GAS INDUSTRY COMPANY LIMITED

2017/2018 ANNUAL REPORT

CONTENTS

GOVERNANCE ARRANGEMENTS OVERSEEN BY GAS INDUSTRY COMPANY

Regulatory arrangements made under the Gas Act include:

- Gas (Switching Arrangements) Rules 2008 (Switching Rules), which provide for a central registry of Installation Control Point (ICP) data and facilitate customer switching among retailers.
- Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules), which prescribe the process for attributing volumes of gas consumed to the responsible retailers.
- Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations), which set out how industry participants plan for, and respond to, a serious incident affecting gas supply via the gas transmission pipelines.
- Gas Governance (Compliance) Regulations 2008 (Compliance Regulations), under which alleged breaches of the rules and regulations set out above are determined and settled efficiently. Gas Industry Co performs the role of Market Administrator under the Compliance Regulations.

Industry arrangements include:

- Retail Gas Contracts Oversight Scheme.
- Gas Distribution Contracts Oversight Scheme.
- Framework for Gas Retailer Insolvency Arrangements, which sets out the process Gas Industry Co will follow in the event of a retailer insolvency.
- Guidelines on Interconnection with Transmission Pipelines (Interconnection Guidelines), detailing expectations for transmission system owners' policies and procedures for third party connections to their pipelines.

The ongoing effectiveness of these arrangements is monitored and reviewed. This is both at a high level, through a set of industry performance measures, and at a detailed level, through audits and daily monitoring. Highlights from the *Industry Performance Measures Report* for the quarter ended 30 June 2018 are found on page 6.

Publications referred to in this Annual Report can be found on our website www.gasindustry.co.nz

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

Our role as the industry body is to:

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

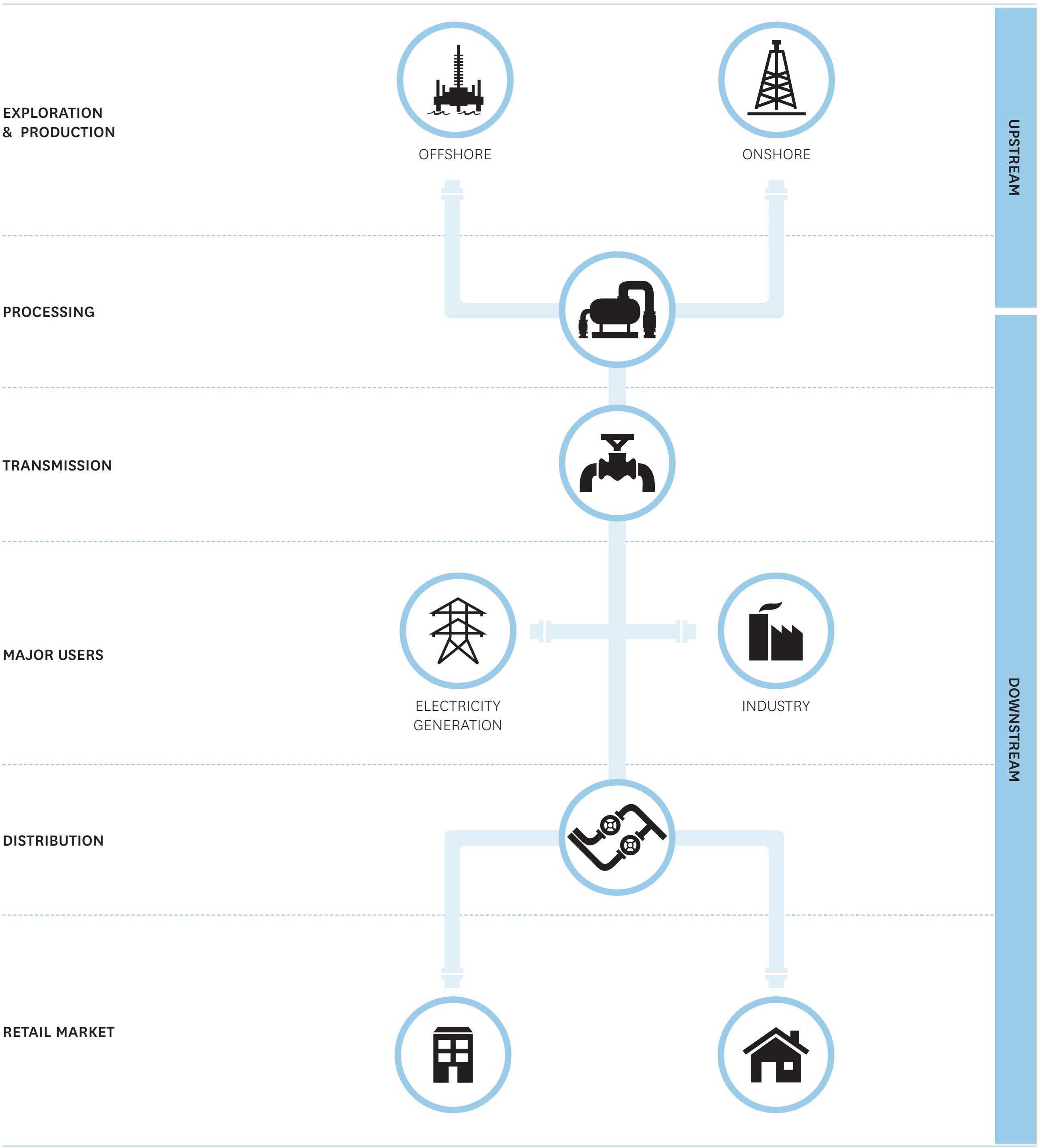
When recommending industry arrangements, Gas Industry Co takes into account the objectives of the Gas Act and the Government Policy Statement on Gas Governance 2008 (GPS).

Our objectives are:

- promoting efficient, competitive, and confident gas markets;
- facilitating efficient use of, and timely investment in, gas infrastructure;
- delivering effectively on our accountabilities as the industry body; and
- developing and communicating the role of gas in meeting New Zealand's energy needs.

STRUCTURE OF THE GAS INDUSTRY

The gas industry can be divided into two main sectors. The upstream sector, comprising gas exploration and production as well as some aspects of gas processing, is governed primarily through the Crown Minerals Act 1991 administered by the Ministry of Business, Innovation and Employment. The downstream sector, over which Gas Industry Co has regulatory oversight, includes some aspects of gas processing, transmission, distribution and consumers (including major users supplied from the transmission system, and retail users supplied from distribution networks).



CHAPTER ONE

CHAIR'S FOREWORD

Gas Industry Co has completed another productive year in what is proving to be an increasingly transformational time for the New Zealand energy industry.

As we observe in our current *Statement of Intent*[1], three global trends – new electricity technologies, climate change response, and a rebalancing of future oil and gas supply sources away from frontier exploration regions like New Zealand – are driving considerable ongoing change in the downstream gas sector.

Of these, climate change is more broadly seen by Government as a catalyst for the most significant economic transformation in modern history – equating the move to a net-zero carbon economy by 2050 as being 'as transformational as the industrial revolution was to the societies and economies in the nineteenth century'[2].

The implications for the New Zealand gas sector, indeed the broader energy industry, are profound.

Significant new policy measures emerged during the year as New Zealand progresses towards a net-zero carbon economy. They include a halt to granting future offshore petroleum exploration permits, proposed Zero Carbon legislation, the establishment of an independent Climate Change Commission and a substantial assessment of a low-emissions economy undertaken by the Productivity Commission. Bold future policies to reduce greenhouse gas emissions are expected to flow from these early steps. The Interim Climate Change Committee is being asked to investigate if agriculture should be introduced into the New Zealand Emissions Trading Scheme, as well as how New Zealand should transition to 100 percent renewable electricity generation in a normal hydrological year by 2035[3].

As the co-regulatory industry body, forming the link between Government and mid-downstream gas industry participants, Gas Industry Co is committed to working closely with all parties to help achieve New Zealand's climate change goals.

Our approach will necessarily evolve to reflect policies and actions that have yet to emerge from climate change deliberations in the wider context. Gas Industry Co looks forward to working with Government and industry as initiatives are developed as well as by ensuring that good information is available for the best fact-based decisions to be made.

We note that the Government's pursuit of greenhouse gas emissions reduction through measured policy implementation over the longer term seeks to avoid economic shock. There is no suggestion, for example, of an immediate halt to fuels needed to keep New Zealand running and, in the longer term, the objective of 100 percent renewable electricity by 2035 'in a normal hydrological year' recognises the importance of thermal reserve generation to electricity supply security.

With new petroleum exploration permits still available in the productive onshore Taranaki region, and with existing petroleum permit arrangements unaffected, opportunities remain for New Zealand to enhance its gas reserves position from the current supply horizon of about 10 years. This is an important consideration for a country isolated from international natural gas markets and reliant on indigenous resources.

A foundation therefore exists in the interim for natural gas to play a meaningful role in New Zealand's transition to a net-zero emissions economy.

This is not to say that the journey to a net-zero carbon future is without uncertainty for natural gas. Especially when it is also accompanied by rapid technology advancement and reserves replacement challenges.

Industry participants are proactively addressing these challenges, both through investment decisions as well as looking at how gas infrastructure can contribute to tomorrow's economy. Particular instances include a decision (by Todd Generation) to proceed with a new 100MW electricity generation peaker plant in Taranaki[4], and research commissioned by two major gas network owners (First Gas and Powerco) into future use options for gas networks in a decarbonised energy system – for instance for conveying hydrogen or biofuels[5].

Gas Industry Co will continue to work with industry participants to address these challenges and remain mindful of Government objectives.

Deeper insights into how participants are responding to the challenges, and how the industry is placed for its future role will come with the publication during the 2018/19 financial year of an updated gas supply and demand assessment report commissioned by Gas Industry Co.

As the industry positions itself for the future, I am pleased to report that, in the present, the gas sector is in good shape and tracking well against the Gas Act and Government Policy Statement objectives and outcomes expected of it.

[1] Gas Industry Co *Statement of Intent 2019-2021* – June 2018
[2] Minister of Energy and Resources – address to New Zealand Petroleum Conference, 27 March 2018
[3] Interim Climate Change Committee Terms of Reference and Appointment – www.mfe.govt.nz
[4] Reported, Taranaki Daily News – 10 July 2018
[5] Reported, Energy News *First Gas, Powerco to test low-carbon options* – 22 May 2018

ACKNOWLEDGEMENTS

On behalf of the Directors, I thank Gas Industry Co's shareholders, industry participants and our broader stakeholders for their contributions to our work programme activity over the past year. Their input enriches discussions and outcomes, and is essential to the ongoing success of the co-regulatory model under which the downstream gas sector operates.

I take this opportunity to thank my fellow Directors for their expertise, their commitment to the highest levels of governance, and their knowledgeable consideration of the matters that come before them at the Board table.

Also on behalf of the Board, I record our appreciation to the executive and staff of Gas Industry Co for their dedication, commitment to high work standards, and the quality of their outputs.

I particularly acknowledge the contribution of the Chief Executive, Steve Bielby, who left Gas Industry Co during 2017/18 after seven years of service, and welcome his successor, Andrew Knight, who comes to Gas Industry Co with a wealth of energy industry management experience.

Rt Hon James B Bolger, ONZ

CHAIR

STATEMENT OF INTENT PRIORITIES FOR 2018/2019

- Continue supporting industry participants, and wider stakeholders who are producing a detailed design of a new gas transmission access code (GTAC).
- Assess the detailed design of the new code against Gas Act and GPS objectives and outcomes, and report to the Minister of Energy and Resources on the suitability of GTAC.
- Oversee industry-led work on gas quality and consider whether further action is required arising from the *Gas Quality Requirements and Procedures* document at the conclusion of the GTAC.
- Continue running the D+1 pilot scheme, and if a new GTAC is introduced, design any required changes to the Reconciliation Rules and consult.
- Review critical contingency pricing and imbalance arrangements and consult with stakeholders on any improvements to these arrangements. Consult and work with stakeholders to ensure Critical Contingency Management (CCM) arrangements are aligned with the GTAC.
- Develop an updated edition of the *Long Term Gas Supply and Demand Scenarios* to assist industry strategy and investment.
- Continue the monitoring of activity and developments in the wholesale gas market with a particular focus on the market's role as the source of volume and pricing for transmission balancing.
- Continue the monitoring of the performance of the Gas Registry Operator and assess ongoing performance of the Switching Rules.
- Conduct the next full review under the Retail Gas Contracts Oversight Scheme and publish the assessed compliance levels for individual retailers, and provide information to assist new entrant retailers to understand their obligations and governance processes.
- Maintain the currency of *The New Zealand Gas Story* and undertake related initiatives to assess, develop and report on the state and performance of the New Zealand gas industry.

CHAPTER TWO

CHIEF EXECUTIVE'S REVIEW

As the gas industry addresses important issues around its future, Gas Industry Co's priority is focused on both the potential pathways forward as well as our present underlying statutory responsibility – to ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner.

Efficient access to infrastructure, competitive markets, and effective consumer outcomes are essential to have gas contribute to New Zealand's primary energy supply in a low emissions economy.

Development of a single gas transmission access code (GTAC) is in keeping with this objective and, as an industry-led process, it continued to dominate governance development work during the past year.

Although Gas Industry Co concluded that a proposed GTAC submitted by First Gas, owner of the Maui and ex-Vector transmission systems, did not materially improve the existing arrangement of two separate access codes, participants are demonstrating a commendable commitment to achieving a solution without regulatory intervention. A further phase of intensive industry-led work towards establishing a single, cohesive set of arrangements over both high pressure systems is underway, and is being assisted by an independent facilitator appointed by Gas Industry Co during the year at the request of stakeholders.

Gas Industry Co continues to support the GTAC work by providing a secretariat function, hosting workshops, developing analyses of stakeholder submissions, providing resource papers and seeking to ensure the code development process runs smoothly.

First Gas has indicated that it will provide Gas Industry Co with a revised GTAC for assessment before the end of the 2018 calendar year. As with the initial proposal, our role will then be to independently evaluate the proposed code and determine whether it is materially better than the status quo, using the objectives and outcomes set for us in the Gas Act and GPS.

A revised GTAC will have implications for a number of governance arrangements and processes that reflect the current separate access regimes. For example, changes to the Reconciliation Rules, adjustments to some aspects of managing gas critical contingencies, updating gas quality requirements and procedures information, and fine tuning transmission balancing mechanisms are likely. Should the GTAC proceed we expect to be closely involved in ensuring that these consequential changes are well aligned with the Gas Act objectives.

In parallel with the GTAC workstream, Gas Industry Co has continued with its daily allocation pilot scheme, which emerged in response to the market-based transmission system balancing regime introduced in 2016. It is aimed at helping transmission customers more effectively manage their balancing positions in a timely way. In consultation with participants, we will make appropriate refinements to the daily allocation pilot as experience dictates and will consider the best method of implementation once a new transmission access code is in place.

These activities are flagged in our current *Statement of Intent* for possible attention in the 2018/19 year.

At the same time as progressing priority workstreams dedicated to the development of new or substantially revised governance arrangements, Gas Industry Co keeps an equally firm eye on administering existing rules and regulations to ensure the smooth operation of downstream gas market processes.

Market metrics in the areas of customer switching, downstream reconciliation (including levels of unaccounted-for gas), retail market concentration, wholesale gas market activity, and participants' statutory compliance levels present a picture of a healthy downstream gas sector.

Gas Industry Co has an obligation to ensure that good information about the gas industry is generally available. We do this in a number of ways, including through our website, monthly and quarterly reports which present a range of performance statistics, regular updating of our comprehensive *New Zealand Gas Story* publication, and by periodically commissioning expert reports on subjects of topical interest to stakeholders.

During 2018/19 we will publish the biennial update of the *Long Term Gas Supply and Demand Scenarios* report, initiated originally as part of an earlier Gas Industry Co project looking into transmission capacity issues. Prepared by Concept Consulting, the update will reflect current and emerging trends in the gas sector and detail factors that will influence the industry's future course. Its purpose, inter alia, is to enable gas industry participants and wider stakeholders to make informed decisions for their businesses, policy development and strategic settings.

Gas Industry Co continued to maintain its financial discipline during the year. This is consistent with our objective of fulfilling our statutory and corporate obligations in a cost effective manner that represents value for money to our levy-paying stakeholders.

I would like to record my gratitude to the Board of Directors and the Gas Industry Co team for their support and their contributions to the Company's achievements during the year. I look forward to continuing our work with industry stakeholders to ensure we have optimal governance arrangements that will position the industry appropriately for its roles of today and tomorrow.

Andrew Knight
CHIEF EXECUTIVE

HIGHLIGHTS FROM THE *INDUSTRY PERFORMANCE MEASURES* REPORT[6]

- About **3,700** consumers switch gas supplier each month.
- Around **16 percent** of gas consumers have switched in the past 12 months. Natural gas customers can switch retailers for many reasons, but the high level of activity in the gas retail market suggests that customers find changing retailer easy and can put pressure on retailers to offer competitive terms and pricing.
- About **75 percent** of customer switches have been completed within three business days of the switch being requested by the new retailer.
- **65 percent** of residential consumer sites have switched retailer at least once in the past eight years; 67 percent of small commercial and 55 percent of large commercial sites have switched at least once.
- Over **99 percent** of consumers are connected to a network where seven or more retailers trade, suggesting that the natural gas retail sector is generally competitive throughout the North Island.
- Average annual unaccounted-for gas (UFG) over the past year stands at about **1.1 percent** (compared with about 2 percent in 2009).

[6] Gas Industry Co's *Performance Measures Report* 30 June 2018

KEY WORK PROGRAMME ACHIEVEMENTS IN 2017/2018[7]

ACTIVITY	PRIORITIES SET FOR 2017/2018	OUTCOMES FOR 2017/2018
TRANSMISSION ACCESS	Provide support for industry participants to develop a single new transmission access code.	First Gas and industry stakeholders have been working to develop new transmission pipeline access arrangements substantially described in the GTAC, since 2016. Gas Industry Co has continued to support these efforts through 2017/2018 by assessing the arrangements against the objectives and outcomes in the Gas Act and the GPS. Gas Industry Co determined that the proposed GTAC was not materially better than the current Maui Pipeline Operating Code (MPOC) and Vector Transmission Code (VTC) arrangements. This assessment was received constructively by industry participants who have re-engaged to continue the GTAC development. Gas Industry Co's analysis of the proposed GTAC is detailed in our May 2018 document, *Final Assessment of GTAC*.
SUPPLY AND DEMAND STUDY	Develop an updated edition of the *Long Term Gas Supply and Demand Scenarios*, to assist stakeholder decisions over the medium to long terms.	The 2018 edition of the *Long Term Gas Supply and Demand Scenarios* is scheduled for release later this calendar year. The report, commissioned by Gas Industry Co is updated biennially, and will be prepared by Concept Consulting.
CRITICAL CONTINGENCY MANAGEMENT	Review the performance of the Critical Contingency Operator (CCO). Monitor any critical contingency events; monitor results of the annual exercise.	The CCO function is working well. A contingency exercise in May 2018 demonstrated that the industry remains well prepared to respond to a critical contingency. There were no critical contingency events during the year, but the CCO alerted stakeholders to a potential critical contingency in April, and the event was managed voluntarily without the need for formal demand curtailment.
GAS QUALITY	Review remaining issues on gas quality.	The gas quality arrangements set out in the existing access codes (the MPOC and VTC) will be replaced by the GTAC if industry efforts to develop a single new access code are successful. Gas Industry Co's analysis of the proposed GTAC highlighted some concerns relating to gas quality.
DOWNSTREAM RECONCILIATION	Monitor the Allocation Agent and participants. Assess ongoing performance of the Reconciliation Rules. Monitor allocation results, commission performance and event audits as required. Continue to run the pilot scheme for D+1 allocations pending any change to transmission arrangements.	Audits of the majority of allocation participants (retailers, distributors, meter owners) were completed by mid-2018. As a result of audit findings, and in an effort to further reduce long-term UFG, Gas Industry Co has begun investigating the provision of a common temperature dataset for use in energy conversion, and the geocoding of ICP locations to identify potentially mis-mapped ICPs in the registry. The D+1 gas allocation pilot has been running successfully since December 2015, with shippers using daily allocation information to manage their gas positions and First Gas using the results in its balancing and peaking pool (BPP) process. Gas Industry Co has continued to monitor results and use targeted analysis and modelling to identify potential improvements to the accuracy and reliability of the scheme.

[7] Objectives as set out in Gas Industry Co's *Statement of Intent 2018-2020*

KEY WORK PROGRAMME ACHIEVEMENTS IN 2017/2018

ACTIVITY	PRIORITIES SET FOR 2017/2018	OUTCOMES FOR 2017/2018
TRANSMISSION BALANCING	Monitor the efficiency of market-based transmission balancing operations, including wholesale market activity. Continue to work with stakeholders on balancing-related matters and monitor new arrangements if and when implemented.	The current Market-Based Balancing (MBB) arrangements, introduced on 1 October 2015, will be replaced by new balancing arrangements more consistent with the new transmission access regime, if industry efforts to develop the GTAC are successful. Our analysis of the proposed GTAC can be found in our May 2018 document, *Final Assessment of GTAC*.
SWITCHING AND REGISTRY	Monitor the performance of the registry operator; assess ongoing performance of the Switching Rules; monitor and report on switching statistics; and make determinations under the Switching Rules as required. Commission baseline audits of registry participants (retailers, distributors and meter owners) under the audit provisions recently-introduced into the Switching Rules.	In March 2018, Gas Industry Co re-appointed Jade Software as the registry operator under a new seven-year contract. Gas Industry Co has developed new online, interactive tools for providing gas market information to interested parties: the *Gas Registry Statistics Dashboard* presents dynamic information on market shares and activity in the retail gas market, while a new *ICP look up tool* allows a user to find/verify details of their gas connection using a simple address search. Audits of the majority of registry participants under the Switching Rules were completed by mid-2018.
PERFORMANCE AND CURRENT STATE OF THE INDUSTRY	Maintain the currency of *The New Zealand Gas Story*. Undertake initiatives to assess, develop and report on the state and performance of the New Zealand gas industry.	The sixth edition of *The New Zealand Gas Story* was issued in December 2017. Gas Industry Co is currently developing the next substantial update which is planned for release in December 2018. An *Industry Performance Measures Report* is presented quarterly on Gas Industry Co's website.

CHAPTER THREE

PROMOTING EFFICIENT, COMPETITIVE AND CONFIDENT GAS MARKETS

Gas Industry Co develops, monitors and oversees governance arrangements designed to ensure that the gas markets are efficient and competitive, and that participants have confidence to maintain their investment in the production, delivery and use of gas.

Particular policy attention is paid to promoting and protecting the longer-term interests of small consumers who do not have the resources or market influence of larger commercial enterprises.

DOWNSTREAM RECONCILIATION

The Reconciliation Rules have improved market efficiency through a process for reconciling volumes of gas leaving the high pressure transmission system with volumes consumed by end-users, and attributing those volumes, plus any unaccounted-for-gas (UFG), to the relevant retailers. The enforceability of the Reconciliation Rules, and the transparency that they bring to the process of gas reconciliation, have contributed to greater accuracy in the process and lower UFG amounts.

In volume terms, UFG has decreased dramatically since 2009, when UFG was about 600,000 gigajoules (GJ) (600 Terajoules (TJ)) per year. It now stands at about 342,000 GJ (342TJ), about 1 percent of allocated gas consumption (using interim and final allocation data) (Figure 1).

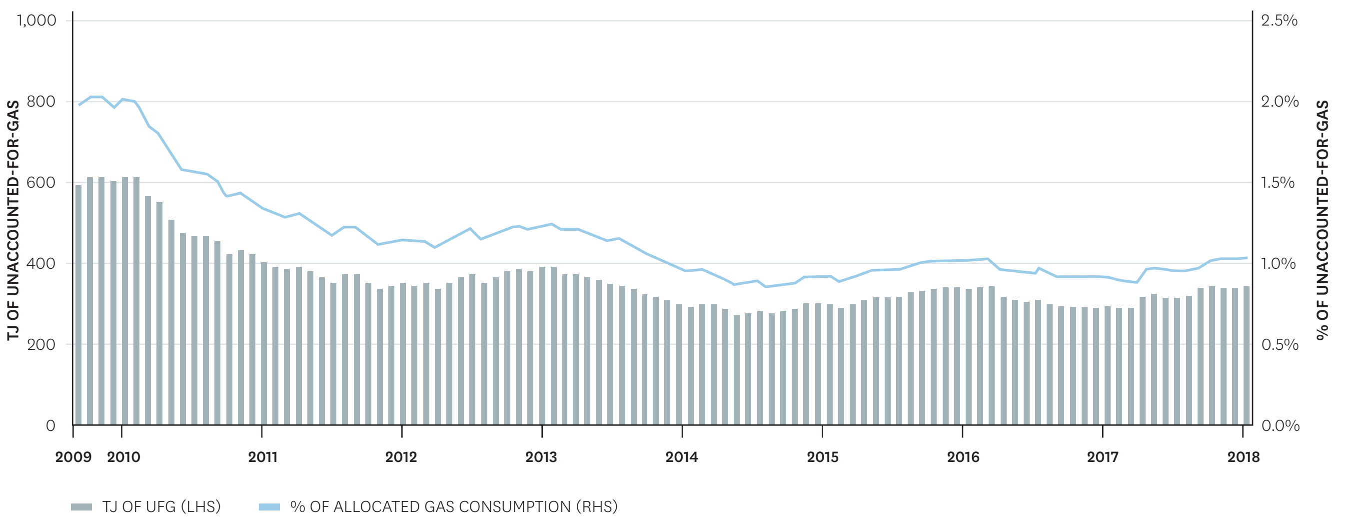
Gas Industry Co continued to run a pilot of the D+1 gas allocation process during the year. D+1 provides parties with daily allocation information for the previous business day (hence 'D+1'). Shippers use D+1 allocation information, together with information on cash-outs from First Gas, to manage their respective balancing positions. First Gas uses the daily allocations as an input into its daily Balancing and Peaking Pool (BPP) process, which calculates shipper running mismatch positions and applies any cash-outs arising from imbalances under the Market-Based Balancing (MBB) arrangements. Those cash-outs are intended to provide an incentive for shippers to self-balance (called primary balancing) and there has been an improvement in primary balancing following the introduction of MBB. Gas gate level information is also used by First Gas to calculate transmission charges for shippers.

Feedback on the information delivered from the D+1 pilot has been very positive.

Gas Industry Co initially envisaged that the pilot would be a precursor to a production system incorporated into the Reconciliation Rules. However, First Gas's development of the GTAC has affected the D+1 pilot timeline since changes to the transmission access regime are likely to affect the need for, and shape of, daily allocation information. Once the way forward is clear, either Gas Industry Co will codify D+1 into the Reconciliation Rules (and commission a production system) or First Gas will provide an initial daily allocation service from its transaction management system. In the meantime the D+1 pilot phase will continue and Gas Industry Co will refine and improve the model to ensure a smooth transition to a production system if required.

THREE

FIGURE 1: ANNUAL UNACCOUNTED-FOR GAS



CUSTOMER SWITCHING

The Switching Rules enable customers to choose, and efficiently alternate between, competing retailers. The gas registry stores key information about every customer installation and facilitates and monitors each customer switch, from initiation through to completion. A high level of switching activity in a retail market suggests customers find changing retailers easy, which can put pressure on retailers to offer competitive terms and pricing.

Switching in FY2018 continued the trend of previous years, with a relatively high level of activity in the retail market (Figure 2). A total of 44,414 switches occurred, averaging approximately 3,700 per month, for an annual churn rate of 15.8 percent. Prior to the gas registry, it is estimated there were about 1,000 customer switches a month and these could take weeks or months to complete. Since February 2009, when the gas registry went live, the number of switches increased steadily until about 2013. Since then, switching rates have been relatively stable, with churn rates of at least 15 percent for the past five years, which may indicate that switching has reached its natural rate.

Once the gas registry went live, average switching times dropped to about 10 business days (Figure 3). In FY2018, the 12-month average switching time was 2.3 business days. Faster switching times are a benefit to consumers, as they make switching to a preferred retailer easier.

FIGURE 2: CUSTOMER SWITCHES

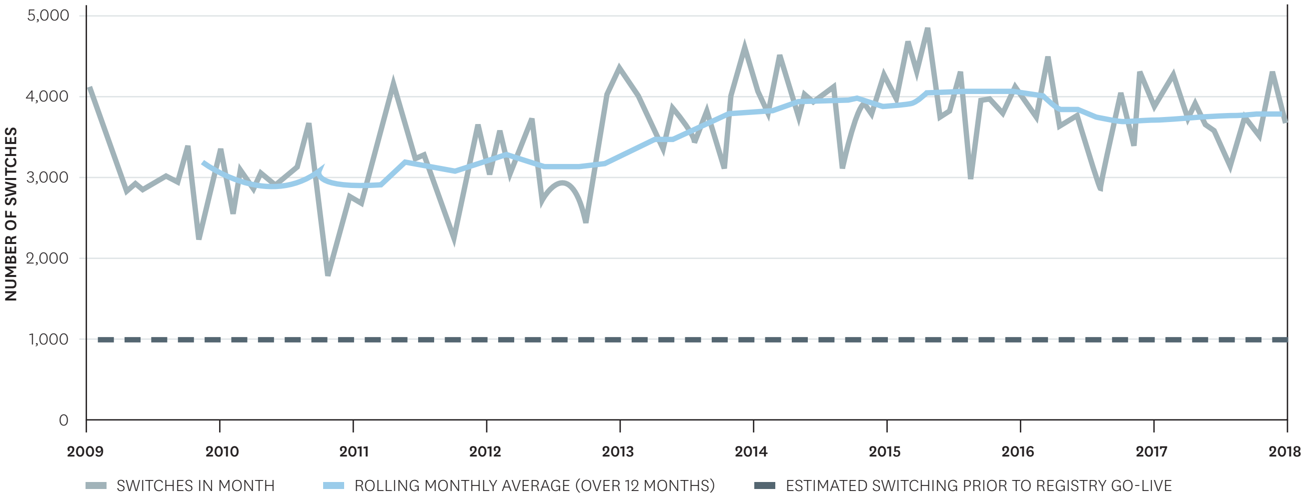
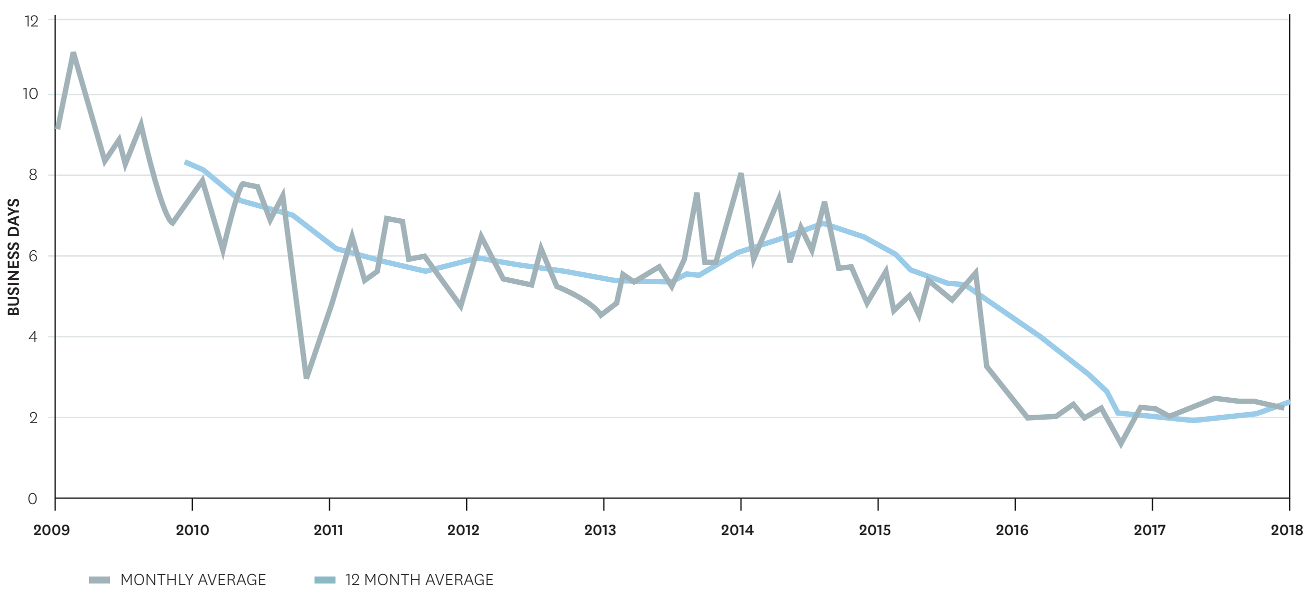


FIGURE 3: SWITCH LENGTH



The Herfindahl-Hirschmann Index (HHI), which measures market concentration using the size and number of competing retailers, shows a significant and continuous reduction in market concentration since 2009 (Figure 4). HHI scores can range from 0 to 10,000. A low score indicates a low level of market concentration, which arises when there is a large number of small firms in the market, each with a small proportion of market share. Conversely, an HHI score of 10,000 represents a market with a single retailer.

The HHI for the retail gas market has decreased in all regions since 2009, indicating that the market is becoming less concentrated across the North Island. Nationally, the HHI stands at 2,137, in comparison to 3,033 in February 2009 (the start of the gas registry).

There are now 11 distinct retail brands competing in the retail gas market. This is one more than FY2017 because Scholarship NZ, a small Auckland-based retailer, entered the market early in 2018.

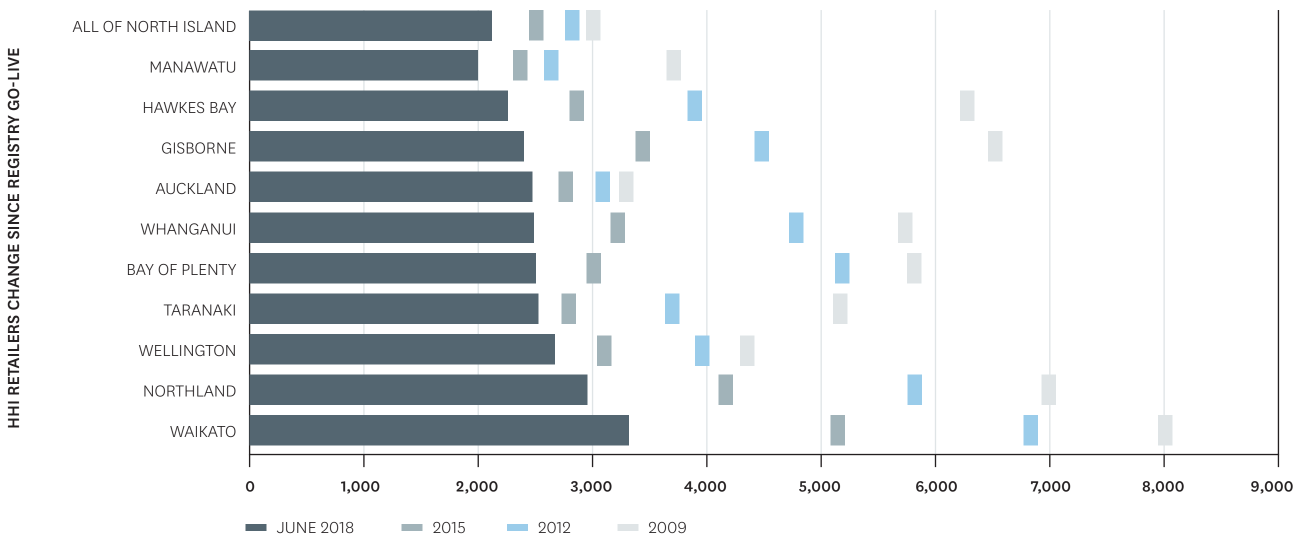
GAS QUALITY

Gas users require a safe, reliable, fit-for-purpose product. Gas Industry Co periodically reviews the industry's gas quality arrangements to ensure they are well-aligned with these outcomes. Our report, *Gas Quality – June 2017 Update*, concluded that further work was required to ensure that responsibility for gas quality is reflected in the industry's monitoring, reporting and liability arrangements.

During FY2018, attention to gas quality was in the context of the industry's intensive efforts to develop a single new access of regime. In that context, Gas Industry Co's assessment of the 8 December 2017 GTAC proposal submitted by First Gas raised some concerns that it might result in less reliable gas quality outcomes than existing arrangements.

Since the transmission access regime is a linchpin in the industry's gas quality arrangements, Gas Industry Co will continue to give priority attention to the GTAC work until it is settled. We will then review the industry's *Gas Quality Requirements and Procedures* document (an industry resource describing the roles and responsibilities of industry participants and how they meet those responsibilities).

FIGURE 4: REGIONAL HHI



THREE

CONTRACT OVERSIGHT SCHEMES

Two non-regulated contract oversight schemes are administered by Gas Industry Co: One covering retailers' standard contractual arrangements with small consumers (Retail Scheme); and one on distributors' standard contracts with retailers (Distribution Scheme).

The Retail Scheme was introduced in 2010 to contribute to the GPS outcome for contractual arrangements between gas retailers and small consumers to adequately protect the long-term interests of those consumers. The first three assessments – a baseline assessment in 2010, a transitional assessment in 2011, and a full assessment in 2012 – saw the alignment of retailers' contracts with the benchmarks improve from a score of 'moderate' to 'substantial'.

In light of that improvement, significant design changes were introduced following a review of the Retail Scheme after the third assessment. The changes included a move from annual to three-yearly assessments and the inclusion of a set of reasonable consumer expectations – those matters that a consumer would expect to see in a contract. Retailers provide Gas Industry Co with an annual notice as to whether they have amended their standard published contracts.

The fourth independent assessment carried out in June 2015 was the first since the changes were made to the Retail Scheme. It confirmed that improved terms continue to be offered to small gas consumers and again demonstrated the benefits of this voluntary governance arrangement. The *Benchmark Assessment Report - 2015* by an independent assessor, Palairet Law, concluded with an overall rating of 'substantial' alignment with the Retail Scheme's 18 outcome-based benchmarks. Although this overall rating was unchanged from the result of the previous full assessment in 2012, a number of retailers had improved their individual ratings (Table 1).

TABLE 1:

RETAIL SCHEME ASSESSMENT RESULTS 2011-2015

	NUMBER OF RETAILERS		
Overall Alignment Score	2015	2012	2011
Full	–	–	–
Substantial	9	6	3
Moderate	1	3	4
Low	–	1	3
TOTAL RETAILERS ASSESSED	10	10	10

Gas Industry Co acknowledged the high level of engagement by retailers in the 2015 retail assessment, which confirmed that they were keen to meet the reasonable expectations of customers. Gas Industry Co will conduct a further assessment in FY2019.

The objectives of the Distribution Scheme introduced in 2012 are to ensure that core terms and conditions of distribution services agreements are clear and reasonable, promote market efficiency, and enhance consumer outcomes.

Under the Distribution Scheme, Gas Use of System Agreements (GUoSAs) are assessed against a set of contract principles. With its introduction, distributors significantly revised their contracts and the second, and most recent, independent assessment in 2014 found their contracts exhibited 'substantial' alignment with the principles.

Since then, Gas Industry Co has been monitoring distributors' progress with executing new distribution contracts with the retailers. Our FY2019-2021 *Statement of Intent* contemplates a review of the Distribution Scheme to assess its effectiveness in facilitating reasonable terms and conditions of access to, and use of, distribution pipelines.

CONSUMER COMPLAINTS SCHEME

Gas consumers have an effective, free and independent service through Utilities Disputes for resolving complaints about electricity and gas providers.

Pursuant to a GPS requirement for such a service, Utilities Disputes (then known as the Office of the Electricity and Gas Complaints Commissioner) was approved as the consumer complaints resolution scheme for the electricity and gas industries in 2010.

In its latest Annual Report, Utilities Disputes recorded total electricity and gas cases (inquiries and complaints) of 5,232, 5.4 percent fewer than the 5,534 in 2016/17. Of the total cases 2,053 were complaints (2017: 2,103).

In the year ended 30 June 2018, total gas-related cases identified by Utilities Disputes doubled from 66 to 133. The gas sector again attracted significantly fewer complaints than the electricity sector, on a complaints per 10,000 ICPs basis (Figure 5).

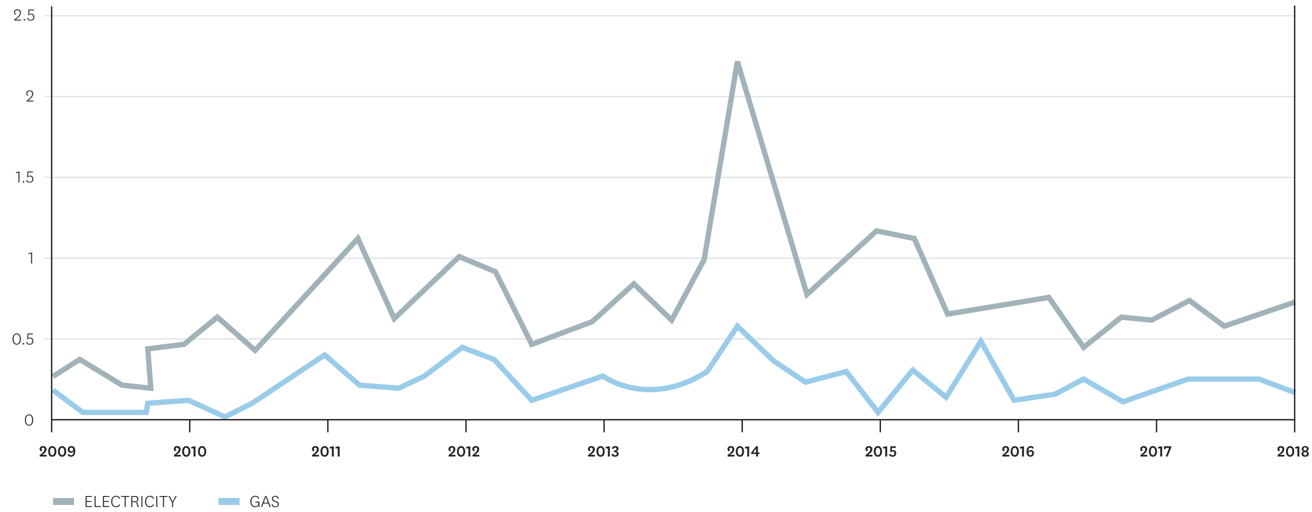
Gas Industry Co continues to liaise closely with Utilities Disputes, the Electricity Authority and MBIE on issues relevant to consumers.

LIQUEFIED PETROLEUM GAS

Gas Industry Co receives reports from Utilities Disputes regarding consumer complaints about Liquefied Petroleum Gas (LPG) supplies and maintains regular communication with the LPG industry trade group, the LPG Association of New Zealand.

During the year, Gas Industry Co reviewed the retail market arrangements for LPG in response to stakeholder concerns about potential barriers to competition in the retail LPG market. The review addressed economies of scale and capital expenditure as possible barriers to competition and assessed the extent to which LPG distribution facilities might be considered essential infrastructure. Gas Industry Co expects to publish the report in early FY2019.

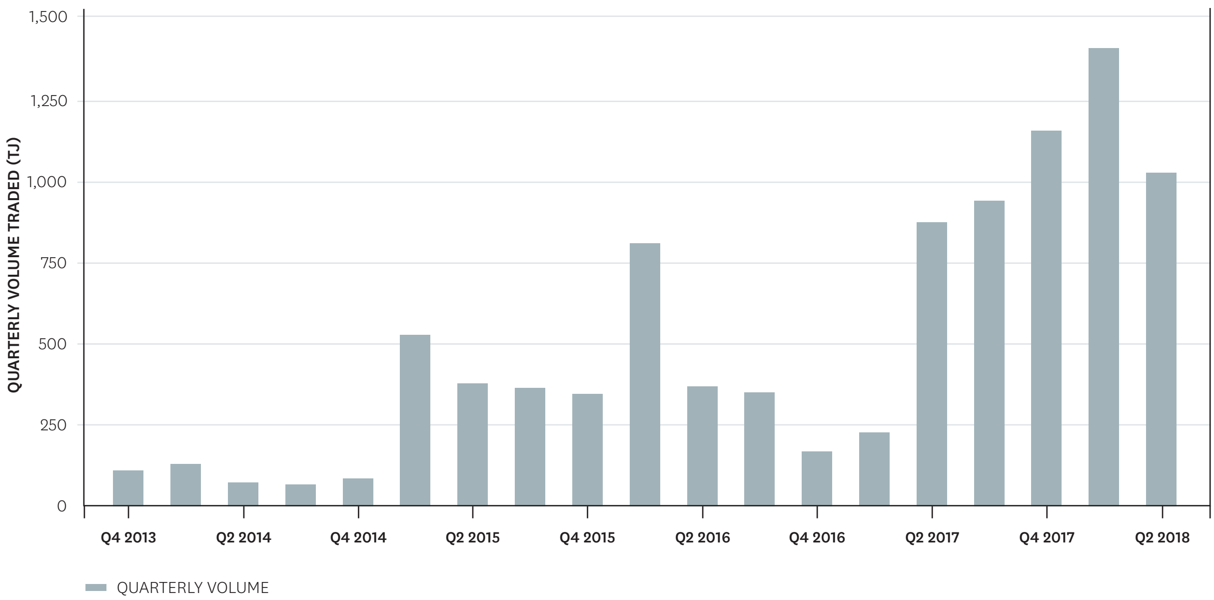
FIGURE 5: ELECTRICITY AND GAS COMPLAINTS PER 10,000 ICPS



WHOLESALE MARKET

The emsTradepoint wholesale gas market has exhibited significant growth since its inception in 2013. Figure 6 charts the quarterly volumes traded through the market (volumes of off-market trades reported via the market are excluded from the chart). There was almost a doubling in market trades for calendar 2017 compared with 2016. Volumes traded in the first two quarters of calendar 2018 are some 220 percent of the equivalent period in 2017.

FIGURE 6: SPOT GAS TRADE VOLUMES



In addition to trades executed via the market there have been substantial volumes of gas traded via brokered arrangements and reported through the market. Table 2 shows the volumes of brokered trades together with columns showing total volumes reported through the market both by quarter and cumulative by year.

TABLE 2

QUARTER	OFF-MARKET (TJ)	ON-MARKET (TJ)	TOTAL REPORTED (TJ)	CUMULATIVE ANNUAL (TJ)
Q1 2016	892	809	1,701	1,701
Q2 2016	23	373	396	2,097
Q3 2016	0	357	357	2,454
Q4 2016	100	168	268	2,722
Q1 2017	821	230	1,051	1,051
Q2 2017	796	876	1,672	2,723
Q3 2017	1,038	941	1,979	4,702
Q4 2017	426	1,154	1,580	6,282
Q1 2018	165	1,409	1,574	1,574
Q2 2018	453	1,026	1,479	3,053

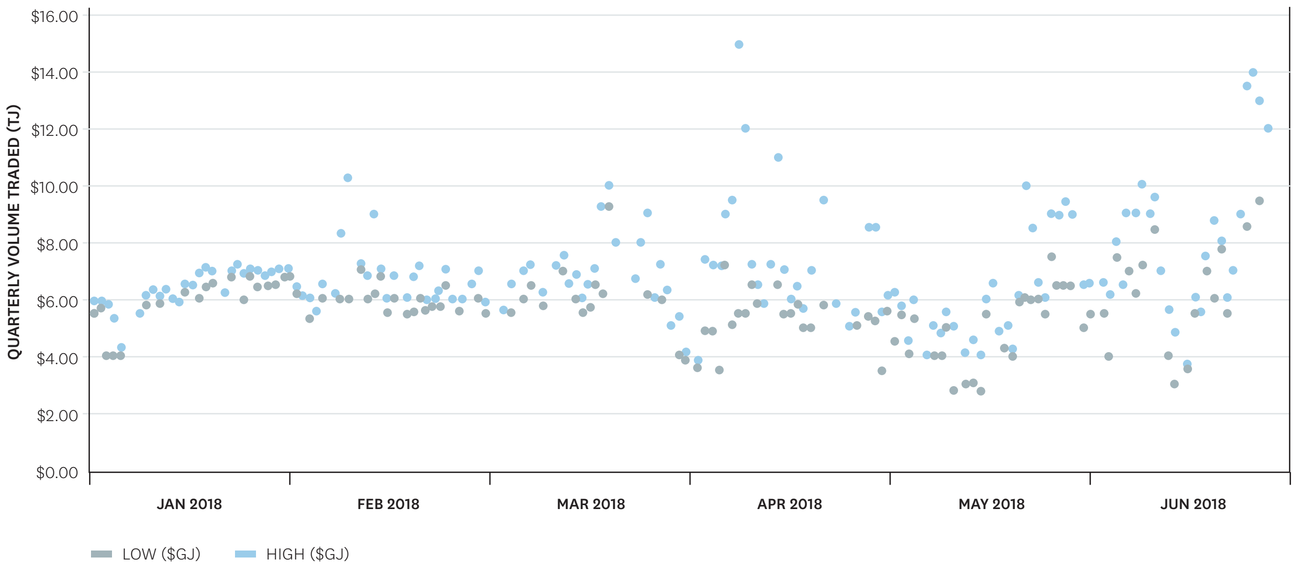
Table 3 shows the volume-weighted average price (VWAP) for gas traded in each of the years (or part-years) since the market commenced. These figures are only for trades executed via the market.

The increase in VWAP for the first six months of calendar 2018 may be reflective of the tightening on the supply-side due to a reduction in gas production rates from the Pohokura field. Figure 7 shows an increase in the range of intraday pricing for the second quarter compared with the first.

TABLE 3

YEAR	VWAP
2013 (fourth quarter)	$5.50
2014	$5.56
2015	$5.49
2016	$4.83
2017	$5.37
2018 (first half)	$6.40

FIGURE 7: HIGH/LOW PRICES FOR FIRST HALF OF 2018



CHAPTER FOUR

FACILITATING EFFICIENT USE OF, AND TIMELY INVESTMENT IN, GAS INFRASTRUCTURE

Infrastructure access is essential to the operation of competitive and efficient markets. Gas Industry Co's work in this area encompasses transmission access, transmission pipeline balancing, transmission code changes, transmission pipeline interconnection, and gas transmission security and reliability.

TRANSMISSION ACCESS ARRANGEMENTS

The objective of this workstream is to ensure that transmission pipeline access arrangements transparently provide for the efficient utilisation of physical capacity and effectively signal any need for efficient investment in additional capacity. Until 2016, when First Gas became owner of the open access transmission systems owned by Maui Development Limited and Vector Gas Limited, the workstream was focused on converging the provisions of the two access codes: the MPOC and the VTC. On becoming owner, First Gas signalled its wish to develop a single new access code to replace the MPOC and VTC. The workstream now aims to provide administrative support to the industry's efforts to develop the GTAC.

Once the GTAC is developed, it can substitute for the VTC with relative ease since the VTC includes a termination date. The MPOC also provides for termination of contracts incorporating it, but only if certain conditions are met. One such condition requires Gas Industry Co to assess the proposed substitute arrangements, the GTAC, and determine that they are materially better than the current terms and conditions of access, having regard to the Gas Act and GPS objectives[8].

In August 2016, First Gas began working with stakeholders to develop the GTAC, and on 8 December 2017 it submitted a proposed GTAC to Gas Industry Co for assessment. Following consultation on that draft, we published a *Final Assessment Paper* (FAP) on 25 May 2018. The FAP concluded that the GTAC was not materially better than the existing arrangements, although we judged that it was better than the status quo in many respects, including:

» streamlining of transmission products and processes, with a unified set of arrangements applying across the entire transmission system;

» adopting daily nominated capacity as the primary transport product, which should promote more efficient use of the pipeline system and downstream competition;

» widening and improving the tools available for management of pipeline congestion;

» adopting a system-wide approach to gas balancing;

» removing grandfathering provisions that can impede competition; and

» facilitating the trading of gas via a single receipt zone.

However, we identified four areas of significant concern. One of these, relating to the 'Park and Loan' arrangements, has since been resolved, but three remain to be addressed.

They are:

» the transport incentive charge structure in non-congested situations appears to encourage inefficient behaviour by pipeline users;

» aspects of the liability provisions are less certain in their effectiveness, undermining the incentives on pipeline users to act prudently; and

» interconnection agreements are largely undefined.

First Gas and stakeholders are now working to reduce these and other areas of concern and First Gas has indicated that it intends to submit a further proposed GTAC to Gas Industry Co for assessment before the end of the calendar year.

TRANSMISSION CODE CHANGES

Gas Industry Co has a role in considering any proposed change to the MPOC and advising the pipeline owner whether or not it supports a proposed change. Only one change was proposed during the year. On 14 July 2017 First Gas submitted an *MPOC Transition Change Request* (TCR). The TCR aimed to facilitate transition to the GTAC.

On 31 October 2017, following consultation on the TCR, Gas Industry Co released a *Final Recommendation* supporting the change. As a result, contracts that include the MPOC by reference will terminate and be replaced by new contracts when certain conditions specified in the change are met. One such condition is that Gas Industry Co has determined that the new GTAC is materially better than the current terms and conditions of access to, and use of, gas transmission pipelines, having regard to the objectives and outcomes in the Gas Act and GPS.

[8] These are the objectives for the industry body in Part 4A of the Gas Act 1992 and the objectives and outcomes in the Government Policy Statement on Gas Governance dated April 2008

TRANSMISSION PIPELINE BALANCING

Market-Based Balancing (MBB) arrangements were introduced on 1 October 2015. In November 2016, Gas Industry Co reviewed the performance of the regime and published its findings in the paper *Review of Market-Based Balancing* (MBB Review). The review found that pipeline users were maintaining better balance than previously, and that on occasions where the pipeline operator needed to buy or sell gas to maintain the overall balance of the pipeline, those transactions were more efficient. However, the MBB Review also found that there was scope for further improvement.

The MBB Review considered the costs of implementing MBB and found that they varied considerably between shippers but were of the same order as those used in the 2015 Cost Benefit Analysis that evaluated MBB.

MBB was developed and introduced by Maui Development Limited, but it was generally not well supported by pipeline users or by Vector, the then owner of the other transmission system. Now that the entire transmission system is under the single ownership of First Gas, there is an opportunity to simplify the balancing arrangements. As part of the development of its new access regime, First Gas is discussing a possible new balancing design with stakeholders.

TRANSMISSION PIPELINE INTERCONNECTION

No new transmission pipeline connections were reviewed during the year.

CHAPTER FIVE

DELIVERING EFFECTIVELY ON OUR ACCOUNTABILITIES AS THE GAS INDUSTRY BODY

As the industry body, Gas Industry Co recommends and administers governance arrangements that fulfil the principal policy objective set by the Gas Act, which is to ensure gas is delivered to existing and new customers in a safe, efficient, and reliable manner. The GPS requires Gas Industry Co to have regard to fairness and environmental sustainability in its recommendations.

The Gas Act and GPS together set other objectives and outcomes that Gas Industry Co takes into account when formulating industry arrangements, either regulated or non-regulated. Many of the Government's policy objectives have been met through the introduction of governance arrangements. Gas Industry Co monitors and periodically reviews these arrangements to ensure their ongoing relevance and effectiveness.

CRITICAL CONTINGENCY MANAGEMENT

There were no critical contingencies during the financial year.

POTENTIAL CRITICAL CONTINGENCY

On 10 April 2018, the CCO notified stakeholders of a potential critical contingency. A severe storm had cut power supplies to the Oaonui production station, causing an unplanned outage of the facility that processes gas from the Maui field. At the time, the Kupe gas field was also experiencing an outage. The falling pressure in the transmission pipelines meant that the pressure threshold at Kapuni Gas Treatment Plant was at risk of being breached.

In response to the potential critical contingency, a number of large gas users voluntarily minimised their gas usage. In particular, Methanex brought forward the maintenance shutdown of its Motunui-2 plant; Genesis Energy scaled back its gas usage at Huntly; and other users also reduced their demand. Collectively, these actions helped the pipeline to regain balance and avoid the need for formal demand curtailment.

ANNUAL INDUSTRY EXERCISE

The CCO conducted its annual industry exercise, named Exercise Paparua, on 9 May 2018. The exercise simulated a major landslip on the Maui pipeline in North Taranaki, requiring the pipeline to be isolated for 7 -14 days while repairs were carried out. In order to conserve linepack and pressure in the transmission system, the CCO issued curtailment instructions affecting consumers in Bands 1 to 6.

The exercise provided an opportunity for parties to practice their responses to a critical contingency event, thereby enhancing their knowledge and competency for responding to an actual event. The exercise successfully tested the steps and information flows associated with a critical contingency, such as declaration, demand curtailment, public information statements, retailer media appeals and consumer compliance updates.

The CCO's exercise report concludes that:

» First Gas's critical contingency management plan (CCMP) substantially complies with regulation 25 and is effective in achieving the purpose of the regulations; and

» The CCMP substantially contains the contact details required by regulation 25 and that they are current; and

» The exercise provided limited evidence that the emergency contact details maintained by retailers (as required by regulation 43) are current.

The exercise report makes a number of minor recommendations to improve the efficiency of procedures and to improve the level of confidence that the emergency contact details maintained by retailers are current.

The CCO and First Gas, as the transmission system owner, conclude from this exercise that the industry remains prepared to respond to an actual critical contingency.

All CCO reports are available on the CCO website at www.cco.org.nz

COMPLIANCE

Gas Industry Co performs the role of Market Administrator under the Compliance Regulations, which provides for the monitoring and enforcement of rules and regulations.

Overall, the industry has a high compliance rate and breach allegations were again predominantly associated with the Reconciliation Rules and Switching Rules.

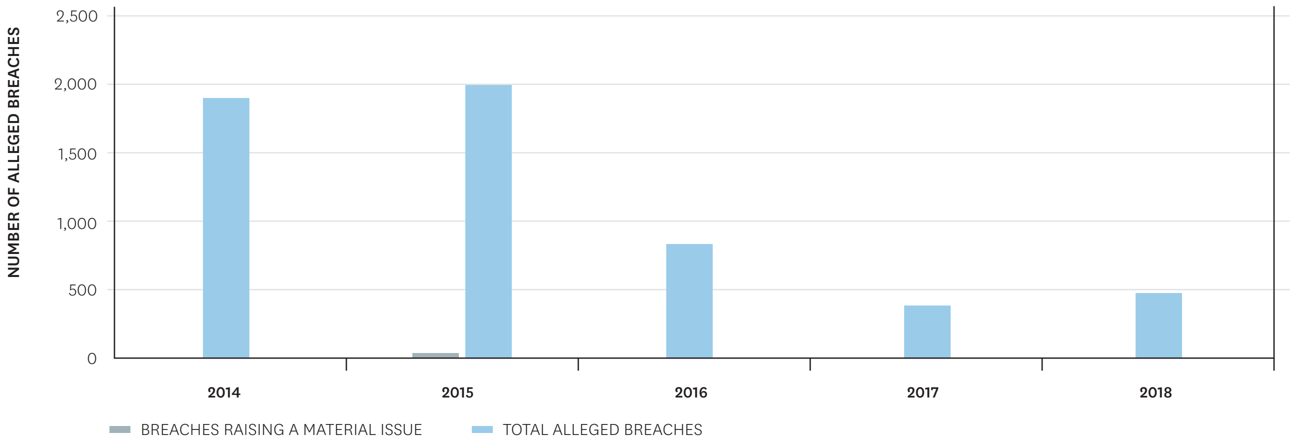
The number of total breach notices considered by Gas Industry Co in its role as the Market Administrator during FY2018 totalled 533, compared with 546 alleged breaches referred to it in FY2017. The statistics do not include the results of recent audit of gas retailers, distributors and meter owners that have been completed and are currently being processed.

Almost all breaches that the Market Administrator processes in relation to the Reconciliation Rules relate to rule 37 – the inaccuracy of consumption information submitted for the initial consumption period. The market impact of these breaches is minor and relates to the incorrect allocation of volumes between the initial and final allocations (Figure 8).

Switching breaches are at low levels (Figure 9). Participants are now familiar with the requirements of the Switching Rules. The key risk to compliance with the Switching Rules continues to be major system change (for example, the large number of alleged breaches in FY2014).

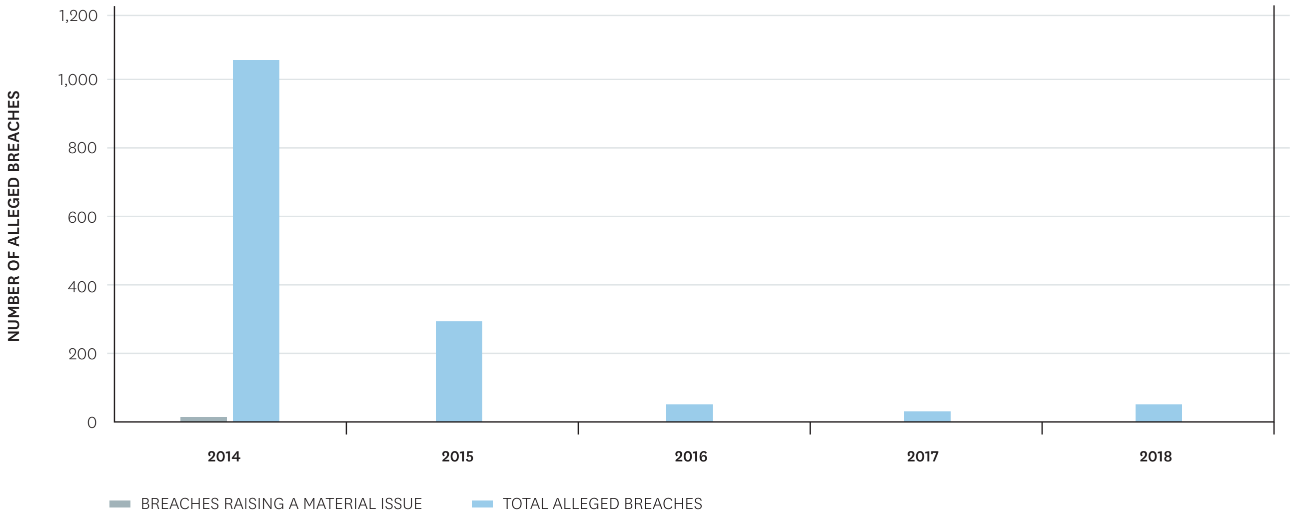
A number of alleged breaches of the CCM Regulations were resolved during the financial year. These alleged breaches related to the submission of incorrect returns under the Gas (Levy of Industry Participants) Regulations and underpayment of amounts of the wholesale gas levy under those regulations and market fees under the CCM Regulations. The alleged breaches were resolved by the parties correcting their historical underpayments.

FIGURE 8: ALLEGED BREACHES OF THE RECONCILIATION RULES



Notes:
> 14 material breaches of the Reconciliation Rules occurred in 2015
> Alleged breaches are recorded by the date of receipt of the breach notice

FIGURE 9: BREACHES OF THE SWITCHING RULES



Notes:
> 4 material breaches of the Switching Rules occurred in 2014
> Alleged breaches are recorded by the date of receipt of the breach notice

INVESTIGATOR AND RULINGS PANEL - APPROVED SETTLEMENTS AND DETERMINATIONS

In accordance with the Compliance Regulations, Gas Industry Co must appoint one or more persons as Investigators to carry out independent investigations of alleged breaches that have been determined by the Market Administrator as raising a material issue.

The Investigator must endeavour to effect settlements of alleged breaches, and these must be referred to the Rulings Panel for approval or rejection.

The Rulings Panel is an independent body appointed by the Minister of Energy and Resources, under the Compliance Regulations. The current Rulings Panel is Hon Sir John Hansen, KNZM. The Rulings Panel approves or rejects settlements proposed by the Investigator and, in a quasi-judicial process, determines breach allegations that are unable to be settled, or in respect of which a settlement has not been approved.

The Rulings Panel was referred 132 alleged breaches of the CCM Regulations in the FY2017. Those breaches stemmed from non-payment of the market fees over several years by one party. The alleged breaches were resolved in February 2018 without the need for a full hearing. The Rulings Panel determined that there should be no award of interest or costs in relation to the alleged breaches.

CHAPTER SIX

BUILDING AND COMMUNICATING THE NEW ZEALAND GAS STORY

THE NEW ZEALAND GAS STORY

The New Zealand Gas Story presents a comprehensive account of the gas industry's history, structure, performance, and contribution to New Zealand's energy supply, as well as the policy and regulatory framework in which it operates. It also includes Gas Industry Co's assessment of how the industry is performing against the Government's policy objectives and outcomes set out in the Gas Act and GPS.

The New Zealand Gas Story is generally updated annually. The sixth and most recent edition was published in December 2017.

LONG TERM GAS SUPPLY AND DEMAND SCENARIOS REPORT

The 2018 edition of the *Long Term Gas Supply and Demand Scenarios* report is due for release towards the end of the calendar year. This will be the fourth edition of the report commissioned by Gas Industry Co from independent expert Concept Consulting Group (Concept). The report explores gas supply and demand scenarios over the next couple of decades.

The 2018 edition of the report will update forecasts of New Zealand's gas reserves over the long term.

The analysis completed so far shows that New Zealand's current gas reserves position is similar to recent years. Reported reserves and gas production figures imply a reserves-to-production (RTP) ratio of approximately 10.5 years.

OTHER REPORTING

Other regular reports produced by Gas Industry Co include quarterly reports to the Minister of Energy and Resources, quarterly performance reports, and monthly switching reports, all of which are published on our website. These documents continue to fulfil the requirements to report regularly on the present state and performance of the industry.

Gas Industry Co contributes further to the gas industry information pool by periodically commissioning reports from external experts on subjects of specific and current interest and through presentations to industry and public conferences and seminars.

Gas Industry Co is required by the GPS to ensure that good information is publicly available about the performance and present state of the gas sector.

CHAPTER SEVEN

EFFECTIVE CO-REGULATION

Gas Industry Co was established in 2004 and was approved as the gas industry's co-regulatory body under Part 4A of the Gas Act that same year. The Company fully commenced operations in 2005 and works with both Government and stakeholders to develop recommendations on governance arrangements that meet the objectives of the Gas Act and the GPS.

Our oversight encompasses the gas wholesale and retail markets, processing facilities, and the transmission and distribution sectors of the industry.

STAKEHOLDER RELATIONS

Gas Industry Co works closely with other regulatory bodies, including MBIE and the Commerce Commission, whose responsibilities also encompass the gas industry. We also maintain relationships with many other agencies engaged in the energy and related sectors, including the Electricity Authority, Energy Efficiency and Conservation Authority, the Petroleum Exploration and Production Association of New Zealand, Gas Association New Zealand, and Utilities Disputes.

Facilitating industry contributions and debate is an important function for the effective operation of the co-regulatory model and Gas Industry Co conducts an annual Co-regulatory Forum to discuss the forthcoming year's work programme, upon which the levy is calculated. We also convene workshops to engage with the industry on particular issues arising from ongoing workstream activity.

FUNDING

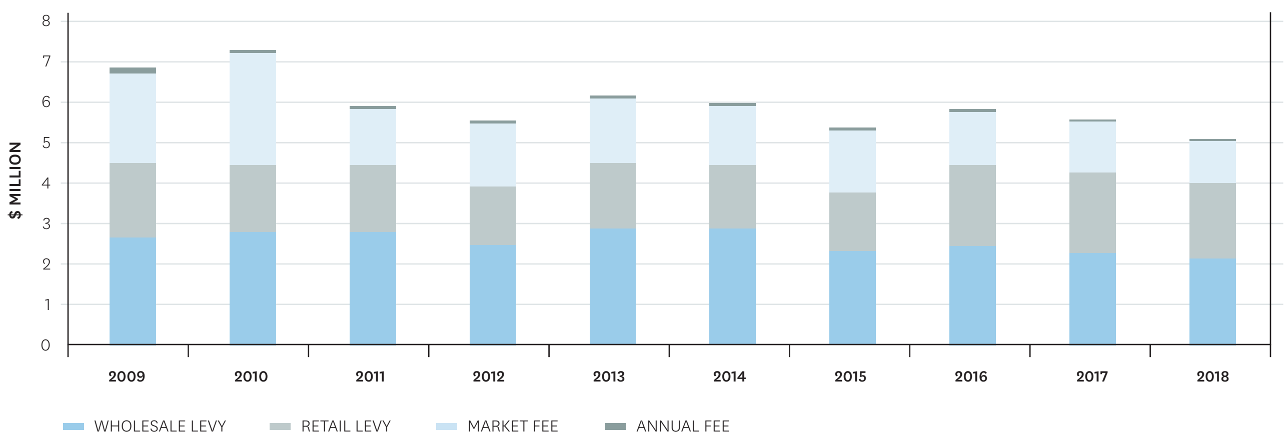
Gas Industry Co derives its income from wholesale and retail levies and from market fees. We are committed to ensuring that these levies and fees are well justified and used carefully.

We conduct a detailed consultation programme annually between October and March to establish the strategic priorities for the upcoming financial year and, from that, to recommend levies to the Minister of Energy and Resources for regulatory approval.

Gas Industry Co's revenue has remained much the same over recent years (Figure 10). It includes market fees under each of the rules and regulations to fund the administration of those rules and regulations (including recovery of the costs of external service providers and consultants). In addition, retail and wholesale levies are applied each year to cover the costs of Gas Industry Co's policy and market administration work.

Gas Industry Co's constitution enables the Board to charge shareholders an annual fee. At its November 2016 meeting, the Board approved reducing the annual fee for the FY2017 year and onwards to $2,000 per shareholder per annum. Shareholders' fees are kept aside as a contingency reserve.

FIGURE 10: REVENUE



EXPENDITURE

Gas Industry Co's financial year ends on 30 June. Its work programme and associated budget for the forthcoming financial year are developed in a consultation process beginning with the Co-regulatory Forum for stakeholders in the preceding November and concluding the following March with the preparation of a *Statement of Intent* and the making of a recommendation to the Minister of Energy and Resources for levy regulations.

The budget is set to ensure Gas Industry Co has sufficient resources to meet its work programme obligations, while recognising the need to be cost-effective, as the levy is ultimately incorporated into consumer prices.

As Gas Industry Co has more control over what it spends than what it collects in revenue, our financial performance is meaningfully measured by reviewing actual expenditure. As shown in Figure 11, actual expenditure has been held at similar levels in recent years and we expect this to continue in 2018/19.

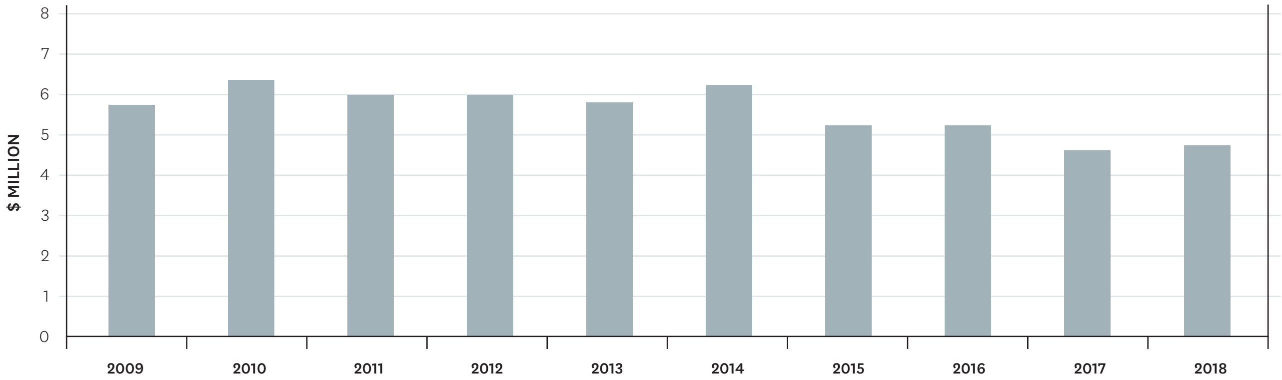
In the year ended 30 June 2018, operating expenses were $4,871,130, against the *Statement of Intent* budgeted expenses of $5,376,749. This reflects the deferral of costs in relation to some significant workstreams and the undertaking of other work without the use of external consultants. Some workstreams also include provision for contingent amounts, such as the cost of an expert to determine imbalance pricing during a critical contingency event.

Gas Industry Co's equity reserve as at 30 June 2018 has two components – the Industry Advances Reserve of $704,085 and Retained Earnings of $704,000.

The Industry Advances Reserve comprises the over-recovery of levy revenue. The Board's practice has been to return such over-recoveries, subject to retaining adequate capital reserves, as soon as practicable after the annual accounts have been received by shareholders at the Company's Annual Meeting. In November 2017, the balance of surplus levy from FY2017 of $464,508 was returned to industry participants.

Retained Earnings are the accumulation of the shareholders' annual fees, and are set aside as a reserve against future contingencies. They do not impact on the levy calculation.

FIGURE 11: OPERATING EXPENSES



CHAPTER EIGHT

CORPORATE GOVERNANCE

Gas Industry Co is owned by industry participant shareholders and is funded by levies on industry participants. It is incorporated as a company under the Companies Act 1993 and operates in accordance with the Gas Act, the GPS, and the Company's Constitution.

Gas Industry Co's shareholders represent sectors across the gas industry – production, transmission, distribution, wholesale, retail and consumers. There were 14 shareholders as at 30 June 2018.

Each shareholder holds a $1 share, which is redeemable at the option of the shareholder. Shareholders are entitled to one vote in a poll on resolutions at shareholders' meetings, including those that appoint directors and change the Constitution.

BOARD OF DIRECTORS

The Board of Gas Industry Co meets on regularly scheduled occasions to consider operational reports and recommendations from Gas Industry Co's management. Unscheduled meetings are held from time to time to consider matters requiring immediate attention. Directors attend either in person or via teleconference.

The Board is a mix of independent and industry-associated Directors, all appointed by the shareholders. Its composition accords with the Gas Act requirement to have a majority of Independent Directors, including the Chair. This reflects the aim of creating a gas industry co-regulatory body that benefits from industry participation and experience, balanced by a range of independent expertise. The Company's Constitution limits the Board to no more than seven Directors, four of whom are independent of the gas industry. The number of Independent Directors voting on an issue must exceed the number of industry-associated Directors voting on the same matter.

BOARD COMMITTEE

The Board has one standing committee, the Independent Directors' Committee, comprising the four Independent Directors. The Committee addresses matters where the Industry-Associated Directors have potential or actual conflicts of interest.

BOARD MENTORING SCHEME

In 2015, Gas Industry Co established a Board Mentoring Scheme as a way of promoting greater gender diversity. The scheme, which is similar to one run by the Institute of Directors, is aimed at promoting governance opportunities for aspiring female directors and gives the appointees an opportunity to obtain experience and mentoring around Gas Industry Co's board process. There have been three appointees to the role since the introduction of the scheme, including a lawyer in private practice and an appointee from within our shareholders.

SHAREHOLDERS

CONTACT ENERGY LIMITED

EMSTRADEPOINT LIMITED

FIRST GAS LIMITED

GENESIS ENERGY LIMITED

GREYMOUTH GAS NEW ZEALAND LIMITED

METHANEX NEW ZEALAND LIMITED

MERCURY NZ LIMITED

NEW ZEALAND OIL & GAS LIMITED

NOVA ENERGY LIMITED

OMV NEW ZEALAND LIMITED

POWERCO LIMITED

SHELL (PETROLEUM MINING COMPANY) LIMITED

TRUSTPOWER LIMITED

VECTOR LIMITED

RT HON JAMES (JIM) B BOLGER, ONZ

CHAIR, INDEPENDENT DIRECTOR

APPOINTED 4 NOVEMBER 2004

Jim Bolger has had a distinguished career in politics that includes being Prime Minister of New Zealand from October 1990 to December 1997, holding ministerial positions for 16 years, and leading the New Zealand National Party for 12 years. He has been the Chair since the Company's establishment.

INTERESTS REGISTER

Chair: Fair Pay Agreement Working Group, Mt Cook Alpine Salmon Limited, Hollow Lands Limited
Director: Te Urewera
Board Chancellor: Waikato University

ROBIN G HILL, BCom

DEPUTY CHAIR, INDEPENDENT DIRECTOR

APPOINTED 4 NOVEMBER 2004

Robin Hill has an extensive background in financial and business management. He was Chairman and Chief Executive of PricewaterhouseCoopers New Zealand from 1992 to 2003. He has been the Deputy Chair since the Company's establishment.

INTERESTS REGISTER

No interests relevant to Gas Industry Co

ANDREW BROWN, LLB

INDEPENDENT DIRECTOR

APPOINTED 10 JUNE 2010

Andrew Brown is a leading corporate lawyer with over 25 years' experience as a partner at Bell Gully. Since leaving Bell Gully in 2010, Mr Brown worked on his own account and as general counsel for both KiwiRail and Housing New Zealand Corporation. He is currently a commercial advisor with Crown Infrastructure Partners Limited.

INTERESTS REGISTER

No interests relevant to Gas Industry Co

KEITH DAVIS, PGDipBus

INDEPENDENT DIRECTOR

APPOINTED 10 JUNE 2010

Keith Davis has extensive experience in the information technology, telecommunications, and venture-funding industries. He has held senior management roles with McDonnell Douglas, Compaq Computers, and BellSouth.

INTERESTS REGISTER

No interests relevant to Gas Industry Co

NIGEL BARBOUR, BCom, LLB

INDUSTRY-ASSOCIATED DIRECTOR

APPOINTED 21 NOVEMBER 2013

Nigel Barbour is the Chief Executive of Powerco. Nigel is responsible for leading the business to deliver on all customer, financial and operation targets. He joined Powerco in October 2002 and has been in executive management roles for the past 14 years. He was appointed Chief Executive in October 2011.

He is also Deputy Chair of the New Zealand Electricity Networks Association.

Nigel has an economics and legal background and has previously held roles with Transpower and Bank of New Zealand.

INTERESTS REGISTER

Chief Executive Officer: Powerco Limited

Member: New Zealand Electricity Networks Association

DENNIS BARNES

INDUSTRY-ASSOCIATED DIRECTOR

APPOINTED 11 MAY 2011

Dennis Barnes is the Chief Executive Officer of Contact Energy. His role followed 13 years in Australia with Origin Energy, including in a range of gas-related roles and serving on the boards of two Australian gas regulators. Prior to that, Mr Barnes worked in various international energy markets, including managerial roles with Scottish and English electricity companies.

INTERESTS REGISTER

Chief Executive Officer: Contact Energy Limited

Director: Various Contact Energy subsidiaries

GABRIEL SELISCHI

INDUSTRY-ASSOCIATED DIRECTOR

APPOINTED 16 NOVEMBER 2016

Gabriel Selischi studied engineering at the Polytechnic Institute of Bucharest and graduated a master delivered by the four most prestigious schools in Paris in 1994. He served as Senior Manager at Schlumberger and Principal at Gemini Consulting. He has managed the transfer of several mature offshore oil and gas concessions in Africa while stabilising production. He has acted as Programme Manager for the post-merger integration of Total, Fina and Elf in Europe.

In 2006, Mr Selischi joined OMV, where he served as Head of Strategy, Project & Engineering, Domestic Asset and member of the Executive Board responsible for the Upstream Division of Petrom. His various international positions have taken him to several countries in the EU, South Africa, Algeria and Angola. As of April 2016, Mr Selischi was appointed Senior Vice President responsible for the Australasia organisation of OMV.

INTERESTS REGISTER

Director: OMV New Zealand Limited, OMV GSB Limited, Maui Development Limited, Petroleum Infrastructure Limited, OMV Barrow Pty Ltd; OMV Beagle Pty Ltd; OMV Petroleum Pty Ltd

ALTERNATE DIRECTORS:

STUART DICKSON

APPOINTED 22 MAY 2014

Alternate for Mr Barbour.

Officer: Powerco Limited

Chair: Gas Association of New Zealand

CATHERINE THOMPSON

APPOINTED 3 JUNE 2014

Alternate for Mr Barnes.

Officer: Contact Energy Limited

Director: Liquigas Limited (resigned 1 April 2018), Contact Aria Limited, Contact Energy Trustee Company Limited

Alternate Director: Electricity Retailers Association Incorporated

PATRICK TEAGLE

APPOINTED 23 FEBRUARY 2017

Alternate for Mr Selischi

Head of Commercial and Legal: OMV

ATTENDANCE

The Board met on six occasions during the year ended 30 June 2018. At other times, matters that required the Board's attention were addressed by circular resolutions.

DIRECTORS	MEETINGS ATTENDED
J Bolger	6
R Hill	6
A Brown	6
K Davis	6
N Barbour	4
D Barnes	3
G Selischi	4

ALTERNATE DIRECTORS	MEETINGS ATTENDED
S Dickson	1
C Thompson	2
P Teagle	2

DIRECTORS' REMUNERATION

Directors' remuneration is authorised by ordinary resolution of shareholders and is paid to the Independent Directors only.

The current maximum level of directors' fees, being $275,000, was authorised by shareholders in 2004. Annual fee payments of $93,500 for the Chair, $63,360 for the Deputy Chair, and $52,800 for the other two Independent Directors were set by the Board in June 2007. Directors' remuneration payments in respect of the year ended 30 June 2018 were:

DIRECTORS	$
J Bolger (Chair)	93,500
R Hill (Deputy Chair)	63,360
A Brown	52,800
K Davis	52,800
N Barbour	–
D Barnes	–
G Selischi	–

INDEMNIFICATION OF DIRECTORS

As permitted by the Constitution and the Companies Act 1993, Gas Industry Co has indemnified its directors and has provided directors' liability insurance for officers and directors. This insurance and indemnity is with respect to potential liabilities and costs they may incur for acts or omissions in their capacity as directors and officers.

During the financial year, Gas Industry Co paid insurance premiums in respect of directors' and officers' liability insurance.

ANNUAL MEETING

Gas Industry Co's Annual Meeting was held on 17 November 2017.

Mr Hill and Mr Barbour retired at the meeting in accordance with the director rotation provisions of the Company's Constitution. No other nominations had been received by Gas Industry Co, and being eligible, they were both re-elected as Directors.

In his address to the meeting, the Chair noted the enormous progress being made in the development of a new gas transmission access code, and acknowledged both the commitment and positive work by all stakeholders involved. The Chair welcomed the new Energy and Resources Minister, Hon Dr Megan Woods, and noted that the two most significant areas of developing policy for the gas industry were likely to be the upstream sector and the climate change response, and that the Company looked forward to working with the new Government.

On behalf of the Board, the Chair acknowledged Gas Industry Co's shareholders and noted that the Company remained very grateful to them for providing tangible support for the current industry arrangements.

The Chair concluded his address by recording that the New Zealand gas industry remained in good health and was on track in fulfilling Government policy objectives for the sector.

DELEGATIONS

The Board delegates to the Chief Executive the right to exercise all the financial powers of the Board in relation to the operation of Gas Industry Co in accordance with any applicable Board policies and directives, as well as defined financial delegations for business operations. The Board reserves to itself certain powers, including the approval of strategic and business plans, budgets, accounting policies and other financial matters, and transactions or contracts over specified thresholds.

EXECUTIVE

Gas Industry Co has a small Senior Management Team and total staff of around 13 who deliver the Company's strategy and work programme.

IAN DEMPSTER, BE (Hons), MCom (Hons)

GENERAL MANAGER OPERATIONS

Ian Dempster, a foundation member of Gas Industry Co's Executive since 2005, leads the Operations Group, a team of advisers with responsibilities for arrangements relating to access and operation of gas pipelines, switching, downstream reconciliation, the wholesale market, critical contingency management, and compliance and enforcement.

Ian was previously a consultant for network industries, including water, gas, ports and telecommunications. His energy sector experience includes corporate finance and mergers, acquisitions and divestments arising from legislation-driven industry restructuring. He has a background in electricity generation planning.

ANDREW KNIGHT, BMS (Hons), CA

CHIEF EXECUTIVE

Andrew Knight commenced as Chief Executive in March 2018. Prior to that he was Chief Executive of New Zealand Oil & Gas for five years. Andrew has held a range of roles across the energy sector in New Zealand and Australia as a listed and unlisted Company Director, CEO and Executive Manager. Andrew is also a Director or Chairman of a number of Iwi organisations and a charitable trust education provider.

SUSAN DUNNE, LLB, BCA, CA

GENERAL MANAGER CORPORATE SERVICES AND COMPANY SECRETARY

Susan Dunne joined Gas Industry Co in April 2013 as Senior Legal Counsel. She was appointed Company Secretary in 2014 and General Manager Corporate Services in May 2017. As well as providing legal and company secretarial services to Gas Industry Co, Susan leads the Corporate Services team responsible for administrative support functions including finance, technology, human resources, risk and property management.

Prior to joining Gas Industry Co, Susan worked as both Legal Counsel and Tax Manager at Westpac New Zealand Limited. Susan began her career with PricewaterhouseCoopers in Wellington.

EMPLOYEE REMUNERATION AND BENEFITS

Employees receiving remuneration and related benefits over $100,000 per annum:

$	YEAR ENDED 30 JUNE 2018
100,001-110,000	1
120,001-130,000	1
140,001-150,000	1
150,001-160,000	1
160,001-170,000	2
230,001-240,000	1
330,001-340,000	1
390,001-400,000	1

BUSINESS GOVERNANCE AND CORPORATE RESPONSIBILITY

Gas Industry Co maintains a comprehensive suite of policies and procedures to govern behaviour and ensure employee wellbeing. These include:

CODE OF CONDUCT AND ETHICS

Gas Industry Co expects its people to act ethically, safely and legally at all times in conducting the Company's business, and to comply with the four principles of conduct outlined in the Code, as well as any ethical standards applying to them by virtue of their membership of a professional body.

CONFLICTS OF INTEREST

Employees must inform the Company in writing where they enter into any business arrangement or have personal interests that may conflict with either the Company's business or affect the full, effective, and impartial discharge of the employee's obligations with the Company as the industry body and co-regulator.

Independent Directors and employees have restrictions on ownership of interests in industry participants.

HARASSMENT POLICY

Gas Industry Co is committed to providing a work environment for its staff which is free from harassment, where staff are treated with dignity and respect. The Company has a zero tolerance for harassment and considers any form of harassment to be unacceptable. It will take all practical steps to eliminate harassment and is committed to resolving issues of harassment as early as possible.

GIFTS AND HOSPITALITY

Gas Industry Co requires that its employees do not solicit, accept or offer money, gifts, favours, or entertainment that might influence, or appear to influence, their business judgment, particularly given the Company's role as the industry body and co-regulator.

HEALTH AND SAFETY

The Company is committed to providing and maintaining a safe and healthy work environment for employees and visitors to its premises. Gas Industry Co's Health and Safety Policy is set by the Board and includes a goal of zero harm with a range of initiatives designed to support employee health and well-being.

CONFIDENTIAL INFORMATION AND PRIVACY

This policy provides that employees must protect the privacy of Gas Industry Co's confidential business information, except as permitted or required by law.

RISK MANAGEMENT

Gas Industry Co's Risk Management Policy is set by the Board and includes an enterprise risk register to record and mitigate strategic, operational, and physical risks that could affect the Company's business. Gas Industry Co also maintains business continuity and emergency preparedness plans. The Management Team reviews the Company's enterprise risk register each month and the register is presented to the Board each quarter.

CHAPTER NINE

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Board of Directors have pleasure in presenting the Annual Report of Gas Industry Company Limited, incorporating the Financial Statements and the Audit Report, for the year ended 30 June 2018.

The Board of Directors of the Company authorised the financial statements presented on pages 31 to 43 for issue on 15 August 2018.

For and on behalf of the Board.

Rt Hon James B Bolger, ONZ
CHAIR
15 August 2018

Robin G Hill
DEPUTY CHAIR
15 August 2018

KPMG

Independent Auditor's Report

To the shareholders of Gas Industry Company Limited

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Gas Industry Company Limited (the company) on pages 31 to 43:

i. present fairly in all material respects the company's financial position as at 30 June 2018 and its financial performance and cash flows for the year ended on that date; and

ii. comply with Public Benefit Entity Standards Reduced Disclosure Regime (Not For Profit).

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2018;
- the statement of comprehensive revenue and expenditure, statement of changes in equity and statement cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the company in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Other than in our capacity as auditor we have no relationship with, or interests in, the company.

Other information

The Directors, on behalf of the company, are responsible for the other information included in the entity's Financial Statements. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the company, are responsible for:

— the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being Public Benefit Entity Standards Reduced Disclosure Regime (Not For Profit));

— implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

— to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/

This description forms part of our independent auditor's report.

KPMG

KPMG
Wellington

15 August 2018

GAS INDUSTRY COMPANY LIMITED
STATEMENT OF COMPREHENSIVE REVENUE AND EXPENDITURE

FOR THE YEAR ENDED 30 JUNE 2018

	NOTES	ACTUAL 2018 $	ACTUAL 2017 $
Revenue from exchange transactions			
Operating income	4	5,331,043	5,613,235
Interest income		33,559	42,865
		5,364,602	5,656,100
Refunded levy income	4	(667,243)	(821,973)
NET INCOME		**4,697,359**	**4,834,127**
Expenditure			
Operating expenditure	5	4,871,130	4,731,025
Finance costs		2,810	5,129
		4,873,940	4,736,154
SURPLUS / (DEFICIT) BEFORE TAX		**(176,581)**	**97,973**
Income tax expense	6	9,396	12,002
SURPLUS / (DEFICIT) FOR THE YEAR		**(185,977)**	**85,971**
Other comprehensive revenue and expenditure		-	-
TOTAL COMPREHENSIVE REVENUE AND EXPENDITURE FOR THE YEAR		**(185,977)**	**85,971**

The accompanying notes form an integral part of these financial statements.

GAS INDUSTRY COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	INDUSTRY RESERVES $	RETAINED EARNINGS $	TOTAL EQUITY $
Balance at 1 July 2016	858,091	650,000	1,508,091
Total comprehensive revenue and expenditure for the year			
Surplus / (Deficit) for the year	–	85,971	85,971
Other comprehensive revenue and expenditure	–	–	–
Total comprehensive revenue and expenditure for the year	–	85,971	85,971
Transfer between equity reserves			
Industry Advances Reserve transfers	59,971	(59,971)	–
BALANCE AT 30 JUNE 2017	**918,062**	**676,000**	**1,594,062**
Balance at 1 July 2017	918,062	676,000	1,594,062
Total comprehensive revenue and expenditure for the year			
Surplus / (Deficit) for the year	–	(185,977)	(185,977)
Other comprehensive revenue and expenditure	–	–	–
Total comprehensive revenue and expenditure for the year	–	(185,977)	(185,977)
Transfer between equity reserves			
Industry Advances Reserve transfers	(213,977)	213,977	–
BALANCE AT 30 JUNE 2018	**704,085**	**704,000**	**1,408,085**

The accompanying notes form an integral part of these financial statements.

GAS INDUSTRY COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	NOTES	ACTUAL 2018 $	ACTUAL 2017 $
ASSETS			
Current assets			
Cash and cash equivalents	7	1,202,308	2,180,469
Term Deposit		700,000	–
Trade and other receivables	8	57,911	452,978
Prepayments		68,168	124,961
Income tax receivable	6	–	–
Total current assets		2,028,387	2,758,408
Non-current assets			
Property, plant and equipment		107,625	80,292
Intangible assets		5,554	12,548
Total non-current assets		**113,179**	**92,840**
Total assets		**2,141,566**	**2,851,248**
LIABILITIES			
Current liabilities			
Trade and other payables	9	544,431	951,957
Asset restoration provision		–	48,777
Employee entitlements		189,036	256,438
Redeemable shares	11	14	14
Total current liabilities		733,481	1,257,186
Total liabilities		733,481	1,257,186
Net Assets		1,408,085	1,594,062
EQUITY			
Industry reserves	12	704,085	918,062
Retained earnings	12	704,000	676,000
Total equity		**1,408,085**	**1,594,062**

These financial statements were authorised for issue by the signatories below on 15 August 2018:

For and on behalf of the Board.

Rt Hon James B Bolger, ONZ
CHAIR
15 August 2018

Robin G Hill
DEPUTY CHAIR
15 August 2018

The accompanying notes form an integral part of these financial statements.

GAS INDUSTRY COMPANY LIMITED
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	ACTUAL 2018 $	ACTUAL 2017 $
Operating activities		
Cash was provided from		
Levy revenue	4,052,231	4,485,180
Market fee revenue	1,162,647	1,372,004
Annual fees	28,000	26,000
Interest received	29,046	42,865
Net GST	107,646	–
	5,379,570	5,926,049
Cash was applied to		
Payments to suppliers	(2,365,861)	(2,526,840)
Payments to employees	(2,307,968)	(2,046,217)
Payments to directors	(262,460)	(264,304)
Refund of levy to industry participants	(655,635)	(820,673)
Taxes paid	(8,133)	(12,002)
Net GST	–	(137,595)
	(5,600,057)	(5,807,631)
Net cash inflows from operating activities	**(220,487)**	**118,418**
Investing activities		
Cash was applied to		
Purchase of property, plant and equipment	(57,674)	(16,148)
Purchase of intangible assets	–	(9,823)
Term deposit	(700,000)	–
Net cash outflows from investing activities	**(757,674)**	**(25,971)**
Net increase/ (decease) in cash and cash equivalents	(978,161)	92,447
Opening cash and cash equivalents	**2,180,469**	**2,088,022**
CLOSING CASH AND CASH EQUIVALENTS	**1,202,308**	**2,180,469**

The accompanying notes form an integral part of these financial statements.

GAS INDUSTRY COMPANY LIMITED NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

These financial statements comprise the financial statements of the Gas Industry Company Limited (the "Company") for the year ended 30 June 2018.

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

The Company is a limited liability company incorporated and domiciled in New Zealand and is registered under the Companies Act 1993. The address of its registered office is 95 Customhouse Quay, Wellington.

The financial statements have been prepared in accordance with the requirements of the Gas Act 1992, the Financial Reporting Act 2013 and the Companies Act 1993.

The principal activity of the Company is to act as a co-regulatory body for the gas industry in New Zealand. This includes making recommendations to the Minister of Energy on a wide range of industry matters, including the making of rules and regulations in relation to the wholesaling, processing, transmission, distribution and retailing of gas.

The financial statements have been approved for issue by the Board of Directors on 15 August 2018.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with the PBE Accounting Standards as appropriate for Tier 2 not-for-profit public benefit entities. The company is a Tier 2 reporting entity as it has total expenditure less than $30 million in the two preceding reporting periods and is not publically accountable. All available exemptions under Tier 2 Reduced Disclosure Requirements have been applied.

(b) Basis of measurement

The financial statements have been prepared on a historical costs basis, except for financial assets and liabilities that have been measured at fair value. The accrual basis of accounting has been used unless otherwise stated and the financial statements have been prepared on a going concern basis.

(c) Presentation currency

The financial statements are presented in New Zealand dollars ($), which is the Company's functional currency.

(d) Judgments and estimations

The preparation of financial statements in conformity with PBE Accounting Standards requires judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Where material, information on significant assumptions and estimates is provided in the relevant accounting policy or will be provided in the relevant note.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Subsequent actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates is revised and in any future years affected. Some prior year comparatives have been reclassified to comply with current year presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(b) Trade debtors and other receivables

Trade debtors and other receivables are measured at amortised cost using the effective interest method less any impairment losses.

A provision for impairment is established where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable.

Receivables with a short duration are not discounted.

(c) Intangible assets

Software costs, which includes those items classified as "Industry Assets" have a finite useful life. Software costs are capitalised and amortised over an economic useful life of between 4 and 6 years.

"Industry Assets" relate to the databases created and established for the Downstream Reconciliation and Switching & Registry rules.

(d) Trade creditors and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(e) Employee entitlements

Short term benefits

Employee benefits that the Company expects to be settled within 12 months of balance date are measured at nominal value based on accrued entitlements at current rate of pays.

These include salaries and wages accrued up to balance date and annual leave earned, but not yet taken at balance date.

The Company recognises a liability and expense for bonuses where they are contractually obliged or where there is a past practice that has created a constructive obligation.

Long-term benefits

The Company does not provide long service leave to employees or members of the governing body and has not entered into any defined benefit/contribution pension plans.

(f) Preference shares

Preference share capital (disclosed as "Redeemable Shares") are classified as a liability if it is redeemable on a specific date or at the option of the shareholders.

(g) Revenue from exchange transactions

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as the principal or agent in a revenue transaction. In an agency relationship only the portion of revenue earned on the Company's own account is recognised as gross revenue in the Statement of Comprehensive Revenue and Expenditure.

The following specific recognition criteria must be met before revenue is recognised:

Levy revenue

Levy revenue comprises amounts received or due in accordance with the applicable Gas (Levy of Industry Participants) Regulations. Levy revenue is recognised when the underlying activities upon which the levy is raised have occurred and the amount of levy revenue can be reliably measured.

Market fee revenue

Market fees raised to recoup the capital and operating costs of implementing gas governance regulations are recognised in conformance with International Public Sector Board standard 23: Non-reciprocal transfers in the following manner:

» Market fees to recoup operating costs to be recognised as revenue at the time the invoice is raised as a proxy for recognising it at the time the leviable event occurs.
» Market fees to recover capital costs to be recognised as revenue once the expenditure the fees were raised to cover has been incurred.

Annual fees

Annual fees are recognised when invoiced.

Interest income

Interest income is recognised as it accrues, using the effective interest method.

(h) Revenue from non-exchange transactions

Non-exchange transactions are those where the Company receives value from another entity (eg: cash or other assets) without giving approximately equal value in exchange. During the year no non-exchange transactions were entered into.

(i) Income tax

Taxation expense in the Statement of Comprehensive Revenue and Expenditure comprises current tax charges. Industry participation levies, annual fees and market fees received are not regarded as gross income, in terms of section CB 1 of the Income Tax Act 2007 and therefore are not taxable. Deductions are not available in respect of the costs incurred in providing services.

Current tax charges are based on taxable surplus' for the year, which differ from the surplus before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible.

The Company has no material deferred tax balances as the majority of assets and liabilities are used to provide non-taxable activities.

(j) Goods and Services Tax (GST)

All amounts are shown exclusive of Goods and Services Tax (GST), except for receivables and payables that are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the Inland Revenue is included as part of receivables or payables in the Statement of Financial Position.

(k) Reserves / Equity Policy

The Board holds surplus levy income in a dedicated industry advance reserve for the future reduction of levy income.

4. OPERATING INCOME

	ACTUAL 2018 $	ACTUAL 2017 $
Wholesale levy revenue	2,297,692	2,317,410
Retail levy revenue	1,736,464	1,913,973
Market fee revenue	1,268,887	1,355,852
Annual fees	28,000	26,000
TOTAL OPERATING INCOME	**5,331,043**	**5,613,235**
Refunded levy income	(667,243)	(821,973)

5. OPERATING EXPENDITURE

	ACTUAL 2018 $	ACTUAL 2017 $
Depreciation & amortisation	36,692	46,740
Operating lease expenses	233,664	307,857
Fees paid to audit firm – financial statement audit	15,756	14,593
Fees paid to audit firm – other services	–	12,290
Directors’ fees	262,460	262,460
General expenses	239,931	323,899
Bad debts / (bad debts recovered)	–	(1,181)
Recruitment expenses	79,164	4,000
Technical, economic, and legal advice	511,604	498,868
Service provider fees	1,225,277	1,237,722
Kiwisaver contributions	51,771	46,350
Employee benefit expense	2,214,811	1,977,427
TOTAL OPERATING EXPENDITURE	**4,871,130**	**4,731,025**

6. INCOME TAX

	ACTUAL 2018 $	ACTUAL 2017 $
(a) Income tax expense		
Current year income tax expense	9,396	12,002
Deferred tax movement	–	–
TOTAL INCOME TAX EXPENSE	**9,396**	**12,002**

(b) Reconciliation of current year income tax expense		
Surplus / (Deficit) for the year	(191,581)	97,973
Income tax expense at 28 percent	(53,643)	27,432
Permanent differences	63,039	(15,430)
Timing differences	–	–
CURRENT YEAR INCOME TAX EXPENSE	**9,396**	**12,002**

(c) Income tax receivable		
Opening balance	–	–
Tax refunds received	–	–
Current year income tax expense	(9,396)	(12,002)
Income tax paid	9,396	12,002
CLOSING BALANCE	**–**	**–**

The Company has no material deferred tax balances on temporary or permanent timing differences.

7. CASH AND CASH EQUIVALENTS

	ACTUAL 2018 $	ACTUAL 2017 $
Bank account	997	996
Interest bearing account	1,201,311	2,178,973
Petty cash	–	500
TOTAL	**1,202,308**	**2,180,469**

The carrying amount of cash and cash equivalents approximates their fair value.

Cash at bank and the interest bearing account earns interest at floating rates based on daily deposit balances.

8. TRADE AND OTHER RECEIVABLES

	ACTUAL 2018 $	ACTUAL 2017 $
Levy debtors	57,911	388,913
Other receivables	–	–
GST receivable	–	64,065
TOTAL	**57,911**	**452,978**

No provision for doubtful debts has been required because all significant receivable balance have been subsequently receipted after the reporting date and before authorisation of the financial statements for release.

9. TRADE AND OTHER PAYABLES

	ACTUAL 2018 $	ACTUAL 2017 $
Accounts payable	253,122	353,252
Accrued expenses	264,555	598,705
GST payable	26,754	–
TOTAL	**544,431**	**951,957**

Trade creditors and other payables are non-interest bearing and are normally settled on 30- day terms; therefore the carrying value of trade creditors and other payables approximates their fair value.

10. RELATED PARTY TRANSACTIONS

(a) Transactions with shareholders

Levy payments (which are detailed in note 4) are made by industry participants who, in many cases, are also shareholders of Gas Industry Company Limited.

(b) Transactions with key management personnel

	ACTUAL 2018 $	ACTUAL 2017 $
Salaries and other short-term employee benefits	**1,269,341**	**1,182,635**

Key management personnel include the Chief Executive, his two direct reports and the four Independent Directors.

The above includes remuneration of $262,460 (30 June 2017 $262,460) paid to the Independent Directors for the year.

11. REDEEMABLE SHARES

	ACTUAL 2018 $	ACTUAL 2017 $
Redeemable shares – value in dollars	14	14
Redeemable shares – number	14	14

All redeemable shares rank equally with one vote attached to each fully paid share. The shares are redeemable at any time for the consideration of $1 payable on redemption. The redeemable shares confer on the shareholders the rights set out in section 36(1) of the Companies Act 1993.

12. RESERVES AND RETAINED EARNINGS

	ACTUAL 2018 $	ACTUAL 2017 $
Industry advances reserve	704,085	918,062
Retained earnings	704,000	676,000
TOTAL EQUITY RESERVES	**1,408,085**	**1,594,062**

	ACTUAL 2018 $	ACTUAL 2017 $
(a) Industry advances reserve		
Opening balance	918,062	858,091
Transfer to retained earnings	(213,977)	59,971
CLOSING BALANCE	**704,085**	**918,062**

To allow for the timely enactment of the levy regulations each financial year, Gas Industry Co must set its budget and work programme nine months prior to the beginning of that year and prior to the completion of the Strategic Plan. In practice, this requires the company to forecast where it expects to be in the policy development process before it has fully analysed the issues, or engaged with stakeholders on their concerns.

This factor, and the fact that the levy is based in part on variable gas sales volumes, means every year there is a risk of over or under recovery of levy funds.

Section 43ZZC(3) of the Gas Act provides that any over or under recoveries can be taken into account in setting the levy in subsequent financial years. However, to ensure transparency around the calculation of each year's levy, the Board has determined that, unless required for unanticipated, ongoing work programme costs, any surplus should be returned to levy payers by way of refund once the year-end accounts have been received by shareholders at the Annual General Meeting.

The Board holds surplus levy income in a dedicated industry advance reserve for the future reduction of levy income.

	ACTUAL 2018 $	ACTUAL 2017 $
(b) Retained earnings		
Opening balance	676,000	650,000
Surplus / (Deficit) for the year	(185,977)	85,971
Transfer from Industry advances reserve	213,977	(59,971)
CLOSING BALANCE	**704,000**	**676,000**

13. CONTINGENCIES

As at 30 June 2018, the Company has no contingent liabilities (2017: nil). There is an arrangement with Westpac Banking Corporation Limited whereby Gas Industry Company has a business facility (limit $100,000) and a payroll Letter of Credit facility (limit $180,000).

14. COMMITMENTS

(a) Capital commitments

The Company has no material capital commitments (2017: $Nil)

(b) Operating lease commitments

	ACTUAL 2018 $	ACTUAL 2017 $
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	263,183	282,188
Later than one year but not later than five years	1,005,900	1,017,754
Later than five years	104,721	356,051
TOTAL	**1,373,804**	**1,655,993**

(c) Service provider commitments

	ACTUAL 2018 $	ACTUAL 2017 $
Service provider agreements for the Downstream Reconciliation, Switching and Registry and Critical Contingency Management Rules payable as follows:		
Within one year	783,128	1,113,387
Later than one year but not later than five years	985,728	536,696
Later than five years	410,720	–
TOTAL	**2,179,576**	**1,650,083**

15. SUBSEQUENT EVENTS

No significant events, which would materially affect the financial statements, have occurred subsequent to year end that require disclosure or adjustment to the carrying value of assets or liabilities in these set of financial statements.

GLOSSARY

ALLOCATION AGENT	Appointed pursuant to the Reconciliation Rules to reconcile volumes of gas leaving the transmission system with volumes consumed by end users and allocate those volumes to retailers. The Allocation Agent is currently Energy Market Services (EMS)
CCM REGULATIONS	Gas Governance (Critical Contingency Management) Regulations 2008
CCO	Critical Contingency Operator. The CCO is currently Core Group
COMPLIANCE REGULATIONS	Gas Governance (Compliance) Regulations 2008
D+1	The day-after delivery (D+1) allocation methodology for downstream reconciliation processes
DISTRIBUTION SCHEME	Gas Distribution Contracts Oversight Scheme
GAS ACT	Gas Act 1992
GAS GATE	A transmission system delivery point
GAS REGISTRY	The customer switching platform that facilitates customer switching between retailers and provides a database of information about consumer installations. The Gas Registry operator is currently Jade Software Corporation (NZ) Limited
GJ	Gigajoule (1,000,000,000 joules). The average residential gas consumption is 23 GJ/year
GPS	Government Policy Statement on Gas Governance (April 2008)
GTAC	Gas Transmission Access Code
ICP	Installation Control Point
MBB	Market-Based Balancing
MINISTER	The Minister of Energy and Resources (unless indicated otherwise)
MPOC	Maui Pipeline Operating Code
PEPANZ	Petroleum Exploration and Production Association of New Zealand
RECONCILIATION RULES	Gas (Downstream Reconciliation) Rules 2008
RETAIL SCHEME	Retail Gas Contracts Oversight Scheme
SWITCHING RULES	Gas (Switching Arrangements) Rules 2008
TRANSMISSION SYSTEM	A system of pipelines transporting gas at high pressure from production and processing facilities to delivery points supplying end users and lower pressure local area gas distribution networks
UFG	Unaccounted-for gas
VTC	Vector Transmission Code

GAS INDUSTRY COMPANY LIMITED

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BANKERS/ Westpac New Zealand Limited