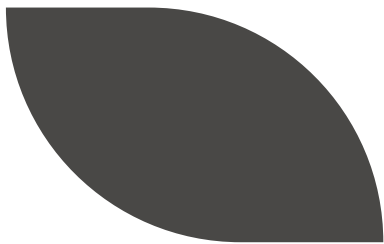
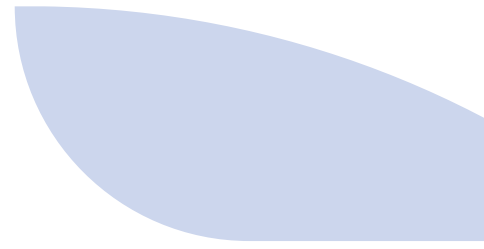


Annual Report

2022/2023



Gas Industry Co.





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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 (Facilities Information Disclosure) Rules 2022 (Information Disclosure Rules), which set out a disclosure regime in relation to outages of gas production and storage facilities.
- 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).
- 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.

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



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

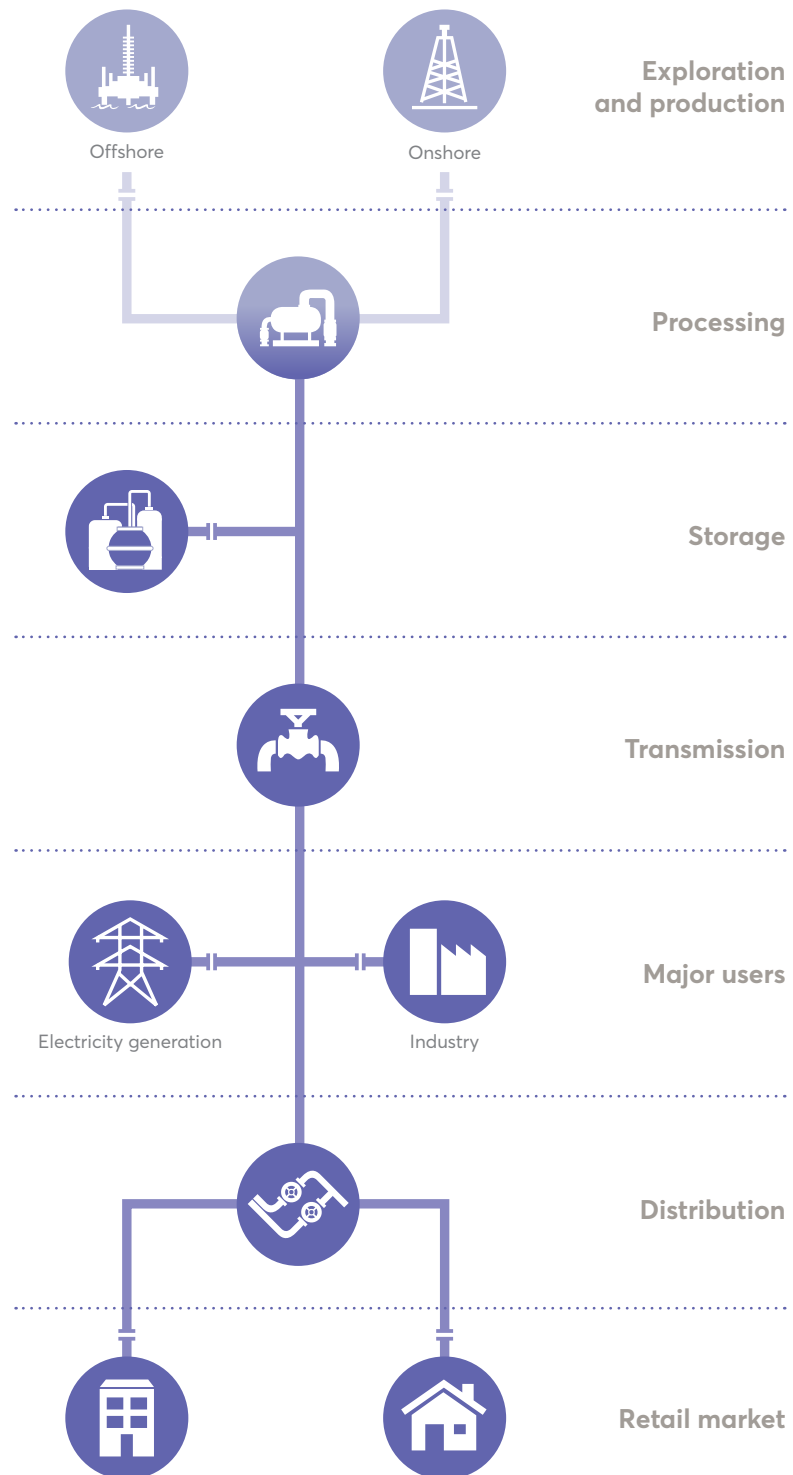
The New Zealand gas industry can be divided into two main sectors.

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 is the future of the gas industry?

Page 18 describes the work we have been doing in conjunction with MBIE to develop a Gas Transition Plan. The Gas Transition Plan will be a key input into the Energy Strategy, which is targeted for completion in 2024. Its Terms of Reference state that 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.

What is needed to bring renewable gases to market?

Page 24 discusses our work surrounding renewable gases such as Hydrogen and Biogas. Work for Gas Industry Co as part of the Gas Transition Plan during 2022 and 2023 looked at the role of renewable gas, specifically biogas and hydrogen. Economic analysis concluded that hydrogen is likely to fill some specific niches in economy, but it is unlikely to play a significant role in gas pipelines before 2035, while biogas is available and economic for a role immediately.

Are retail gas contracts good for consumers?

Page 20 details the independent assessment of retailer contract terms that was carried out this year in the best interests of consumers. Standard retail gas supply arrangements were assessed and found to be in substantial alignment with benchmarks. Some improvement is needed in clarity about price increase and disconnection processes, and clear descriptions of liability and redress. Read more about Gas Industry Co's ongoing work with retailers to ensure the benchmarks are still fit for purpose.

Chair's foreword

On behalf of the Board I am proud to present this year's annual report.

As has been the case for some years now, the industry is in the process of profound change and it is experiencing the associated pressures and uncertainties.

All major fields are preparing for the decline phase now, although significant continued investment has brought new volumes into the market from established fields. The sector's main challenge in coming years will be ensuring that investment continues to deliver energy to customers who depend on it at the same time that asset owners are preparing to decarbonise.

The investment challenge is a matter of confidence that operators can achieve a return on their investment in a market where capital is mobile and opportunities to exist elsewhere. For gas customers, especially those dependent on gas to power larger plants, uncertainty about whether gas will be available can affect investment in their business.

New Zealand's wider economy, and our national standard of living and wellbeing, depends on getting this right. Gas exported as petro-chemicals is a significant export business. Our primary industries depend on gas to make fertilisers that keep productivity competitive, and to produce export dairy products. Gas used in electricity generation literally keeps the lights on for everyone, while electricity networks are not yet ready for thousands of businesses and residential consumers to transition.

Planning for reliable supply to all those customers, while at the same time planning for emissions reductions, has been the main focus for the Gas Transition Plan, which Gas Industry Co has worked in conjunction with MBIE. I am pleased that our work has identified options that may facilitate a pathway to the future.

Most electricity generation is likely to move to renewables by 2030, with gas used only to meet peak demand. This could reduce the gas sector's CO₂ emissions by up to 40 per cent.

Gas production and potentially some industry could use carbon sequestration to reduce emissions permanently, although some regulatory changes would be needed.

Biogas could be the solution for households and small businesses like restaurants and hotels who value gas for cooking and 'endless' showers.

Whether or not these technologies are used will depend on the views of the industry itself, as well as government and other stakeholders. We should recognise that we all share an interest in reducing emissions, maintaining energy supplies essential for industry, and keeping prices affordable for consumers. Therefore, it's in all our interests to seek stable and long-term solutions that are supported across changes in government and suitable for changes in industry and consumer demand.

Predictable, stable, and efficient markets, and responsiveness to climate damage, are crucial. Our role is to facilitate the role of gas in this energy future and ensure consumers have access to cost-effective, stable, and reliable energy through the transition.

Acknowledgements

I would like to highlight the work of our staff and CEO Andrew Knight through the past year. My fellow directors have delivered expert advice and a high standard of governance for the sector. Their efforts and individual perspectives benefit the sector. During the year we farewelled one independent director – Parekawhia McLean. I would like to acknowledge Parekawhia's many contributions.

We welcomed onto the board Samantha Elder. Sam is an energy sector professional, working with Orion Group as General Manager Energy Futures. She has experience in a range of leadership roles, including Retail Insight Manager at Meridian Energy, South Island Director at the Ākina Foundation, and Senior Strategy Manager at Environment Canterbury. Her contribution to the Board is already making a valuable difference.

In this annual report, Gas Industry Co sets out our work programme, achievements, and the relationships we have strengthened and developed in another year of challenge and change. Gas Industry Co continues to facilitate better outcomes for industry, consumers, and our community. Our work programme wouldn't be feasible without the support of our industry participants and levy payers. I would like to thank you all for your ongoing engagement and support of our projects.



Rt Hon Jim Bolger, ONZ
Chair



Chief Executive's review

Kua takoto te manuka.

The leaves of the manuka tree have been laid down.

The proverb means that, when the leaves are laid down, we have been given a challenge.

How we answer the challenge depends upon how we pick up the leaves.

In this past year, significant challenges were laid before Gas Industry Co and the wider gas sector.

I am able to report that Gas Industry Co has met our challenges. As a sector co-regulator we have been energetic, hard-working, and creative in finding solutions.

Facilitating gas markets and gas governance

The first challenge Gas Industry Co faces in any year is to carry out our ongoing work programme, facilitating gas markets and providing governance for the industry.

This work matters for gas consumers as well as the sector. For example, we finished our review of recommendations from the electricity price review. The aim was to apply analogous changes in the gas sector where appropriate. It led to new guidelines for dealing with vulnerable gas consumers and to raising awareness about the Utilities Disputes and Powerswitch services.

The independent assessment of retailer contract terms that was carried out this year is another example of our gas governance work supporting consumer interests. Standard retail gas supply arrangements were assessed and found to be in substantial alignment with benchmarks. Some improvement is needed in clarity about price increase and disconnection processes, and clear descriptions of liability and redress. Gas Industry Co is working with retailers and in the year ahead we will be making sure the benchmarks we still right for our times.

Our gas governance work included a review of changes required to support the roll-out of advanced gas meters

and we looked into unaccounted for gas (UFG). UFG is the difference between the volume of gas that goes into networks and the volume billed for. The cost is spread across all retailers, so we have been looking into why there has been an increase lately.

In the year ahead we will be looking into upcoming changes to gas governance arrangements, including daily allocations (D+1) and changes required to facilitate hydrogen blending and injection of biomethane into pipelines.

More detail on our work programme is provided below.

Resilience

The second challenge for the industry in the past year has been resilience and secure supply.

Extreme weather events in early 2023 asked questions of New Zealand's infrastructure. Severe rainfall and flooding in Auckland, and on the North Island's East Coast caused considerable damage.

Fortunately, there were no critical contingency events on the transmission network. Although some consumers in local distribution networks were affected by slips and other issues, damage was isolated and in general supply was remarkably resilient. Overall, the network performed well. On the East Coast, gas networks provided energy resilience while electrical services and roads were being repaired.

An annual critical contingency exercise was run to test our systems for the day when a major event causes a system outage.



... we have been energetic, hard-working, and creative in finding solutions.

Trusted advice

The third challenge we must meet is the profound change to energy systems that is now underway.

Our most important role in the energy transition is to provide trusted advice and insights to industry and to government about the role of gas. Over the past year Gas Industry Co has completed valuable research for the Gas Transition Plan. We have formed the view that the sector can make emissions reductions consistent with net zero 2050, while also providing security of supply to those who need gas energy.

The role of gas in the transition will be smaller but it will still be important.

Major gas consumers in the petrochemical sector underwrite the development of gas fields and provide security to the energy system. Their role will continue to determine the overall shape of the gas industry. Demand from them makes gas available for other consumers, whose consumption is not sufficient to sustain ongoing gas field investment. Those consumers include some of New Zealand's most important industries as well as the electricity sector.

With the electricity system approaching 100 per cent renewable, intermittent demand for flexible gas supply to support electricity will become more important. There are a variety of ways to meet intermittent demand. Demand response arrangements from other gas consumers will usually be the most efficient way to provide for flexibility. Options for more gas storage might also be part of the future.

Planning for the transition has also brought forward new technologies. Our work on carbon capture and storage has established that the technology is suitable in New Zealand and can make a material difference to emissions. CCUS helps to keep energy supply secure for industry, while meeting sustainability objectives. We have also identified regulatory changes that will be needed to facilitate CCUS.

Our research has shown that biomethane is a viable option for the future of residential and small commercial consumers. There is a limit to the volume of biomethane that can be supplied at feasible prices with existing technology, but sufficient biomethane exists in New Zealand

today to begin blending it in local networks. Some of that gas is being used inefficiently, and a thriving biogas market is likely to optimise economic outcomes.

Gas Transition Plan

As mentioned above, the 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.



Over the past year Gas Industry Co has completed valuable research for the Gas Transition Plan. We have formed the view that the sector can make emissions reductions consistent with net zero 2050, while also providing security of supply to those who need gas energy.

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 were 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. Complementary amendments to the Gas Governance (Compliance) Regulations were also approved to enable enforcement of the new rules.

Following the Minister's decision, Gas Industry developed the draft Gas (Facilities Outage Information Disclosure) Rules (Rules). Gas Industry Co sought feedback and liaised with the MBIE regarding the drafting of the Gas (Facilities Outage Information Disclosure) Rules. The Rules came into force on 1 April 2023.

Gas Industry Co also developed a website to facilitate gas producers and gas storage owners making disclosures under the Rules and to enable third parties to review disclosures in a central location.

Electricity price review

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

arrangements in related industries. We assess 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 published the following new guidelines in August 2022:

- Gas Consumer Care Guidelines;
- Guidelines for raising consumer awareness of Utilities Disputes and Powerswitch; and
- Managing saves and winbacks behaviour in the gas market.

The guidelines include a 12-month review process for Gas Industry Co to follow up with retailers on their alignment with the guidelines. We have engaged with retailers on the form and timing of this review.

We have followed up with gas retailers on the progress in phasing out prompt payment discounts for gas consumers.

A process for consumer and network owner access to consumption data has been included within the scope of our Advanced Gas Metering workstream.

Hydrogen and biogas

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 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.

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 have been working on the Statement of Proposal.

However, the complexity of Firstgas's request to change the Schedule 1 critical contingency pressure thresholds and required regulation changes to the Taupō gas gate to enable Firstgas to conduct a trial blending natural gas and biogas have delayed the initially planned timeline for the CCM changes.

Acknowledgements

Our work programme and the challenges of the transitioning gas sector continue to be demanding.

We have a small team, and the work programme keeps them busy. We are proud of our work and proud of the difference it makes to helping New Zealand meet its needs.

No reira, naku te rourou nau te rourou ka ora ai te iwi.
With your basket and my basket the people will live.

Ngā mihi maioha,
Ngā mihi nui,

Andrew Knight
Chief Executive



**No reira, naku te
rourou nau te rourou
ka ora ai te iwi.
With your basket
and my basket the
people will live.**



Work programme achievements against Statement of Intent

Gas Transition Plan

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. The report recommended a work stream to develop a Gas Transition Plan to provide the direction needed to support improved investment confidence.

Gas Industry Co has been working in conjunction with MBIE to develop a Gas Transition Plan. The plan was a central recommendation in the Gas Market Settings Investigation that Gas Industry Co published in 2021, and the government announced it in 2022 when it delivered its response to the Climate Change Commission's advice on the emissions reductions budgets.

The gas transition plan will be a key input into the Energy Strategy, which is targeted for completion in 2024. Its Terms of Reference state that 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:

- a. Help inform decision-making and further action by government; and
- b. 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:

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

Work to develop the plan commenced in May 2022, with targeted engagement during 2022.

Public consultation on the issues paper will continue in the second half of 2023 before the plan is finalised and published.

This is a new work programme and was not included in our 2022–2024 Statement of Intent, so comparison of outcomes with intentions set out in the Statement of Intent is not possible.

We consulted levy payers and industry stakeholders about our workstream on the plan and in January 2023 we sent MBIE a substantial draft plan that sets out options for a gas transition pathway, supported by expert technical reports and modelling.

The document Gas Industry Co produced, and the supporting reports, forms a substantial and valuable body of knowledge for the industry and the transition.

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.

We said we would:

1. Make recommendations to the Minister to amend the CCM Regulations;
2. Implement changes to CCM regulations;
3. Monitor the CCO;
4. Assess the performance of the CCM regulations;
5. Respond to CCM events by appointing/monitoring experts;
6. Monitor the annual CCM exercise; and
7. Process applications and renewals for priority designations in the areas of critical care, essential services, critical processing, and electricity supply as required.

We have been working on a Statement of Proposal for the CCM changes, which will eventually lead to a recommendation to the Minister.

However, the complexity of Firstgas's request to change the Schedule 1 critical contingency pressure thresholds and required regulation changes to the Taupō gas gate to enable Firstgas to conduct a trial blending natural gas and biogas have delayed the initially planned timeline for the CCM changes.

Plant and Platform have completed their first year in the CCO role, and by maintaining clear communication with Gas Industry Co during potential events, exercises, and through our regular meetings and reporting, have reinforced confidence in their capability in this role.

The annual critical contingency industry exercise, Exercise Karaka, was carried out on 10 May 2023. 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.

All applications and renewals for priority designations in the areas of critical care, essential services, critical processing, and electricity supply have been processed and granted to relevant entities. This is business as usual.

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 released a consultation paper "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.

Following this consultation process, Gas Industry Co developed new guidelines for:

- Dealing with vulnerable gas consumers;
- Raising consumer awareness of the Utilities Disputes and Powerswitch services; and
- Managing saves and winbacks behaviour in the gas market.

We said we would:

1. Follow up on steps taken by dual fuel retailers to comply with the guidelines in accordance with the 12-month review process in the guidelines (stand-alone gas retailers have 24 months to align their processes); and
2. Establish processes to progress any remaining EPR recommendations that are relevant to the gas market (e.g. processes for access to consumer consumption data, access to smart meter data).

We published final versions of the Guidelines in August 2022. As outlined in the Guidelines, we are scheduled to undertake a review of industry alignment with the guidelines in August 2023. We have engaged with retailers on the form and timing of this review.

We have followed up with gas retailers on the progress in phasing out prompt payment discounts for gas consumers.

A process for consumer and network owner access to consumption data has been included within the scope of our Advanced Gas Metering 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.

Work programme achievements against Statement of Intent

We said we would:

1. Continue to work with industry, specifically the Advanced Gas Metering Infrastructure working group, to ensure systems and rules are appropriate for advanced gas metering; and
2. Progress any amendments to the switching rules and reconciliation rules.

Two meetings of the Advanced Gas Metering Infrastructure working group were held to discuss the prioritisation of issues relating to the roll-out of advanced gas metering and seek participant feedback on the approach to these issues.

Following feedback from the working group, we have established that the next steps are publication of a decision paper that provides our view on regulatory and non-regulatory solutions to the identified issues as a precursor to Gas Industry Co issuing a statement of proposal.

Retail Gas Contracts Oversight Scheme

In 2010, Gas Industry Co established a Retail Gas Contracts Oversight Scheme (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 in 2018. There was 'substantial' compliance with the Scheme.

This review process is carried out every three years. In FY2022 we decided to defer our assessment of retail contracts to allow us to consider the alignment of the Scheme with the outcomes of the EPR workstream. Our preference is to align the next assessment of retail contracts with our assessment of dual fuel retailers' compliance with the guidelines developed as part of the EPR workstream. This is likely to take place in FY2023.

We said we would:

1. Consider the alignment of the Scheme with the outcomes of the EPR workstream;
2. 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;

3. Review new-entrant retail contracts, as requested; and
4. Provide information to new entrant retailers to help them understand their obligations and the governance processes.

We commissioned and ensured that the deferred independent assessment of retailer contract terms was carried out in FY2023.

The independent assessor's benchmark assessment report found overall substantial alignment, with all 11 sets of retailer terms and conditions being substantially aligned with the Scheme's benchmarks. This result is consistent with the trend of retailers' alignment with the benchmarks over time.

We have advised retailers of the results of the independent assessment and highlighted their respective areas of non-alignment with the benchmarks, requesting that they prioritise corrective action to address these.

We have also advised retailers that we will review the Scheme's benchmarks and reasonable consumer expectations informed by the upcoming review of industry alignment with Gas Industry Co's guidelines to enhance consumer outcomes. We will consult retailers on any changes proposed to take effect prior to the next independent assessment taking place.

We have been available to provide information to new entrant retailers and review new-entrant contracts as required.

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.

Following the 2014 assessment, it was decided that Gas Industry Co's assessments would be undertaken on an exceptions basis (as contracts are revised or replaced). In our most recent survey of distributors in 2020, no material changes had been made to distribution agreements since 2014. However, we understand that one distributor is currently working on a new agreement.

We said we would:

1. Liaise with distributors regarding new distribution contracts and undertake an assessment if a new contract is completed in FY2023;
2. Assess progress with executing new distribution contracts consistent with the scheme principles; and
3. Report on next steps.

Consultation between one network owner and gas retailers regarding a new distribution contract is ongoing. We have received regular updates and understand that discussions are well advanced with a new use-of-system agreement expected later this year. Accordingly, our next review remains on hold until this process has run its course.

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.

The Reconciliation Rules provide for the appointment of an allocation agent, who maintains and operates the allocation system. The current allocation agent is EMS, a subsidiary of Transpower.

We said we would:

1. Complete the D+1 project;
2. Carry out a tender process to appoint an allocation agent;
3. Assess ongoing performance of the reconciliation rules;
4. Monitor allocation results;
5. Commission performance and event audits as required;
6. Assess any outcomes from the audit reports;

7. Make determinations under the rules as required; and
8. Make a recommendation to the Minister.

Technical and commercial elements of the D+1 project were completed in 2022. In early 2023 we successfully transitioned the gas allocation system to sit alongside the D+1 system in EMS's AWS cloud environment. This has provided increased flexibility and reliability to the allocation system, opened the door to developing synergies between the two systems, and has also reduced the allocation agent monthly fee by around 25%.

Working with EMS and Amazon, we began exploring whether AWS machine learning/forecasting tools may be able to increase the accuracy of D+1 allocations. So far, we have been unable to improve on the existing regression models but we will continue to explore further refinements and alternatives.

It was our intention to issue a Statement of Proposal in FY2023 to incorporate D+1 into the Reconciliation Rules. However, recognising the time that had elapsed since the D+1 pilot began, and also the obligation to explore non-regulatory solutions before recommending rules, we decided to first issue an options paper to seek industry feedback on whether to codify the current approach to D+1, or whether there are other practicable alternatives. There was sufficient consensus in the responses to the options paper that we will continue on the path of rule changes in 2023.

We have commenced a procurement process for the allocation agent appointment beyond the expiry of the current service provider agreement.

We have continued to assess ongoing performance of the reconciliation rules and monitor allocation results. Due to an uptick in unaccounted-for-gas (UFG) since 2020, we increased our scrutiny of the various data inputs to the allocation process to ensure that participant obligations around metering, energy conversion, error-handling and corrections are being complied with. Where errors have been discovered we have endeavoured to use the Market Administrator process in the Compliance Regulations to facilitate bilateral settlements between parties as an efficient and low cost means of achieving resolutions.

Work programme achievements against Statement of Intent

We are pleased to observe that based on the most recent wash-up information, UFG volumes peaked in mid-2022 and are now trending downwards.

Towards the end of FY2023 we completed a round of performance audits of industry participants. Compliance with obligations under the Reconciliation Rules remains generally high. There is some recurring non-compliance in areas with little-to-no market impact which has indicated that some tweaks to the Reconciliation Rules may be required. Such amendments will be included in the forthcoming Statement of Proposal that will address D+1.

The next round of audits will commence in Q3 of 2023. We intend to make some improvements to the reporting and processing of breaches for these audits, in order to reduce the time and effort required to manage breaches that do not raise material issues.

There have been no event audits or new determinations made under the Reconciliation Rules in FY2023.

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. Continue to provide support to Powerswitch until new arrangements are created and/or the site becomes self-sustaining; and

7. Follow up on any issues identified in the switching audits.

We have continued to assess the ongoing performance of the switching rules, monitor and report on switching statistics and manage the contract with the Registry Operator.

We have completed a round of participant performance audits which were undertaken alongside the downstream reconciliation audits discussed in the previous section. Findings were similar, with some potential rule changes identified and an aim to streamline the breach process in the next round. No event audits were commissioned in FY2023.

We have continued to provide support to Powerswitch until new arrangements are created and/or the site becomes self-sustaining.

Gas transmission pipeline access

Gas Industry Co has a role in assessing changes to the terms of the Maui Pipeline Operating Code (MPOC).

In 2021 Gas Industry Co received a letter from the Major Gas Users' Group (MGUG) asking that Gas Industry Co consider issues around the transmission arrangements, including transmission pricing.

The transmission arrangements will need to be fit for purpose for the energy transition. In our view, consideration of the transmission arrangements should occur after the completion of our Gas Transition Plan workstream as the findings of the gas transmission plan workstream may have implications for the transmission arrangements.

As part of the Gas Transition Plan workstream, we commissioned a review of the current regulatory framework for the gas transmission system. This review found that in the short to medium term there is no clear evidence that an alternative regulatory option, different to the current revenue cap model, would be better suited to align the gas transmission network with the outcomes set in the Gas Transition Plan.

The report concluded that instead of changing the regulatory option applied to transmission networks, how the incentives and mechanisms within the regulatory option are set and how directive the regulator chooses to be will likely make the most impact. These findings were shared with the Commerce Commission and Firstgas, and provide the basis for ongoing conversations.

As part of its industry oversight role, Gas Industry Co also commissioned an assessment of the 2022 Firstgas AMP, which reviewed the document from the perspective of a stakeholder wishing to understand how Firstgas manages its transmission system assets. This assessment found that the AMP contained valuable information which is often presented in easy-to-understand formats but, due to the volume of information presented in the AMP, a stakeholder wishing to understand the core of the AMP might find the bulk daunting. The assessment made some recommendations to bring this core purpose of the AMP a more prominent position, such as the use of companion documents, and also made some recommendations about certain forecasts used, such as consistency or clarity around CAPEX, OPEX and demand forecasts throughout the document. These findings have been shared with Firstgas.

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.

In 2022, the Minister of Energy and Resources accepted Gas Industry Co's recommendation that Miriam Dean CNZM KC is appointed as the member of the Rulings Panel for a five-year term from August 2022.

We have continued to perform the role of Market Administrator under the Gas Governance (Compliance) Regulations 2008. This has included continuation of our regular programme of audits.

Overall, the industry has a high level of compliance with breach allegations over the last year primarily being minor breaches of the Gas (Switching Arrangements) Rules 2008 and Gas (Downstream Reconciliation) Rules 2008.

Information Disclosure

In 2018 Gas Industry Co commenced a workstream to assess the level of information disclosure in the industry and consider options to address any issues found.

The problem assessment phase concluded that improving upstream and gas storage outage information was the top priority.

The Statement of Proposal (SOP) phase of the gas production and storage facility outage information project was completed in FY2022, including stakeholder consultation on draft and final SOP papers. The conclusion from this work was that the regulatory objective is unlikely to be satisfactorily achieved by any reasonably practicable means other than through regulation. Gas Industry Co has subsequently made a recommendation to the Minister that rules are made for the disclosure of gas production and storage facility outage information.

We said we would:

1. Implement a regulated solution for the disclosure of gas production and storage facility outage information (subject to Ministerial approval of Gas Industry Co's recommendation).

On 18 May 2022, the Minister of Energy and Resources approved Gas Industry Co's recommendation to introduce new gas governance rules for the disclosure of gas production and gas storage facility outage information.

Work programme achievements against Statement of Intent

Gas Industry Co sought feedback from industry and liaised with MBIE regarding the drafting of the Gas (Facilities Outage Information Disclosure) Rules. The Rules came into force on 1 April 2023.

Gas Industry Co also developed a website to facilitate gas producers and gas storage owners making disclosures under the Rules and for third parties to review disclosures in a central location from 1 April 2023.

Gas Industry Co would like to acknowledge the support from the industry in implementing these changes to provide more timely information to the industry and wider energy sector.

Hydrogen and biogas

The government published a hydrogen roadmap in August 2023 and a trial for pipeline hydrogen is being planned for 2024. Work for Gas Industry Co as part of the Gas Transition Plan during 2022 and 2023 looked at the role of renewable gas, specifically biogas and hydrogen. Economic analysis concluded that hydrogen is likely to fill some specific niches in economy, but it is unlikely to play a significant role in gas pipelines before 2035. Biogas is available and economic for a role immediately. Sufficient biogas is available today to blend the equivalent of about 20% of residential consumption in natural gas networks at feasible prices for consumers. More biogas could be available when less mature technology becomes commercial if it can make prices more feasible. Gas Industry Co is using these insights to develop a further work stream and liaising with industry.

Work is required on regulations related to pipeline access to facilitate renewable gas being injected into the system. Further work will be required to adapt the existing reconciliation system to facilitate trading and to create a framework for certification.

We said we would:

1. Monitor and engage with any work undertaken in relation to hydrogen and biogas;

2. Engage with regulatory agencies and the hydrogen and biogas sectors to understand potential regulatory barriers;
3. Explore how renewable gases might enter the market and the implications of which for the Gas Industry Co, the wider energy sector and the natural gas sector;
4. Consult with industry regarding the oversight required in the gas certification space; and
5. Update any rules and regulations needed to support hydrogen and biogas.

The company worked closely with other agencies and industry working on renewable gas issues. We participated in the inter-agency hydrogen working group and engaged with Firstgas about its renewable gas trials. Gas Industry Co commissioned detailed studies of the role of biogas and hydrogen in the market and the implications for the sector, including the effect on pipeline economics, likely market prices, and issues in regulation of the sector.

With certification schemes now running, further work on a framework is paused while the gas transition plan studies market issues. Work is expected to begin in the second half of 2023 on mechanisms to bring biogas to the retail market, and to allow alignment between certification schemes so that certified gas products can be injected into networks and traded.

NZ Standard for the specification of reticulated gas, NZS5442, serves as a specification for methane-based gases supplied to consumers to help ensure the gas is suitable for transportation and safe for use in gas burning appliances and equipment. As it currently stands, this standard acts as a barrier to biogas injection into the system due to some of the gas composition constraints included in the standard. Gas Industry Co has co-funded work by Standards NZ to update this standard and has been involved in the development of the proposed changes. This update will modify the standard to enable biogas injection, while maintaining safe operation of the existing appliance population.



Gas Industry Co commissioned detailed studies of the role of biogas and hydrogen in the market and the implications for the sector, including the effect on pipeline economics, likely market prices, and issues in regulation of the sector.

Sector coordinating entity role – COVID-19 pandemic

The COVID-19 pandemic has highlighted the importance of natural gas for maintaining security of energy supply.

Gas Industry Co remains available to act as the sector co-ordinating 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 government; and
- Provide MBIE with updates in relation to any emergent issues in the New Zealand gas industry.

There has not been any need for Gas Industry Co to step into the Sector Coordinating-Entity Role during FY2023 as there have been no material COVID-19 related disruptions to the gas industry.

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.

In FY2020 Gas Industry Co commenced a project that investigates the role of gas in New Zealand over the next 15 years as the electricity generation fleet becomes increasingly renewable.

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 we provide on our website and through our reports.

The Gas Transition Plan (GTP) was the focus of Gas Industry Co's analysis of the short and long-term supply and demand of the gas sector during FY2022. When published, this foundational document will give clarity to the direction of travel for the gas sector and inform the sector of the future supply and demand picture for New Zealand.

This project also included a number of additional research pieces to provide supporting evidence to the GTP, such as a review of the regulatory framework for the transmission system, assessments of biogas and hydrogen potential in New Zealand, and research into the technical, economic and regulatory opportunities and barriers for Carbon Capture and Storage in New Zealand. These works will be published alongside the GTP so that the industry can also be informed of their findings.

In April 2023 the Gas (Facilities Outage Information Disclosure) Rules 2022 came into force. Gas Industry Co created the Outage Disclosure Platform to allow owners of gas production and storage facilities to disclose the outages required by the rules. This replaces the previous industry notifications page, which allowed facility owners to post outages on a voluntary basis before the rules were introduced.

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 2024–2026

was provided to the Minister for comment prior to publication.

The final Gas Industry Co Statement of Intent 2024–2026 was delivered to the Minister on 1 July 2023, published on our website along with the 2024 Levy regulations, and gazetted.

We intend to deliver and publish the Annual Report to the Minister by 29 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.



A series of white, stylized wavy lines that resemble a series of connected arches or a stylized wave pattern, positioned in the upper half of the page.

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 – Gas Act, GPS objectives and outcomes assessment criteria, **see pages 30 and 31**) under the five category headings shown in Table 2 – Categorisation of Assessment Criteria (**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 Transition Plan	✓	✓	✓	✓	✓
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	✓	✓	●	●	✓
Statement of Intent and Annual Report	✓	✓	●	●	✓
Information Disclosure	✓	✓	●	●	✓
Gas transmission pipeline access	✓	✓	✓	●	✓
Hydrogen and biogas	✓	✓	✓	✓	✓
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

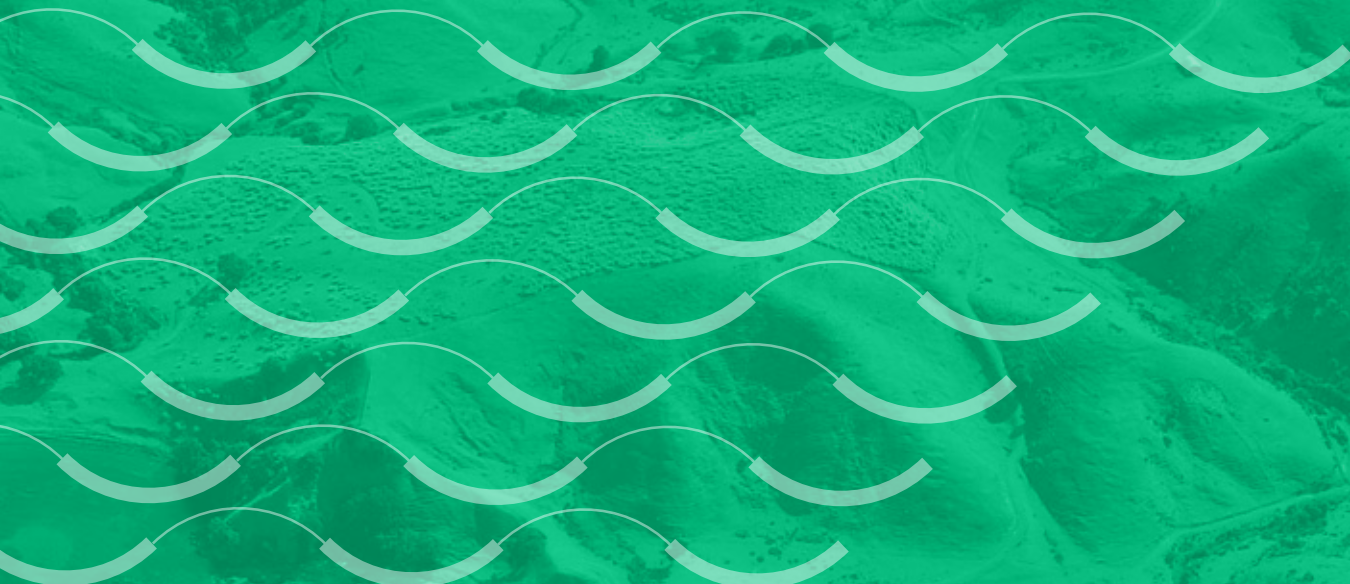
Criterion	Objective/outcome	Text
1	Gas Act s43ZN(a)	The principal objective is to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner
2	Gas Act s43ZN(b)(i)	Facilitation and promotion of the ongoing supply of gas to meet New Zealand's energy needs, by providing 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 before reducing slightly in 2022. As signalled during consultation on the FY2023 work programme and levy, expenditure increased again in 2023, largely as a result of the Gas Transition Plan work.

In the year ended 30 June 2023, operating expenses were \$5,610,296, against the Statement of Intent budgeted expenses of \$6,340,391, a favourable variance of \$730,095 or 11.51%.

Gas Industry Co's equity reserve as at 30 June 2023 has two components – the industry advances reserve of \$(83,937), and retained earnings of \$830,000.

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

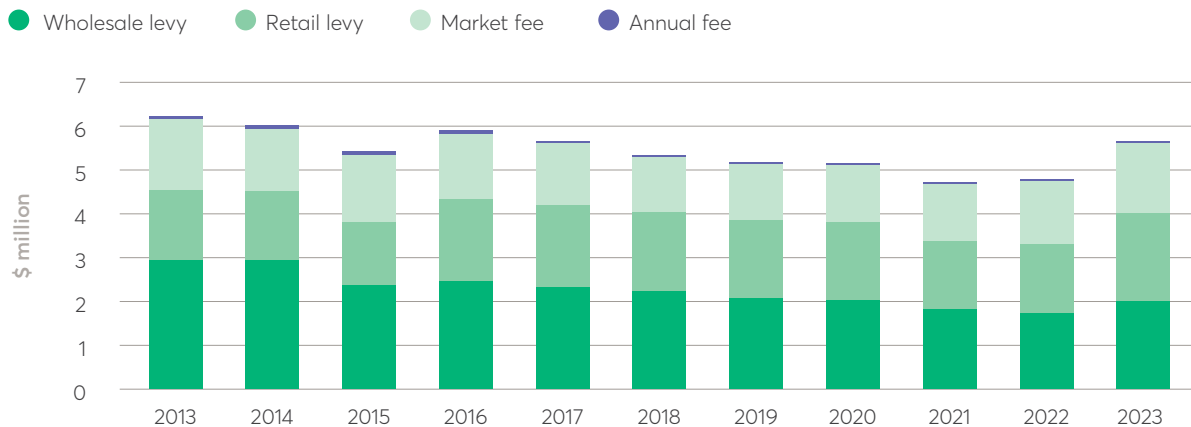
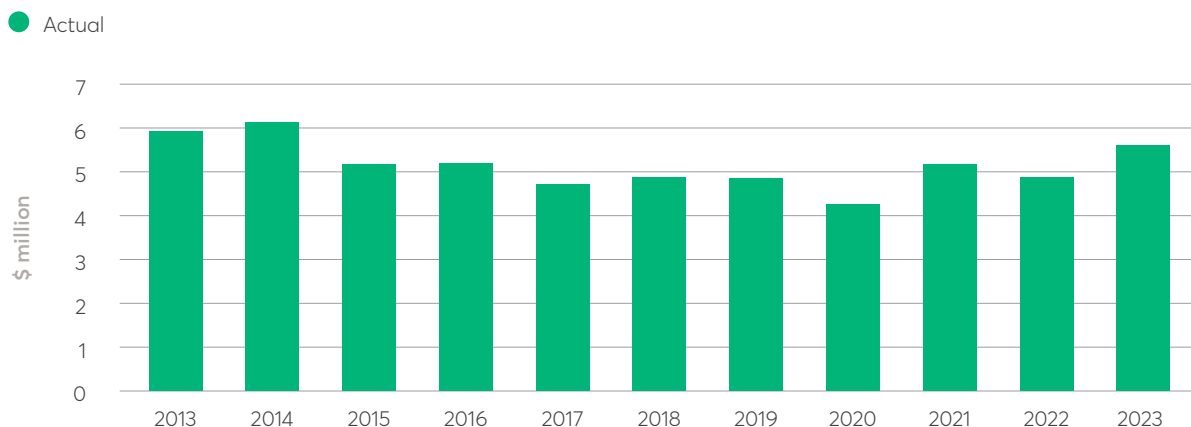


Figure 2. Operating expenses



An aerial photograph of a city, likely Christchurch, New Zealand, viewed from a high vantage point. The city is densely packed with buildings and greenery. In the foreground, there are dark, silhouetted trees. A large, stylized graphic of overlapping white wavy lines is superimposed over the upper half of the image, creating a sense of movement or waves. The overall color palette is a monochromatic blue-purple.

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 2023.

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
- Firstgas 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 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



Robin G Hill, BCom

Deputy Chair, Independent Director

Appointed 4 November 2004

Robin 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 is a leading corporate lawyer with over 25 years' experience as a partner at Bell Gully. Since leaving Bell Gully in 2010, he has worked on his own account and as general counsel for both KiwiRail and Housing New Zealand Corporation. He is currently a Senior Commercial Advisor with KiwiRail's iReX project.

Interests register

No interests relevant to Gas Industry Co



Sam Elder

Independent Director

Appointed 24 November 2022

Sam is an energy sector professional, currently working with Orion Group as General Manager Energy Futures. She started out leading a spacecraft thermal engineering group in the UK, before moving to New Zealand in 2006. Since then, she has held a range of leadership roles including Retail Insight Manager at Meridian Energy, South Island Director at the Ākina Foundation, and Senior Strategy Manager at Environment Canterbury. Sam has an MSc in Advanced Energy and Environmental Studies and is GARP SCR (Sustainability and Climate Risk) certified.

Interests register

- GM Energy Futures, Orion Group
- Director, Climate Navigator Ltd
- Co-Chair, ENA's Future Networks Forum



Mike Fuge

Industry-Associated Director

Appointed 16 March 2020

Mike 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



Babu Bahirathan

Industry-Associated Director

Appointed 12 March 2021

Babu is Vice President Downstream Energy at Todd Corporation and Chief Executive Officer of 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. He 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 Todd Corporation's wholesale and retail gas and electricity businesses.

Interests register

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



Paul Goodeve

Industry-Associated Director

Appointed 21 June 2021

Paul was appointed as the first Chief Executive Officer of the Firstgas Group in 2016. He has significant experience across the infrastructure sector. Prior to joining Firstgas 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. He is currently a Director of Liquigas.

Interests register

- Chief Executive Officer, Firstgas Group
- Chair, Liquigas



Other Directors who served during the year

Parekawhia Mclean

Appointed 16 December 2019

Resigned 24 August 2022

Interests register

No interests relevant to Gas Industry Co

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

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 2023. At other times, matters that required the Board's attention were addressed by circular resolutions.

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

Alternate Directors	Meetings attended
C Teichert	1
C Abbott	–
B Gerritsen	1

Directors' remuneration

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

The current maximum level of directors' fees, being \$275,000, was authorised by shareholders in 2004. Annual fee payments of \$93,500 for the Chair, \$63,360 for the Deputy Chair, and \$52,800 for the other two independent directors were set by the Board in June 2007. Directors' remuneration payments in respect of the year ended 30 June 2023 were:

Directors	\$
J Bolger	93,500
R Hill	63,360
A Brown	52,800
S Elder	35,200
P McLean	8,800
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 24 November 2022.

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

- This year COVID-19 made its way into our communities. While last year the annual meeting was fully online, this year we offered a hybrid model of both online and in person attendance.
- On top of COVID-19 the energy sector headed straight into another upheaval caused by shocks in global energy markets.
- This year we have been lucky to be disconnected from the northern hemisphere's energy systems as winter approaches.
- Fairness and energy affordability are everyday concerns for families and businesses in inflationary times.
- We have been working cooperatively with MBIE and the industry to plan for the future through the Gas Transition Plan.

- The Gas Transition Plan will develop transition pathways for existing gas businesses and provide a view of the future of new technologies from renewable gases to carbon storage. The output will be a direct input into the government's Energy Strategy.
- Gas will continue to have a role, even in net zero 2050 with tough emissions budgets.
- Our work is shining a light to future pathways for gas, and we encourage industry to embrace change.
- We have another ambitious work programme ahead.

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 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 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 2023	
\$100,001–\$110,000	1
\$120,001–\$130,000	1
\$170,001–\$180,000	1
\$180,001–\$190,000	1
\$190,001–\$200,000	1
\$240,001–\$250,000	1
\$480,001–\$490,000	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 auditors' report, for the year ended 30 June 2023.

The Board of Directors of the Company authorised the financial statements presented on pages 48 to 58 for issue on 28 August 2023.

For and on behalf of the Board.



Rt Hon James B Bolger, ONZ

Chair

28 August 2023



Robin G Hill

Deputy Chair

28 August 2023

Independent Auditor's Report

To the shareholders of Gas Industry Company Limited

Report on the audit of the financial report

Opinion

In our opinion, the financial report of Gas Industry Company Limited (the 'company') on pages 48 to 64 presents fairly, in all material respects:

- the company's financial position as at 30 June 2023 and its financial performance and cash flows for the year ended on that date; and
- the service performance for the year ended 30 June 2023 in accordance with the company's service performance criteria;

in accordance with Public Benefit Entity Standards Reduced Disclosure Regime (Not For Profit) issued by the New Zealand Accounting Standards Board.

We have audited the accompanying financial report which comprises:

- » the statement of financial position as at 30 June 2023;
- » the statements of comprehensive revenue and expenditure, changes in equity and cash flows for the year then ended;
- » notes, including a summary of significant accounting policies; and
- » the statement of service performance on pages 60 to 64.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'), and the audit of the statement of service performance, in accordance with the New Zealand Auditing Standard 1 The Audit of Service Performance Information ('NZ AS 1'). 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) and NZ AS 1 are further described in the Auditor's responsibilities for the audit of the financial report 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 report 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 report our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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.

Other matter

The statement of service performance for the year ended 30 June 2022, was not audited.

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 report

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

- the preparation and fair presentation of the financial report in accordance with generally accepted accounting practice in New Zealand (being Public Benefit Entity Standards Reduced Disclosure Regime (Not For Profit)) issued by the New Zealand Accounting Standards Board;
- implementing necessary internal control to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error;
- service performance criteria that are suitable in order to prepare service performance information in accordance with generally accepted accounting practice in

New Zealand (being Public Benefit Entity Standards Reduced Disclosure Regime (Not For Profit)); 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 report

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole and the statement of service performance is 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 and NZ AS 1 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 and collectively, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/audit-report-14/

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



KPMG

Wellington

28 August 2023

Gas Industry Company Limited

Statement of Comprehensive Revenue and Expenditure

For the year ended 30 June 2023

	Notes	2023 (\$)	2022 (\$)
Revenue from exchange transactions			
Operating income	4	5,597,834	4,754,960
Interest income		20,935	2,267
		5,618,769	4,757,227
Refunded levy income	4	–	–
Net income		5,618,769	4,757,227
Expenditure			
Operating expenditure	5	5,610,296	4,882,765
		5,610,296	4,882,765
Surplus/(deficit) before tax		8,473	(125,538)
Income tax expense	6	5,865	635
Surplus/(deficit) for the year		2,608	(126,173)
Other comprehensive revenue and expenditure		–	–
Total comprehensive revenue and expenditure for the year		2,608	(126,173)

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 2023

	Industry reserves (\$)	Retained earnings (\$)	Total equity (\$)
<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
<i>Balance at 1 July 2022</i>	(62,545)	806,000	743,455
Total comprehensive revenue and expenditure for the year			
Surplus/(deficit) for the year	–	2,608	2,608
Other comprehensive revenue and expenditure	–	–	–
Total comprehensive revenue and expenditure for the year	–	2,608	2,608
Transfer between equity reserves			
Industry advances reserve transfers	(21,392)	21,392	–
Balance at 30 June 2023	(83,937)	830,000	746,063

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

Gas Industry Company Limited

Statement of Financial Position

As at 30 June 2023

	Notes	2023 (\$)	2022 (\$)
ASSETS			
Current assets			
Cash and cash equivalents	7	983,229	707,605
Trade and other receivables	8	5,743	163,519
Prepayments		120,365	82,541
Income tax receivable	6	–	–
Total current assets		1,109,337	953,665
Non-current assets			
Property, plant and equipment		29,998	46,374
Intangible assets		396,519	443,921
Total non-current assets		426,517	490,295
Total assets		1,535,854	1,443,960
LIABILITIES			
Current liabilities			
Trade and other payables	9	526,155	430,351
Employee entitlements		263,624	270,142
Redeemable shares	11	12	12
Total current liabilities		789,791	700,505
Total liabilities		789,791	700,505
Net assets		746,063	743,455
EQUITY			
Industry reserves	12	(83,937)	(62,545)
Retained earnings	12	830,000	806,000
Total equity		746,063	743,455

These financial statements were authorised for issue by the signatories below on 28 August 2023.

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 2023

	2023 (\$)	2022 (\$)
Operating activities		
<i>Cash was provided from</i>		
Levy revenue	4,016,772	3,315,607
Market fee revenue	1,713,471	1,194,410
Annual fees	24,000	24,000
Interest received	20,935	2,267
Net GST	51,571	–
	5,826,749	4,536,284
<i>Cash was applied to</i>		
Payments to suppliers	(3,358,810)	(2,883,208)
Payments to employees	(1,940,021)	(1,898,878)
Payments to directors	(246,429)	(262,460)
Refund of levy to industry participants	–	–
Taxes paid	(5,865)	(635)
Net GST	–	(52,877)
	(5,551,125)	(5,098,058)
Net cash inflows from operating activities	275,624	(561,774)
Investing activities		
<i>Cash was applied to</i>		
Purchase of property, plant and equipment	–	–
Purchase of intangible assets	–	(471,112)
Term deposit	–	–
Net cash outflows from investing activities	–	(471,112)
Net increase/(decrease) in cash and cash equivalents	275,624	(1,032,886)
Opening cash and cash equivalents	707,605	1,740,491
Closing cash and cash equivalents	983,229	707,605

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 2023.

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 28 August 2023.

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 (e.g. 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

	2023 (\$)	2022 (\$)
Wholesale levy revenue	1,992,695	1,737,113
Retail levy revenue	2,023,656	1,578,889
Market fee revenue	1,557,483	1,414,958
Annual fees	24,000	24,000
Total operating income	5,597,834	4,754,960

5. Operating expenditure	2023 (\$)	2022 (\$)
Depreciation and amortisation	79,263	61,769
Operating lease expenses	276,470	271,708
Fees paid to audit firm – financial statement audit	36,000	25,000
Fees paid to audit firm – other services	–	–
Bad debts	–	–
Directors' fees	253,660	262,460
General expenses	355,517	326,413
Recruitment expenses	49,719	19,495
Technical, economic, and legal advice	1,328,965	698,256
Service provider fees	1,282,329	1,302,126
Kiwisaver contributions	56,438	55,017
Employee benefit expense	1,891,935	1,860,521
Total operating expenditure	5,610,296	4,882,765

6. Income tax	2023 (\$)	2022 (\$)
(a) Income tax expense		
Current year income tax expense	5,865	635
Deferred tax movement	–	–
Total income tax expense	5,865	635
(b) Reconciliation of current year income tax expense		
Surplus/(deficit) for the year	8,473	(125,538)
Income tax expense at 28 percent	2,372	(35,151)
Permanent differences	3,493	35,786
Timing differences	–	–
Current year income tax expense	5,865	635
(c) Income tax receivable		
Opening balance	–	–
Tax refunds received	–	–
Current year income tax expense	(5,865)	(635)
Income tax paid	5,865	635
Closing balance	–	–

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

7. Cash and cash equivalents

	2023 (\$)	2022 (\$)
Bank account	1,070	996
Interest bearing account	982,159	706,609
Total	983,229	707,605

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

	2023 (\$)	2022 (\$)
Levy debtors	5,743	141,689
GST receivable	–	21,830
Total	5,743	163,519

9. Trade and other payables

	2023 (\$)	2022 (\$)
Accounts payable	239,411	242,366
Accrued expenses	248,630	187,985
GST payable	38,114	–
Total	526,155	430,351

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 2023, the Company paid service provider fees of \$474,434 and consulting fees of \$308,800 to Transpower the parent company of emsTradepoint, a shareholder of the Company (2022: \$515,000 and \$448,636 respectively). At 30 June 2023 \$44,763 is included within accounts payable (2022: \$56,427).

(b) Transactions with key management personnel

	2023 (\$)	2022 (\$)
Salaries and other short-term employee benefits	975,760	931,715

Key management personnel include the Chief Executive, the GM Corporate Services and the four independent Directors. The above includes remuneration of \$253,660 (30 June 2022 \$262,460) paid and payable to the independent Directors for the year.

11. Redeemable shares

	2023 (\$)	2022 (\$)
Redeemable shares – value in dollars	12	12
Redeemable shares – number	12	12

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

	2023 (\$)	2022 (\$)
Industry advances reserve	(83,937)	(62,545)
Retained earnings	830,000	806,000
Total equity reserves	746,063	743,455

(a) Industry advances reserve

Opening balance	(62,545)	87,628
Transfer from/(to) retained earnings	(21,392)	(150,173)
Closing balance	(83,937)	(62,545)

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

	2023 (\$)	2022 (\$)
Opening balance	806,000	782,000
Surplus/(deficit) for the year	2,608	(126,173)
Transfer from/(to) industry advances reserve	21,392	150,173
Closing balance	830,000	806,000

13. Contingencies

As at 30 June 2023, the Company has no contingent liabilities (2022: nil). There is an arrangement with Westpac New Zealand Limited whereby Gas Industry Company has a business card facility (limit \$100,000), a payroll letter of credit facility (limit \$180,000), and a bank bond issued in favour of Robt. Jones Holdings Limited for the value of \$143,865.74.

14. Commitments

(a) Capital commitments

The Company has no material capital commitments (2022: nil).

(b) Operating lease commitments

	2023 (\$)	2022 (\$)
<i>Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:</i>		
Within one year	371,803	291,845
Later than one year but not later than five years	1,251,007	121,602
Later than five years	979,955	–
Total	2,602,765	413,447

(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	909,096	1,252,424
Later than one year but not later than five years	1,473,621	2,382,717
Later than five years	–	–
Total	2,382,717	3,635,141

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.



Consolidated statement of service performance

Consolidated statement of service performance

For the year ended 30 June 2023

This report has been prepared in accordance with PBE FRS 48 Service Performance Reporting. The Board believes that the statements contained in the report accurately reflect the overall performance of Gas Industry Co.

Who are we and why do we exist?

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

Our role as the industry body is to:

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

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

What do we do?

What we do is grouped into three classes of activities.

These activities make up our work programme:

- **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.
- **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.
- **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'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.



How did we perform?

Class of activities	Work programme	What we said we would do in the SOI	What we did	Prior year comparative*
Trusted advisor to government and industry	Gas Transition Plan	Initiate and progress work on the gas transition pathway, to be completed in time for the pathway to feed into the energy strategy.	We have made progress on the Gas Transition Plan in conjunction with MBIE. A Discussion Document has been produced and is expected to be released shortly ahead of work commencing on the full Gas Transition Plan.	One-off project. No prior year comparative available.
Facilitating industry systems and processes	Information Disclosure	Subject to Ministerial approval of Gas Industry Co's recommendation, Gas Industry Co will proceed to implement a regulated solution for the disclosure of gas production and storage facility outage information.	Recommendation approved. Gas (Facilities Outage Information Disclosure) Rules 2022 came into effect on 1 April 2023. Details can be found on our website here . A new Outage Disclosure Platform (ODP) was launched at the same time. The ODP can be found here .	One-off project. No prior year comparative available.
Gas governance	Retail Gas Contracts Oversight Scheme	<ul style="list-style-type: none"> Consider the alignment of the scheme with the outcomes of the EPR workstream; 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; Review new-entrant retail contracts, as requested; and Provide information to new entrant retailers to help them understand their obligations and the governance processes. 	<ul style="list-style-type: none"> This has been pushed out until 2024 to align with EPR guideline review. Assessment has been completed and published here. None required. None required. 	<ul style="list-style-type: none"> One-off project. No prior year comparative available. The assessment of retailers' contracts with residential and small commercial/industrial consumers was last carried out in 2018. As with the 2023 assessment, overall alignment of all published supply arrangements against the Benchmarks and RCEs in 2018 was 'Substantial'. None required in 2022. None required in 2022.

How did we perform? (continued)

Class of activities	Work programme	What we said we would do in the SOI	What we did	Prior year comparative*
Gas governance	Levy	<p>Carry out the following activities to enable the Gas (Levy of Industry Participants) Regulations 2023 to be in place by 1 July 2023:</p> <ul style="list-style-type: none"> • Hold an annual Co-Regulatory Forum; • Publication of Consultation Paper; • Publish Analysis of Submissions; and • Make a recommendation to the Minister. 	<p>All activities completed. Levy Regulations passed and will come into force on 1 July 2023. Details included on our website here.</p>	<p>All activities completed in 2022. The Gas (Levy of Industry Participants) Regulations 2022 were passed and came into force on 1 July 2022 following the same statutory timeframe as the 2023 Regulations.</p>
Gas governance	Compliance and enforcement	<p>Gas Governance (Compliance) Regulations</p> <ul style="list-style-type: none"> • Appoint rulings panel; • Perform market administrator role; • Assess ongoing performance of the compliance regulations; • Assist investigator and rulings panel as required; and • Monitor compliance trends for indications of regulatory inefficiency. 	<p>Gas Governance (Compliance) Regulations</p> <ul style="list-style-type: none"> • Miriam Dean appointed as rulings panel for a term commencing on 29 August 2022. • Gas Industry Co have performed the market administrator role. • Gas Industry Co have assessed the ongoing performance of the compliance regulations via breaches and audits. • None required. • Gas Industry Co have monitored compliance trends for indications of regulatory inefficiency via breaches and audits. 	<ul style="list-style-type: none"> • No appointment required in 2022. • Gas Industry Co performed the market administrator role in 2022. • Gas Industry Co assessed the ongoing performance of the compliance regulations via breaches and audits in 2022. • None required in 2022. • Gas Industry Co monitored compliance trends for indications of regulatory inefficiency via breaches and audits in 2022.

*The nature of our work programme (being a mixture of one-off and recurring activities) means not all activities have prior year comparatives.

Outlook for 2024 and beyond

Work programme themes for 2024 and beyond

Gas Transition Plan

Recommendations from the Gas Transition Plan may be implemented in FY2024. Recommendations may include any of the following:

- Blending of renewable gas into gas networks and measures to bring renewable gases into the natural gas market, such as tradeable renewable gas certificates and other market measures;
- New regulatory arrangements relating to CCUS;
- Measures to support and strengthen gas security of supply, including security for industrial use and electricity.

Recommendations from the Gas Transition Plan may require new gas governance arrangements or amendments to existing arrangements.

Retail Gas Contracts Oversight Scheme

- Consider the alignment of the Retail Gas Contracts Oversight Scheme with the EPR Customer Care guidelines;
- Review the Scheme's Benchmarks and Reasonable Consumer Expectations.

Guidelines to Enhance Consumer Outcomes

- Follow up on steps taken by dual-fuel retailers to comply with the guidelines in accordance with the 12-month review process in the following guidelines:
 - » Consumer Care Guidelines;
 - » Guidelines for Raising Awareness of Utilities Disputes and Powerswitch;
 - » Saves and Winbacks Guidelines.
- Commence work on any actions arising from the review of participants' processes.

Advanced Gas Metering

- Consult on a Statement of Proposal for rule changes and determine the preferred approach for non-regulatory aspects;
- Make a Recommendation to the Minister and begin implementation of system changes;
- Go-live of new arrangements and monitoring of new processes (eg UFG allocation and D+1) to ensure they are working efficiently.

Downstream Reconciliation/D+1

- Complete regulatory process to codify D+1, comprising a Statement of Proposal followed by a Recommendation to the Minister to amend the Reconciliation Rules;
- Procurement process and execution of new service provider agreement for Allocation Agent;
- Ensure alignment of allocation system and processes with market changes (D+1, advanced metering, renewable gases).

Critical Contingency Management

- Make a Recommendation to the Minister to amend the CCM Regulations;
- Support MBIE through the legislative change process;
- Implement proposed changes to the CCM Regulations including consequential changes to existing industry processes.

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