

Performance Measures Quarterly Report for the period ending 31 March 2014

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 2009 (the Reconciliation Rules), and the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations), both in terms of activity related to these statutes and the competitive outcomes that they foster. The Report also tracks transmission balancing actions, as a means of informing Gas Industry Co's work on this issue.

Explanatory details about the charts can be found in the Appendix to this report.

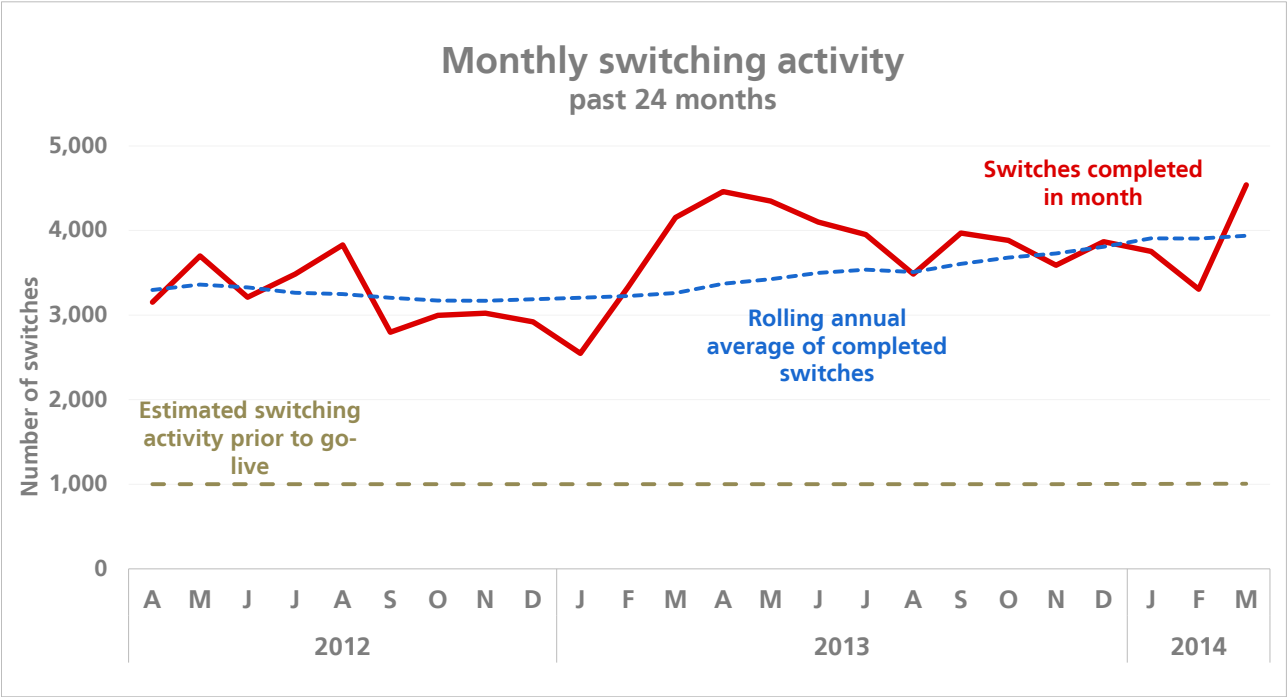
Highlights of the Report:

- Switching has increased in the past three months, consistent with patterns seen in other years. The switching rate for the 12 months to March 2014 is 17.8%.
- About 75% of switches are completed within seven business days.
- 46% of residential customer sites have switched retailer at least once in the past five years; 62% of small commercial and 70% of large commercial sites have switched at least once.
- Average annual unaccounted-for gas (UFG) is about 1.1%.
- Genesis is the largest retailer by customer share; it is also the largest retailer in the residential customer market. Nova Energy has the largest share of commercial and industrial customers.
- In all regions, the gas retail market has become less concentrated in the past five years, as measured by the Herfindahl–Hirschman Index (HHI), due to new retailers entering the market and smaller retailers increasing their market shares.
- In terms of market share by gas volumes, Nova and OnGas are the largest retailers, reflecting their focus on the industrial and commercial sectors of the gas market (although Nova also has a presence in the residential gas market).
- Due to the entry of Trustpower late in 2013, there are now a number of gas gates where nine retailers actively trade. About 98% of gas customers are connected to a gate where least six

retailers trade, demonstrating that gas retailers generally are competitive throughout the North Island.

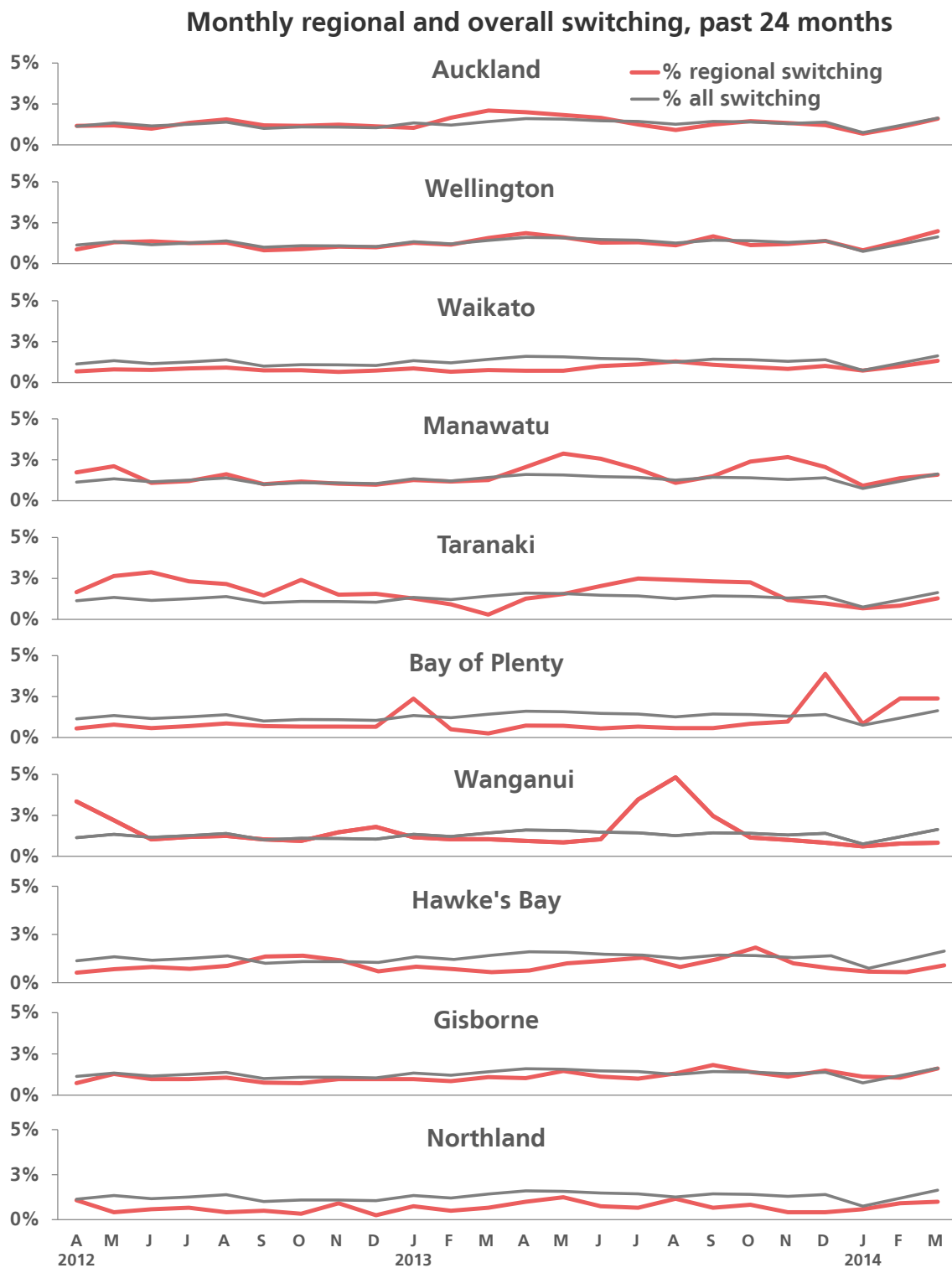
2 Switching performance measures

Chart 1: Monthly switching activity



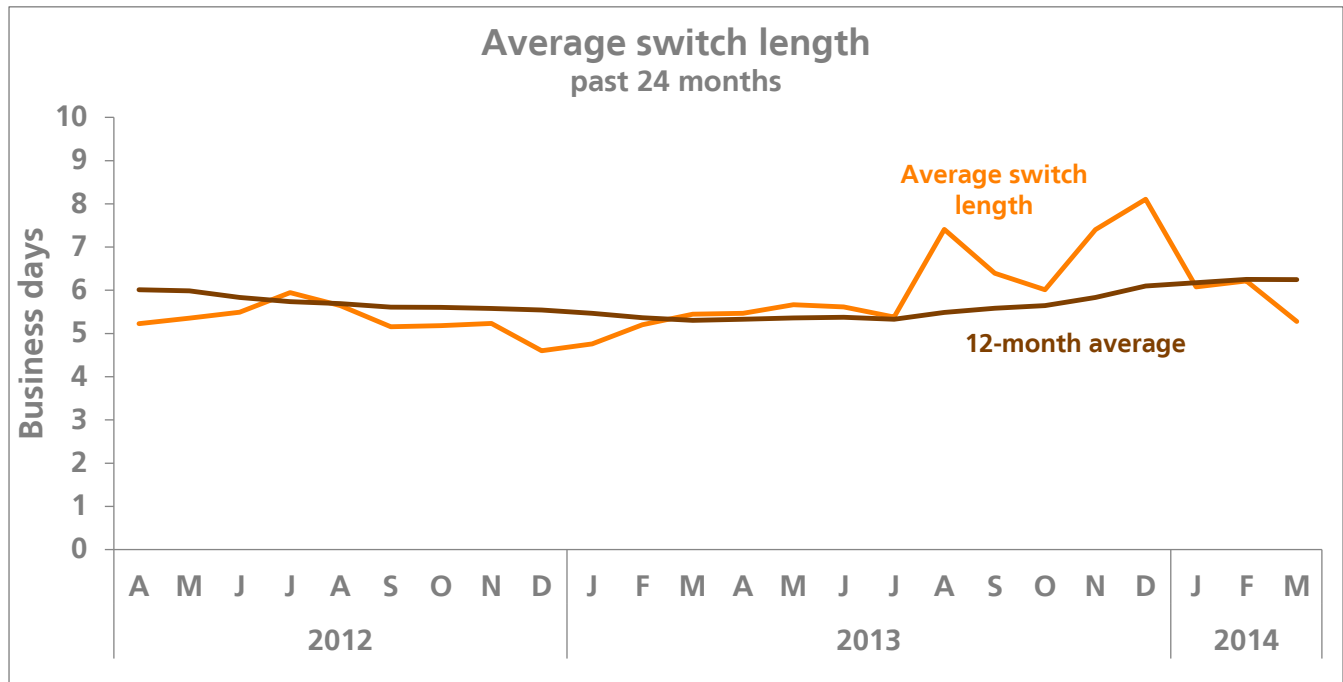
- The uptick in switching in the past three months is consistent with previous years' switching patterns.
- The churn rate for the 12 months to March 2014 is 17.8%.

Chart 2: Regional switching activity



- Higher than average switching rates in Bay of Plenty and Wanganui appear to be the result of targeted retailer campaigns.

Chart 3: Time to process switches



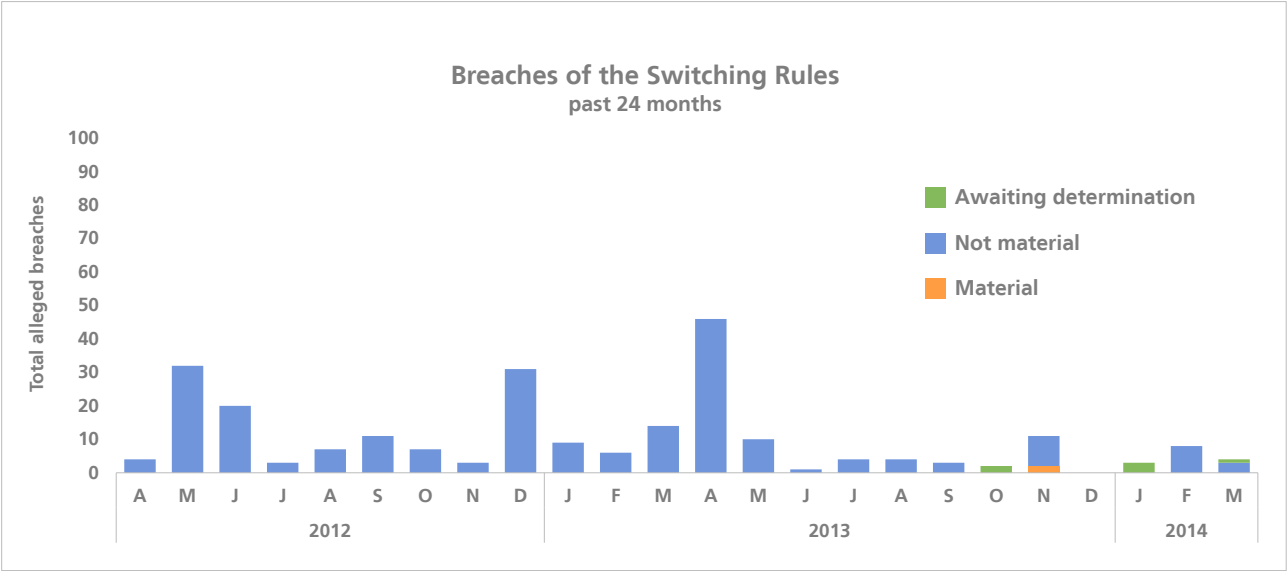
- Average switching time stands at about 6.3 days.
- The spikes in switching time in the second half of 2013 may be related to changes in the electricity registry and electricity retailers' systems, which could have had a follow-on effect on gas switching for dual-fuel retailers.

Chart 4: Distribution of switching length



- About 75% of switches are completed within seven business days.

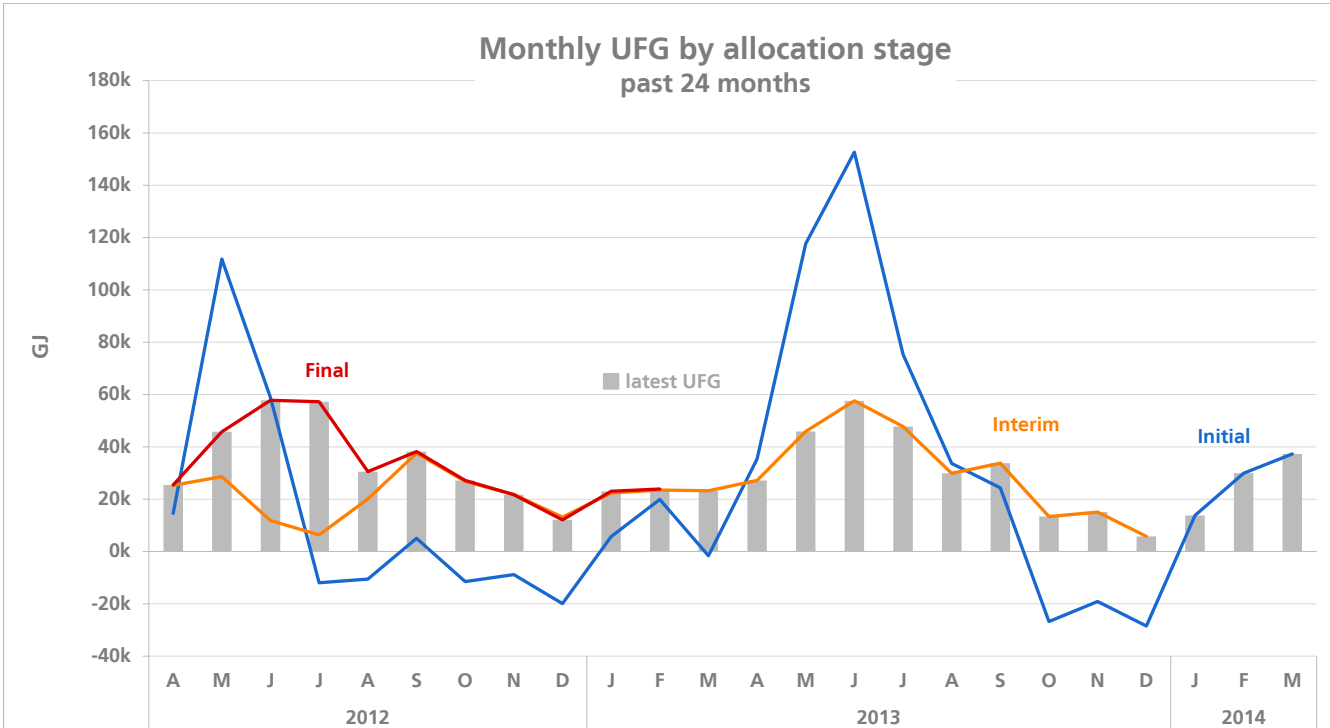
Chart 5: Number and severity of breaches of the Switching Rules



- There were 15 breaches of the Switching Rules alleged in the past quarter.

3 Allocation and reconciliation performance measures

Chart 6: Volumes of unaccounted-for gas (UFG)



- UFG was relatively low in the past three months, consistent with usual summer patterns.

Chart 7: Percentage of UFG

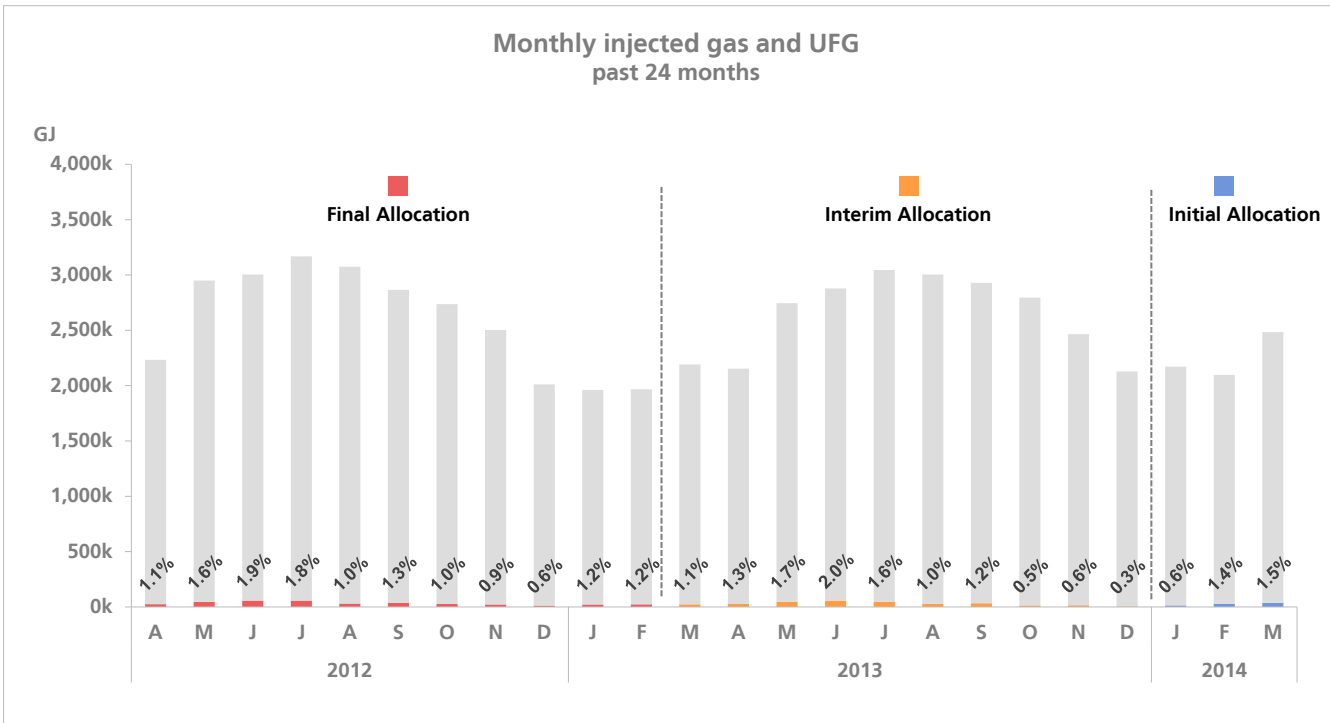
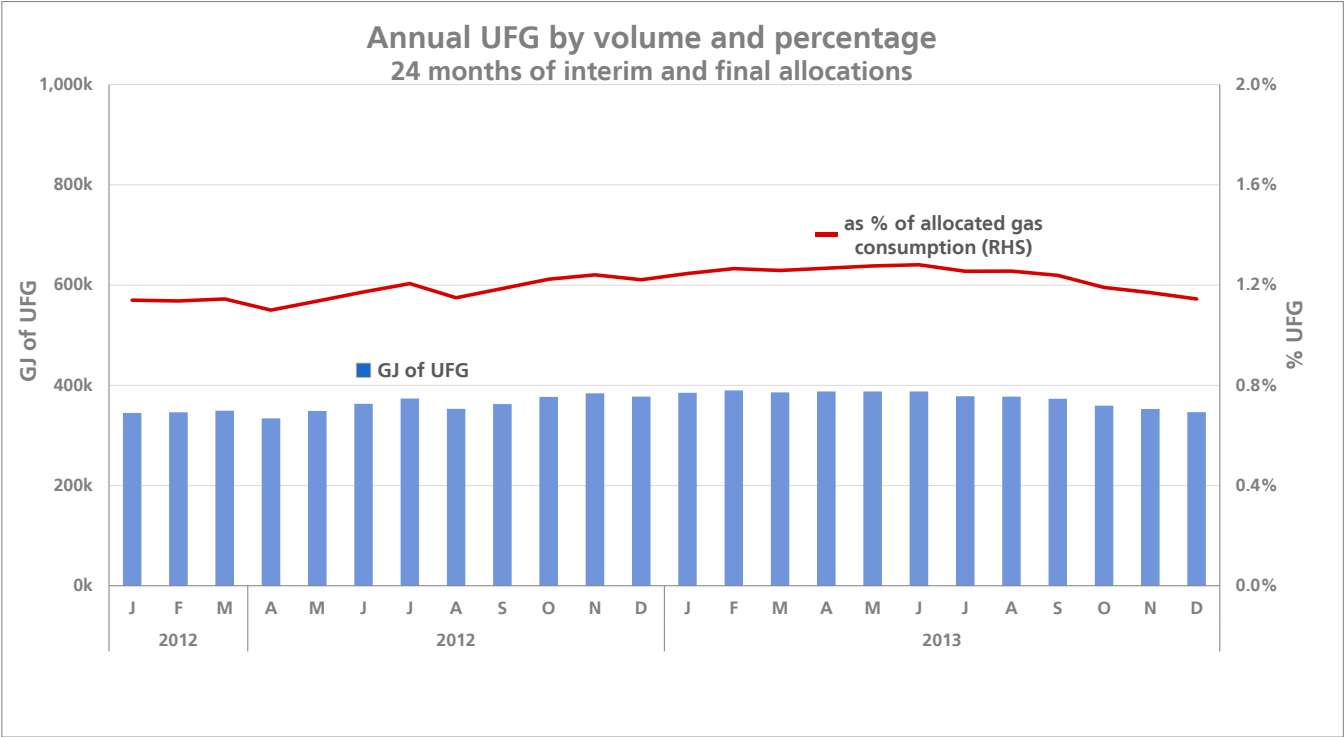
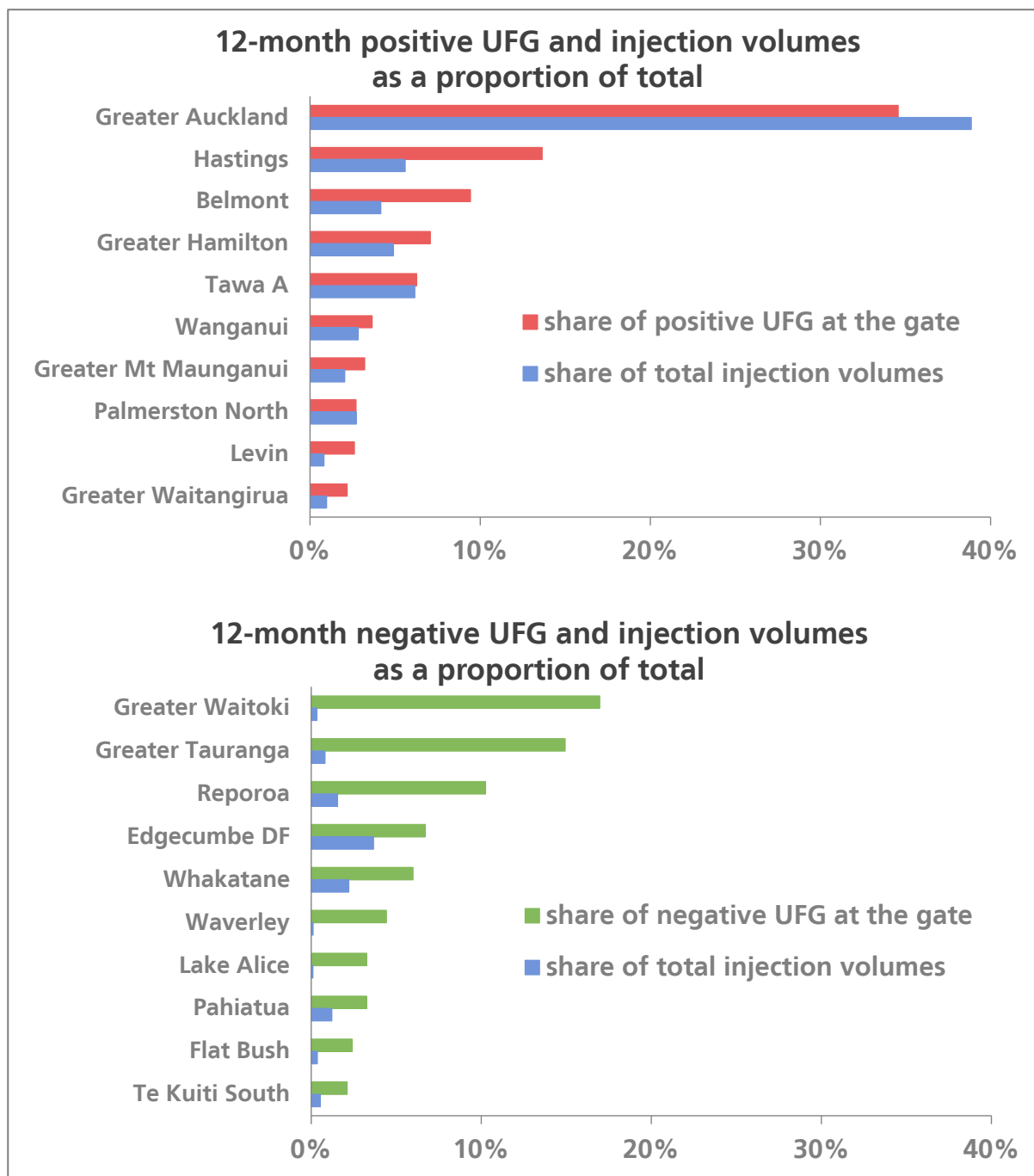


Chart 8: Rolling 12-month UFG



- Annual UFG stands at about 1.1%, using interim and final allocation data.

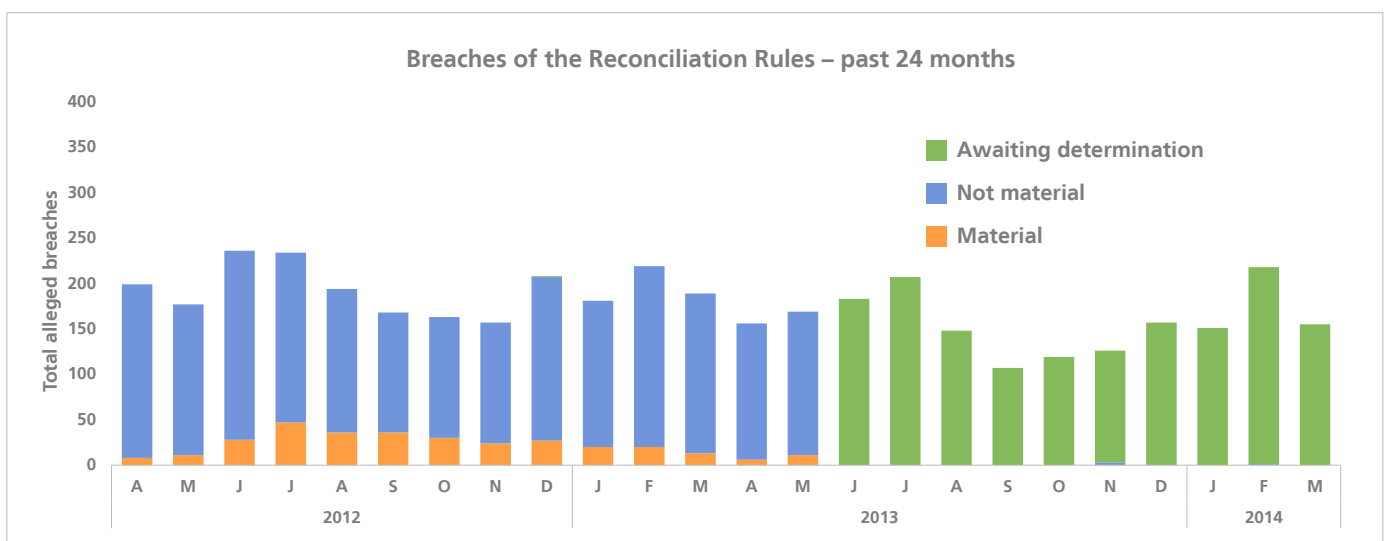
Chart 9: Gas gates where UFG is the highest



- These charts show the gates that experience the largest share of total UFG, compared to their share of total gas gate deliveries at shared gas gates. These charts use 12 months of the most recent interim and final allocation data available: in this case, January to December 2013.
- The 10 gates shown in the top chart account for 85% – about 364,000 GJ – of the positive UFG experienced over the past 12 months.

- The 10 gates shown in the bottom chart account for about 70% (about 58,000 GJ) of the negative UFG experienced in the past 12 months. Six of the gas gates shown – Edgecumbe DF, Waverley, Whakatane, Reporoa, Pahiatua, and Te Kuiti South – have been determined to be global one-month gates, since, among other things, they have a high proportion of industrial load. The global one-month methodology assigns a share of the actual UFG experienced in a month to industrial consumers, in contrast to the usual calculation method, which assigns industrial load an annual average amount of UFG. Use of this methodology commenced with the October 2013 consumption month.

Chart 10: Number and severity of breaches of the Reconciliation Rules



- Over 90% of alleged breaches of the Reconciliation Rules in the past year have occurred in relation to rule 37 – the rule that requires initial consumption information submitted by retailers to be within a percentage of accuracy of the consumption information submitted for the final allocation.
- It has proven efficient for the market investigator to attempt to reach settlements in yearly batches of rule 37 breaches. The previous batch, encompassing material breaches alleged from June 2012 to May 2013, was settled in August 2013.

Audits commissioned

Event audits

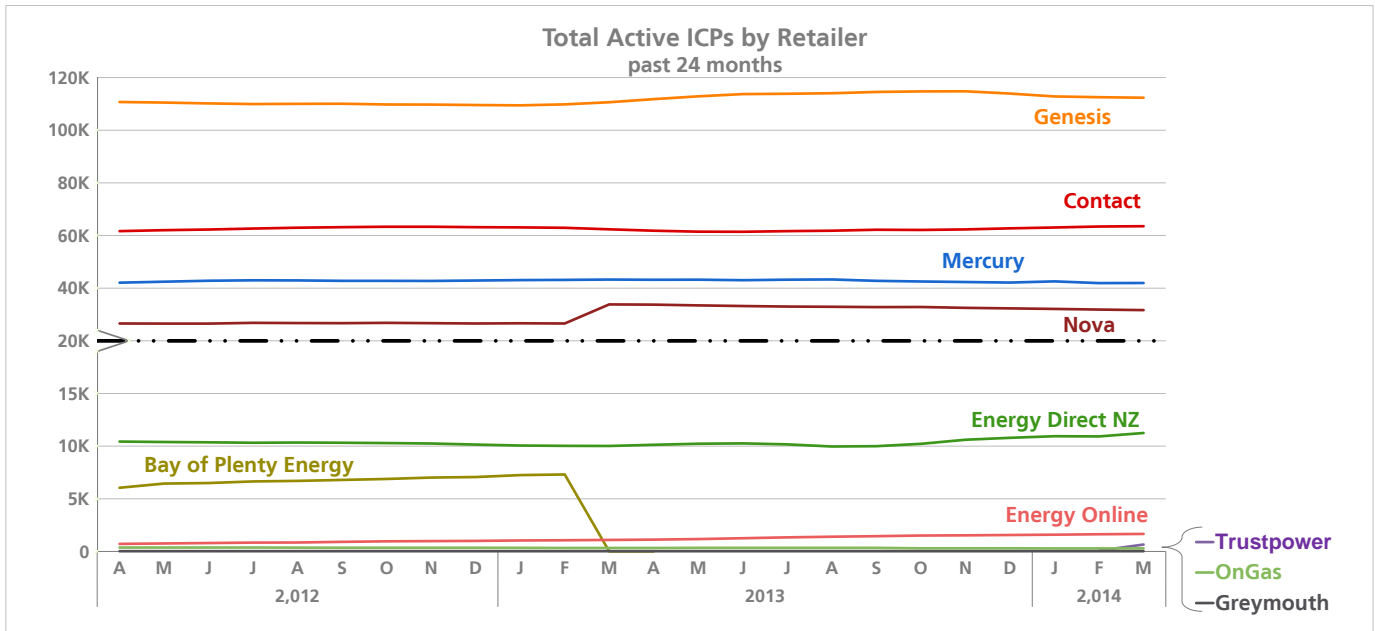
There have been no incidents requiring that event audits be commissioned in the past quarter.

Performance audits

A second round of retailer performance audits has been commissioned under the Reconciliation Rules, but none are complete as of this writing.

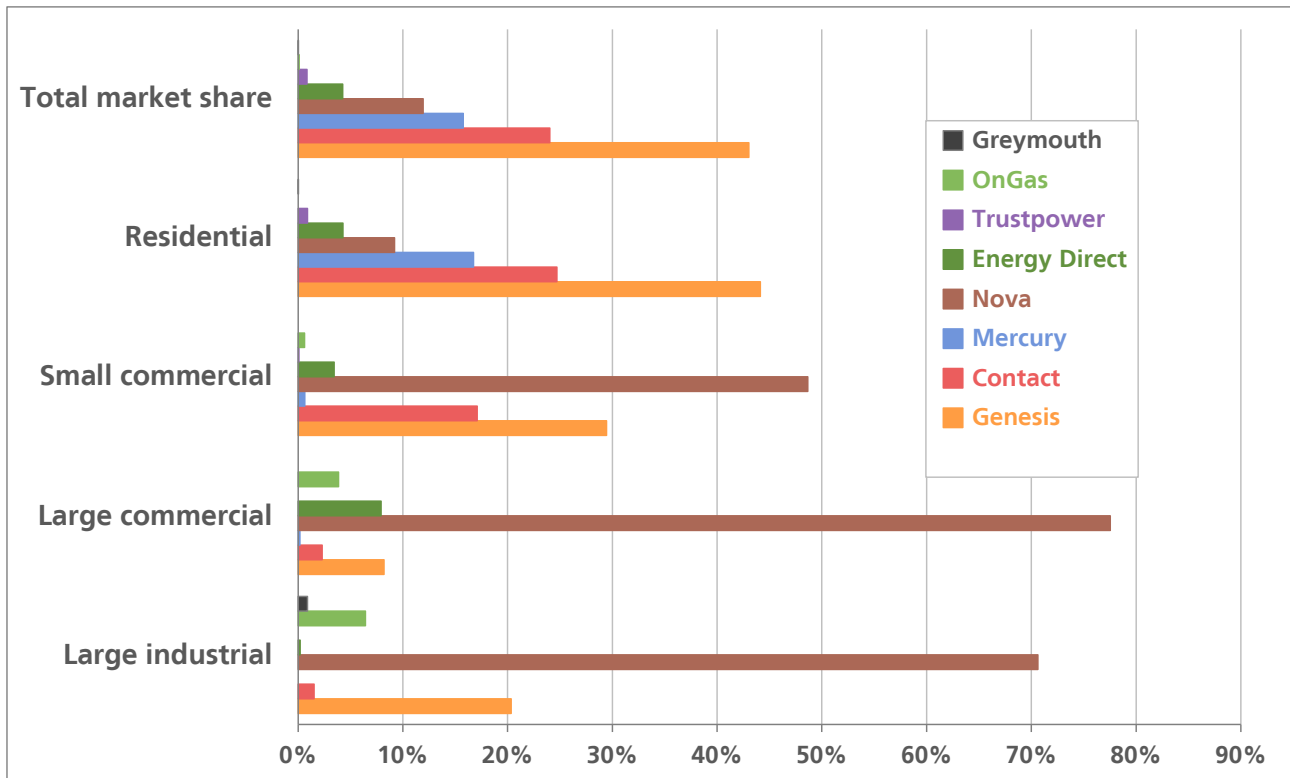
4 Market competition performance measures

Chart 11: Market share of ICPs by retailer



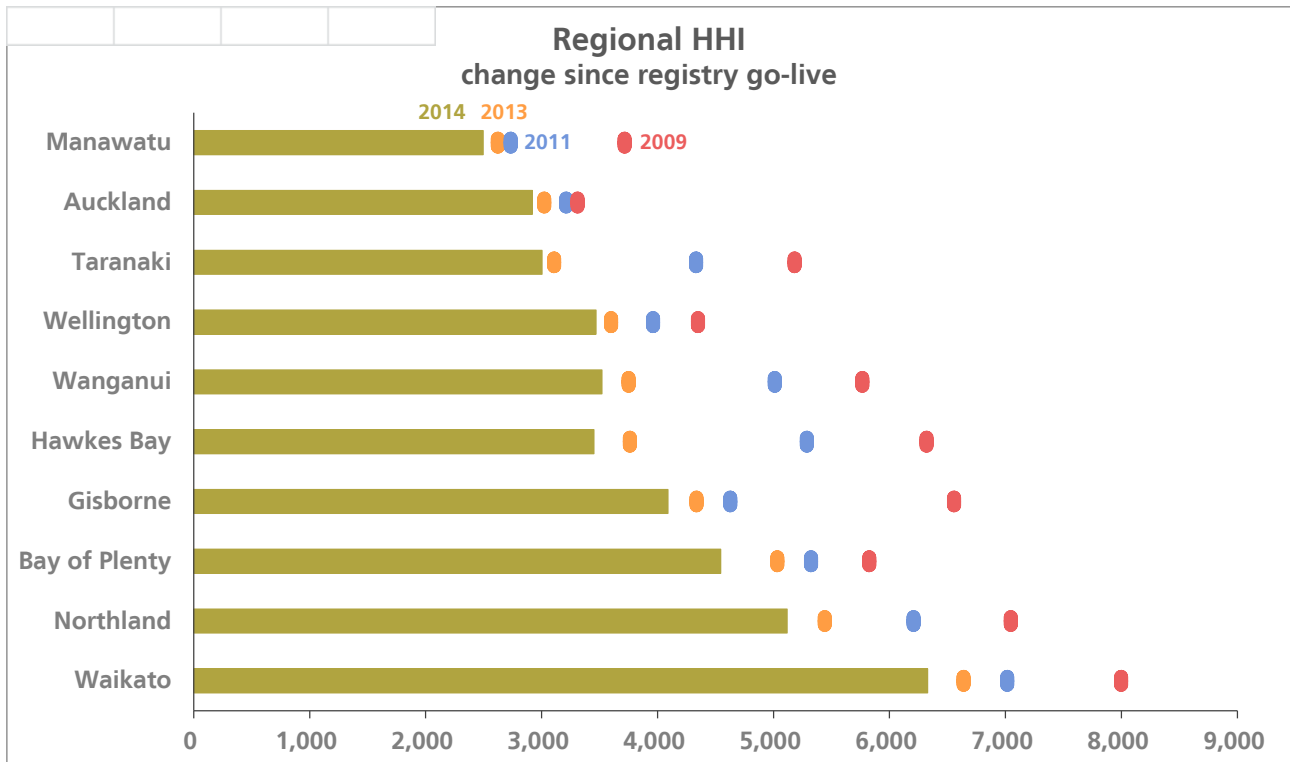
- In November 2013, Trustpower entered the retail gas market under its own brand, following the company's acquisition of Energy Direct in July 2013.
- There are now 10 distinct retail brands, owned by eight different retail companies (Energy Online is owned by Genesis Energy).

Chart 12: Market share by customer segment



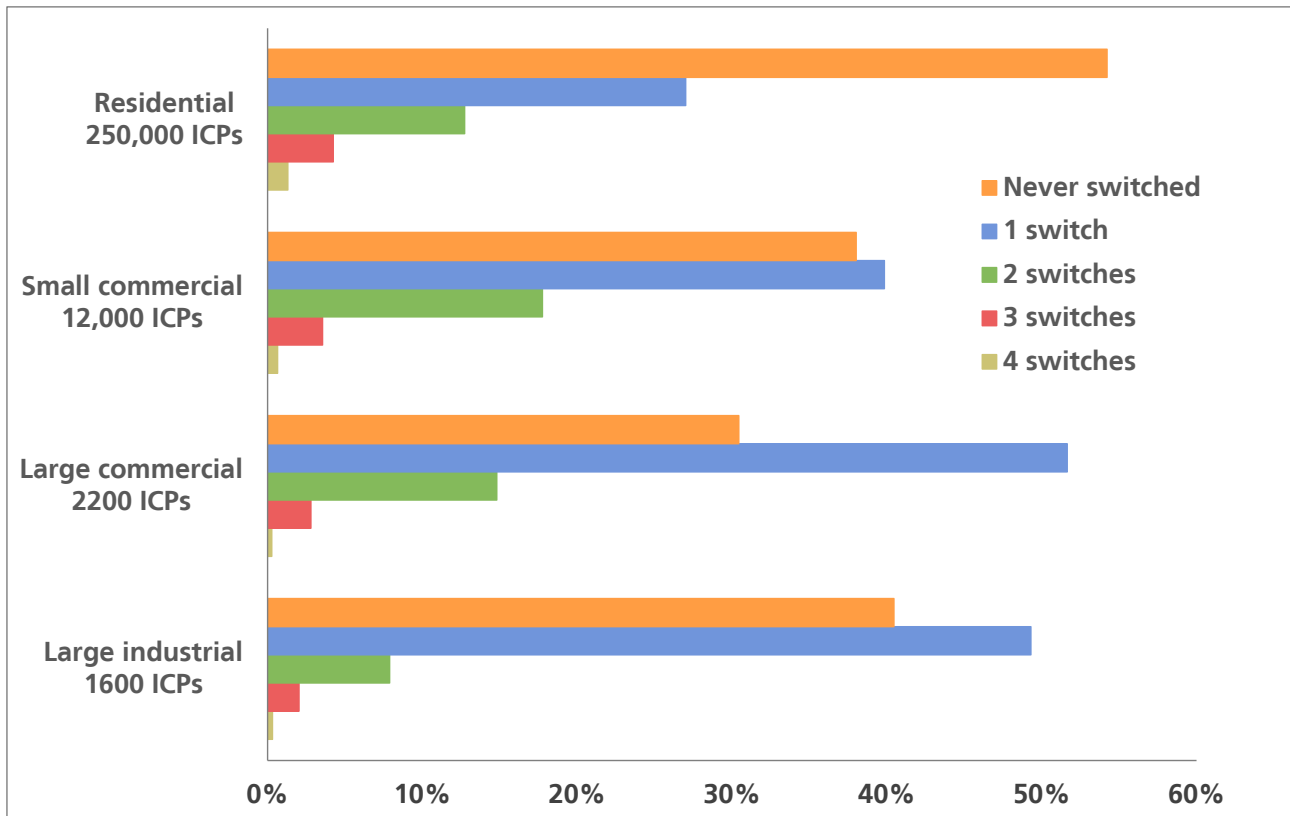
- Charts 11 and 12 show that Genesis has the largest share of customers overall and is the largest retailer in the residential customer market.
- Nova Energy has the largest share of commercial and industrial customers.

Chart 13: Herfindahl–Hirschman Index (HHI)



- Regional gas markets have become steadily less concentrated since registry go-live.
- The HHI has decreased in all regions since 2009, indicating that the retail market is becoming less concentrated.

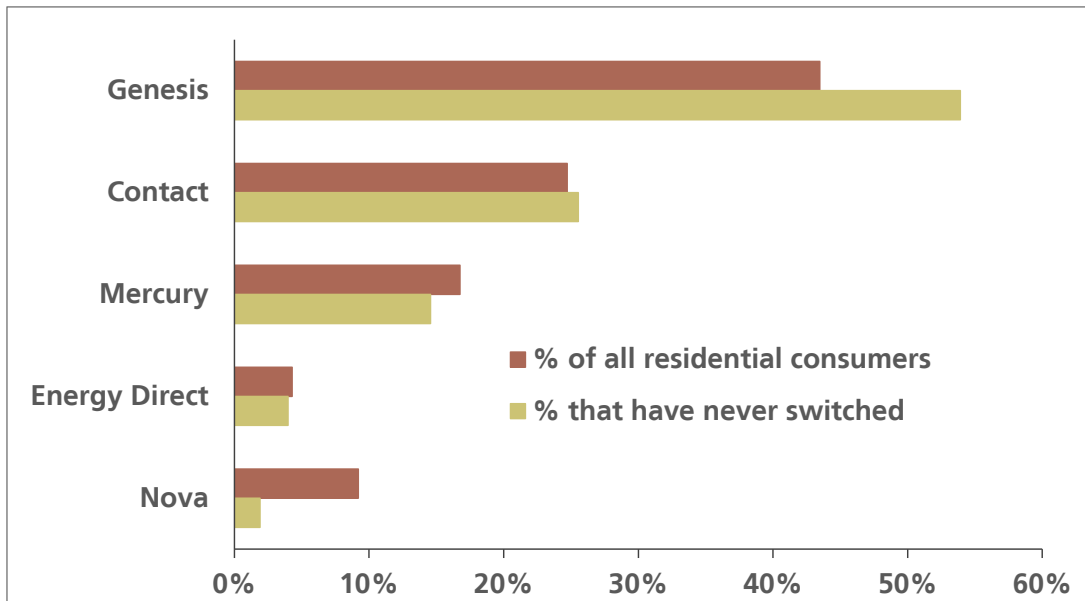
Chart 14: Switching by customer sites since 2008



- 46% of residential customer sites
- 62% of small commercial sites
- 70% of large commercial sites; and
- 60% of large industrial sites

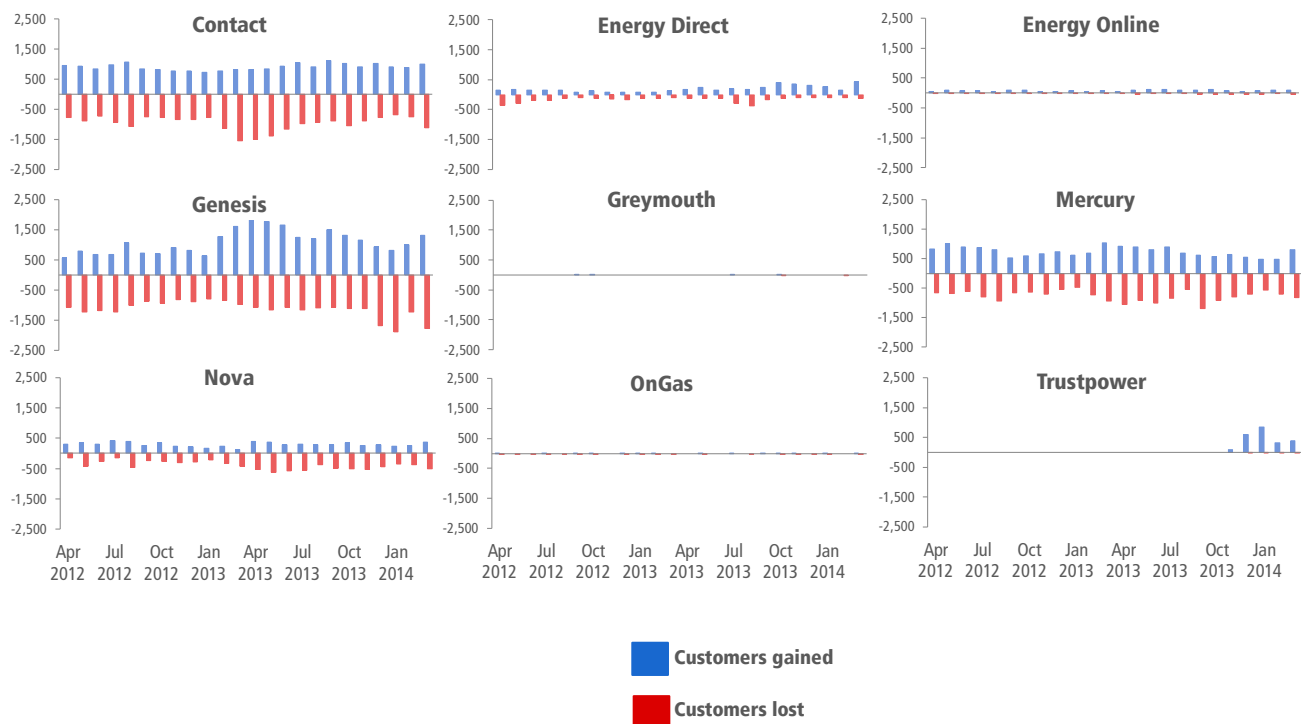
have switched retailer at least once in the past five years (since March 2009).

Chart 15: Residential customer sites that have never switched



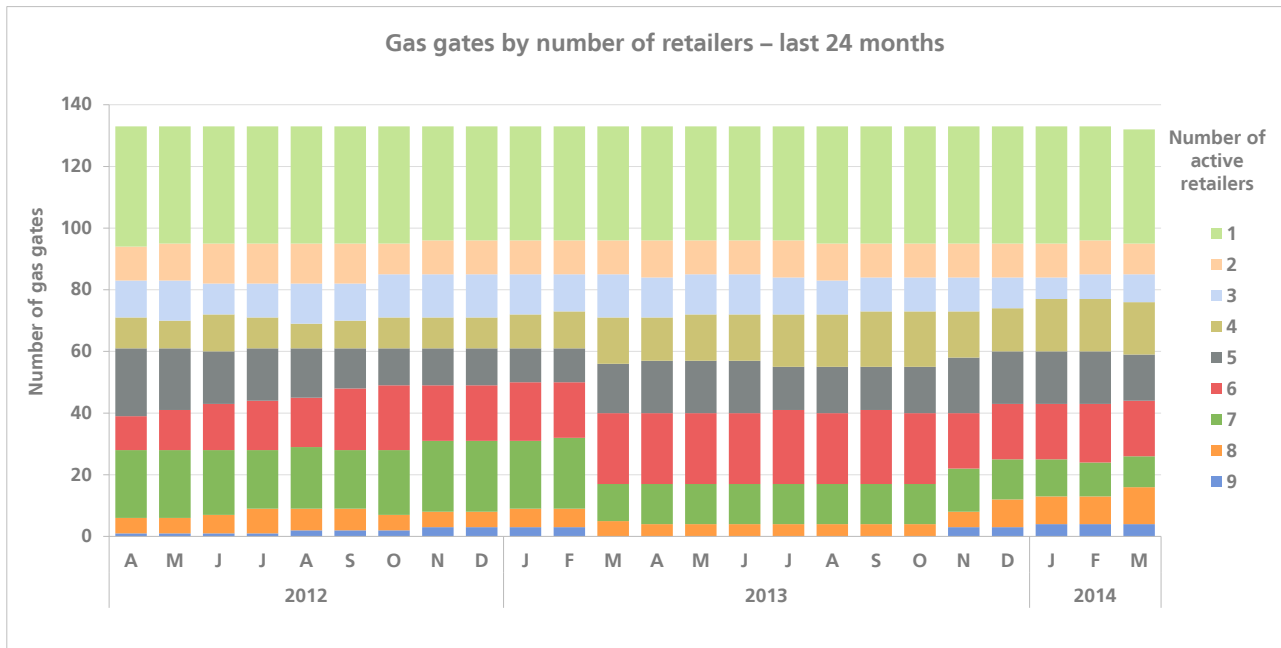
- Of the 54% of residential consumer sites that have not switched retailer in the past five years, over half are Genesis customers – a proportion larger than Genesis’s market share of residential customers.

Chart 16: Switching activity by retailer



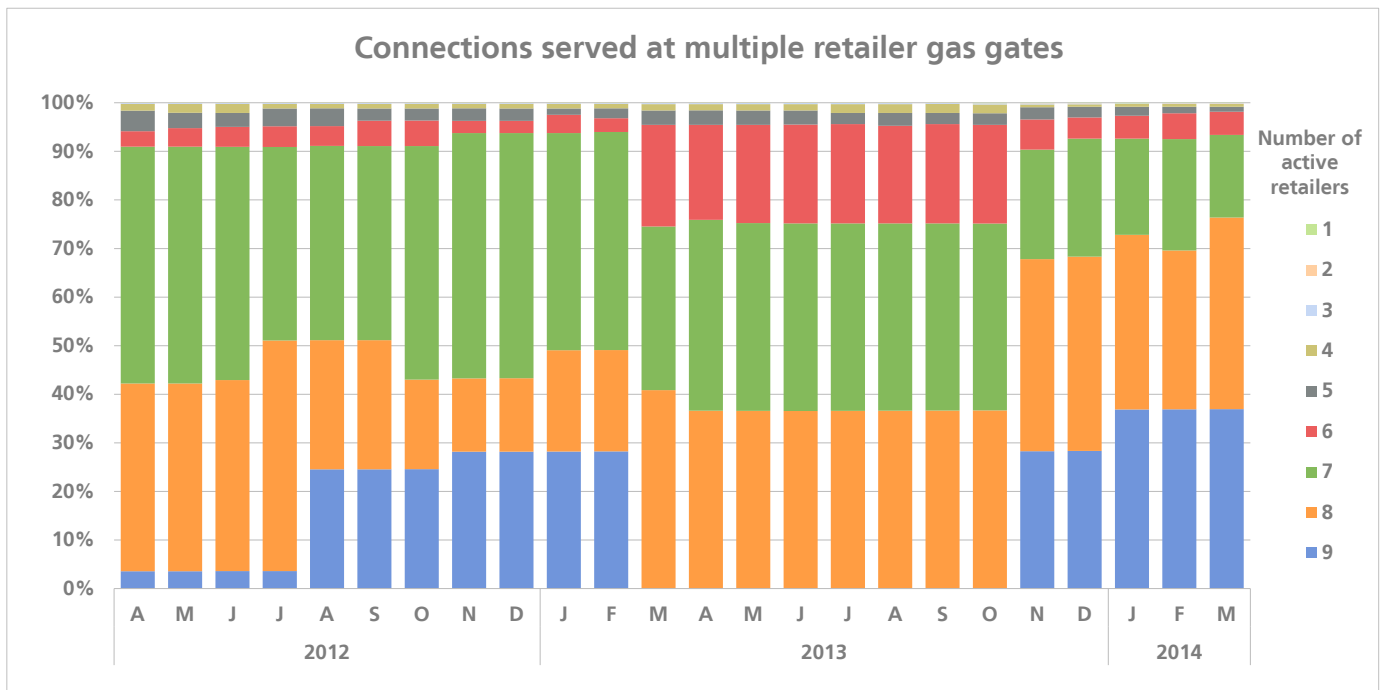
- Although market shares have been relatively stable over time, there is a lot of underlying switching activity.

Chart 17: Gas gates by number of retailers



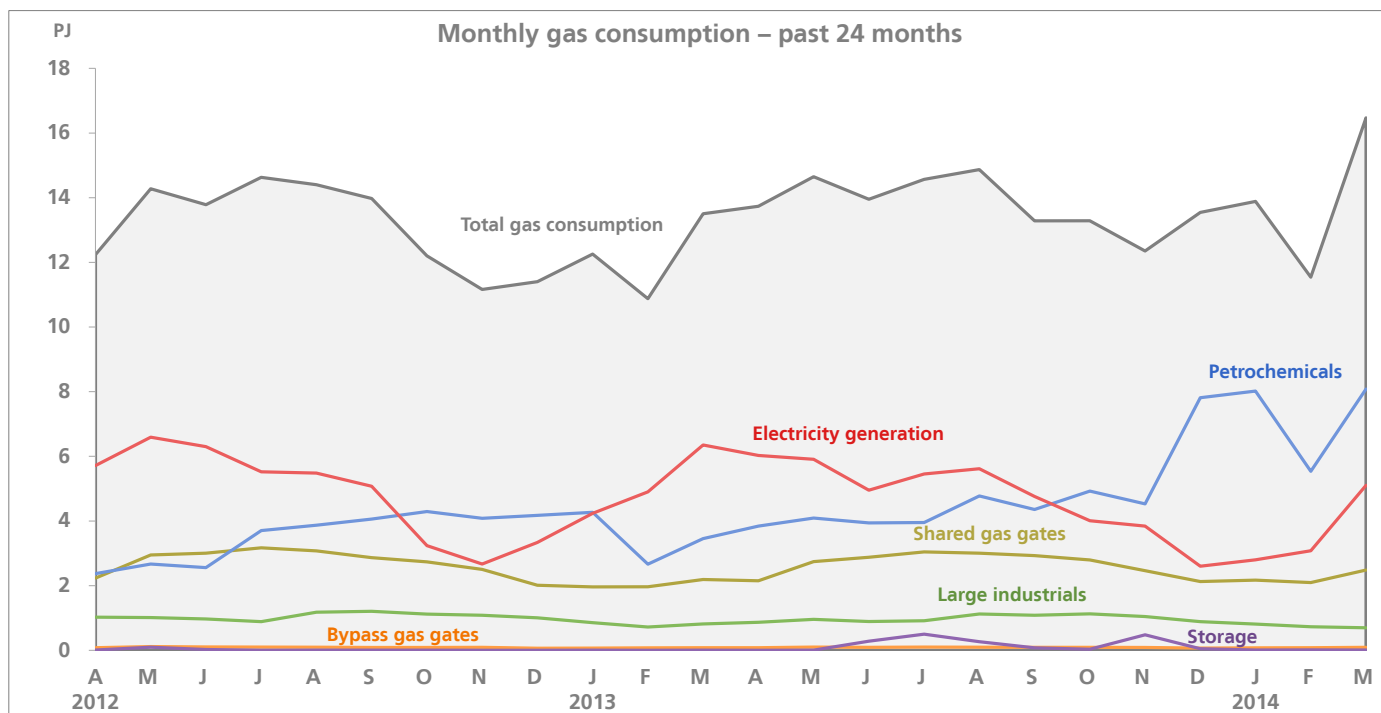
- Trustpower's entry into the retail gas market means that there are now nine retailers active at some gas gates.

Chart 18: Connections served by multiple retailers



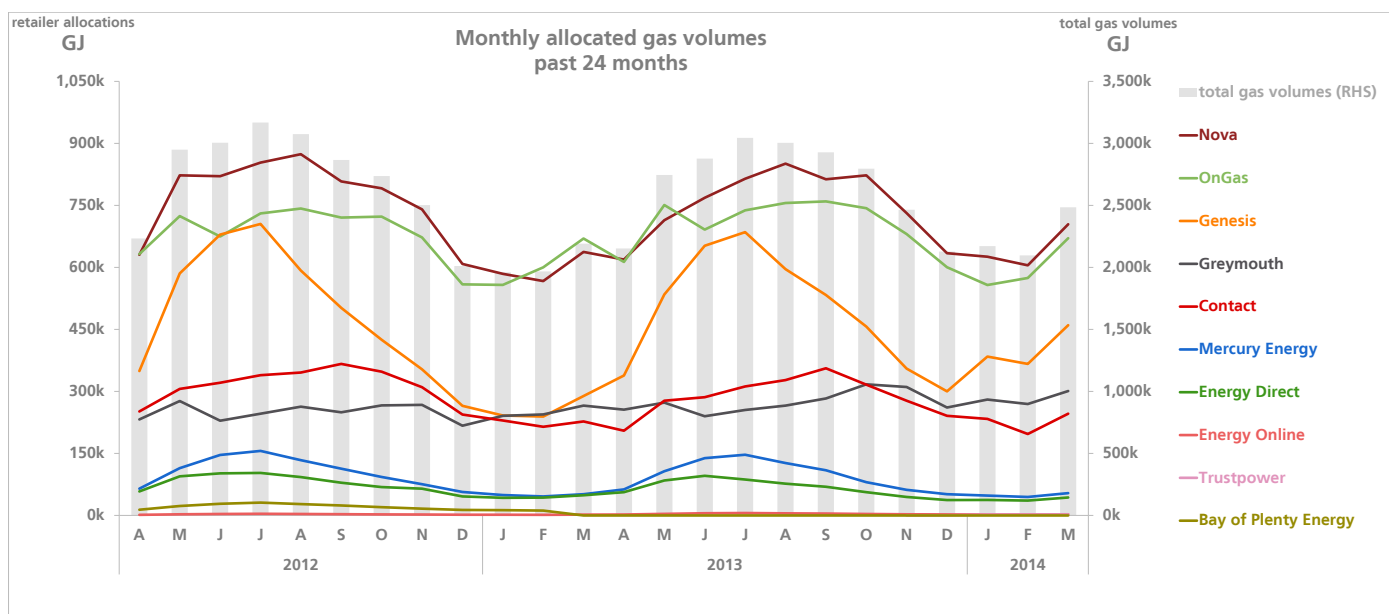
- Over 98% of gas customers are connected to a gate where least six retailers trade.

Chart 19: Total gas volumes



- Gas used for petrochemicals has increased since the end of last year due to the restart of Methanex's Waitara Valley plant and increased capacity at its Motunui site.

Chart 20: Allocated gas volumes



- The data are from a mix of allocation stages: Final through February 2013; Interim for March 2013 through December 2013; and Initial for January 2014 through March 2014.

Chart 21: Balancing gas volumes

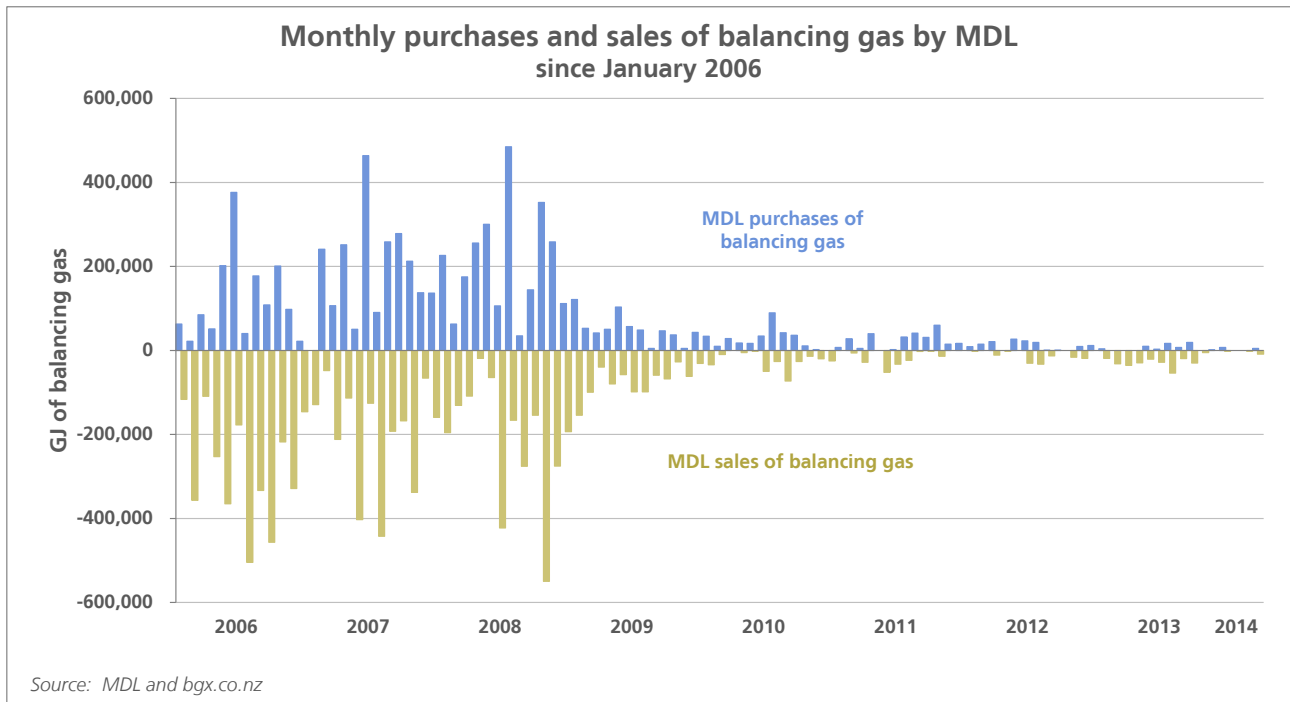
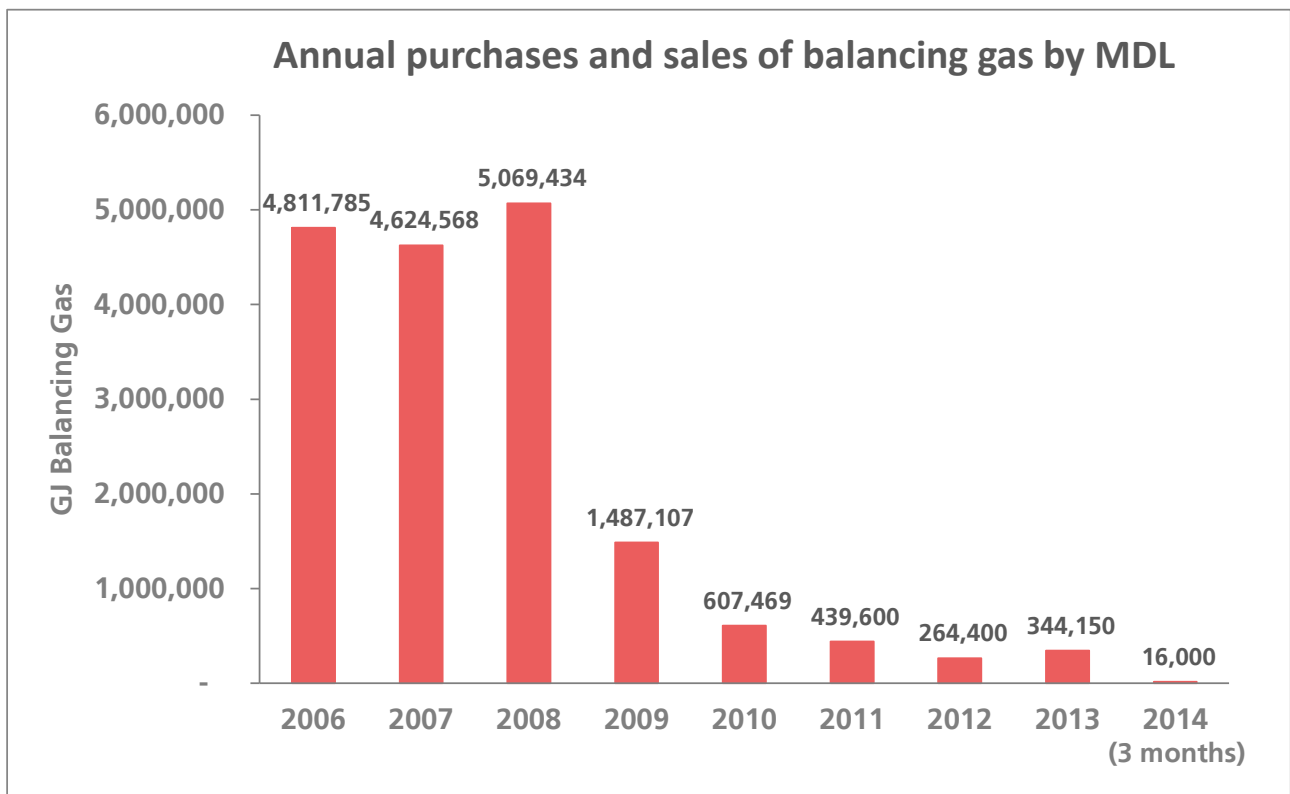


Chart 22: Annual volumes of balancing gas



- On average, balancing gas volumes purchased by MDL have decreased 93% from pre-2009 levels.

5 Critical Contingency Management performance measures

Core Group took over as the Critical Contingency Operator on 28 February 2014. On 1 March 2014, amendments to the Critical Contingency Management Regulations took effect.

There were no critical contingencies in the previous quarter.

Glossary

Critical contingency	A state of emergency on the transmission system characterised by falling or extremely low gas pressures. In such situations, the critical contingency operator has the authority to require consumers to stop using gas in order to balance the system, as set out in the Gas Governance (Critical Contingency Management) Regulations 2008.
Direct connect consumers	Large industrial consumers who are supplied gas directly from the transmission system via a dedicated gas gate.
Distribution system	System of lower pressure pipelines conveying gas from the transmission system to customer sites.
Gas gate	A place where gas leaves the transmission system. Gas gates can (most commonly) lead to distribution systems, which supply a number of different customers. Some gas gates are direct connects, meaning that they supply a single large industrial customer. A few gas gates supply private gas networks, which supply the customers of a single retailer.
Herfindahl–Hirschman Index (HHI)	Measure of market concentration. Generally, markets in which the HHI is between 1,500 and 2,500 are considered moderately concentrated. Markets with an HHI of greater than 2,500 are considered highly concentrated. For more information, see the Appendix.
ICP	Installation Control Point: the point where a customer installation is connected to the distribution system. Used to describe a customer site.
Move switch	A switch where the retailer supplying gas to a consumer site is changed to another retailer at the request of an incoming tenant or homeowner.
Reconciliation	The processes by which the volume of gas leaving the transmission system is allocated on a gate-by-gate basis to retailers with customers at those gates; governed by the Gas (Downstream Reconciliation) Rules 2008. Reconciliation is done on a monthly basis, and each consumption month is calculated three times: in the month immediately after consumption month (<i>initial allocation</i>); four months after consumption month (<i>interim allocation</i>); and 13 months after consumption month (<i>final allocation</i>).

Registry	Database of information on customer sites, including metering information, associated gas gate, and responsible retailer. Used to facilitate efficient and accurate switching.
Standard switch	A switch where a gas customer decides to switch the retailer that supplies their existing location.
Switching	The processes by which the retailer supplying a customer site is changed to another retailer, governed by the Gas (Switching Arrangements) Rules 2008.
Transmission system	System of high pressure pipelines that convey gas from gas processing facilities to a distribution system or to a direct connect customer.
Unaccounted-for gas (UFG)	The difference between the amount of gas leaving the transmission system and retailers' estimates of their consumers' consumption. It is made up of technical losses on the system, metering inaccuracies, and retailer estimation errors. For more information, see the Appendix.