

Annual Report

2021/2022







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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
 - » 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.
- 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).



What we do is grouped into three classes of activities. These activities make up our work programme:

1

Gas governance

The Gas Act and GPS guide us in these activities where we have statutory roles as well as oversight of the industry processes or regulations with the intention of ensuring appropriate activities are being undertaken. Examples of our Gas Governance roles include the determination of breaches or undertaking compliance audits. Our Gas Governance roles are normally designed to provide security of supply, build consumer trust, or oversight of competition and markets.

2

Facilitating industry systems and processes

Gas Industry Co has regulatory defined roles and has undertaken activities where requested by industry to deliver independent or centralised services. Examples of the facilitation role includes a wide set of activities including management of the D+1 model, the gas registry, or reconciliation processes, through to hosting the website for upstream disclosures.

3

Trusted advisor to government and industry

The trusted advisor role reflects the activities we undertake to inform about the gas industry. This role has become more pronounced as the wider energy sector and Government entities have sought to develop their understanding of the changing energy future. Examples include the supply and demand studies, engagement with government agencies such as MBIE or the Climate Commission, and discussions with industry regarding government processes. It is important to note here that our role is limited to informing, we are not an advocate or lobbyist for industry.

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:

- D+1 (gas allocations to retailers at shared networks, the day after gas has flowed).
- Industry notifications are posted to the Gas Industry notifications page in accordance with the Upstream Gas Outage Information Disclosure Code.
- 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.

The ongoing effectiveness of the regulatory 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.



Gas Industry Co's strategy

Gas Industry Co's strategy includes its core theme of "facilitating the role of gas in New Zealand's energy future".

Our core theme recognises that:

- Gas Industry Co's roles are broader than only providing governance;
- Gas has a role in New Zealand's energy future;
- Gas Industry Co has a role in supporting the energy transition;
- Gas includes gases of increasing importance in our energy ecosystem (hydrogen/biogas); and
- Gas Industry Co's regulatory roles are designed to either provide greater security of supply or oversight of competition and markets.

Structure

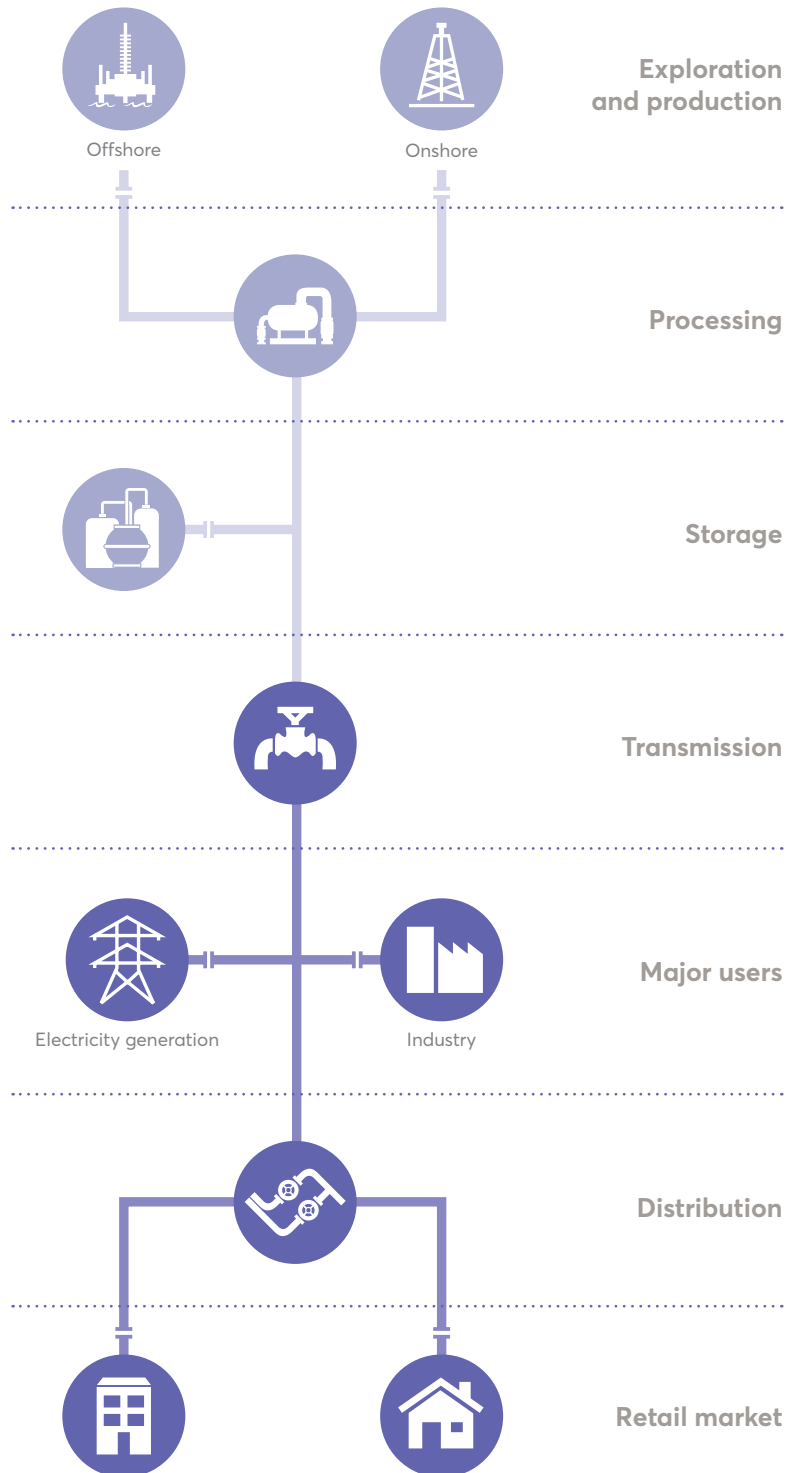
The New Zealand gas industry can be divided into two main sectors.

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).





Our work programme includes a focus on natural gas in the energy transition. Find out what the future of natural gas might look like.

What were the results of our Gas Market Settings Investigation?

Page 17 shows the recommendations we delivered to the Minister of Energy and Resources in late 2021 after we were asked to undertake an investigation into gas market settings. We looked into whether current market, commercial and regulatory settings that provide for gas availability and flexibility are fit for purpose in supporting New Zealand's transition to a future with 100% renewable electricity from 2030 and a net zero carbon economy by 2050. One of our recommendations is the work we are now undertaking on the Gas Transition Plan.

What does the future look like for the gas sector?

Page 17 describes the development of plans for the natural gas sector to help reduce emissions. The Gas Transition Plan will be a key input into a broader energy strategy, showing how emissions can be reduced in line with targets in emissions budgets, in legislation, and in New Zealand's international commitments.

Are renewable gases part of the future?

Page 24 discusses the role of hydrogen and biogas in natural gas markets, and how these renewable gases may play a role in New Zealand's energy future.



Chair's foreword

The Gas Industry Co Board is delighted to present this year's annual report.

The past year has presented considerable challenges for the energy sector, both globally and here in New Zealand. The economic and social climate has been unsettled, and the changes we as a sector faced last year are coming faster and more frequently.

This year, we have been entrusted with the task of working on a substantial piece of work with the Gas Transition Plan, alongside MBIE. The Gas Transition Plan involves showing how the gas sector can transition to meet New Zealand's emissions reductions budgets. This is an important piece of work for all parts of the sector from producers to those who use gas in industrial processes and as consumers.

The gas sector is going to have to change. This will involve less use of natural gas over time, and increased use of renewable gases. The effects will be felt by industry, energy providers and consumers. Energy consumers expect reliable supply and efficient energy prices on the way to a more sustainable, net zero economy. As an industry we need clarity for investment decisions and the earlier we can outline the shape of the energy transition – the better.

The energy trilemma remains a balancing act – the energy sector must balance the need for security of supply with sustainability and affordability.

The Board sees the Gas Transition Plan workstream as an expression of confidence in Gas Industry Co. This work signals a confidence in our team. The Gas Transition Plan will feed into a broader Energy Strategy that will shape the future of the gas and energy sector in New Zealand.

Looking ahead, I expect to see the Gas Industry Co workload continue to grow as necessary workstreams such as the Gas Transition Plan present themselves. Our work programme growth last year was significant, and we are now sustaining that high level of output.

Workstreams like the Gas Market Settings Investigation and subsequent Gas Transition Plan are demanding and require a high level of engagement and input from the industry. We are grateful for their cooperation and acknowledge that regulatory teams are carrying substantial workloads.

Our core focus remains – facilitating the role of gas in New Zealand's energy future and ensuring consumers and businesses alike have access to cost-effective, stable, and reliable energy as we continue further down the decarbonisation pathway.

Acknowledgements

I would like to acknowledge our staff and management for their diligent work through another busy year.

I would also like to thank Sir John Hansen for his contribution in the role of Gas Industry Co Rulings Panel that comes to an end on 29 August 2022. The Board extends its appreciation to Sir John Hansen for his service to the company and wishes him well. We are pleased that Miriam Dean CNZM QC has been appointed as the new Rulings Panel for a five-year term commencing on 29 August 2022. I welcome her to the role.

I also want to acknowledge the industry participants and levy payers who make our work programme possible. Thank you for your continued support of our ever-growing roster of projects.

My fellow directors consistently bring a high standard of advice, governance, and expertise to the Gas Industry Co Board. Thank you for the careful consideration and invaluable perspective you each bring to the matters the company faces.

In the face of a busy year full of global uncertainty, unexpected workstreams and ongoing COVID-19 aftermath unfolding, I am pleased at the advancements in our work programme.

Gas Industry Co continues to facilitate better outcomes for industry, consumers, and our community. I wish everyone well as we continue our work and enter a new financial year.

Rt Hon Jim Bolger ONZ
Chair



Chief Executive's review

This annual report reports on a busy year of work.

The early 2020s have continued to prove challenging and transformative for the gas industry. These past few years have demanded responses to emerging gas transition issues, the ongoing pandemic and other international energy matters. 2020 set the tone for universal upheaval and FY2022 has persevered with that theme, with change at the forefront of our industry and work programme.

Global disruption has created urgency for a faster transition to a decarbonised future. New Zealand is not immune from these international pressures.

Gas Industry Co has been preparing for this wave of change for some time now.

In late 2020, the Minister of Energy and Resources asked us to investigate whether current market, commercial and regulatory settings that provide for gas availability and flexibility were fit for purpose in supporting New Zealand's transition to a future with 100% renewable electricity from 2030 and a net zero carbon economy by 2050.

Our findings, from the Gas Market Settings Investigation, included a recommendation for a new project – the Gas Transition Plan.

In May this year, the government published its Emissions Reduction Plan. It anticipates a Gas Transition Plan to demonstrate how the natural gas sector can be reduced in line with targets in emissions budgets, in legislation, and in New Zealand's international commitments.

The purpose of the Gas Transition Plan is to establish transition pathways for decarbonising the gas sector in line with the first three emissions budgets.

The plan is also expected to establish a strategic view on the potential role for renewable gases, including potential measures for accelerating their uptake, and for carbon capture and utilisation technology.

Actions will be set out for the government to undertake, with the aim of providing more certainty about the government's future gas work programme. Recommendations for the gas industry will also be part of the plan.

Gas Industry Co's work on the Gas Transition Plan will impact the gas industry, and wider energy sector. Our team is enthusiastic for our role in the project.

Progress on the Gas Transition Plan is still in early stages with the initial development period scheduled for May 2022 through to early 2023, public consultation in mid-2023, finalisation of the plan in late 2023, publication of the plan at the end of 2023 and publication of the wider Energy Strategy at the end of 2024.

After seeing the conversations already happening and the engagement from industry, we expect our plan by the end of 2023 to show how the gas sector can achieve emission reductions and ensure consumers have access to secure and affordable energy throughout the decarbonisation process.

While the Gas Market Settings Investigation and the Gas Transition Plan has been a big focus for us, we have also worked on many other workstreams this year such as our ongoing work on information disclosure, critical contingency management and others outlined below.

I would like to acknowledge the work of our staff throughout the year to deliver the work programme successfully. A short summary of progress is outlined below, with further detail featured under Chapter Three.



Global disruption has created urgency for a faster transition to a decarbonised future. New Zealand is not immune from these international pressures.

Gas Market Settings Investigation and Gas Transition Plan

As mentioned above, the Gas Market Settings Investigation and Gas Transition Plan workstreams have occupied much of our focus over the past year.

For the Gas Market Settings Investigation, we released a consultation paper that was developed following conversations with a wide range of stakeholders from across the gas and electricity sectors. Following this feedback, we released the final paper.

One of our recommendations in the Gas Market Settings Investigation called for the development of a Gas Transition Pathway to support improved investment confidence, jointly managed by Gas Industry Co and MBIE.

The Gas Transition Plan work has begun, with analytical work underway in for a number of the workstreams within the Plan. We will be utilising the substantial body of work already published around these topics, as well as commissioning new studies and working in collaboration with industry to understand work they have begun.

Information disclosure

Work on the level of information disclosure began in 2019. The following year, we concluded that gas production and storage facility outage information disclosure should be a priority. A draft statement of proposal was released in December 2020 focusing on whether the current upstream disclosure code is a suitable, permanent solution or whether regulatory arrangements were required. After feedback from the industry, we started work on a final Statement of Proposal (SOP).

The problem assessment phase concluded that improving upstream and gas storage outage information was the top priority. The SOP developed on this matter found that current arrangements for gas production and storage outage information were not sufficient for achieving the regulatory objective of effective and timely availability of information. It concluded that the objective was unlikely to be satisfactorily achieved by any reasonably practicable means other than through regulation.

In February 2022, Gas Industry Co recommended to the Minister of Energy and Resources that new gas governance rules are made for the disclosure of gas production and storage facility outage information.

The Minister approved the recommendation that new rules should be made in May.

Following the Minister's decision, Gas Industry developed the draft Gas (Facilities Outage Information Disclosure) Rules (Rules).

The complementary amendments to the Gas Governance (Compliance) Regulations are being considered by Cabinet.

Electricity price review

Another workstream arose from the government's electricity price review. Gas Industry Co monitors governance arrangements in related industries.

We assessed whether changes influence existing gas governance arrangements, and whether changes are required in response.

Gas Industry Co considered it prudent to review whether the 32 recommendations made by the electricity price review should be matched by the gas market, given the similarities and links between the gas and electricity.

Gas Industry Co completed several rounds of consultation with industry and is currently in the process of finalising the guidelines.

Once published, Gas Industry Co will have a role in monitoring the ongoing effectiveness of the guidelines.

Hydrogen and biogas

Certification of the emissions intensity of renewable gases is an important element in helping hydrogen and biogas to emerge in the transition to a low carbon economy. Certificates can provide revenue and confidence for renewable gas investment. If certificates are tradeable, they may support a faster transition and a clearer pathway to decarbonising for industries that need gas energy.

Work towards a certification scheme for renewable gases has progressed alongside work by other agencies that have a role in regulations, standards, and industries, that may use them. Consultation with industry found support for Gas Industry Co having a role in developing and administering a framework and guidelines for a competitive certification market. Gas Industry Co anticipates a role in monitoring the ongoing effectiveness of guidelines. Work is underway through government agencies to develop standards compatible with trading partners' standards.

With certification schemes entering the market, Gas Industry Co expects to develop a certification framework for adoption this financial year.

Analysis of the effect of hydrogen and biogas on the natural gas markets is an important part of the Gas Transition Plan workstream. The focus will be on what changes need to be made to ensure barriers to uptake of renewable gases are removed, and to understand what changes the natural gas sector will need to make. Emissions capture and storage is also being analysed and the Gas Transition Plan is likely to provide advice on its suitability for supporting low emissions gas.

Consideration is being given to adding hydrogen and renewable gases to our publication of forecast supply and demand studies, as confidence about future markets, feedstock availability and infrastructure is important for investment in renewable gas production.

Critical contingency management

The purpose of the critical contingency management (CCM) regulations is to achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply.

The annual critical contingency exercise, Exercise Atiru was carried out on 18 May 2022. The exercise provided an opportunity for parties (the CCO, TSO and retailers) to practice their response to a critical contingency event in a safe environment and subsequently enhance their knowledge and competency for dealing with an actual event.

The appointment of the current CCO expired on 1 March 2022. Plant and Platform Ltd took over the role of providing Critical Contingency Operator services following a handover from the existing provider Core Group Ltd, effective from 1 March 2022.

There were no material changes to the processes for the provision of services and the existing communication channels continue as normal.

We would like to thank Core Group for their services as Critical Contingency Operator and welcome Plant and Platform to the role.

In regard to the next steps for amending CCM regulations, we made the decision to pause the process. First Gas, the Transmission System Operator, wrote to us in November 2021 making several recommendations to further amend Schedule 1 of the regulations. Supported by external expertise, we have reviewed First Gas's request to amend Schedule 1 of the regulations. As a result of this review, we have asked First Gas to provide further details and to take specific actions so that amendment of the CCM regulations can be further considered.

Acknowledgements and forward outlook

The next 12 months promises to be just as busy as the previous. As ever, Gas Industry Co's work is informed by providing trusted advice, support, and guidance to the gas and wider energy sector. I remain grateful to our industry stakeholders for their constant involvement in our consultations, to our Board of Directors whose advice and expertise has seen us through some exacting times and to our staff whose diligent efforts take workstreams from concept to reality.

Ngā mihi nui



Andrew Knight
Chief Executive



Work programme achievements against Statement of Intent

Gas Market Settings Investigation

In December 2020 the Minister of Energy and Resources asked Gas Industry Co to investigate whether current market, commercial and regulatory settings that provide for gas availability and flexibility are fit for purpose in supporting New Zealand's transition to a future with 100% renewable electricity from 2030 and a net zero carbon economy by 2050.

Gas Industry Co consulted with gas and electricity industry producers, pipeline owners, gas shippers, electricity generators, major and medium-sized industrial gas users, industry bodies, and regulators, through visits and conversations and released a consultation paper in May 2021.

We completed the investigation and released the final report in September 2021. This report recommended two key actions and four other workstreams to address the key areas of focus. The report recommended workstreams be established:

- To develop a Gas Transition Pathway to provide the granular direction needed to support improved investment confidence.
- To improve commercial arrangements so that sufficient volume and flexibility of gas supply is in place far enough in advance to promote security of supply for electricity.
- On information availability to help enable participants and users to predict and plan better.
- On the regulatory framework for gas pipelines, including joint work by MBIE, the Commerce Commission and Gas Industry Co on both:
 - » The current Part 4 Commerce Act framework and tools.
 - » Whether changes are needed to the overall regime.
- To understand how gas can support New Zealand's energy needs that cannot be met by electricity, including:
 - » The (potentially accelerated) development of 'green gases' including hydrogen and biofuels.
 - » How to avoid and reduce emissions for those who need to use gas.

- » Exploring the viability of emissions capture and storage in New Zealand.
- To consider whether additional mechanisms are desirable to ensure gas is available to industrial users in unexpected tight situations, as we have seen in 2021.

As a result of our final report, several workstreams have eventuated, including the Gas Transitions Plan, that we discuss below.

This was a new work programme and was not included in our 2022–2024 Statement of Intent, so we are unable to compare our outcomes with our intentions set out in the Statement of Intent.

Gas Transition Plan

The government has published its Emissions Reduction Plan. It includes work to develop a Gas Transition Plan to drive emission reductions from natural gas. The plan will be a key input into a broader Energy Strategy, showing how emissions from gas can be reduced in line with targets in emissions budgets, in legislation, and in New Zealand's international commitments.

The Gas Transition Plan should identify opportunities and benefits and provide a framework to assist in making difficult decisions that Aotearoa New Zealand may face through the transition. The plan should:

- Help inform decision-making and further action by government; and
- Help to inform industry on the required investments and work to ensure an equitable transition away from the use of fossil gas.

The plan should cover the first three emissions budgets out to 2035, while signalling the longer-term direction out to 2050, particularly on:

- The fossil gas transition pathways; and
- What is required to facilitate the uptake of renewable gases.

Gas Industry Co is working with MBIE to develop the plan. MBIE intends to engage with consumers, non-government organisations, other interested parties, and Treaty partners.

Work programme achievements against Statement of Intent

Gas Industry Co expects to engage closely with industry as the plan develops. Work to develop the plan commenced in May 2022, with targeted engagement during 2022.

Public consultation on the Plan is expected around mid-2023 before it is finalised and published in the second half of 2023. The Energy Strategy is expected at the end of 2024.

This is a new work programme and was not included in our 2022–2024 Statement of Intent, so we are unable to compare our outcomes with our intentions set out in the Statement of Intent.

Critical contingency management

The purpose of the CCM regulations is to achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply.

There were no critical contingencies during the financial year.

The appointment of the current CCO expired on 1 March 2022. Plant and Platform Ltd took over the role of providing Critical Contingency Operator services following a handover from the existing provider Core Group Ltd, effective from 1 March 2022. There were no material changes to the processes for the provision of services and the existing communication channels continue as normal.

Regulations review

We said we would:

1. Make recommendations to the Minister to amend the CCM regulations during FY2022, as a result of a review currently being undertaken; and
2. Work to implement changes during FY2022, subject to ministerial approval.

In August 2021, Gas Industry Co released our summary of submissions and next steps for amending the CCM regulations.

The process was then to release a Statement of Proposal for a final round of consultation, before making a recommendation to the Minister to change the regulations. The Statement of Proposal included proposed changes to CCM regulations, including an amendment to Schedule 1 (the critical contingency threshold limits).

However, in November 2021 the Transmission System Owner wrote to Gas Industry Co making several recommendations to further amend Schedule 1.

The Transmission System Operator sees that more flexibility is required in Schedule 1 to respond to the challenge of our rapidly evolving energy environment.

We decided to pause the process of changing critical contingency management regulations, whilst we assess new information from First Gas.

Schedule 1 is important to the integrity of the CCM regulations, so Gas Industry Co put the regulations change process on hold while we undertake an external review of the Transmission System owner's new recommendations.

The review may result in further changes to Schedule 1. Those would be included in the Statement of Proposal for feedback from the industry

Annual industry exercise

The annual critical contingency exercise, Exercise Atiru was carried out on 18 May 2022. The exercise provided an opportunity for parties (the CCO, TSO and retailers) to practice their response to a critical contingency event in a safe environment and subsequently enhance their knowledge and competency for dealing with an actual event. After the exercise the CCO published a report indicating that the exercise was generally well received, along with a small number of recommendations. We will be engaging with the CCO and industry to address these recommendations.

Electricity price review

Gas Industry Co monitors governance arrangements in related industries to assess whether any changes may influence existing gas governance arrangements, and if any changes to those arrangements are required in response.

The government's electricity price review made 32 recommendations in response to its review of whether the electricity market delivers efficient, fair, and equitable prices to customers. Gas Industry Co considered it prudent to review whether those recommendations should apply to the gas market, given the similarities and links between the gas and electricity markets.



Gas Industry Co completed several rounds of consultation with the industry and is currently in the process of finalising the guidelines.

Gas Industry Co released a consultation paper titled *Extending the Electricity Price Review's Final Recommendations to the Gas Market – An Assessment*. The consultation paper set out our initial assessment of whether recommendations from the electricity price review should be extended to the gas market.

We said we would:

1. Determine whether to amend existing or introduce new, gas governance arrangements (including having regard to the effectiveness of any non-regulatory arrangements);
2. Consult with stakeholders on the content and form of any proposed changes to gas governance arrangements; and
3. Make recommendations to the Minister accordingly.

Gas Industry Co developed new gas market guidelines for:

- Dealing with vulnerable gas consumers (EPR recommendation B6);
- Raising consumer awareness of Utilities Dispute and Powerswitch services (EPR recommendation C2); and
- Managing saves and winbacks behaviour in the gas market (EPR recommendation C5).

For consistency and efficiency, these new gas market guidelines are closely aligned with corresponding guidelines that apply in the electricity industry.

Gas Industry Co completed several rounds of consultation with the industry and is currently in the process of finalising the guidelines.

Once published, Gas Industry Co will have a role in monitoring the ongoing effectiveness of the guidelines.

No recommendations for making gas governance regulations or rules have been proposed as a result of this workstream.

Advanced gas metering

Gas Industry Co is determining what changes are required to support the roll-out of advanced gas meters. This includes assessing if there is merit in changing the switching rules and the downstream reconciliation rules and working closely with industry to ensure associated systems and rules are fit for purpose.

We said we would:

1. Continue to work with industry to ensure systems and rules are appropriate for advanced gas metering;
2. Make a recommendation to the Minister if changes to the rules are required; and
3. Make changes to registry or switching in accordance with advanced gas metering deployment.

Gas Industry Co published its Advanced Gas Metering – Issues Assessment paper on 24 September 2021. That paper set out a preliminary list of potential issues on the deployment of advanced metering technology into the gas market, with our initial commentary on each of the issues, and an initial assessment of the priority to be afforded to each issue.

Work programme achievements against Statement of Intent

After reviewing stakeholder submissions, we revised our list of issues and have proposed a new industry advanced gas metering working group to provide advice on the deployment of advanced gas meters. The purpose of the work group is to develop and recommend to Gas Industry Co a set of minimum standard guidelines for the deployment of advanced gas meters into the New Zealand retail gas market. It is likely that the work group will identify changes to existing gas government rules that will require a recommendation to the Minister.

We intend to convene the first workgroup meetings in the near future.

Retail Gas Contracts Oversight Scheme

In 2010, Gas Industry Co established a Retail Gas Contracts Oversight Scheme. This was designed to assess retailers' contracts with residential and small commercial/industrial consumers, against a series of benchmarks and reasonable consumer expectations. Reviews are undertaken by an Independent Assessor.

The most recent full review occurred 2018. There was 'substantial' compliance with the scheme. The next review of retail gas contracts was scheduled to occur in 2021.

We said we would:

1. Engage an Independent Assessor to carry out an assessment of retailers' contracts with residential and small commercial/industrial consumers, and advise retailers of the results of this assessment;
2. Review new-entrant retail contracts, as requested; and
3. Provide information to new entrant retailers to help them understand their obligations and the governance processes.

In light of the work that we have undertaken regarding the application of the electricity price review's recommendations to the gas market, we determined that it was appropriate to defer our assessment of gas retail contracts for the following reasons:

- To ensure that there is alignment between the new guidelines being developed in response to the EPR recommendations and Gas Industry Co's retail contracts benchmarks.
- To enable the next review of retail contracts to be aligned with Gas Industry Co's assessment of retailers' compliance with the new guidelines being developed in response to the EPR recommendations.

The next assessment of retail contracts will take place at the same time as our assessment of alignment with the new guidelines scheduled to take place 12 months after publication of the guidelines.

Gas Distribution Contracts Oversight Scheme

In 2012, Gas Industry Co established the Gas Distribution Contracts Oversight Scheme. This is an industry-agreed scheme which assesses contracts between gas distributors and gas retailers against a set of principles.

Gas Industry Co appointed an independent assessor in FY2014 who found that contracts offered by distributors exhibited 'substantial' alignment with the set of principles agreed upon.

Communications with distributors in FY2020 indicated that there had been no material changes to distribution contracts. Gas Industry Co informed distributors and retailers that it would follow up on progress in mid-2021.

We said we would:

1. Assess findings from the responses provided by distributors in FY2021; and
2. Report on next steps.

In 2021, Gas Industry Co was informed that one of the distributors is currently in the process of developing a new standard distribution contract through a process of consultation with retailers. Given that reviews of distribution contracts are undertaken on an exception's basis (as contracts are revised or replaced), we await the outcome of this process before considering whether a further review is appropriate.



Our programme of regular participant audits under the reconciliation rules was able to continue despite lockdown measures. The level of compliance remains high across the industry.

Downstream reconciliation

The purpose of the reconciliation rules is to establish a set of uniform processes that will enable the fair, efficient, and reliable downstream allocation and reconciliation of downstream gas quantities.

Gas Industry Co has an ongoing obligation to appoint and oversee an allocation agent as they fulfil their duties under the reconciliation rules. The current allocation agent is EMS (Energy Market Services, a subsidiary of Transpower), appointed in 2013.

Gas Industry Co monitors allocation results to identify, at an early stage, issues and ensure these are addressed in an appropriate and timely fashion. This work complements that of several industry participants who also undertake monitoring and, from time to time, bring issues to the attention of Gas Industry Co and the allocation agent.

We said we would:

1. Appoint and monitor the allocation agent;
2. Assess ongoing performance of the reconciliation rules;
3. Monitor allocation results;
4. Commission performance and event audits as required;
5. Assess any outcomes from the audit reports; and
6. Make determinations under the rules as required.

In June 2021 we extended the term of the contract with EMS by two years, so that we could jointly focus on delivery of the new D+1 system. The appointment now expires on 31 December 2023 and a market tender will be undertaken during 2023.

In response to a trend of increasing unaccounted-for-gas (UFG) over the last 12-18 months, Gas Industry Co dedicated increased resource during the year to monitoring allocation results and investigating individual gas gates with outlier UFG values. Some specific issues were identified and addressed but the overall trend remains so this work will continue in 2022.

Where errors are discovered in allocation results that won't be corrected through wash-ups, Gas Industry Co seeks to address market impacts using the provisions in the compliance regulations. Occasionally this has included the market administrator facilitating financial settlements between participants. In 2022 we consulted on proposals to streamline our approach to financial settlements where material errors have occurred, to try and resolve these issues in a more efficient and uniform manner. Submitters broadly supported our proposals.

Our programme of regular participant audits under the reconciliation rules was able to continue despite lockdown measures. The majority of retailers, meter owners and distributors had their audits completed in 2020 or 2021 and the rest will be completed in 2022. The level of compliance with obligations in the reconciliation rules remains high across the industry.

Work programme achievements against Statement of Intent

D+1

For the last seven years, Gas Industry Co has operated a pilot D+1 model which provides retailers and shippers (and First Gas) with an estimate of their share of consumption at each gas network the day after gas has flowed.

D+1 allocations produced by Gas Industry Co’s model are a key ingredient to providing shippers with the tools they need to manage their day-to-day commercial interactions with the gas transmission system.

We said we would:

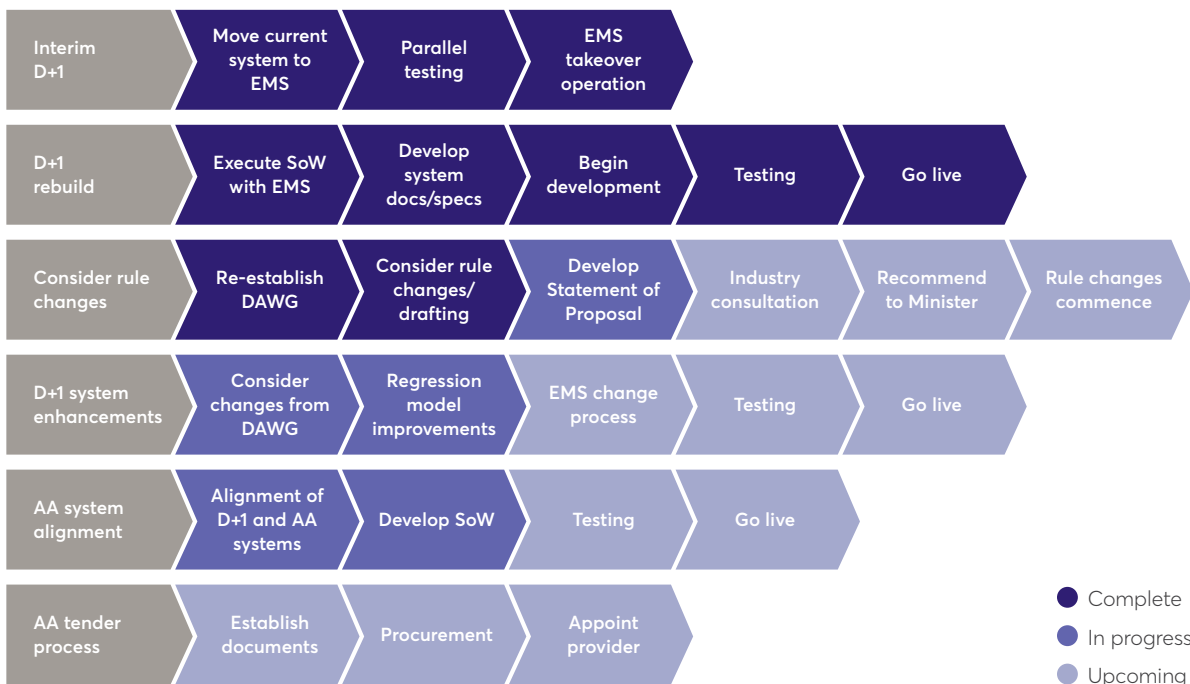
1. Operate and maintain the current D+1 model under the pilot scheme;
2. Develop and consult on any required changes to the reconciliation rules;
3. Make a recommendation to the Minister to amend the reconciliation rules; and
4. Develop, test and implement the supporting D+1 system.

In early 2021 we proceeded with a multi-phase project to move from the pilot to a more robust and formalised set of D+1 arrangements. Our progress on the project is illustrated in the diagram below.

In order to address security and reliability concerns, we prioritised replacing the D+1 model, before addressing any changes to the reconciliation rules. This included transitioning daily operation of the pilot model to the allocation agent (EMS), then working with EMS to develop a new production-quality system.

The new D+1 system was successfully delivered on time and on budget in December 2021.

In the latter part of 2021, we also re-convened the daily allocation working group to assist with determining what changes would be required to the reconciliation rules to embed D+1 and how the D+1 arrangements could be improved. These discussions helped to direct our thinking on a Statement of Proposal, which will be released in FY2023.





We continued to assess the ongoing performance of the switching rules and monitor and report on switching statistics.

Switching and registry

The purpose of the switching rules is to establish a set of gas switching and registry arrangements that will enable consumers to choose, and alternate, efficiently and satisfactorily between competing retailers.

The switching rules provide for a centralised database, the gas registry, which stores key technical parameters about every customer installation and facilitate and monitors each customer switch from initiation through to completion.

The switching rules provide for the appointment of a gas registry operator. The appointment of the current gas registry operator, Jade Software, does not expire until 2025.

We said we would:

1. Monitor gas registry operator;
2. Assess the ongoing performance of the switching rules;
3. Monitor and report on switching statistics;
4. Make determinations under the switching rules as required;
5. Commission performance and event audits as required;
6. Follow up on any issues identified in the switching audits; and
7. Update switching rules in response to advanced gas meter roll-out.

We continued to monitor the gas registry operator, assess the ongoing performance of the switching rules and monitor and report on switching statistics.

An audit of Jade Software was carried out in 2021. This was the first audit of the registry operator. No material

issues were identified. Jade demonstrated a good level of compliance with the requirements in the switching rules and the service provider agreement.

The advanced gas metering section on page 19 provides an update on item 7 (update switching rules) in response to advanced gas meter roll-out.

Gas transmission pipeline access

In March 2021, First Gas announced that they had decided to permanently discontinue any further work on the gas transmission access code (GTAC) due to changes to the operating and policy environment and challenges in implementing software to support the GTAC.

Therefore, the priorities Gas Industry Co set out in the previous SOI for work programmes related to GTAC, such as transmission pipeline balancing and pipeline interconnection, did not eventuate.

First Gas will continue to operate under the two transmission codes, the Maui pipeline operating code (MPOC) and the vector transmission code (VTC).

We said we would:

1. Be prepared to assume any role allocated to Gas Industry Co under the terms of the current gas transmission codes in relation to changes to the transmission access arrangements; and
2. Assess and action any changes to industry arrangements that may be required as a result of the GTAC not progressing (e.g. gas metering, gas quality, transmission security and reliability, interconnection).

No changes to the current transmission codes were proposed in the past year and there have been no changes to associated industry arrangements.

Compliance and enforcement

The compliance regulations provide for monitoring and enforcement of the other gas governance rules and regulations. The compliance arrangements are designed as an efficient, low-cost means of determining or, where appropriate, settling rules/regulations breaches that raise material issues.

We said we would:

1. Appoint Rulings Panel;
2. Perform market administrator role;
3. Assess ongoing performance of the compliance regulations;
4. Assist investigator and rulings panel as required; and
5. Monitor compliance trends for indications of regulatory inefficiency.

Miriam Dean CNZM QC was appointed as the Gas Industry Co Rulings Panel, with her five-year term commencing on 29 August 2022.

The past year has seen continuation of Gas Industry Co's audits of industry participants' compliance with the Gas (Switching Arrangements) Rules 2008 and Gas (Downstream Reconciliation) Rules 2008. This round of audits has been a multi-year process due to the impact of COVID-19 restrictions on access to participants' premises.

Overall, the industry has a high level of compliance with breach allegations over the last year primarily being minor breaches of the switching rules and reconciliation rules.

Information disclosure

Gas Industry Co commenced a workstream in FY2019 to assess the level of information disclosure in the industry and investigate options to address any issues found. The problem assessment phase concluded that improving upstream and gas storage outage information was the top priority. A Statement of Proposal (SOP) developed on this matter found that current arrangements for gas production and storage outage information were not sufficient for achieving the regulatory objective of effective

and timely availability of information. It concluded that the objective was unlikely to be satisfactorily achieved by any reasonably practicable means other than through regulation.

In February 2022, Gas Industry Co recommended to the Minister of Energy and Resources that new gas governance rules are made for the disclosure of gas production and storage facility outage information. We also recommended that amendments to the compliance regulations should be made to support these rules. The Minister approved the recommendation that new rules should be made in May.

Following the Minister's decision, Gas Industry developed the draft Gas (Facilities Outage Information Disclosure) Rules (Rules). The final rules will be subject to the Minister's approval in accordance with section 43Q of the Gas Act. Section 43Q also provides for the rules to be presented to the House of Representatives after the rules are made.

The complementary amendments to the Gas Governance (Compliance) Regulations are being considered by Cabinet. If the amendments are approved, the Parliamentary Counsel Office will draft such amendments. It is expected that the amendments would come into force at the same time as the rules.

Hydrogen and biogas

In September 2019, the New Zealand Government published a hydrogen roadmap. The paper discussed the potential for hydrogen to be blended with natural gas and distributed via the gas network. First Gas received a grant to support a trial that will investigate how hydrogen could be distributed through its gas pipelines.

We said we would:

1. Monitor any work undertaken in relation to hydrogen and biogas being used in gas pipelines;
2. Review arrangements in other international jurisdictions in preparation for the updating of any rules and regulations; and
3. Update any rules and regulations needed to support hydrogen and biogas transmission and distribution.



Consideration is being given to adding hydrogen and renewable gases to our publication of forecast supply and demand studies, as confidence about future markets, feedstock availability and infrastructure is important for investment in renewable gas production.

Gas Industry Co participated in an all-agency hydrogen working group convened MBIE. It produced a review of arrangements and recommendations for updating regulations. Gas Industry Co has commissioned further analysis relating specifically to the natural gas sector as part of the Gas Transition Plan.

Work towards a certification scheme for renewable gases has progressed alongside work by other agencies. The first commercial certification scheme is expected to commence on 1 October 2022. Gas Industry Co intends to publish a framework for a certification market. Work is underway through government agencies to develop standards compatible with trading partners' standards.

Consideration is being given to adding hydrogen and renewable gases to our publication of forecast supply and demand studies, as confidence about future markets, feedstock availability and infrastructure is important for investment in renewable gas production.

Sector coordinating entity role – COVID-19 pandemic

The COVID-19 nationwide lockdown in March/April 2020 highlighted the importance of natural gas for maintaining security of energy supply. This issue became important when considering repairs, maintenance and safe and efficient use of key assets and infrastructure. Gas Industry Co acted as the sector coordinating entity for the gas industry to:

- Collate industry information on any risks to the New Zealand gas industry arising from the COVID-19 outbreak to inform MBIE's weekly reporting to Cabinet;
- Provide MBIE with daily updates in relation to any emergent issues in the New Zealand gas industry; and
- Collate information from industry participants in relation to any key workers they require to be brought in from overseas to progress critical projects relating to the provision of essential services.

We said we would:

1. Maintain a watching brief of COVID-19 issues and be prepared to step into the sector coordinating entity role as and when required.

We have continued our role as sector coordinating entity. This has included collating information from industry participants about risks to the gas industry arising from the COVID-19 outbreak to inform MBIE's reporting to cabinet.

Provide gas market information and analysis that enables the industry to make informed decisions

Gas Industry Co has a role in providing information to support stakeholders in making better informed decisions, and we continue to see an important role in providing information on the state and performance of the gas sector.

Work programme achievements against Statement of Intent

In FY2021, the Concept Consulting gas demand and supply projections – 2021 to 2035, was commissioned as supporting analysis for the Gas Market Settings Investigation and was published in May 2021 after multiple requests from industry. An update to this study was also published in 2022 to maintain an up-to-date view of the gas sector as new input data became available.

Gas Industry Co has previously commissioned reports focusing on gas supply and demand over the long term and on particular aspects of the industry. Further occasional reports will be published, and existing reports updated, where they can be of value to the industry.

We said we would:

1. Continue to produce the short-term and long-term supply and demand studies and communicate their findings;
2. Carry out any ad hoc analyses that further inform the industry of the role of gas in New Zealand as the energy sector undergoes a transition to lower emissions over the coming years; and
3. Continue to enhance the information portal.

In 2022 we released an updated Gas supply and demand projections 2022 update.

We also developed a data portal on our website with comprehensive gas sector data. Data that is valuable for market participants includes daily gas production by major fields and consumption by the largest users. Monthly information about Ahuroa gas storage is displayed, along with average quarterly gas prices and supply. Market analysts looking for detail about prices can quickly locate emsTradePoint daily gas prices and delivered quantity.

Statement of Intent and Annual Report

The Gas Act requires that the industry body provide its Annual Report to the Minister of Energy and Resources within three months of the end of the financial year (the Minister then tables it in the House of Representatives).

Similarly, annual Statements of Intent (SOI) are required to be submitted to the Minister for comment prior to being finalised and published.

We said we would:

1. Prepare and publish the SOI to meet statutory timeframes;
2. Provide the draft SOI to the Minister for comment prior to publication; and
3. Prepare and publish the Annual Report and meet requirements for tabling in Parliament.

The draft Gas Industry Co Statement of Intent 2023–2025 was provided to the Minister for comment prior to publication.

The final Gas Industry Co Statement of Intent 2023–2025 was delivered to the Minister on 1 July 2022, published on our website along with the 2023 levy regulations, and gazetted.

We intend to deliver and publish the Annual Report to the Minister by 30 September, meeting requirements for tabling in Parliament.

Other reporting

Gas Industry Co is required by the Gas Act to report on the present state and performance of the gas industry. It does this through publications including switching statistics and quarterly reports.


We said we would:

1. Prepare and publish switching statistics and industry performance measures; and
2. Continue engagement and communications for interested stakeholders.

We have continued to prepare and publish switching statistics and industry performance measures on our website, under our new data portal.

We have continued engagement and communications for interested stakeholders via our news bulletins, industry workshops and consultations.





Work programme achievements against GPS objectives and outcomes

Alignment with government policy objectives and outcomes

Gas Industry Co's strategic objectives – facilitate gas governance and markets that deliver gas in a safe, efficient, fair, reliable, and environmentally sustainable manner, act as a trusted adviser to government and industry and facilitate the industry through the energy transition – are aligned with the objectives and outcomes contained in the Gas Act and GPS. The Company's diverse workstreams help the Company move toward meeting those objectives and outcomes.

We have found it helpful to group the Gas Act and GPS Criteria (listed in full in Table 1, [see pages 30 and 31](#)) under the five category headings shown in Table 2 ([see page 31](#)). This approach avoids duplication.

GIC work programme FY2023 and future areas of work	Gas Act, GPS objectives and outcomes alignment				
	Efficiency	Reliability	Safety	Environment	Fairness
Gas market settings investigation workstreams	✓	✓	✓	✓	✓
Critical contingency management	✓	✓	✓	✓	✓
Electricity price review	✓	●	●	●	✓
Advanced gas metering	✓	●	●	●	●
Retail Gas Contracts Oversight Scheme	✓	●	●	●	✓
Gas Distribution Contracts Oversight Scheme	✓	●	●	●	✓
Downstream reconciliation	✓	●	●	●	✓
Switching and registry	✓	●	●	●	✓
Compliance and enforcement	✓	✓	✓	✓	✓
Other reporting	✓	✓	●	●	✓
Information disclosure	✓	✓	●	●	✓
Gas transmission pipeline access	✓	✓	✓	●	✓
Monitor and support the potential use of hydrogen and biogas in transmission and distribution pipelines	✓	✓	✓	✓	✓
Green gas certification scheme for biogas and hydrogen	✓	●	●	✓	✓
Sector coordinating entity role – COVID-19 pandemic	✓	✓	✓	✓	✓
Provide gas market information and analysis that enables the industry to make informed decisions	✓	✓	●	●	✓

Table 1. Gas Act, GPS objectives and outcomes assessment criteria

Criterion	Objective/outcome	Text
1	Gas Act s43ZN(a)	The principal objective is to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner
2	Gas Act s43ZN(b)(i)	Facilitation and promotion of the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements
3	Gas Act s43ZN(b)(ii)	Barriers to competition in the gas industry are minimised
4	Gas Act s43ZN(b)(iii)	Incentives for investment in gas processing facilities, transmission, and distribution are maintained or enhanced
5	Gas Act s43ZN(b)(iv)	Delivered gas costs and prices are subject to sustained downward pressure
6	Gas Act 43ZN(b)(v)	Risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties
7	Gas Act s43ZN(b)(vi)	Consistency with the Government's gas safety regime is maintained
8	GPS Item 12(a)	Energy and other resources used to deliver gas to consumers are used efficiently
9	GPS Item 12(b)	Competition is facilitated in upstream and downstream gas markets by minimising barriers to access to essential infrastructure to the long-term benefit of end users
10	GPS Item 12(c)	The full costs of producing and transporting gas are signalled to consumers
11	GPS Item 12(d)	The quality of gas services where those services include a trade-off between quality and price, as far as possible, reflect customers' preferences
12	GPS Item 12(e)	The gas sector contributes to achieving the Government's climate change objectives as set out in the New Zealand Energy Strategy, or any other document the Minister of Energy may specify from time to time, by minimising gas losses and promoting demand-side management and energy efficiency
13	GPS Item 9	It is also the Government's objective that Gas Industry Co takes account of fairness and environmental sustainability in all its recommendations. To this end, the Government's objective for the entire gas industry is as follows: To ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner
14	GPS Item 13 point 1	Pursue: An efficient market structure for the provision of gas metering, pipeline and energy services

Table 1. Gas Act, GPS objectives and outcomes assessment criteria (continued)

Criterion	Objective/outcome	Text
15	GPS Item 13 point 2	Pursue: The respective roles of gas metering, pipeline and gas retail participants are able to be clearly understood
16	GPS Item 13 point 3	Pursue: Efficient arrangements for the short-term trading of gas
17	GPS Item 13 point 4	Pursue: Accurate, efficient and timely arrangements for the allocation and reconciliation of upstream gas quantities
18	GPS Item 13 point 5	Pursue: Gas industry participants and new entrants are able to access transmission pipelines on reasonable terms and conditions
19	GPS Item 13 point 6	Gas governance arrangements are supported by appropriate compliance and dispute resolution processes

Table 2. Categorisation of assessment criteria

	Efficiency	Reliability	Safety	Environment	Fairness
Gas Act	Criterion 1	Criterion 1	Criterion 1		
	Criterion 2	Criterion 2	Criterion 7		
	Criterion 3	Criterion 6			
	Criterion 4				
	Criterion 5				
GPS objective	Criterion 8			Criterion 8	Criterion 13
	Criterion 9			Criterion 12	
	Criterion 10			Criterion 13	
	Criterion 11				
GPS outcome	Criterion 14				Criterion 18
	Criterion 15				
	Criterion 16				
	Criterion 17				
	Criterion 19				



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 regularly maintain relationships with many other agencies engaged in the energy and related sectors, including the Electricity Authority, Energy Efficiency and Conservation Authority, Gas Association New Zealand, and Utilities Disputes.

The industry has been experiencing challenging and transformational times. Facilitating industry engagement, and debate is an important function for the effective operation of the unique co-regulatory model. Gas Industry Co conducts annual co-regulatory forums to discuss the forthcoming year's work programme, upon which the levy is calculated. We continue to 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 remained much the same over recent years (see **Figure 1 on page 34**), although wholesale levy revenue was down in 2021 and again in 2022 due to decreased gas production. Revenue includes market fees under each of the rules and regulations to fund the administration of those rules and regulations (including recovery of the costs of external service providers and consultants). In addition, retail and wholesale levies are applied each year to cover the costs of Gas Industry Co's policy and market administration work.

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

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/December 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.

Effective co-regulation

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 2** below, actual expenditure increased in 2021. While it reduced slightly in 2022, we expect expenditure to increase again in 2022/23 as signalled during consultation on the FY2023 work programme and levy.

In the year ended 30 June 2022, operating expenses were \$4,882,765, against the Statement of Intent budgeted expenses of \$4,921,368, a favourable variance of \$38,603 or 0.78%.

Gas Industry Co's equity reserve as at 30 June 2022 has two components – the industry advances reserve of \$(62,545), and retained earnings of \$806,000.

The industry advances reserve comprises the over/under recovery of levy revenue. The Board's practice has been to return any 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.

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 1. Revenue

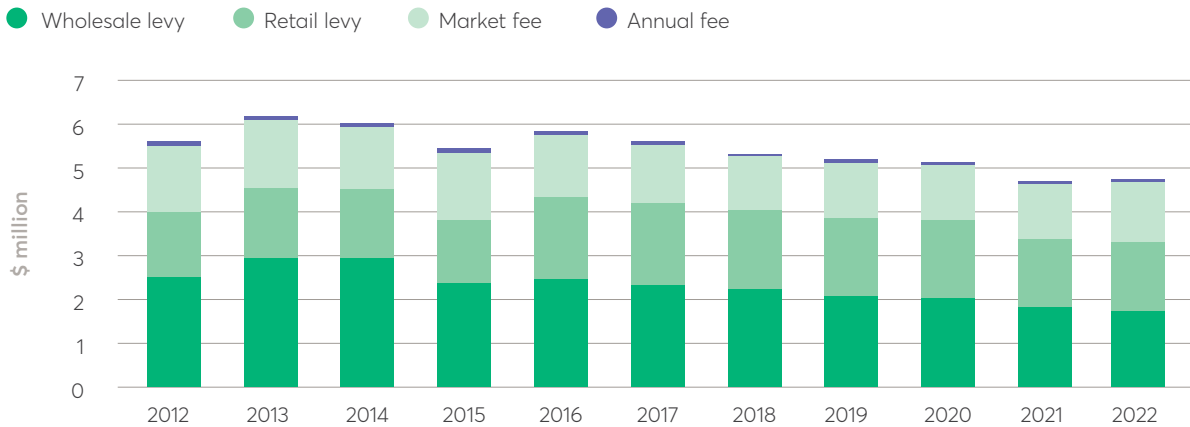
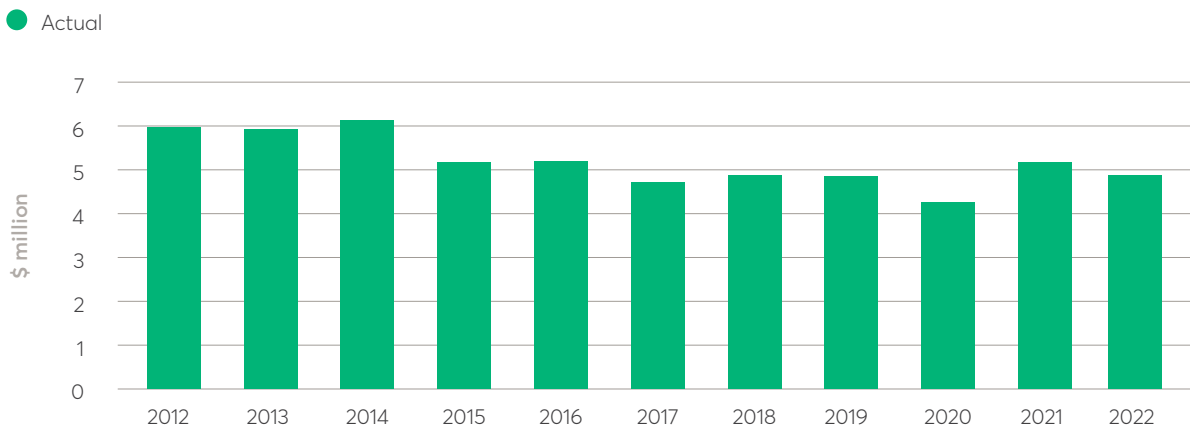


Figure 2. Operating expenses



An aerial photograph of a city, likely Auckland, New Zealand, showing a dense urban landscape with numerous high-rise buildings, a major highway interchange, and a large stadium (Auckland Stadium) near the coast. The image is overlaid with a semi-transparent blue filter and a series of white, wavy, overlapping lines that create a decorative pattern across the upper half of the page.

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 12 shareholders as at 30 June 2022.

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.

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
- Vector Limited



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.

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, Hollow Lands Limited
- Chair, Kāpiti Council Advisory Panel
- Director, Te Urewera Board



Robin G Hill, BCom

Deputy Chair, Independent Director

Appointed 4 November 2004

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

Interests register

No interests relevant to Gas Industry Co



Andrew Brown, LLB

Independent Director

Appointed 10 June 2010

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

Interests register

No interests relevant to Gas Industry Co



Parekawhia Mclean, MSocSc, MPA (Wisconsin)

Independent Director

Appointed 16 December 2019

Parekawhia has over 20 years of public policy and public sector management experience, including with the Department of Prime Minister and Cabinet. She is currently the Chair of Te Whakakitenga o Waikato – the governing body of Waikato Tainui, and a Director of Sport Waikato. Parekawhia has held numerous other governance roles, including with the National Science Resilience Challenge, Waikato Momentum Philanthropic Foundation, Mercury Energy, Te Māngai Pāho/Māori broadcasting funding agency and Waikato Means Business.

Interests register

No interests relevant to Gas Industry Co



Mike Fuge

Industry-Associated Director

Appointed 16 March 2020

Mike Fuge has over 30 years' experience in the energy sector which has included 19 years with Shell International in upstream oil and gas production over a range of countries in Europe, Middle East and South East Asia. He is currently Chief Executive Officer of Contact Energy, having previously headed up Refining NZ Ltd and Pacific Hydro Ltd (based out of Melbourne).

Interests register

- Chief Executive Officer, Contact Energy Limited



Paul Goodeve

Industry-Associated Director

Appointed 21 June 2021

Paul was appointed as the first Chief Executive Officer of the First Gas Group in 2016. Paul has significant experience across the infrastructure sector. Prior to joining First Gas Group, he spent 12 years in various regulatory, legal, pricing, commercial, business development and operations roles at Powerco, New Zealand's second largest electricity and gas distributor. Paul is a member of the Institute of Directors. Paul is currently a Director of Liquigas and the Gas Industry Co.

Interests register

- Chief Executive Officer, First Gas Group
- Chair, Liquigas



Babu Bahirathan

Industry-Associated Director

Appointed 12 March 2021

Babu is Chief Executive Officer of both Downstream Energy and Nova Energy. He graduated from the University of Canterbury with a Bachelor of Engineering, Electrical and Electronics with first class honours. He has since completed study towards a Masters in Finance from Massey University.

After graduating, Babu joined Transpower NZ as Assistant Development Engineer. He went on to spend nine years there in a wide range of roles including planning, development, design, operations and new investments. Babu was Technical Manager on various development projects and his last role with Transpower was as Team Leader in the Pricing Group, responsible for designing and implementing pricing methodology for transmission cost recovery.

In 1999 Babu joined Todd Energy as a Business Analyst just as Todd entered the retail electricity market. He has played a major role in developing and managing Todd's electricity business from its infancy. Babu held the position of Group Manager Electricity from 2006 until 2011 when he moved into his current role. He is responsible for the Todd Corporation's wholesale and retail gas and electricity businesses.

Interests register

- Chief Executive Officer, Downstream Energy, Todd Corporation
- Chief Executive Officer, Nova Energy
- Director of various other Todd Corporation subsidiaries



Other Directors who served during the year

Catherine Thompson

Appointed 3 June 2014

Resigned 20 October 2021

Interests register

- Alternate for Mr Fuge

Alternate Directors

Charles Teichert

Appointed 13 April 2021

Interests register

- Alternate for Mr Bahirathan
- Officer, Nova Energy Limited

Ben Gerritsen

Appointed 21 June 2021

Interests register

- Alternate for Mr Goodeve
- Officer, First Gas Group
- Chair, Gas Association of New Zealand
- President, Liquid Petroleum Gas Association of New Zealand

Chris Abbott

Appointed 20 October 2021

Interests register

- Alternate for Mr Fuge
- Officer, Contact Energy Limited

Attendance

The Board met on 11 occasions during the year ended 30 June 2022. At other times, matters that required the Board's attention were addressed by circular resolutions.

Directors	Meetings attended
J Bolger	11
R Hill	9
A Brown	10
P McLean	9
M Fuge	6
B Bahirathan	9
P Goodeve	8

Alternate Directors	Meetings attended
C Thompson	2
C Teichert	2
C Abbott	3
B Gerritsen	2

Directors' remuneration

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

The current maximum level of directors' fees, being \$275,000, was authorised by shareholders in 2004. Annual fee payments of \$93,500 for the Chair, \$63,360 for the Deputy Chair, and \$52,800 for the other two independent directors were set by the Board in June 2007. Directors' remuneration payments in respect of the year ended 30 June 2022 were:

Directors	\$
J Bolger	93,500
R Hill	63,360
A Brown	52,800
P McLean	52,800
M Fuge	-
B Bahirathan	-
P Goodeve	-

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

The Company's Annual Meeting was held on 25 November 2021.

In his address to the meeting, the Company's Chair, the Rt. Hon. Jim Bolger, noted the following issues of importance:

- COVID-19 issues continue to dominate. This was the first annual meeting to be held online.
- Gas Industry Co recently completed a health and safety assessment that resulted in all visitors requiring proof of double vaccination to enter.
- Gas Industry Co reprised the role of sector coordinating entity again in 2021.
- The largest project that dominated our work in 2021 was the Gas Market Settings Investigation.
- The upcoming work programme is ambitious.
- The gas sector is at the beginning of a decisive structural change. Gas Industry Co intends to help facilitate change.
- Gas Industry Co operates at a deficit this year due to unexpected and unbudgeted workstreams such as the Gas Market Settings Investigation and the D+1 Downstream Reconciliation upgrade.

The Chair noted the Board's gratitude to the Company's shareholders for their ongoing support and engagement and looks forward to another productive year of work.

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 12 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 five years. Andrew has held a range of roles across the energy sector in New Zealand and Australia as a listed and unlisted Company Director, CEO and Executive Manager. Andrew is also a Director or Chairman of a number of iwi-related organisations.



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 2021
\$100,001–\$110,000	2
\$160,001–170,000	2
\$180,001–190,000	1
\$200,001–210,000	1
\$460,001–470,000	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.

Financial statements

Directors' Report

The Board of Directors have pleasure in presenting the Annual Report of Gas Industry Company Limited, incorporating the Financial Statements and the Audit Report, for the year ended 30 June 2022.

The Board of Directors of the Company authorised the financial statements presented on pages 48 to 58 for issue on 25 August 2022.

For and on behalf of the Board.



Rt Hon James B Bolger, ONZ

Chair

25 August 2022



Robin G Hill

Deputy Chair

25 August 2022



Independent 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 48 to 58:

- present fairly in all material respects the company's financial position as at 30 June 2022 and its financial performance and cash flows for the year ended on that date; and
- 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 2022;
- » the statements of comprehensive revenue and expenditure, changes in equity and 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 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

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

Other information

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

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

Use of this independent auditor's report

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

Responsibilities of the Directors for the financial statements

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

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being Public Benefit Entity Standards Reduced Disclosure Regime (Not For Profit));
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

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

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

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

25 August 2022

Gas Industry Company Limited

Statement of Comprehensive Revenue and Expenditure

For the year ended 30 June 2022

	Notes	2022 (\$)	2021 (\$)
Revenue from exchange transactions			
Operating income	4	4,754,960	4,685,540
Interest income		2,267	24,437
		4,757,227	4,709,977
Refunded levy income	4	–	(243,296)
Net income		4,757,227	4,466,681
Expenditure			
Operating expenditure	5	4,882,765	5,189,718
		4,882,765	5,189,718
Surplus/(deficit) before tax		(125,538)	(723,037)
Income tax expense	6	635	6,842
Surplus/(deficit) for the year		(126,173)	(729,879)
Other comprehensive revenue and expenditure		–	–
Total comprehensive revenue and expenditure for the year		(126,173)	(729,879)

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 2022

	Industry Reserves (\$)	Retained Earnings (\$)	Total Equity (\$)
<i>Balance at 1 July 2020</i>	843,507	756,000	1,599,507
Total comprehensive revenue and expenditure for the year			
Surplus/(deficit) for the year	–	(729,879)	(729,879)
Other comprehensive revenue and expenditure	–	–	–
Total comprehensive revenue and expenditure for the year	–	(729,879)	(729,879)
Transfer between equity reserves			
Industry advances reserve transfers	(755,879)	755,879	–
Balance at 30 June 2021	87,628	782,000	869,628
<i>Balance at 1 July 2021</i>	87,628	782,000	869,628
Total comprehensive revenue and expenditure for the year			
Surplus/(deficit) for the year	–	(126,173)	(126,173)
Other comprehensive revenue and expenditure	–	–	–
Total comprehensive revenue and expenditure for the year	–	(126,173)	(126,173)
Transfer between equity reserves			
Industry advances reserve transfers	(150,173)	150,173	–
Balance at 30 June 2022	(62,545)	806,000	743,455

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

Gas Industry Company Limited

Statement of Financial Position

As at 30 June 2022

	Notes	2022 (\$)	2021 (\$)
ASSETS			
Current assets			
Cash and cash equivalents	7	707,605	1,740,491
Trade and other receivables	8	163,519	40
Prepayments		82,541	119,976
Income tax receivable	6	–	–
Total current assets		953,665	1,860,507
Non-current assets			
Property, plant and equipment		46,374	79,298
Intangible assets		443,921	3,464
Total non-current assets		490,295	82,762
Total assets		1,443,960	1,943,269
LIABILITIES			
Current liabilities			
Trade and other payables	9	430,351	845,259
Employee entitlements		270,142	228,369
Redeemable shares	11	12	13
Total current liabilities		700,505	1,073,641
Total liabilities		700,505	1,073,641
Net assets		743,455	869,628
EQUITY			
Industry reserves	12	(62,545)	87,628
Retained earnings	12	806,000	782,000
Total equity		743,455	869,628

These financial statements were authorised for issue by the signatories below on 25 August 2022.

On behalf of the Board

 Chair

 Deputy Chair

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 2022

	2022 (\$)	2021 (\$)
Operating activities		
<i>Cash was provided from</i>		
Levy revenue	3,315,607	3,362,605
Market fee revenue	1,194,410	1,389,264
Annual fees	24,000	26,000
Interest received	2,267	24,437
Net GST	–	–
	4,536,284	4,802,306
<i>Cash was applied to</i>		
Payments to suppliers	(2,883,208)	(2,867,021)
Payments to employees	(1,898,878)	(1,736,453)
Payments to directors	(262,460)	(262,460)
Refund of levy to industry participants	–	(243,296)
Taxes paid	(635)	(6,842)
Net GST	(52,877)	(11,860)
	(5,098,058)	(5,127,932)
Net cash inflows from operating activities	(561,774)	(325,626)
Investing activities		
<i>Cash was applied to</i>		
Purchase of property, plant and equipment	–	(53,241)
Purchase of intangible assets	(471,112)	–
Term deposit	–	–
Net cash outflows from investing activities	(471,112)	(53,241)
Net increase/(decrease) in cash and cash equivalents	(1,032,886)	(378,867)
Opening cash and cash equivalents	1,740,491	2,119,358
Closing cash and cash equivalents	707,605	1,740,491

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 2022.

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

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

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

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

The financial statements have been approved for issue by the Board of Directors on 25 August 2022.

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 certain 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.

(e) Comparatives

Where management have reclassified items in the financial statements, the related comparative disclosures have been adjusted to provide a like-for-like comparison.

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 four and 10 years.

"Industry assets" relate to the databases created and established for the downstream reconciliation, switching and registry rules and D+1.

(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

	2022 (\$)	2021 (\$)
Wholesale levy revenue	1,737,113	1,839,773
Retail levy revenue	1,578,889	1,522,462
Market fee revenue	1,414,958	1,297,305
Annual fees	24,000	26,000
Total operating income	4,754,960	4,685,540
Refunded levy income	–	(243,296)

5. Operating expenditure	2022 (\$)	2021 (\$)
Depreciation and amortisation	61,769	41,414
Operating lease expenses	271,708	264,850
Fees paid to audit firm – financial statement audit	25,000	20,000
Fees paid to audit firm – other services	–	–
Bad debts	–	–
Directors' fees	262,460	262,460
General expenses	326,413	361,818
Recruitment expenses	19,495	19,543
Technical, economic, and legal advice	698,256	1,212,544
Service provider fees	1,302,126	1,266,272
Kiwisaver contributions	55,017	48,403
Employee benefit expense	1,860,521	1,692,414
Total operating expenditure	4,882,765	5,189,718

6. Income tax	2022 (\$)	2021 (\$)
(a) Income tax expense		
Current year income tax expense	635	6,842
Deferred tax movement	–	–
Total income tax expense	635	6,842
(b) Reconciliation of current year income tax expense		
Surplus/(deficit) for the year	(125,538)	(723,037)
Income tax expense at 28 percent	(35,151)	(202,450)
Permanent differences	35,786	209,292
Timing differences	–	–
Current year income tax expense	635	6,842
(c) Income tax receivable		
Opening balance	–	–
Tax refunds received	–	–
Current year income tax expense	(635)	(6,842)
Income tax paid	635	6,842
Closing balance	–	–

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

7. Cash and cash equivalents

	2022 (\$)	2021 (\$)
Bank account	996	996
Interest bearing account	706,609	1,739,495
Total	707,605	1,740,491

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

	2022 (\$)	2021 (\$)
Levy debtors	141,689	40
GST receivable	21,830	–
Total	163,519	40

9. Trade and other payables

	2022 (\$)	2021 (\$)
Accounts payable	242,366	454,099
Accrued expenses	187,985	390,378
GST payable	–	782
Total	430,351	845,259

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.

During the year ended 30 June 2022, the Company paid service provider fees of \$515,000 and consulting fees relating to the D+1 project of \$448,636 to Transpower the parent company of emsTradepoint, a shareholder of the Company (2021: \$515,000 and \$41,100 respectively). At 30 June 2022, \$56,426.67 is included within accounts payable (2021: \$96,619.17).

(b) Transactions with key management personnel

	2022 (\$)	2021 (\$)
Salaries and other short-term employee benefits	931,715	869,652

Key management personnel include the Chief Executive, the GM Corporate Services and the four independent Directors. The above includes remuneration of \$262,460 (30 June 2021 \$262,460) paid and payable to the independent Directors for the year.

11. Redeemable shares

	2022 (\$)	2021 (\$)
Redeemable shares – value in dollars	12	13
Redeemable shares – number	12	13

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

	2022 (\$)	2021 (\$)
Industry advances reserve	(62,545)	87,628
Retained earnings	806,000	782,000
Total equity reserves	743,455	869,628

(a) Industry advances reserve

Opening balance	87,628	843,507
Transfer from/(to) retained earnings	(150,173)	(755,879)
Closing balance	(62,545)	87,628

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.

(b) Retained earnings

	2022 (\$)	2021 (\$)
Opening balance	782,000	756,000
Surplus/(deficit) for the year	(126,173)	(729,879)
Transfer from/(to) Industry advances reserve	150,173	755,879
Closing balance	806,000	782,000

13. Contingencies

As at 30 June 2022, the Company has no contingent liabilities (2021: nil). There is an arrangement with Westpac New Zealand Limited whereby Gas Industry Company has a business card facility (limit \$100,000) and a payroll letter of credit facility (limit \$180,000).

14. Commitments

(a) Capital commitments

The Company has no material capital commitments (2021: nil).

(b) Operating lease commitments

	2022 (\$)	2021 (\$)
<i>Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:</i>		
Within one year	291,845	251,330
Later than one year but not later than five years	121,602	356,051
Later than five years	–	–
Total	413,447	607,381

(c) Service provider commitments

Service provider agreements for the downstream reconciliation, switching and registry and critical contingency management rules payable as follows:

Within one year	1,252,424	1,075,524
Later than one year but not later than five years	2,382,717	1,343,808
Later than five years	–	–
Total	3,635,141	2,419,332

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.

Gas Industry Company Limited

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Auditors

KPMG, Wellington

Bankers

Westpac New Zealand Limited



Gas Industry Co.