

GAS INDUSTRY COMPANY LIMITED

## 2018/2019 Annual Report



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The 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.

## GOVERNANCE ARRANGEMENTS OVERSEEN BY GAS INDUSTRY CO

Gas Industry Co oversees various arrangements for the downstream gas industry.

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.

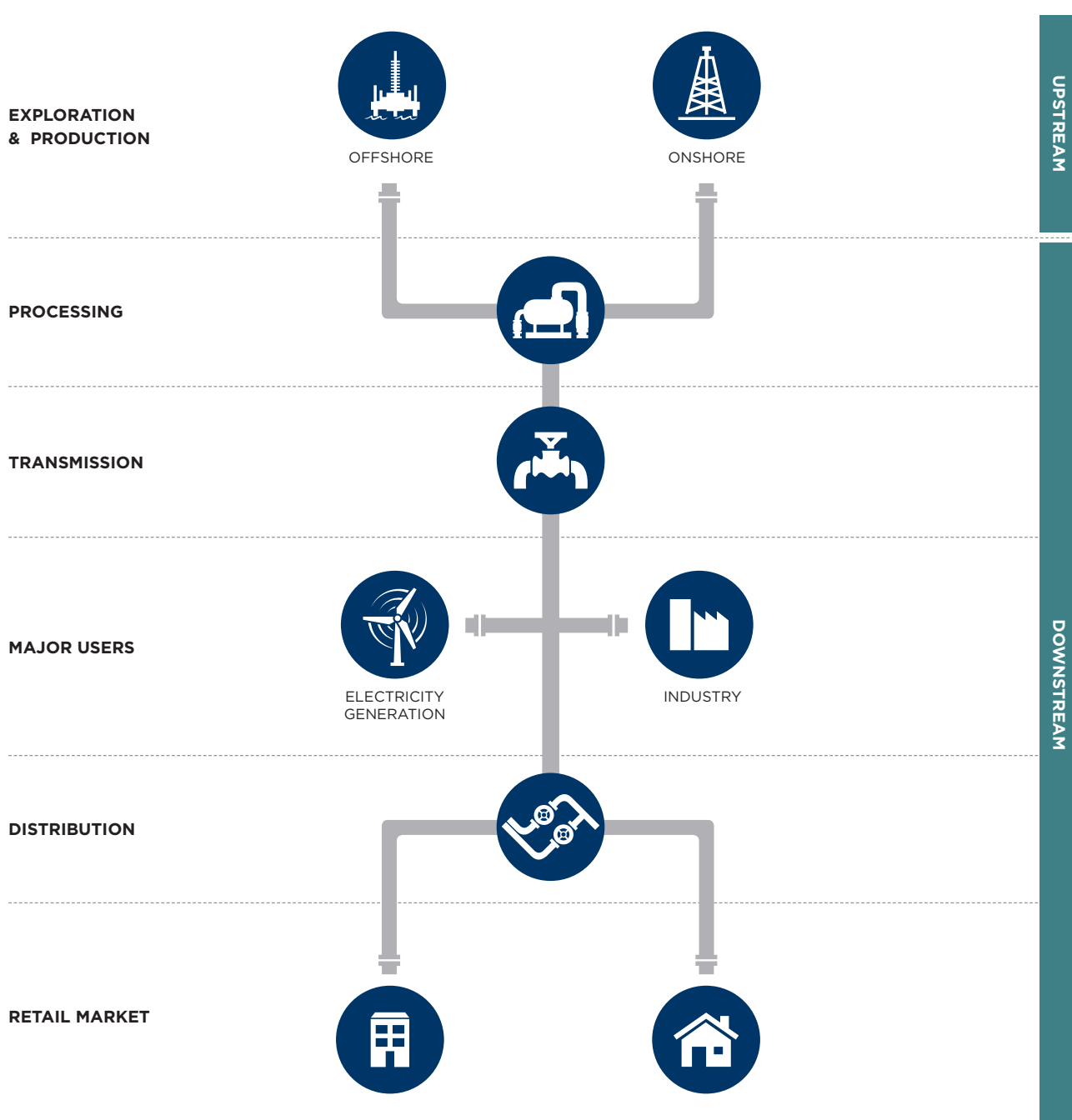
The ongoing effectiveness of these arrangements is monitored and reviewed. This is both at a high level, through a set of industry performance measures, and at a detailed level, through audits and daily monitoring. Highlights of the Performance Measures Report for the quarter ended 30 June 2019 are found on page 6.

Publications referred to in this Annual Report can be found on our website [www.gasindustry.co.nz](http://www.gasindustry.co.nz)

## 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 and 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 1

## Chair's foreword

In our role as the industry body, working together with the Government and the industry in a co-regulatory partnership, Gas Industry Company is uniquely positioned to support and facilitate industry preparedness for the challenges that lie ahead.

In the context of considerable ongoing change driven by a number of factors, climate change policies, technological developments, and the availability of natural gas, will significantly influence the future shape of the gas industry in New Zealand.

The Paris Agreement - the global agreement on climate change commits all countries to take action on climate change. New Zealand ratified the Agreement in 2016, committing to having an emissions reduction target of 30 percent below the 2005 level by 2030. Other international trends have included the International Energy Agency's (IEA) report in June which finds that clean hydrogen is currently receiving strong support from governments and businesses around the world with several policies and projects expanding rapidly on the uses of hydrogen to replace fossil fuels<sup>1</sup>.

The independent Interim Climate Change Committee's (ICCC) expert report *Accelerated Electrification* released in July recommends a series of actions the Government can take using renewable electricity to achieve its 100 percent renewable target by 2035. The report indicates that New Zealand is on track to deliver a 93 percent renewable electricity system by 2035, and if the coal-fired Huntly Power Station is decommissioned that number could increase to 97 percent. The Committee's modelling signalled that though natural gas will play a diminishing role in the generation of electricity *it will be of particular use during dry years*<sup>2</sup>, and while work on alternatives continues.

The New Zealand Government is developing its vision for hydrogen, with a particular focus on green hydrogen, to assist it to explore its current and future economic opportunities. Last October, the Government signed a Memorandum of Understanding with Japan<sup>3</sup> signalling New Zealand's interest in hydrogen technology to help achieve the country's move towards a low carbon economy. Though hydrogen has the potential to play a significant role in our energy system and could potentially play an important role in decarbonising parts of our economy, the ICCC's analysis shows it is currently a less efficient and costly way of producing as a backup fuel for dry years.



*"...In this analysis, hydrogen is converted to ammonia via the Haber-Bosch process for storage. It is then converted back to hydrogen when needed and used in a hydrogen-capable open cycle gas turbine plant. There are efficiency losses due to this conversion and reconversion process, these have been factored into the calculations. These losses mean that the system is around 14% efficient. The conversion losses in the production of hydrogen are associated with fundamental physical processes and are a major element of the high cost. This means it may be challenging for hydrogen to become cost-competitive as a dry year solution...."*<sup>4</sup>

The journey to zero carbon emissions is by no means a solo endeavour. It needs to be one of business, local authorities, government, and communities all working together. Domestically, companies are collaborating and working together to test out options for achieving their emissions targets. For instance, Ballance Agri-Nutrients, a major gas user, confirmed a joint development agreement with Hiringa Energy for a project in Taranaki to explore the production of green hydrogen using renewable energy. First Gas, the gas transmission pipeline owner, announced a hydrogen pipeline trial as one of the first projects to start at the newly announced National New Energy Development centre being set up in Taranaki.

As new technologies continue to emerge, and with plenty of work still to be done, natural gas continues to have a significant role during the transition phase. It has an important role in providing cost effective electricity supply security and supports renewable electricity generation, especially when hydro lake levels are low. Currently, natural gas contributes 22 percent of our primary energy, and provides over 286,000 New Zealand homes, business and local amenities – such as schools, hospitals and rest homes with secure affordable energy.

Through our hydro and geothermal resources and expanding wind generation fleet, New Zealand is already a world leader in renewable electricity generation. However, as the country transitions to a lower emissions future, the changes this represents for energy use, will need to address the contribution natural gas is making to the country's economy and consumers' quality of life.

<sup>1</sup> The Future of Hydrogen: Seizing today's opportunities - <https://www.iea.org/newsroom/news/2019/june/international-action-can-scale-up-hydrogen-to-make-it-a-key-part-of-a-clean-and-s.html>

<sup>2</sup> Excerpt from the independent Interim Climate Change Committee report: <https://www.iccc.mfe.govt.nz/what-we-do/energy/electricity-inquiry-final-report/>

<sup>3</sup> Hon Dr Megan Woods media release <https://www.beehive.govt.nz/release/new-zealand-signs-hydrogen-agreement-japan>

<sup>4</sup> [https://www.iccc.mfe.govt.nz/assets/PDF\\_Library/daed426432/FINAL-ICCC-Electricity-report.pdf](https://www.iccc.mfe.govt.nz/assets/PDF_Library/daed426432/FINAL-ICCC-Electricity-report.pdf)

The gas sector has important implications for New Zealand's energy future. Relative to the rest of the world, New Zealand has the challenge of managing energy supply security during climate change driven transitions, while at the same time being isolated from global energy markets.

With the decline of production from the Maui field, New Zealand has developed a broader supply base but has lost much of the flexibility provided by Maui. As a result, a fuller understanding of future gas supply scenarios is important for stakeholders.

In this regard, Gas Industry Co released the Long-Term Gas Supply and Demand Study in September. The report analyses the long-term drivers of outcomes in the New Zealand gas industry and is a valuable tool for the industry for investment and other planning decisions.

Gas Industry Co will continue to assist and work with all stakeholders to address the challenges that lie ahead.

## ACKNOWLEDGEMENTS

On behalf of the Board I record Gas Industry Co's appreciation to all stakeholders for their contribution to the development of the Company's annual work programme, and to the detailed work that drives successful outcomes, often through the provision of time and resources to working groups. All can be assured that we remain committed to the effective use of our funding in performing our statutory functions and pursuing our strategic objectives.

The Directors acknowledge the ongoing support of Gas Industry Co's shareholders. The Company continues to benefit from the mix of industry and external perspectives brought to the Board table by the combination of independent and industry associated Directors. Accordingly, 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.

I would also like to thank the executive and staff of Gas Industry Co for their dedication and commitment to tasks and in ensuring the governance arrangements which the Company is responsible for, operate smoothly and efficiently in the interests of all stakeholders.



**Rt Hon James B Bolger, ONZ**

CHAIR

## STATEMENT OF INTENT PRIORITIES FOR 2019/2020

- » Continue to support industry participants and wider stakeholders during the implementation of the new single gas transmission access code (GTAC).
- » Identify whether an issue with information disclosure in the gas sector exists, and if so, whether a non-regulated solution is feasible, or regulation is required. If the conclusion is that there is an issue, and regulation is required, Gas Industry Co will prepare and consult on a statement of proposal.
- » Continue to monitor successive asset management plans in the wake of wider energy sector concerns about risk management and the resilience of key infrastructure.
- » Continue running the D+1 pilot scheme and make any refinements to its calculations and operation that are required to improve accuracy and reliability.
- » 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.
- » Provide support to Consumer NZ's Powerswitch to ensure the continued existence of an independent, credible source of information for consumers.
- » Review the CCM Regulations in light of the GTAC, to ensure that there are no gaps or inconsistencies in how critical contingency events are managed. Consult with stakeholders and develop proposals to address other matters that potentially need updating, such as the critical contingency price methodology.
- » Monitor activity and developments in the wholesale market with a focus on the market's role as the source of volume and pricing for transmission balancing.
- » Keep a watching brief on new and emerging technologies and address any specific requests from the Minister accordingly.

## CHAPTER 2

## Chief Executive's review

As we reflect on our activities, I am pleased to report we have completed another productive year in what is proving to be an increasingly transformational time for the New Zealand energy industry.

Gas Industry Co oversees various arrangements for the downstream gas industry and the ongoing effectiveness of these arrangements is monitored and reviewed through a set of industry performance measures.

Our role as the industry body, and our statutory responsibility to ensure that gas is delivered to new and existing consumers in a safe, efficient, fair, reliable, and environmentally sustainable manner, necessarily involve identifying arrangements that are appropriate in a highly competitive and changing energy market.

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.

As an industry-led process, development of the GTAC is in keeping with this objective and, amongst other things it continued to dominate much of our governance development work during the past year.

The process involved has been enabled by our unique co-regulatory model where we look at all solutions to an issue – regulated and non-regulated – before determining the best course of action.

In February 2019, we released our Final Assessment Paper (FAP), in which we concluded that the GTAC submitted by First Gas in October 2018, was materially better than the existing Maui Pipeline Operating Code (MPOC) and Vector Transmission Code (VTC) arrangements – therefore meeting one of the conditions necessary for the industry to move forward towards implementation of the new arrangements.

Implementation of the GTAC has implications for several of the governance arrangements and processes that reflect the current separate access regimes. For example, it is likely to entail changes to the Reconciliation Rules, adjustments to some aspects of managing gas critical contingencies, updating gas quality and gas measurement requirements, and fine-tuning transmission balancing mechanisms. Gas Industry Co expects to be closely involved in ensuring that these consequential changes are well aligned with statutory requirements and Government policy, demonstrating the efficacy of the co-regulatory model.

In parallel with the GTAC workstream, Gas Industry Co has continued to pilot a day-after-delivery (D+1) reconciliation scheme with implementation envisaged once the new transmission access code is in place. Both of these initiatives are expected to improve gas market efficiencies.

I would like to acknowledge the significant engagement between industry stakeholders during the GTAC process and thank all involved for their contributions.



In March, we consulted on our paper Options for Information Disclosure in the Wholesale Gas Sector (Options Paper), as a first step in our information disclosure workstream which we established last August. This was initiated following a request from the Minister asking us to consider whether the existing requirements for industry participants to disclose information were adequate. Our Options Paper set out a possible problem statement with a number of information disclosure options and provided stakeholders with the opportunity to comment on various issues relating to information disclosure in the New Zealand gas sector. Twenty submissions from a wide range of parties across the New Zealand energy sector were received. Our analysis of those submissions showed that most submitters consider that disclosure of outage information should be the highest priority for the information disclosure workstream with mixed views on whether major user outages should be disclosed.

As a next step we will be developing a concise problem definition and specific information elements and will open this up for further consultation with the industry. Parallel to our process, gas producers have been working to develop industry-led arrangements for production outages (both planned and unplanned). To assist the industry, we have also developed an online tool 'Industry Notifications' on our website so stakeholders can voluntarily post notifications.

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, quarterly reports which present a range of performance statistics, updating of the New Zealand Gas Story publication (available on our website), and periodically commissioning reports on subjects of topical interest to stakeholders.

At the time of writing this Annual Report, we are consulting on our biennial update of the Long-Term Gas Supply and Demand Scenarios report. The report was initiated originally as part of an earlier Gas Industry Co project looking into transmission capacity issues. Prepared by Concept Consulting, the report models a number of supply and demand scenarios out to 2050 and reflects current and emerging trends in the gas sector and details factors that will influence the industry's future course. Amongst other things, its purpose is to enable gas industry participants and wider stakeholders to make informed policy and strategic decisions for their businesses.



An independent assessment carried out under the Retail Gas Contracts Oversight scheme (Retail Scheme) in July 2018 confirmed improved terms are being offered to small gas consumers, and it once again has demonstrated the benefits of this voluntary governance arrangement. The Benchmark Assessment Report – 2018 is the fifth since the Retail Scheme's introduction in 2010 and is the second since the Scheme was amended to provide for three-yearly rather than annual reviews. The Retail Scheme was introduced to help meet the GPS objective for contractual arrangements between gas retailers and small consumers to adequately protect the long term interest of those consumers.

The latest assessment concluded with an overall rating of 'Substantial' alignment with the Retail Scheme's 18 outcome-based benchmarks. The Retail Scheme is one of two non-regulated contractual oversight schemes covering retailers' contractual arrangements with small consumers, and distributors' standard contracts with retailers, and both are administered by Gas Industry Co.

The industry's performance metrics also remain strong. Market arrangements facilitate efficient consumer switching between retailers. Nearly 4,000 gas consumers switch gas supplier each month, representing an annual churn of about 16 percent of gas consumers. Gas customers can switch retailers for many reasons, but this 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.

The amount of time taken to complete a consumer switch has shortened significantly. Over 70 percent of customer switches are now completed within three business days of the switch being requested by the new retailer. The consumer gas market is generally competitive with over 99 percent of gas customers connected to a gas gate where seven or more retailers trade.

The financial year saw the Company continuing to maintain its goal of flat-to-dropping costs, representing good value for gas consumers and the wider industry. There is continued focus on delivering cost efficiency and value.

The continued collaborative work between Gas Industry Co and stakeholders during the year has established a strong foundation for the ongoing change occurring in the industry.

As ever, our work programme in the year ahead is designed to meet our statutory obligations as the industry body under the Gas Act, and to address Government and industry priorities. It focuses on the efficient administration of governance arrangements currently in place, progressing new or ongoing project commitments and facilitating further forward-looking discussions by the industry on how it sees its future and anticipating associated issues.

I am confident that Gas Industry Co has the key issues in hand and the tools to deliver outcomes for the industry and for New Zealand.

I remain grateful to the Gas Industry Co Board and to the team for their important contributions during the last year and look forward to our work ahead with all stakeholders.

Ngā mihi nui,



**Andrew Knight**

CHIEF EXECUTIVE

#### HIGHLIGHTS FROM THE INDUSTRY PERFORMANCE MEASURES REPORT<sup>5</sup>

- » There are now 14 distinct retail brands. The gas industry has welcomed three new retailers in 2019 – energyclubnz, Hanergy and megaTEL.
- » In the past 12 months, there have been about 3,700 switches completed per month, which translates to an annual churn rate of about 15.5 percent.
- » Over 70 percent of consumer switches are completed within three business days; 97 percent are completed within seven business days.
- » Over 99 percent of gas customers are connected to a network where seven or more retailers trade, suggesting that the gas retail sector is generally competitive throughout the North Island.
- » Average annual unaccounted-for gas (UFG) over the past year stands at about 0.8 percent (compared with about 2 percent in 2009).
- » Genesis is the largest retailer by customer share. Nova has the largest share of commercial and industrial customers.
- » Nova is the largest retailer by volume market share.

<sup>5</sup> With reference to Gas Industry Co's Performance Measures Report 30 June 2019



KEY WORK PROGRAMME ACHIEVEMENTS IN 2018/2019 <sup>6</sup>		
ACTIVITY	PRIORITIES SET FOR 2018/19	OUTCOMES FOR 2018/2019
TRANSMISSION – ACCESS	Provide support for industry participants and wider stakeholders who are producing a detailed design of a new gas transmission access code.	<p>Through the 2018/2019 year, Gas Industry Co continued its support to the work that First Gas and industry stakeholders had undertaken to develop the GTAC by assessing the new arrangements against the objectives and outcomes in the Gas Act and the Government Policy Statement on Gas Governance (GPS).</p> <p>In February 2019 in its Final Assessment Paper, Gas Industry Co determined that the October 2018 GTAC submitted by First Gas was materially better than the existing MPOC and VTC arrangements.</p> <p>First Gas and industry stakeholders are now working through the implementation of the new arrangements and are targeting a go-live date of 1 April 2020.</p>
GAS SECTOR INFORMATION DISCLOSURE	Consider options for addressing issues to improve information disclosure. Identify whether an issue exists and if a non-regulated solution is feasible or if regulation is likely to be required.	<p>We established the information disclosure workstream in August 2018. As part of that workstream we will consider whether current market arrangements related to information disclosure in the sector are sufficient or whether further arrangements are required.</p> <p>Gas Industry Co released the consultation paper Options Paper for Information Disclosure (Options Paper) in March 2019. The Options Paper sets out a proposed problem statement and presents several options for addressing possible problems. Twenty-two submissions were received on the Options Paper.</p> <p>Upstream parties have begun development of industry-led arrangements for the disclosure of gas production outages. Gas Industry Co will work on the development of a regulatory solution in parallel to industry efforts. This is a backstop solution in the event that industry cannot agree arrangements that meet the needs of the sector. A regulatory solution may also cover some types of information where industry has not developed arrangements.</p>
SUPPLY AND DEMAND STUDY	Develop an updated edition of the long-term gas supply and demand scenarios to assist industry strategy and investment.	<p>Gas Industry Co commissioned Concept Consulting to produce the 2019 edition of the report. This edition will include further work on understanding gas supply issues.</p> <p>The fourth edition draft was circulated for early engagement to key stakeholders for comment and feedback. Gas Industry Co expects to publicly release the report in September following a short round of wider industry consultation.</p>
CRITICAL CONTINGENCY MANAGEMENT	Review the CCM Regulations in light of the GTAC.	<p>Consult with stakeholders and develop proposals to address other matters that potentially need updating, such as the critical contingency price methodology.</p> <p>Gas Industry Co is developing a consultation paper in light of the GTAC, possible upcoming amendments to the Gas Act, and Critical Contingency Operator (CCO) recommendations. We expect to release the consultation paper for stakeholder feedback in September.</p>

6 With reference to objectives in the FY2019-21 Statement of Intent

## KEY WORK PROGRAMME ACHIEVEMENTS IN 2018/2019

ACTIVITY	PRIORITIES SET FOR 2018/19	OUTCOMES FOR 2018/2019
GAS QUALITY	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.	<p>The gas quality arrangements set out in the existing access codes (the MPOC and VTC) will be replaced by those of a single new access code, the GTAC. In anticipation of the GTAC implementation, Gas Industry Co has reviewed and updated the Gas Quality Requirements and Procedures document for industry consultation.</p> <p>We will shortly revisit our previous gas quality reviews to determine if there are any outstanding issues.</p>
RETAIL GAS CONTRACTS	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.	The full review conducted in November 2018 showed similar levels of alignment as in the 2015 review, with all the terms assessed having substantial overall alignment with the benchmarks.
DOWNSTREAM RECONCILIATION	Continue the running of the D+1 pilot scheme and design any required changes to the Reconciliation rules and consult in light of the GTAC.	The D+1 pilot has been operating successfully since December 2015. We have undertaken improvements to the accuracy and reliability of D+1 in 2019, by replacing the pool-level model with a gate-level model. Along with other operational and integration enhancements, the changes will ensure the D+1 pilot continues to support the industry when the GTAC goes live in 2020.

## CHAPTER 3

## 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.

### Information disclosure

In August 2018, we established the information disclosure workstream to address potential information issues relating to information availability in the wholesale gas sector. As part of the workstream we will consider whether current market arrangements related to information disclosure in the sector are sufficient or whether further arrangements are required.

Gas Industry Co released the consultation paper Options Paper for Information Disclosure (Options Paper) in March 2019. The Options Paper sets out a proposed problem statement and discusses the importance of information for the operation of a well-functioning market. It presents several options for addressing possible problems.

We received twenty submissions on the Options Paper from a wide range of parties spanning the New Zealand energy sector. Given the range of perspectives in the submissions, Gas Industry Co decided to have a cross-submissions process for parties to provide further information on issues they consider are important, with submissions closing in late June. We received thirteen cross-submissions, including two from parties that had not provided an initial submission.

The cross-submissions reinforce the points made in the submissions. There is a broadly consistent theme across submissions that upstream production planned, and unplanned outage information should be disclosed. Most submitters consider that disclosure of this information should be the highest priority for the information disclosure workstream. There are mixed views on whether major user outages should be disclosed. Methanex, in particular, is consistent in its perspective that major users' outages should not be disclosed. There are also mixed views on whether some contract information (including average prices and aggregated volumes across all bilateral contracts) should be disclosed.

Upstream parties have begun development of industry-led arrangements for the disclosure of gas production outages. Gas Industry Co will work on the development of a regulatory solution in parallel to industry efforts. This is a backstop solution in the event that industry cannot agree arrangements that meet the government's objectives for the sector. It may also cover some types of information where industry has not developed arrangements.

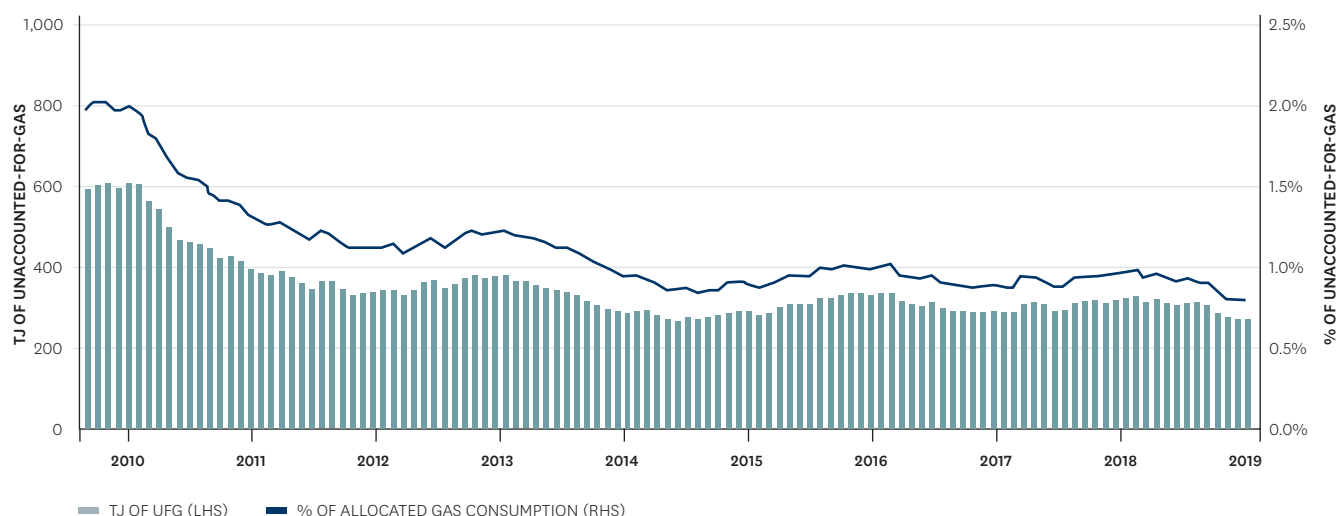
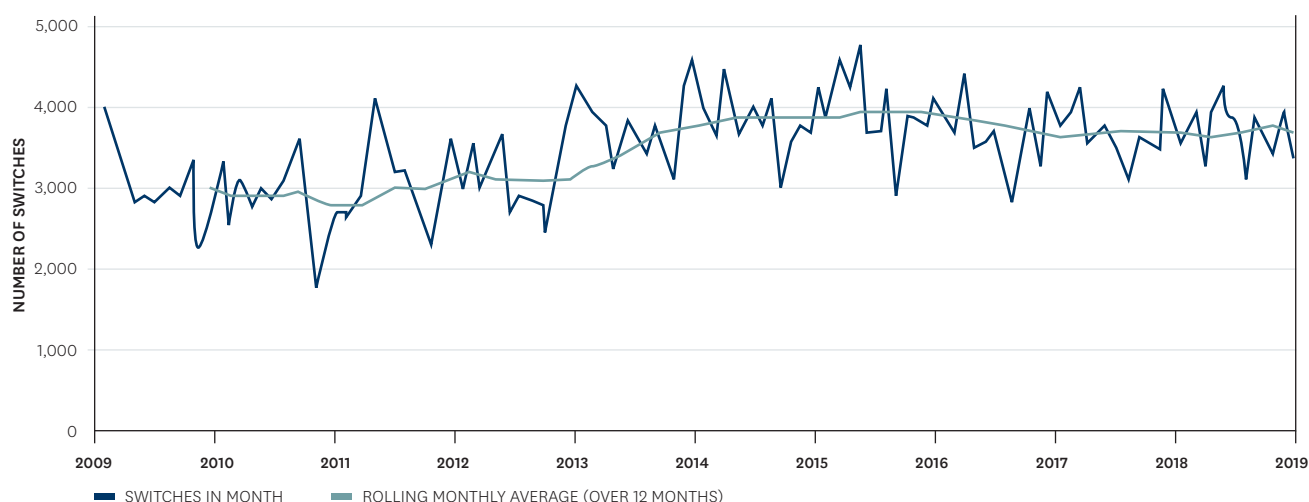
### Downstream reconciliation

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 GJ per year. In the 12 months to March 2019 (the most recent interim data as at the time of publication), UFG was about 276,000 GJ, which represented about 0.8 percent of allocated gas consumption (using interim and final allocation data) (Figure 1).

Gas Industry Co has continued to run a pilot of the D+1 gas allocation process over the course of 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. Gas gate level information is also used by First Gas to calculate transmission charges for shippers.

First Gas's development of its GTAC has affected the D+1 pilot timeline since changes to the transmission access regime will 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 continue to refine and improve the model to ensure a smooth transition to a production model if required.

**FIGURE 1: ANNUAL UNACCOUNTED-FOR GAS****FIGURE 2: CUSTOMER SWITCHES**

## 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 FY2019 continued the trend of previous years, with a relatively high level of activity in the retail market (Figure 2). A total of 44,442 switches occurred, averaging approximately 3,704 per month, for an annual churn rate of 15.5 percent.

Prior to the gas registry, it is estimated there were about 1,000 customer switches a month. Since 2013, switching rates have been relatively stable, with churn rates of at least 15 percent.

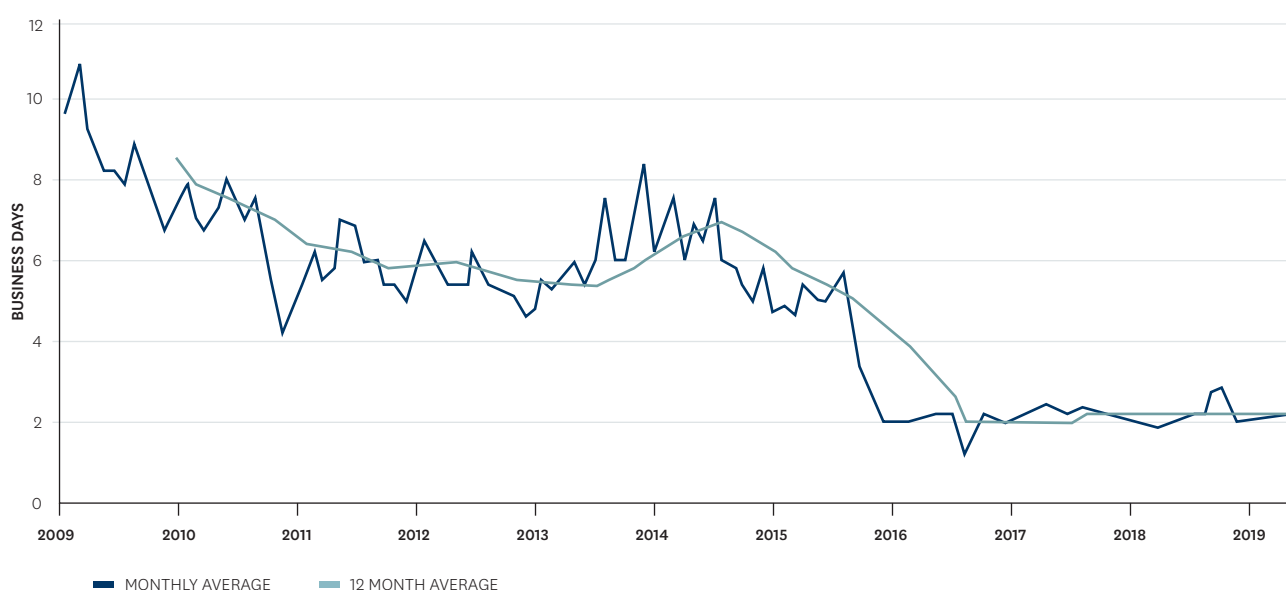
Prior to the gas registry, switching was a manual process that could take days or weeks. Once the gas registry went live in February 2009, average switching times dropped to about ten business days (Figure 3). In FY2019, the 12-month average switching time was 2.3 business days. Faster switching times are a benefit to consumers, as they make switching to a preferred retailer easier.

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.

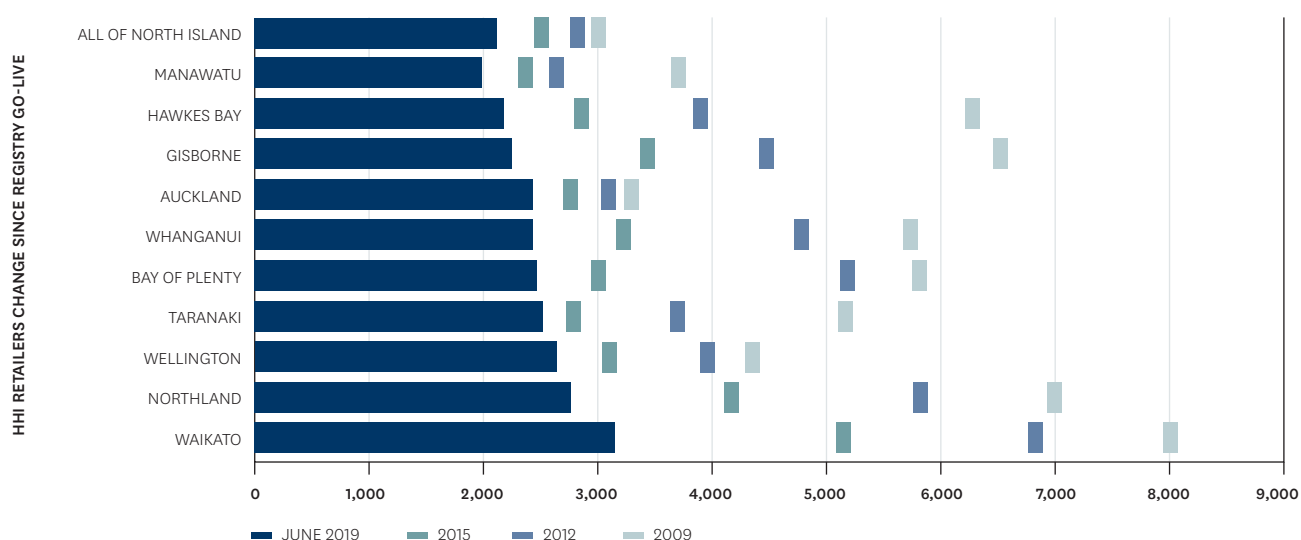
The HHI for the retail gas market has decreased in all regions since 2009, indicating that the market is becoming less concentrated across the North Island. Nationally, the HHI stands at 2,113, in comparison to 3,033 in February 2009 (the start of the gas registry).

Three new entrants joined the gas retail market in FY2019: Hanergy, energyclubnz, and megaTEL. There are now 14 distinct retail brands competing in the retail gas market.

**FIGURE 3: SWITCH LENGTH**



**FIGURE 4: REGIONAL HHI**



## Gas quality

Gas quality is important for a safe and reliable supply of gas. It concerns the composition of the gas, its odorization and the pressure it is delivered at. The legal responsibility for these matters sits primarily with gas wholesalers and retailers who contract with gas producers and transporters to ensure the quality of gas delivered to their customers.

The legal framework, technical standards and industry practices in relation to gas quality are described in a Gas Quality Requirements and Procedures document maintained by Gas Industry Co. The anticipated introduction of the GTAC, which determines the gas quality provisions in a number of related contracts, prompted us to update the document in June this year and invite submissions from stakeholders.

In addition, now that the GTAC design is complete, we will shortly revisit our earlier gas quality work to determine if the concerns identified in earlier reports have been properly addressed.

## 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.

Further reviews of retail contracts against the benchmarks and Reasonable Consumer Expectations (introduced following a review of the Scheme in 2013) were undertaken in 2015 and 2018.

The overall alignment of all published gas supply arrangements against the benchmarks in the 2018 assessment is 'substantial'. While this is the same level of alignment as was achieved in 2012 and 2015, the 2018 result is stronger than the 2015 result with all arrangements assessed having substantial overall alignment, as illustrated by the following comparison of the arrangements assessed in the 2011 transitional assessment and the full assessments in 2012 and 2015:

OVERALL ALIGNMENT	2018	2015	2012	2011
<b>Full</b>	-	-	-	-
<b>Substantial</b>	9	9	6	3
<b>Moderate</b>	-	1	3	4
<b>Low</b>	-	-	1	3
<b>TOTAL</b>	9	10	10	10

Gas Industry Co acknowledges the high level of engagement by retailers in the 2018 retail assessment. We will conduct a further assessment in FY2022.

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.

## 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 (previously 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 a total of 6,520 electricity and gas cases (inquiries and complaints), 2.4 percent more than the 5,232 in 2017/18. Of these cases, 2,059 were complaints (2018: 2,053). The most common energy complaint issues were about billing, customer service, meters, disconnections and supply.

Gas Industry Co continues to liaise closely with Utilities Disputes, the Electricity Authority and the Ministry of Business, Innovation and Employment (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 industry trade group, the LPG Association of New Zealand.

In September 2018, Gas Industry Co published a paper following a review of the retail LPG market. The paper canvasses the relevant characteristics of the retail LPG market, including market shares and price competition with other fuels, and assesses whether there are barriers to LPG competition. While there are economies of scale in the provision of LPG and costs of entry, the LPG industry has evolved ways to rationalise the LPG delivery infrastructure, potentially allowing competition by retailers who would otherwise be unable to compete in the market. The paper does not identify any barriers to entry in the LPG market or other aspect of the LPG market that would warrant regulatory intervention.

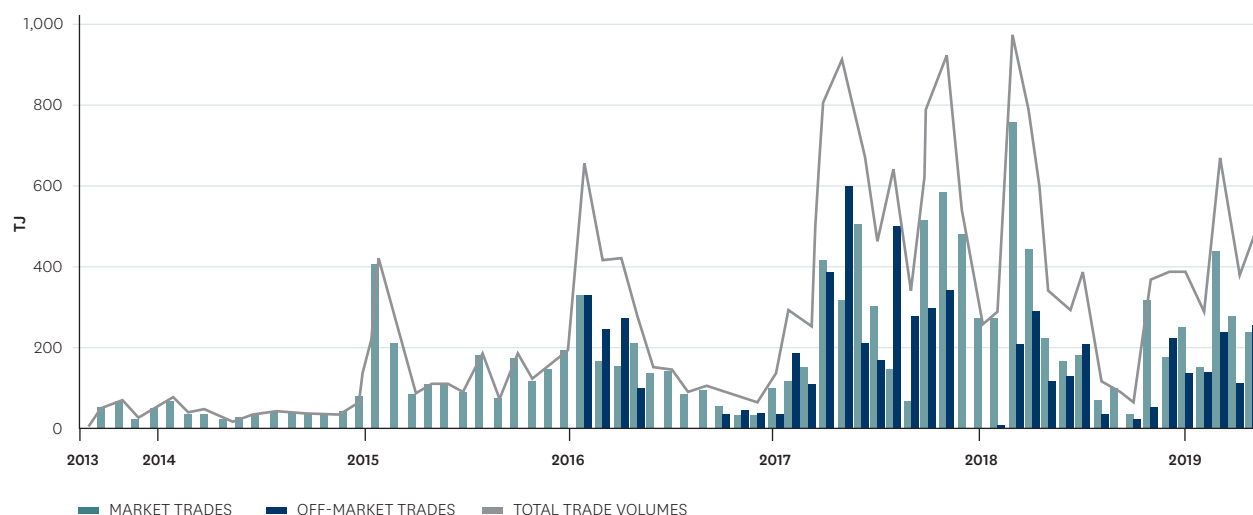
## Wholesale market

The emsTradepoint wholesale gas market is an online platform established in 2013 that enables the anonymous trading of natural gas and provides a mechanism for price discovery for its members. It also provides a clearing and settlement service for gas trades that are made off the market. Since its inception, annual volumes of gas traded on emsTradepoint have increased more than 700%. In addition to trades executed via the market there have been substantial volumes of gas traded via brokered arrangements and reported through the market. Figure 5 below shows volumes of market trades, off-market trades, and total trades by month.

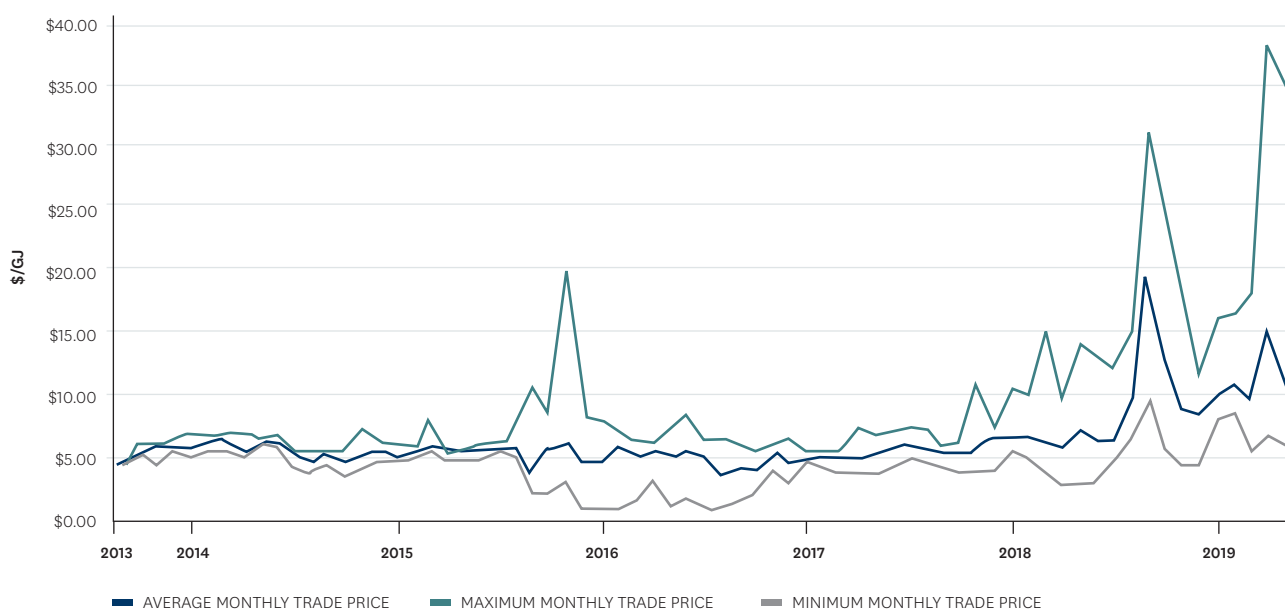
Figure 6 shows monthly volume-weighted average prices, as well as the minimum and maximum prices for trades during the month.

In the past 24 months, trade volumes have varied between 53 to 965 TJ per month; and at prices ranging from \$2.75 to \$38.25 per GJ. The diminished volumes and high prices during the last three months of 2018 appear to be due to a reduction in the volume of gas in the market at that time, caused by the loss of production from the offshore wells at Pohokura as repair work was undertaken. In May, there was a brief unplanned outage at Kupe that coincided with further work at Pohokura. It was during this time that the highest-ever prices were recorded on emsTradepoint: \$38.25 per GJ.

**FIGURE 5**



**FIGURE 6**





## CHAPTER 4

## 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 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. Since 2016, when First Gas became owner of the open access transmission systems, it has worked to replace the two existing access regimes – the MPOC and the VTC – with a single new regime, the GTAC.

To allow for the introduction of the GTAC, contracts incorporating the terms of the VTC and MPOC must first be terminated. VTC contracts can be terminated at the end of a notice period, but MPOC contracts can only be terminated when 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<sup>7</sup>.

The first version of the GTAC was submitted to Gas Industry Co for assessment in December 2017. Following analysis and consultation with stakeholders, our May 2018 Final Assessment Paper concluded that the GTAC was not materially better than the existing arrangements. First Gas has since worked with stakeholders to address Gas Industry Co's concerns and submitted a revised GTAC for assessment in October 2018. Our February 2019 Final Assessment Paper found that this revised GTAC is materially better than the existing arrangements.

Since February 2019, First Gas has worked with IT contractors and stakeholders to prepare for the launch of the GTAC. The development of the supporting IT system has proven particularly challenging but it is expected that the new arrangements can be introduced in 2020.

<sup>7</sup> 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

## CHAPTER 5

## 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.

### Annual industry exercise

The CCO conducted its annual industry exercise, named Exercise Matatau, on 8 May 2019. The exercise simulated a power outage caused by weather-related damage to overhead power lines in Taranaki, which resulted in a number of unplanned outages of the major production stations in Taranaki. In the scenario, the CCO issued directions for consumers in curtailment bands 0 to 4 to curtail their demand.

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 tested the core critical contingency phases and information flows associated with an event, such as declaration, demand curtailment, and public information statements.

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 only limited evidence that the emergency contact details maintained by retailers (as required by regulation 43) are current.

The exercise report makes a number of recommendations to ensure that required procedures during a critical contingency are able to be carried out as efficiently as possible. The report also recommends that all retailers test at least a representative sample of customer contacts

during the next annual exercise, as a way of ensuring that the emergency contact details maintained by retailers are current. Finally, the exercise highlighted that there are differing interpretations of asset owner obligations to provide public information during a contingency. The report recommends that Gas Industry Co resolve this ambiguity and invites producers to consider how they would fulfil their obligations under this regulation.

Gas Industry Co intends to address these recommendations in its upcoming review of the CCM Regulations.

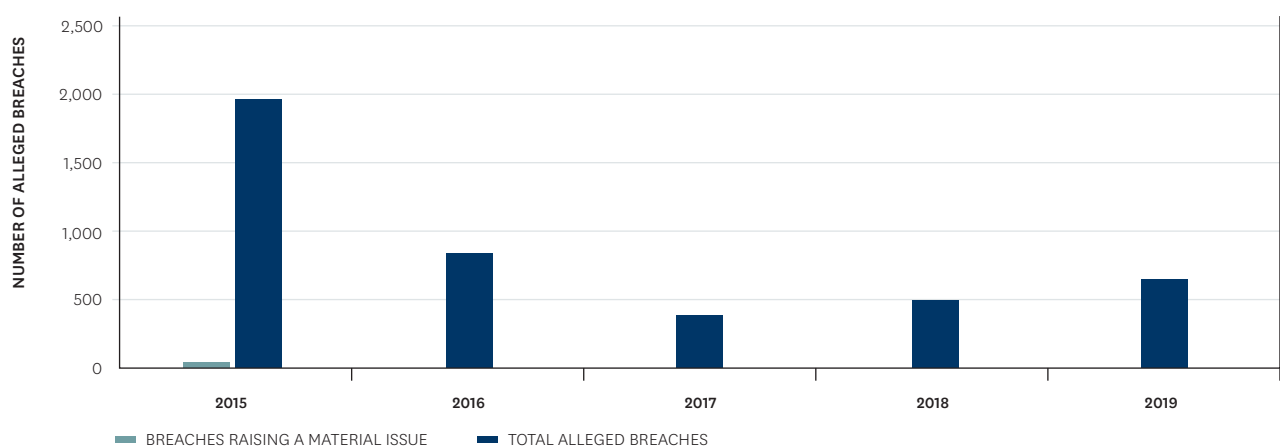
### Compliance

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

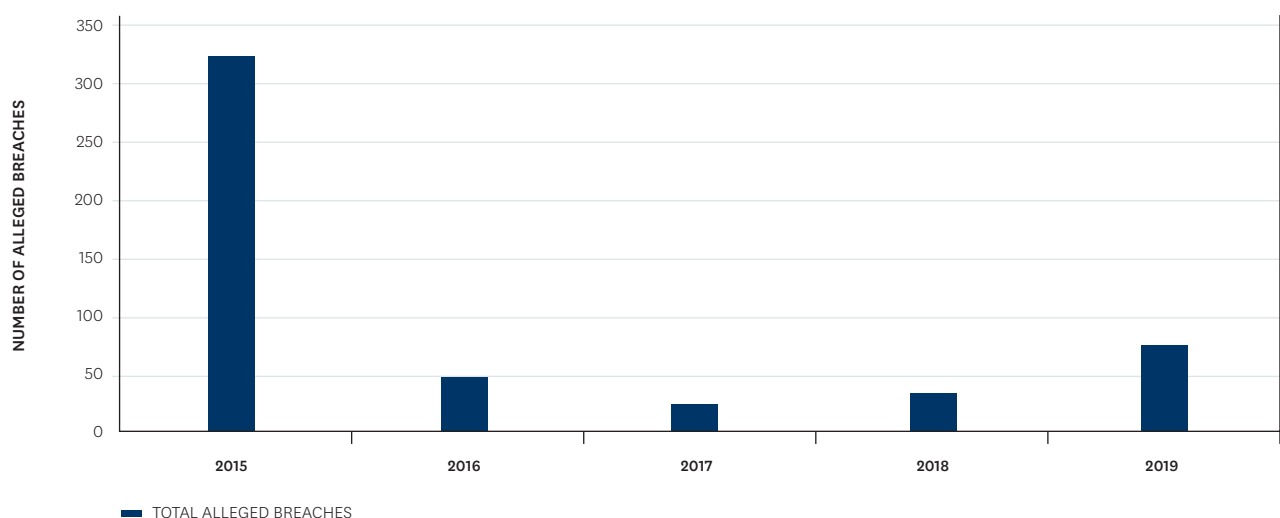
Overall, the industry has a high compliance rate and breach allegations were again predominantly associated with the Reconciliation Rules and Switching Rules.

The number of total breach notices considered by Gas Industry Co in its role as the Market Administrator during financial year 2018/19 totalled 722, compared to 533 alleged breaches referred to it in financial year 2017/18. 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. The increase in the number of alleged breaches was primarily caused by two metering errors that spanned a large number of consumption periods.

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 7). The Market Administrator recently consulted on a proposal to discontinue the mandatory reporting of alleged breaches of rule 37 due to the minor market impact of those alleged breaches. Instead, compliance would be monitored through a regular report provided by the Allocation Agent. Industry participants were supportive of this approach. Going forward this will result in a significant reduction in the number of alleged breaches of the Reconciliation Rules.

**FIGURE 7: 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 8: BREACHES OF THE SWITCHING RULES**

**Note:** Alleged breaches are recorded by the date of receipt of the breach notice

Switching breaches are at low levels (Figure 8). 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).

### 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 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.

## CHAPTER 6

## Building and communicating the role of gas in meeting New Zealand's energy needs

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.

### Long-Term Gas Supply and Demand Scenarios Report

The 2019 edition of the Long-Term Gas Supply and Demand Scenarios report is due for release in September 2019. 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 period to 2050.

The 2019 edition of the report will update forecasts of New Zealand's gas reserves over the long term. Two key factors driving the 2019 update are the changing gas supply situation (through limited exploration in recent times and changes to exploration policy), and the implications of New Zealand's response to climate change.

### 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.

The sixth edition was published in December 2017. The next edition of the New Zealand Gas Story is planned for release on Gas Industry Co's website in FY2020.

### Other reporting

Other regular reports produced by Gas Industry Co include quarterly reports to the Minister, 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.

## CHAPTER 7

## 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 the Ministry of Business, Innovation and Employment 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

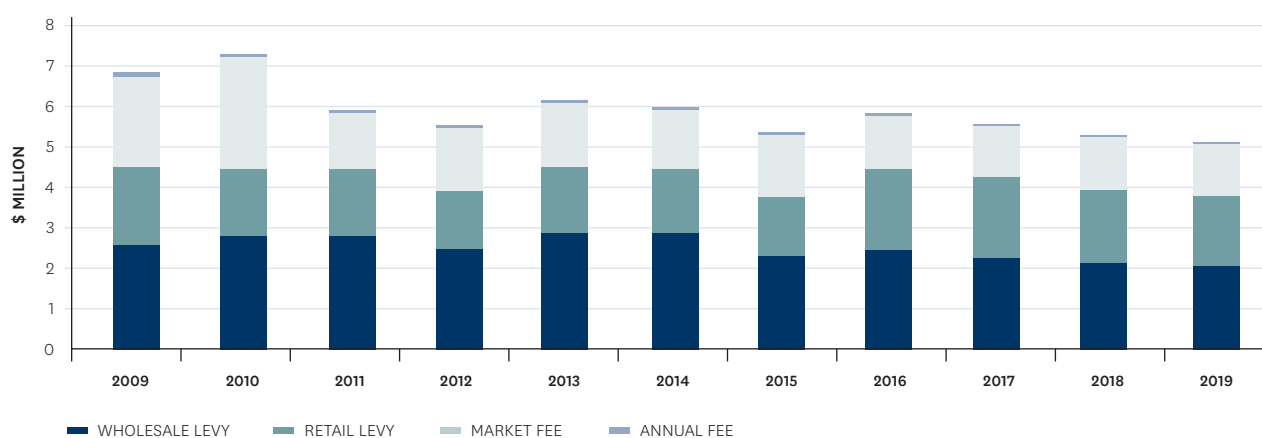
Gas Industry Co derives its income from wholesale and retail levies and from market fees. We are committed to ensuring that these levies and fees are well justified and used carefully.

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 for regulatory approval.

Gas Industry Co's revenue has reduced over recent years (Figure 9). 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 which has also been reduced in recent years. The shareholders' fees are kept aside as a contingency reserve.

**FIGURE 9: 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 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 10, actual expenditure has been held at similar levels in recent years and we expect this to continue in 2019/20.

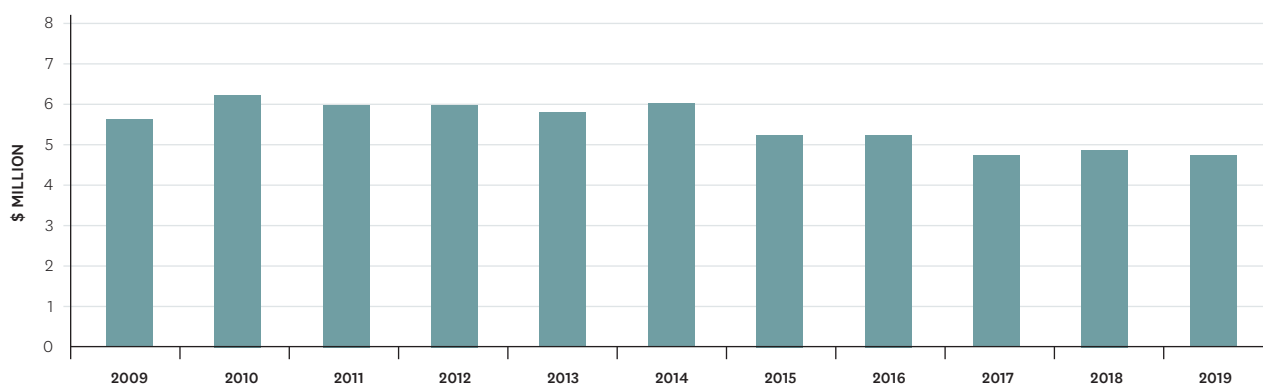
In the year ended 30 June 2019, operating expenses were \$4,846,765, against the Statement of Intent budgeted expenses of \$5,423,720. This reflects the deferral of costs in relation to some significant workstreams and the undertaking of other work without the use of external consultants. Some workstreams 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 2019 has two components – the Industry Advances Reserve of \$155,946 and Retained Earnings of \$730,000.

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 December 2018 and May 2019, surplus levies from FY2018 totalling \$704,085 were 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 10: OPERATING EXPENSES**



## CHAPTER 8

# 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 2019.

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. Shareholders pay an annual fee set by the Board.

## 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



Mercury NZ Limited



Methanex New Zealand  
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

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## 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

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## 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

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## 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 17 years. He was appointed Chief Executive in October 2011.

In addition to being a board member of the Gas Industry Company, he is also Deputy Chair of the New Zealand Electricity Networks Association. Nigel has an economics and legal background.

#### INTERESTS REGISTER

Chief Executive Officer: Powerco Limited

Member: New Zealand Electricity Networks Association

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## 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

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## 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 & 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

Director of the following Australian companies: OMV Barrow Pty Ltd; OMV Beagle Pty Ltd; OMV Petroleum Pty Ltd

Non-executive Director of SapuraOMV JV

## 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: Contact Energy Trustee Company Limited

Director: Electricity Retailers Association Incorporated

### PATRICK TEAGLE

APPOINTED 23 FEBRUARY 2017

Alternate for Mr Selischi.

Head of Commercial and Legal: OMV

Director: Various OMVNZ subsidiaries

## Attendance

The Board met on eight occasions during the year ended 30 June 2019. At other times, matters that required the Board's attention were addressed by circular resolutions.

DIRECTORS	MEETINGS ATTENDED
J Bolger	8
R Hill	6
A Brown	8
K Davis	7
N Barbour	6
D Barnes	5
G Selischi	7
ALTERNATE DIRECTORS	MEETINGS ATTENDED
C Thompson	2
S Dickson	1
P Teagle	1

## 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 2019 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 28 November 2018.

The Rt Hon Jim Bolger - independent director, and Mr Dennis Barnes - non-independent director, 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.

Amongst other things, in his address, the Chair noted that emerging climate change policies following the Government's announcement in April regarding exploration permits will significantly influence the industry as it proactively looks to engage in the challenges of climate change both through investment decision, as well as looking at how gas infrastructure can contribute to New Zealand's economy.

He pointed out that Gas Industry Co as the co-regulatory industry body has an underlying statutory responsibility to ensure appropriate governance arrangements are in place for the gas sector, and that gas continues to be delivered to consumers in a safe efficient, fair, reliable and environmentally sustainable manner.

Mr Bolger also informed shareholders of his meeting earlier that day with the Hon Dr Megan Woods, where he and the Chief Executive emphasised to the Minister the important ongoing contribution of gas to New Zealand's homes, community facilities and businesses, but that we are also alert and active in addressing the changes and challenges that lie ahead.

He concluded by acknowledging the Company's shareholders noting that the Company remained very grateful to them for providing tangible support for the current industry arrangements.

## 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 11 who deliver the Company's strategy and work programme.



### 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 5 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 2019
\$130,001-140,000	1
\$140,001-150,000	1
\$150,001-160,000	1
\$170,001-180,000	2
\$230,001-240,000	1
\$360,001-\$370,000	1
\$370,001-\$380,000	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 9

## Financial statements

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## 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 2019.

The Board of Directors of the Company authorised the financial statements presented on pages 29 to 40 for issue on 29 August 2019.

For and on behalf of the Board.



**Rt Hon James B Bolger, ONZ**

CHAIR

29 August 2019



**Robin G Hill**

DEPUTY CHAIR

29 August 2019





# Auditor's Report

To the shareholders of Gas Industry Company Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, the accompanying financial statements of Gas Industry Company Limited (the 'company') on pages 29 to 40:

- i. present fairly in all material respects the company's financial position as at 30 June 2019 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 2019;
- the statements 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.



### 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  
Wellington NZ

29 August 2019

## Gas Industry Company Limited

Statement of Comprehensive Revenue and Expenditure  
For the year ended 30 June 2019

	NOTES	ACTUAL 2019 \$	ACTUAL 2018 \$
<b>Revenue from exchange transactions</b>			
Operating income	4	5,165,900	5,331,043
Interest income		53,537	33,559
		5,219,437	5,364,602
Refunded levy income	4	(879,821)	(667,243)
<b>NET INCOME</b>		<b>4,339,616</b>	<b>4,697,359</b>
<b>Expenditure</b>			
Operating expenditure	5	4,846,765	4,871,130
Finance costs		–	2,810
		4,846,765	4,873,940
<b>SURPLUS / (DEFICIT) BEFORE TAX</b>		<b>(507,149)</b>	<b>(176,581)</b>
Income tax expense	6	14,990	9,396
<b>SURPLUS / (DEFICIT) FOR THE YEAR</b>		<b>(522,139)</b>	<b>(185,977)</b>
Other comprehensive revenue and expenditure		–	–
<b>TOTAL COMPREHENSIVE REVENUE AND EXPENDITURE FOR THE YEAR</b>		<b>(522,139)</b>	<b>(185,977)</b>

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 2019

	INDUSTRY RESERVES \$	RETAINED EARNINGS \$	TOTAL EQUITY \$
<i>Balance at 1 July 2017</i>	918,062	676,000	1,594,062
<b>Total comprehensive revenue and expenditure for the year</b>			
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)
<b>Transfer between equity reserves</b>			
Industry Advances Reserve transfers	(213,977)	213,977	-
<b>BALANCE AT 30 JUNE 2018</b>	<b>704,085</b>	<b>704,000</b>	<b>1,408,085</b>
<i>Balance at 1 July 2018</i>	704,085	704,000	1,408,085
<b>Total comprehensive revenue and expenditure for the year</b>			
Surplus / (Deficit) for the year	-	(522,139)	(522,139)
Other comprehensive revenue and expenditure	-	-	-
Total comprehensive revenue and expenditure for the year	-	(522,139)	(522,139)
<b>Transfer between equity reserves</b>			
Industry Advances Reserve transfers	(548,139)	548,139	-
<b>BALANCE AT 30 JUNE 2019</b>	<b>155,946</b>	<b>730,000</b>	<b>885,946</b>

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

## Gas Industry Company Limited

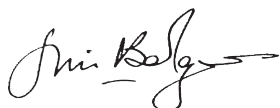
## Statement of Financial Position

As at 30 June 2019

	NOTES	ACTUAL 2019 \$	ACTUAL 2018 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	1,423,874	1,202,308
Term Deposit		-	700,000
Trade and other receivables	8	26,648	57,911
Prepayments		49,041	68,168
Income tax receivable	6	-	-
<b>Total current assets</b>		<b>1,499,563</b>	<b>2,028,387</b>
<b>Non-current assets</b>			
Property, plant and equipment		80,406	107,625
Intangible assets		12,894	5,554
<b>Total non-current assets</b>		<b>93,300</b>	<b>113,179</b>
<b>Total assets</b>		<b>1,592,863</b>	<b>2,141,566</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	9	522,641	544,431
Asset restoration provision		-	-
Employee entitlements		184,262	189,036
Redeemable shares	11	14	14
<b>Total current liabilities</b>		<b>706,917</b>	<b>733,481</b>
<b>Total liabilities</b>		<b>706,917</b>	<b>733,481</b>
<b>Net Assets</b>		<b>885,946</b>	<b>1,408,085</b>
<b>EQUITY</b>			
Industry reserves	12	155,946	704,085
Retained earnings	12	730,000	704,000
<b>Total equity</b>		<b>885,946</b>	<b>1,408,085</b>

These financial statements were authorised for issue by the signatories below on 29 August 2019:

On behalf of the board,



**Rt Hon James B Bolger, ONZ**  
CHAIR

29 August 2019



**Robin G Hill**  
DEPUTY CHAIR

29 August 2019

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 2019

	ACTUAL 2019 \$	ACTUAL 2018 \$
<b>Operating activities</b>		
<i>Cash was provided from</i>		
Levy revenue	3,911,936	4,052,231
Market fee revenue	1,223,168	1,162,647
Annual fees	26,000	28,000
Interest received	53,538	29,046
Net GST	-	107,646
	<b>5,214,642</b>	<b>5,379,570</b>
<i>Cash was applied to</i>		
Payments to suppliers	(2,343,420)	(2,365,861)
Payments to employees	(2,186,994)	(2,307,968)
Payments to directors	(262,460)	(262,460)
Refund of levy to industry participants	(869,263)	(655,635)
Taxes paid	(14,990)	(8,133)
Net GST	(4,256)	-
	<b>(5,681,383)</b>	<b>(5,600,057)</b>
<i>Net cash inflows from operating activities</i>	<b>(466,741)</b>	<b>(220,487)</b>
<b>Investing activities</b>		
<i>Cash was applied to</i>		
Purchase of property, plant and equipment	-	(57,674)
Purchase of intangible assets	(11,693)	-
Term deposit	700,000	(700,000)
<i>Net cash outflows from investing activities</i>	<b>688,307</b>	<b>(757,674)</b>
Net increase/ (decrease) in cash and cash equivalents	221,566	(978,161)
<b>Opening cash and cash equivalents</b>	<b>1,202,308</b>	<b>2,180,469</b>
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	<b>1,423,874</b>	<b>1,202,308</b>

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 2019.

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 and Resources 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 29 August 2019.

#### 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 differs 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 2019 \$	ACTUAL 2018 \$
Wholesale levy revenue	2,098,988	2,297,692
Retail levy revenue	1,763,945	1,736,464
Market fee revenue	1,276,967	1,268,887
Annual fees	26,000	28,000
<b>TOTAL OPERATING INCOME</b>	<b>5,165,900</b>	<b>5,331,043</b>
Refunded levy income	(879,821)	(667,243)

## 5. OPERATING EXPENDITURE

	ACTUAL 2019 \$	ACTUAL 2018 \$
Depreciation & amortisation	32,571	36,692
Operating lease expenses	269,029	233,664
Fees paid to audit firm – financial statement audit	15,756	15,756
Fees paid to audit firm – other services	–	–
Directors' fees	262,460	262,460
General expenses	301,405	239,931
Recruitment expenses	7,200	79,164
Technical, economic, and legal advice	537,245	511,604
Service provider fees	1,211,080	1,225,277
Kiwisaver contributions	51,075	51,771
Employee benefit expense	2,158,944	2,214,811
<b>TOTAL OPERATING EXPENDITURE</b>	<b>4,846,765</b>	<b>4,871,130</b>

## 6. INCOME TAX

	ACTUAL 2019 \$	ACTUAL 2018 \$
<b>(a) Income tax expense</b>		
Current year income tax expense	14,990	9,396
Deferred tax movement	-	-
<b>TOTAL INCOME TAX EXPENSE</b>	<b>14,990</b>	<b>9,396</b>
<b>(b) Reconciliation of current year income tax expense</b>		
Surplus / (Deficit) for the year	(507,149)	(176,581)
Income tax expense at 28 percent	(142,001)	(49,443)
Permanent differences	156,991	58,839
Timing differences	-	-
<b>CURRENT YEAR INCOME TAX EXPENSE</b>	<b>14,990</b>	<b>9,396</b>
<b>(c) Income tax receivable</b>		
Opening balance	-	-
Tax refunds received	-	-
Current year income tax expense	(14,990)	(9,396)
Income tax paid	14,990	9,396
<b>CLOSING BALANCE</b>	<b>-</b>	<b>-</b>

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

## 7. CASH AND CASH EQUIVALENTS

	ACTUAL 2019 \$	ACTUAL 2018 \$
Bank account	1,000	997
Interest bearing account	1,422,874	1,201,311
<b>TOTAL</b>	<b>1,423,874</b>	<b>1,202,308</b>

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 2019 \$	ACTUAL 2018 \$
Levy debtors	-	57,911
Other receivables	26,648	-
<b>TOTAL</b>	<b>26,648</b>	<b>57,911</b>

## 9. TRADE AND OTHER PAYABLES

	ACTUAL 2019 \$	ACTUAL 2018 \$
Accounts payable	172,503	253,122
Accrued expenses	313,002	264,555
Levy debtors	2,576	-
GST payable	34,560	26,754
<b>TOTAL</b>	<b>522,641</b>	<b>544,431</b>

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 2019 \$	ACTUAL 2018 \$
Salaries and other short-term employee benefits	1,173,008	1,269,341

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

The above includes remuneration of \$262,460 (30 June 2018 \$262,460) paid to the directors for the year.

## 11. REDEEMABLE SHARES

	ACTUAL 2019 \$	ACTUAL 2018 \$
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 2019 \$	ACTUAL 2018 \$
Industry advances reserve	155,946	704,085
Retained earnings	730,000	704,000
<b>TOTAL EQUITY RESERVES</b>	<b>885,946</b>	<b>1,408,085</b>

	ACTUAL 2019 \$	ACTUAL 2018 \$
<b>(a) Industry advances reserve</b>		
Opening balance	704,085	918,062
Transfer to retained earnings	(548,139)	(213,977)
<b>CLOSING BALANCE</b>	<b>155,946</b>	<b>704,085</b>

To allow for the timely enactment of the levy regulations each financial year, Gas Industry Company Limited 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 2019 \$	ACTUAL 2018 \$
<b>(b) Retained earnings</b>		
Opening balance	704,000	676,000
Surplus / (Deficit) for the year	(522,139)	(185,977)
Transfer from Industry advances reserve	548,139	213,977
<b>CLOSING BALANCE</b>	<b>730,000</b>	<b>704,000</b>

### 13. CONTINGENCIES

As at 30 June 2019, the Company has no contingent liabilities (2018: nil).

### 14. COMMITMENTS

#### (a) Capital commitments

The Company has no material capital commitments (2018: \$Nil)

#### (b) Operating lease commitments

	ACTUAL 2019 \$	ACTUAL 2018 \$
<i>Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:</i>		
Within one year	251,910	263,183
Later than one year but not later than five years	858,711	1,005,900
Later than five years	–	104,721
<b>TOTAL</b>	<b>1,110,621</b>	<b>1,373,804</b>

**(c) Service provider commitments**

	ACTUAL 2019 \$	ACTUAL 2018 \$
<i>Service provider agreements for the Downstream Reconciliation, Switching and Registry and Critical Contingency Management Rules payable as follows:</i>		
Within one year	1,180,224	783,128
Later than one year but not later than five years	2,456,216	985,728
Later than five years	164,288	410,720
<b>TOTAL</b>	<b>3,800,728</b>	<b>2,179,576</b>

**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

<b>Allocation Agent</b>	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)
<b>CCM Regulations</b>	Gas Governance (Critical Contingency Management) Regulations 2008
<b>CCO</b>	Critical Contingency Operator. The CCO is currently Core Group
<b>Compliance Regulations</b>	Gas Governance (Compliance) Regulations 2008
<b>D+1</b>	The day-after delivery (D+1) allocation methodology for downstream reconciliation processes
<b>Distribution Scheme</b>	Gas Distribution Contracts Oversight Scheme
<b>Gas Act</b>	Gas Act 1992
<b>Gas Registry</b>	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
<b>GJ</b>	Gigajoule (1,000,000,000 joules). The average residential gas consumption is 23 GJ/year
<b>GPS</b>	Government Policy Statement on Gas Governance (April 2008)
<b>GTAC</b>	Gas Transmission Access Code
<b>ICP</b>	Installation Control Point
<b>MBB</b>	Market-Based Balancing
<b>MBIE</b>	Ministry of Business, Innovation, and Employment
<b>Minister</b>	The Minister of Energy and Resources (unless indicated otherwise)
<b>MPOC</b>	Maui Pipeline Operating Code
<b>PEPANZ</b>	Petroleum Exploration and Production Association of New Zealand
<b>Reconciliation Rules</b>	Gas (Downstream Reconciliation) Rules 2008
<b>Retail Scheme</b>	Retail Gas Contracts Oversight Scheme
<b>Switching Rules</b>	Gas (Switching Arrangements) Rules 2008
<b>Transmission system</b>	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
<b>UFG</b>	Unaccounted-for gas
<b>VTC</b>	Vector Transmission Code

**GAS INDUSTRY COMPANY LIMITED**

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AUDITORS: KPMG, Wellington    BANKERS: Westpac New Zealand Limited