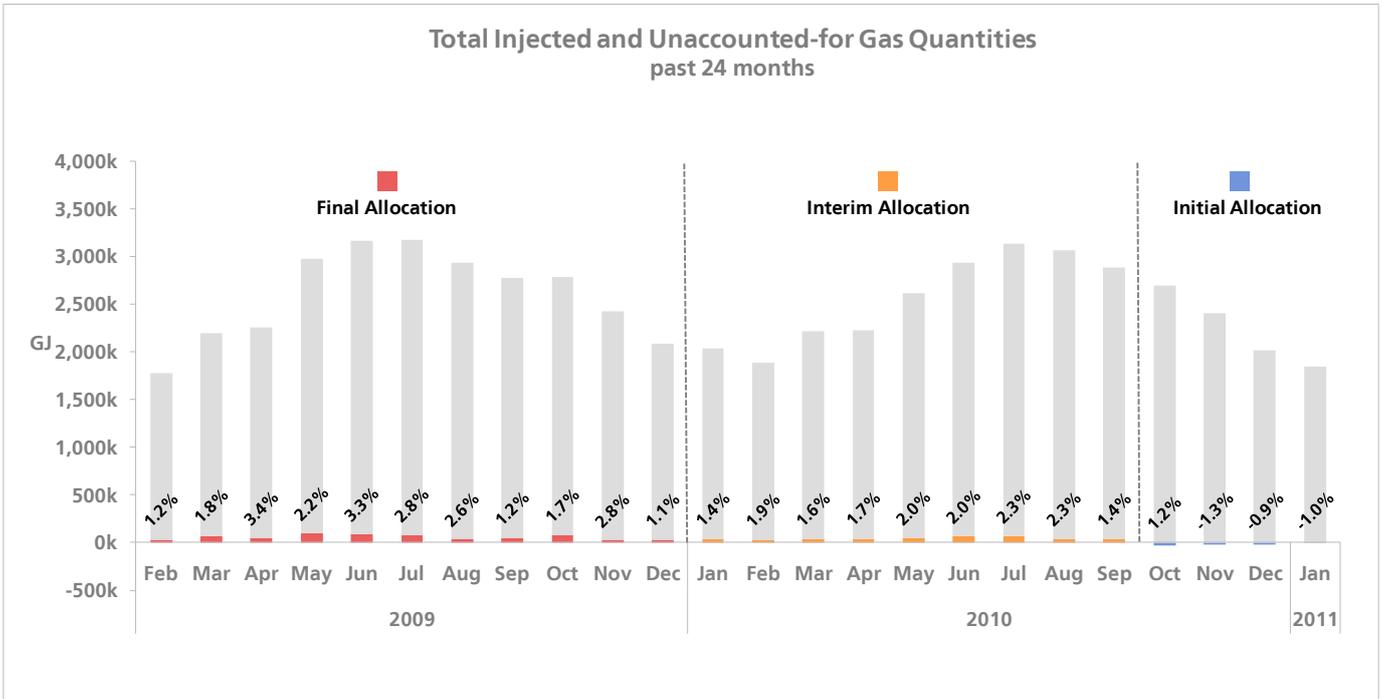
Volumes of Unaccounted-for Gas

This chart illustrates a number of factors. First is the accuracy of the initial and interim allocation stages, compared with the final. The chart shows, for example, the high levels of unaccounted-for gas (UFG) experienced at the initial stage in May, June, and July 2009, and the decreases that occurred with the interim and final allocation stages. There are also periods where UFG increases with successive allocation stages, as in March, August, and December 2009.

The grey bars show the UFG by month for the most recent allocation stage available. This data set shows a seasonality trend – there is a greater volume of UFG experienced in winter months than in summer months. It also shows that there has been less UFG in 2010 than in 2009 – possibly reflective of a milder winter and improving retailer estimation processes.



This chart shows the amount of unaccounted-for gas in comparison to the total amount of gas consumed each month. As with UFG volumes, the UFG as a percentage of total gas consumption also follows a seasonal pattern: higher in winter and lower in summer. Consistent with the previous chart, the data show that UFG as a percentage of consumption volumes has decreased in 2010, compared to 2009.

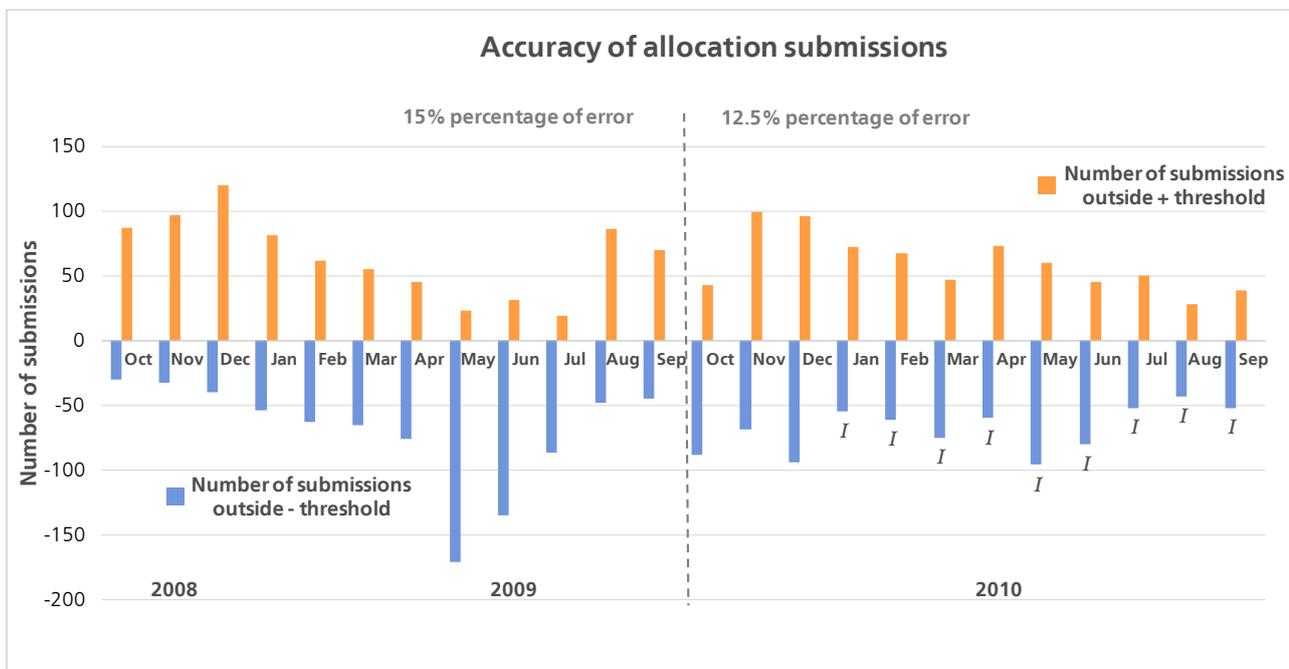


Accuracy of submission data

For this analysis, final submissions were compared to initial allocation submissions for the months they were available (Oct 08 – December 09). Other months use interim submissions for the comparison data and are marked with *I* in the chart below. The percentage of error relevant to the consumption month has been used to measure accuracy: 15% in the 2008-09 gas year, and 12.5% in 2009-10.

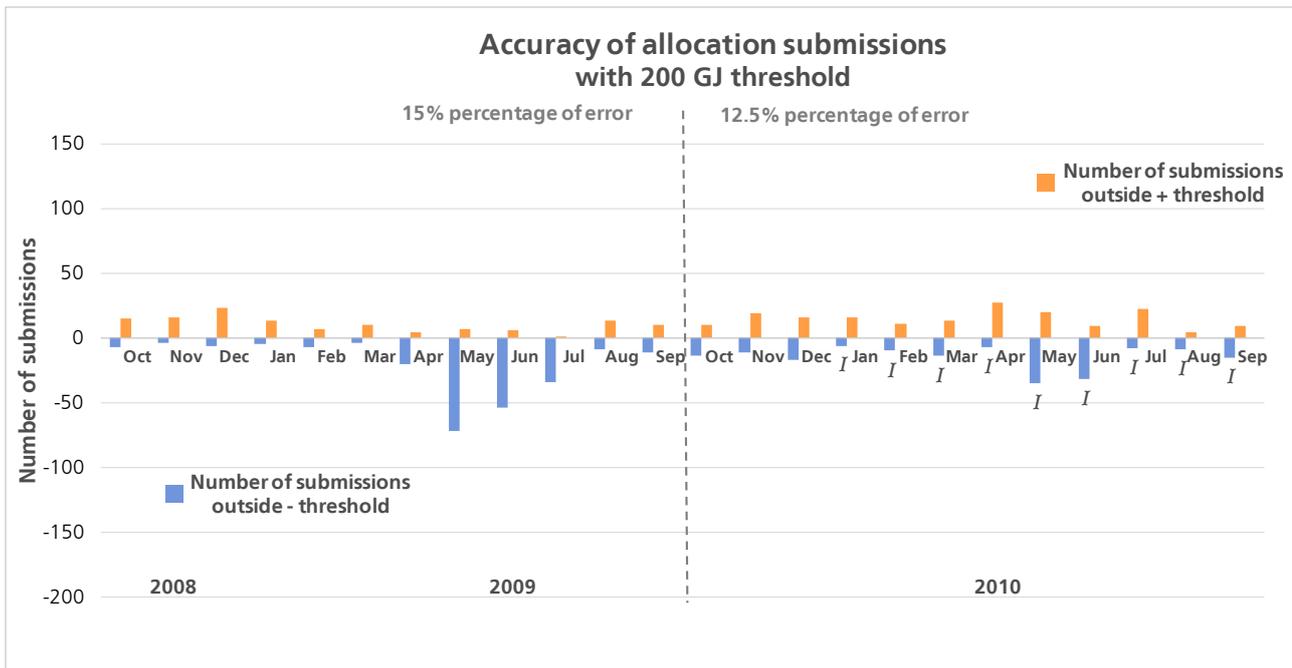
Two complete years are shown in the chart. There tends to be a seasonality component to the submission inaccuracies: retailers generally overestimate consumption amounts in the summer and underestimate in the winter.

Despite the percentage of error used to determine a breach being tightened by 2.5% from 2008-09 to 2009-10, the number of submissions outside the threshold has decreased in 2009-10 compared to the previous year. This indicates an improvement in forecasting accuracy by retailers.



The market administrator has recently established a materiality threshold to assist in determining whether accuracy breaches are material. At some gas gates, the consumption volume is such that an estimation error of a relatively small amount of gas can represent a large percentage error. The materiality threshold helps to differentiate those breaches that are likely to have had a materially adverse effect on other market participants. This threshold has been set at 200 GJ.

The chart below shows the number of accuracy breaches that involve gas quantities larger than 200 GJ. As a comparison of the two charts illustrates, there is a significant proportion of accuracy breaches that involved less than 200 GJ. Deeming these breaches not material allows industry participants to focus on addressing the harm caused by larger volume estimation errors.

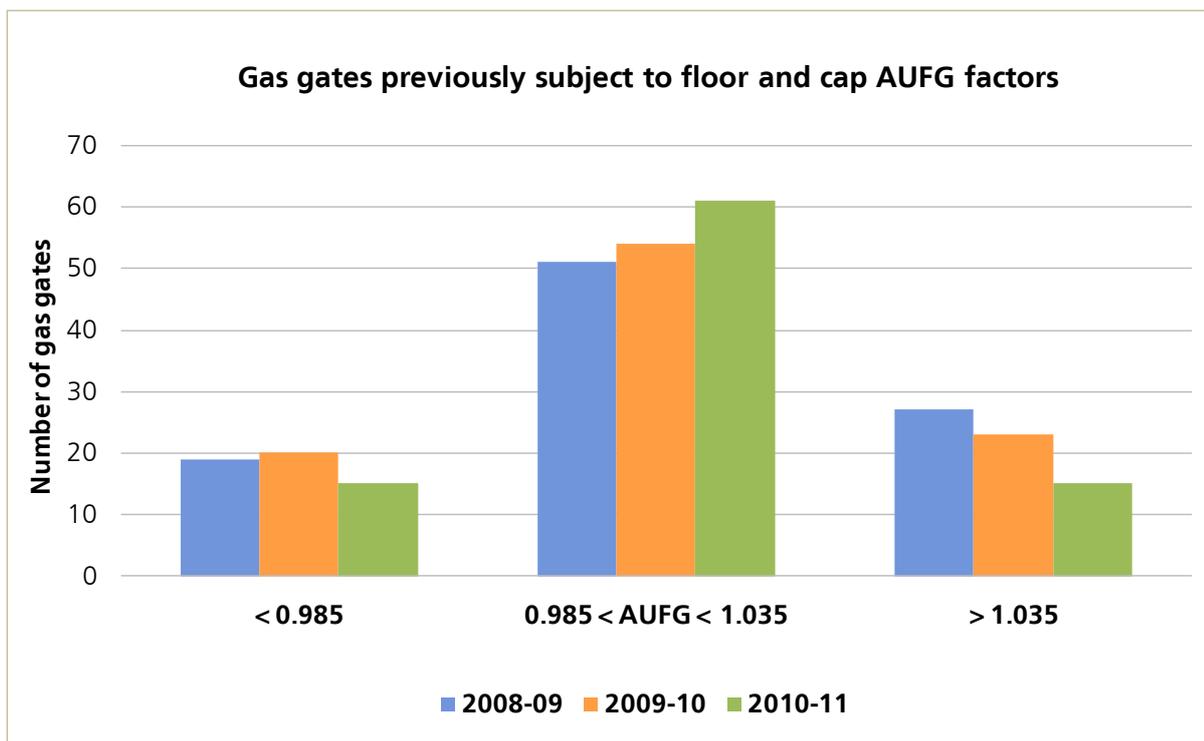


Number of gas gates subject to floor and cap AUFG factors

An Annual UFG (AUFG) factor is calculated on an annual basis for each gas gate and is used to apportion UFG amongst different categories of consumers. AUFG is the ratio over 12 months of gas volumes injected at the gas gate to gas consumption volumes submitted by retailers. The closer AUFG is to 1.0, the more accurate the consumption submissions were at that gate. An AUFG of greater than 1.0 means that there was positive UFG: consumption submissions add up to less than the total volume of gas injected. Conversely, an AUFG of less than 1.0 means negative UFG, where consumption submissions add up to more than the volumes of gas physically injected at that gas gate.

As part of the transitional provisions of the Reconciliation Rules, AUFG factors were constrained by a floor and cap. Those transitional provisions have now expired; however, the former cap and ceiling limits are useful as a means of tracking improvements in AUFG factors.

The chart below shows that, for the 2010-11 gas year, the number of gas gates whose AUFG is in the middle category has increased, from 51 two years ago, to 54 last year, to 60 for the 2010-2011 gas year. This indicates that the amount of UFG is decreasing and that retailers' consumption submissions are becoming more accurate.



Note that the chart above contains data that have been amended for several reasons: the AUFG figures have been recalculated, as required by the Rulings Panel in relation to breaches 2010-32, 59, and 127 (which related to incorrect data from one retailer that distorted the AUFG figures). The AUFG for Greater Hamilton has also been recalculated for the 2010-11 gas years. Both of these recalculations corrected data inaccuracies that were causing UFG, so the AUFG factors for those gates

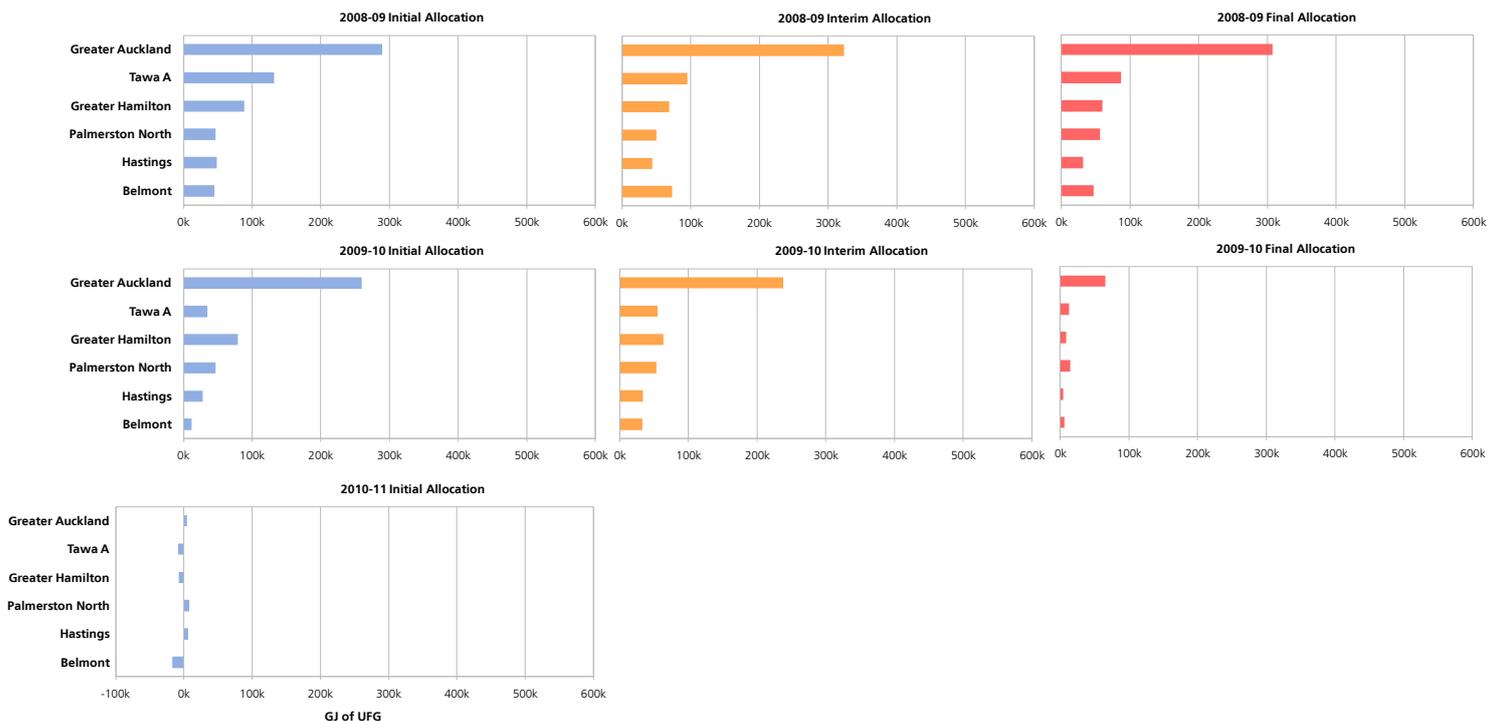
have decreased with the recalculation. Finally, the figures have also been amended to reflect the fact that the Nova bypass gates are excluded from the reconciliation process and thus no longer have AUFG figures associated with them.

Gas gates where UFG is the highest

Greater Auckland gas gate is by far the largest contributor to UFG of the gas gates, followed by Tawa A, Belmont, Greater Hamilton, and Palmerston North. This pattern is roughly consistent over all three allocation cycles and across gas years, indicating that UFG is a persistent issue at these gates.

All allocations have now been performed for the 2008-09 gas year and are shown in the top row below. For the 2009-10 year, shown in the middle row, initial and interim allocations have been done for all 12 months; but final allocations for just the three months of October, November, and December 2010. Comparing the initial and interim allocations for those gas years shows a trend of decreasing UFG.

For the 2010-11 gas year, initial allocations have been done for four months: October, November, December 2010, and January 2011. Thus far into the year, three of the gates with historically high positive UFG now have negative UFG. This effect is most likely temporary, caused by the fact that winter consumption months are not yet included in the data.



Audits commissioned

Event audits

Two event audits have been commissioned since the last quarterly report: investigations into the causes of high UFG at the Greater Hamilton (GTH) and Palmerston North (PLN) gas gates. A draft report of the Greater Hamilton audit will shortly be available to industry participants for comment, while the audit of Palmerston North is in the initial stages.

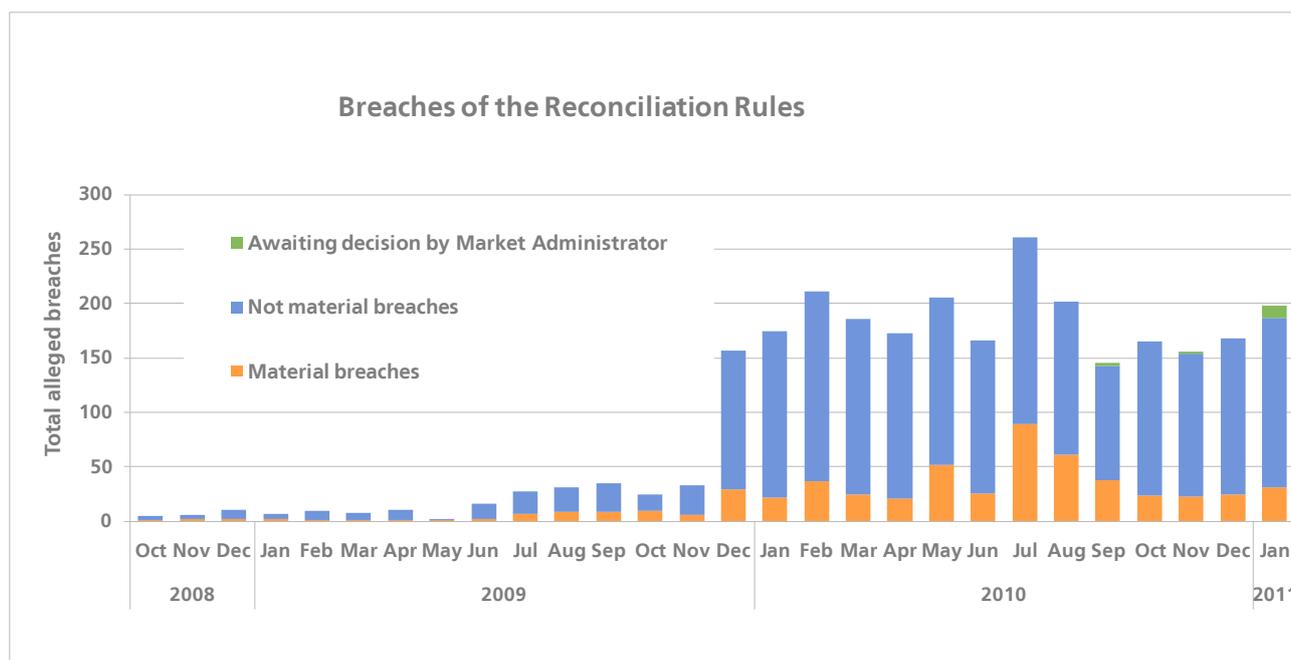
Performance audits

The baseline performance audits of Contact Energy and E-Gas have previously been completed and are available on the Gas Industry Co website. The baseline performance audits of Genesis Energy and Mercury Energy are nearing completion; draft audit reports are expected shortly. Performance audits of the remaining retailers have been scheduled and will be completed by the end of June.

Number and severity of breaches of the Reconciliation Rules

The marked increase in alleged breaches from December 2009 onwards, represents breaches of rule 37 which requires the accuracy of consumption information provided at the initial allocation stage to be within a specified tolerance level of the information provided at the final allocation stage. July 2010 stands out in particular in this regard and represents the month that the poor consumption estimations for May 2009 were alleged as breaches.

Since last quarter's report, a protocol for determining the materiality of these breaches has been established, allowing the Market Administrator to clear the backlog of undetermined breaches. Of the 1679 accuracy breaches alleged to date, three-quarters have been determined not material, and the remaining 428 have been referred to the Investigator for investigation and possible settlement.

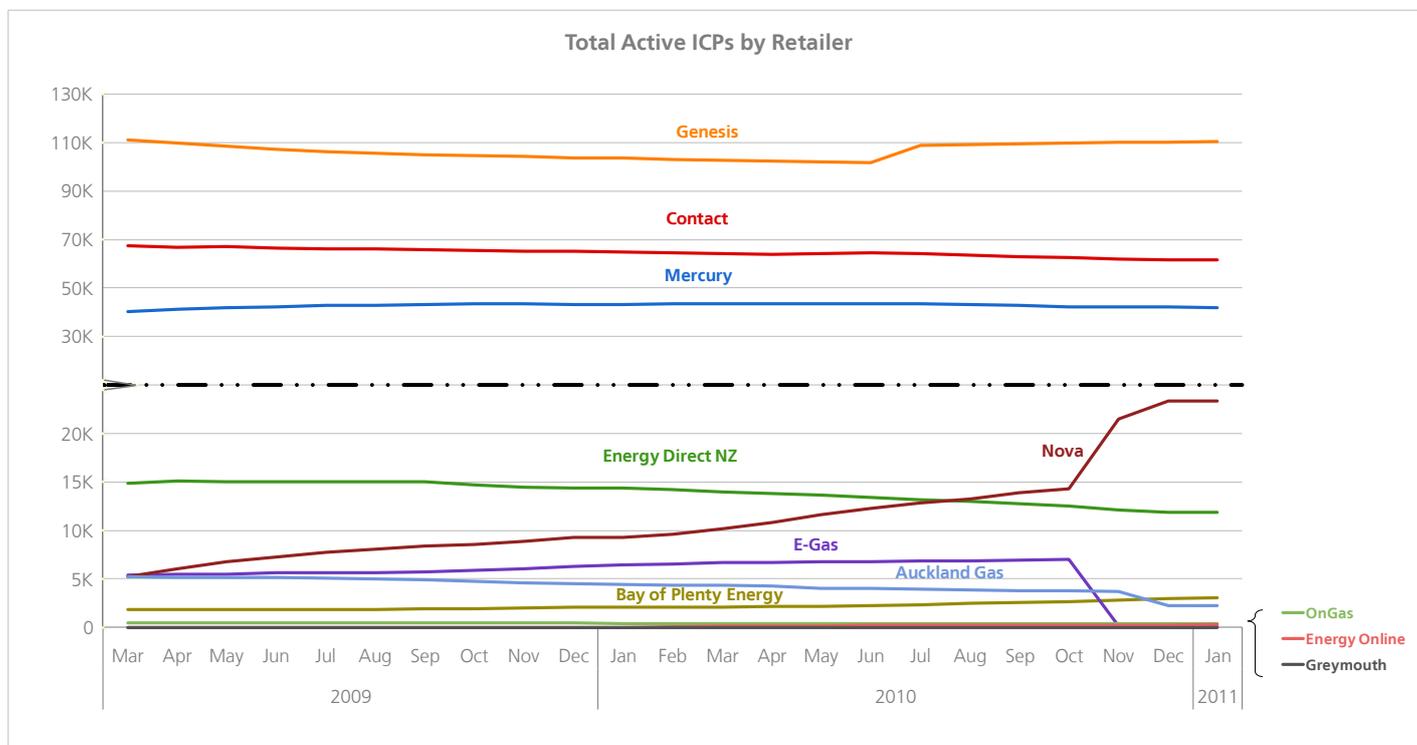


4 Market competition performance measures

Market share of ICPs by retailer

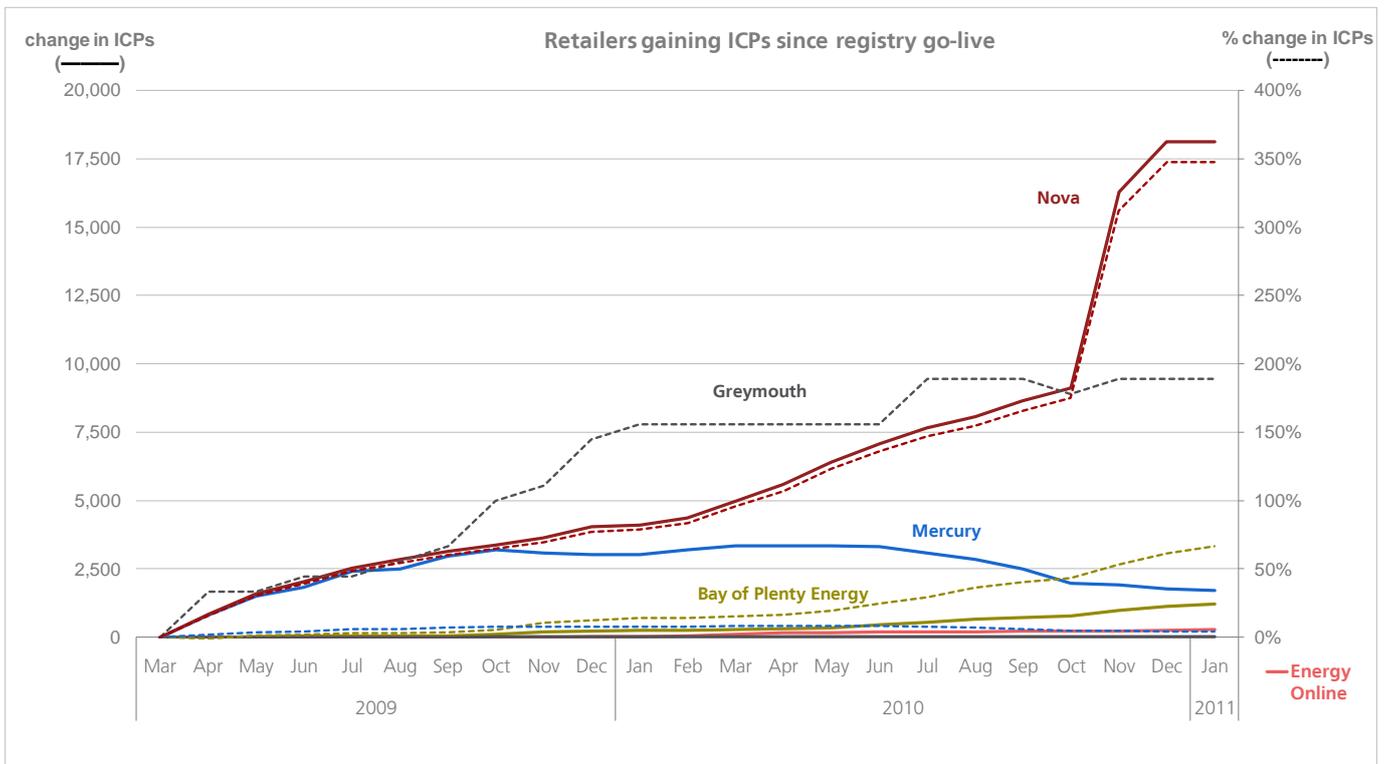
The most notable change in market share in the past three months is the sale of E-Gas ICPs to Nova Energy. The acquisition of E-Gas's customers in November accelerated the steady rate of growth that Nova has been experiencing since the start of the gas registry. Nova had around 5,000 customers at the beginning of 2009, and has since grown to over 20,000 customers. Part of this increase appears to arise from Nova moving customers from its Auckland Gas retail brand to its Nova Energy retail brand.

The increase in Genesis ICPs shown in July 2010 reflects a reclassification by that participant of Active Vacant ICPs (status ACTV) to Active Contracted (ACTC).

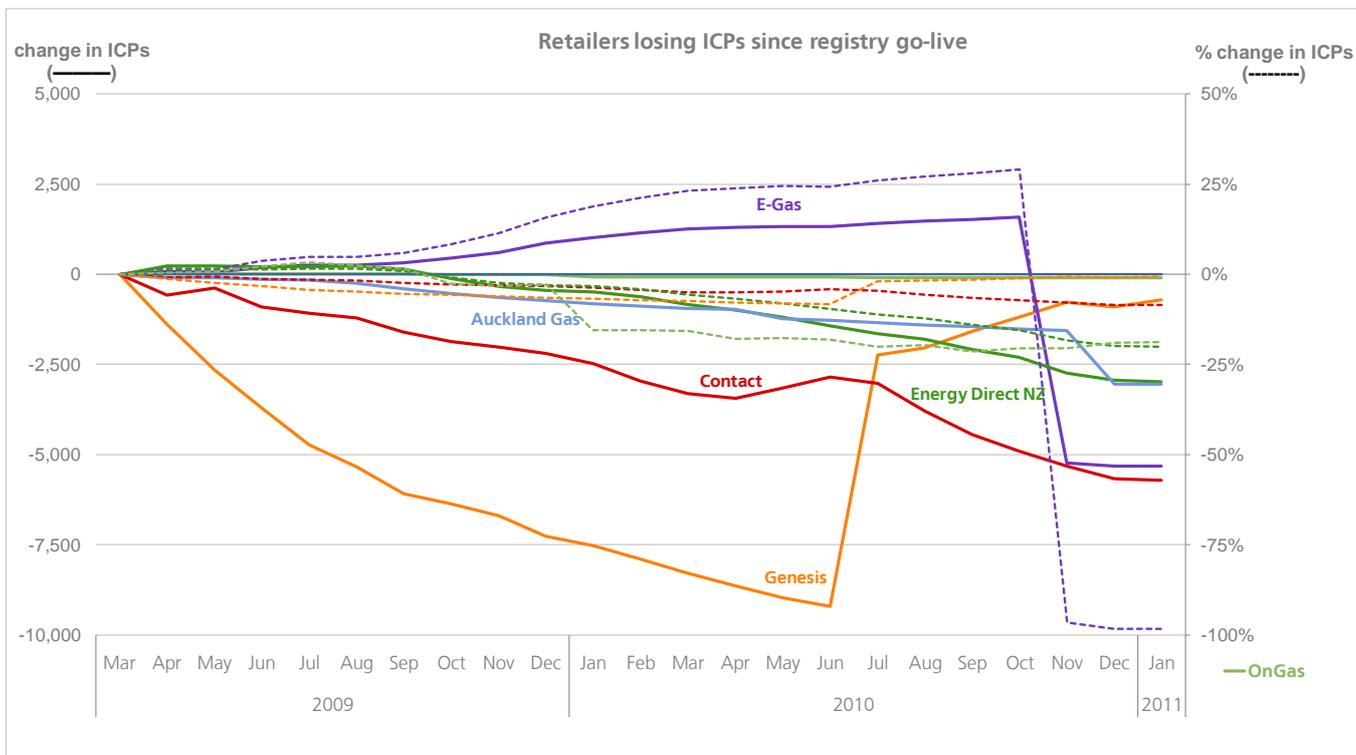


The two charts below are drawn from the same data set. The solid lines represent the change in numbers of ICPs, and the dashed lines show the percentage change in ICPs relative to March 2009. The first chart includes retailers who have gained ICPs since March 2009, and the second includes retailers who overall have lost ICPs since go-live.

The first chart below illustrates the increase in Nova ICPs; since March 2009, Nova has increased the number of active contracted ICPs for which it is the responsible retailer by 347%. The growth of Greymouth is also worth noting: it has enjoyed an increase of almost 200%, but on a small customer base, moving from 9 to 26 ICPs. Energy Online, a new entrant retailer, has gone from no customers to 254 in the past 14 months.



The chart below shows the retailers who have lost market share since go-live. The chart illustrates that E-Gas's customer base was increasing prior to its exit from the market. As noted above, the extent of the decline in Genesis ICPs – and the recovery in July 2010 – reflects a misclassification and then correction of ICP statuses.

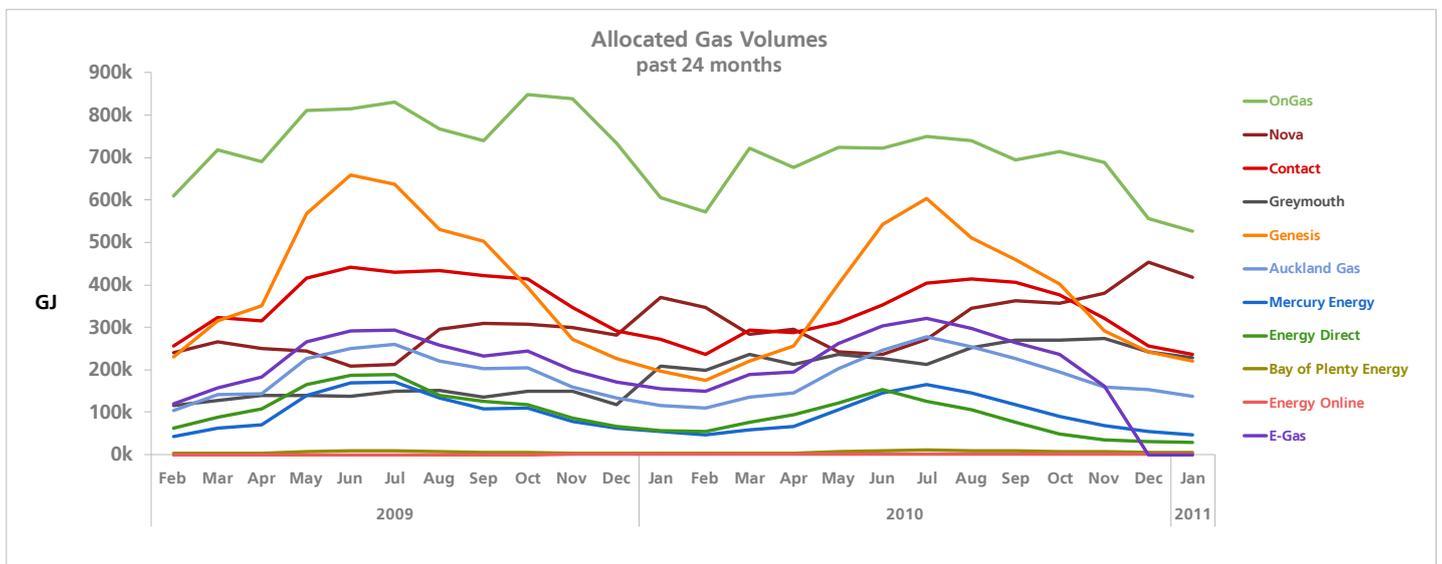


Note that both of the charts above include data from ICPs on open-access distribution networks only; information about ICPs on bypass networks is not available in the Gas Registry.

Allocated gas volumes

This chart shows the gas volumes allocated to retailers at shared gas gates over the past two years. This is gas consumed by industrial, commercial, and residential customers, but it excludes gas volumes from direct connect gas gates; that is, from gas gates that supply a single customer directly from the transmission system. For this reason, gas volumes supplied through direct connect gas gates to such industrial sites as thermal power stations, oil refinery, and paper and chemical factories are not included in the chart below. Volumes from these direct-connect gas gates are attributed directly to consumers, rather than to retailers.

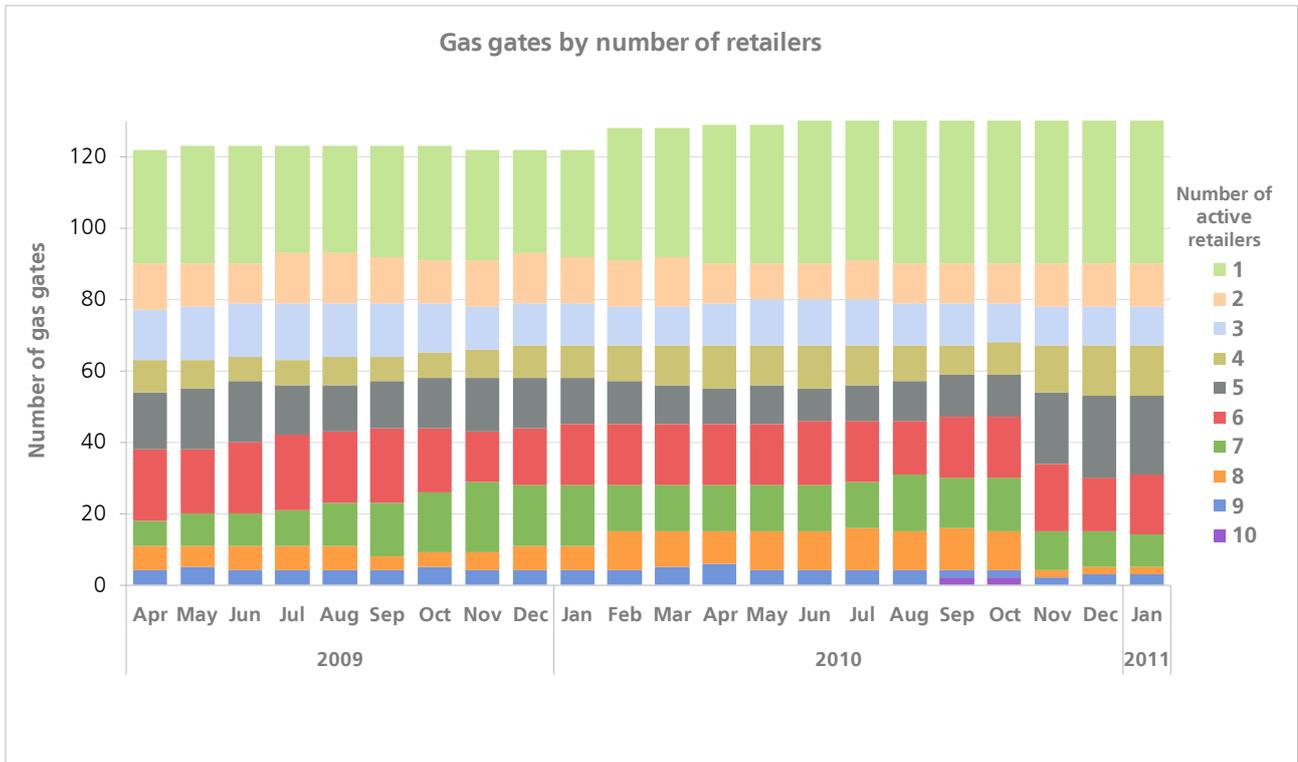
Although OnGas is relatively small in terms of its market share of ICPs, it has about 30% of the market in terms of gas volumes, reflecting the large proportion of commercial and industrial customers that it serves. The next largest retailer in terms of gas volumes, at least in some months, is Genesis; the peakiness of its load is due to the large proportion of domestic customers in its customer base.



The data are from a mix of allocation stages: Final through December 09; Interim for January 10 through September 10; and Initial for October 10 through January 11.

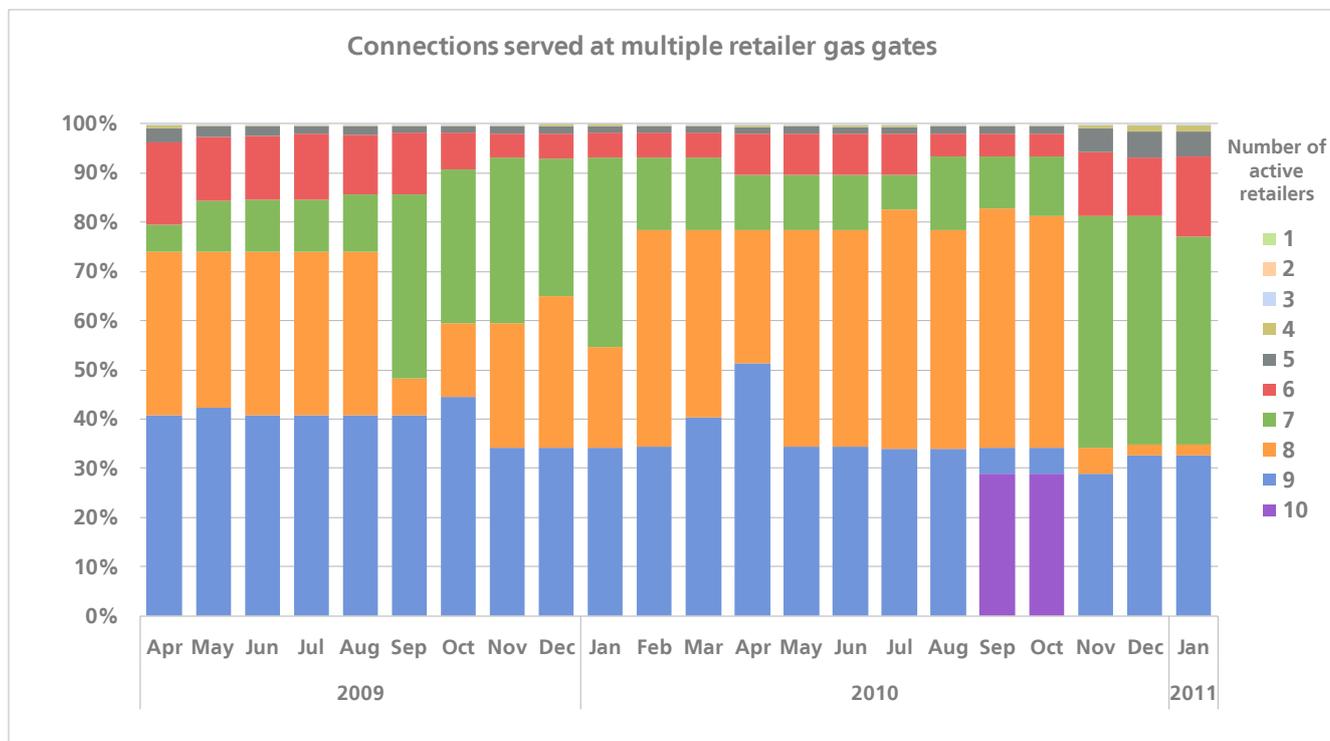
Gas gates by number of retailers

Last quarter saw the first time that 10 different retailers were operating at a single gas gate. This quarter, with the departure of E-Gas from the retail market, the largest number of retailers operating at a single gate has dropped back to nine.



Connections served by multiple retailers

The effect of E-Gas's departure can also be seen clearly in the chart below. As of January 2011, about 77% of customers are served at gas gates where seven or more retailers are active – about the same percentage as in April 2009.



Note that the above chart includes data from ICPs on open-access distribution networks only; information about ICPs on bypass networks is not available in the Gas Registry.

5 Critical Contingency Management performance measures

There have been no critical contingency events since the last quarterly report.

In compliance with the CCM Regulations, the Critical Contingency Operator has scheduled an exercise to test transmission system owners' critical contingency management plans and to ensure that the contact details in those plans and the contact details maintained by retailers are current. The next quarterly report will provide an assessment of that exercise.