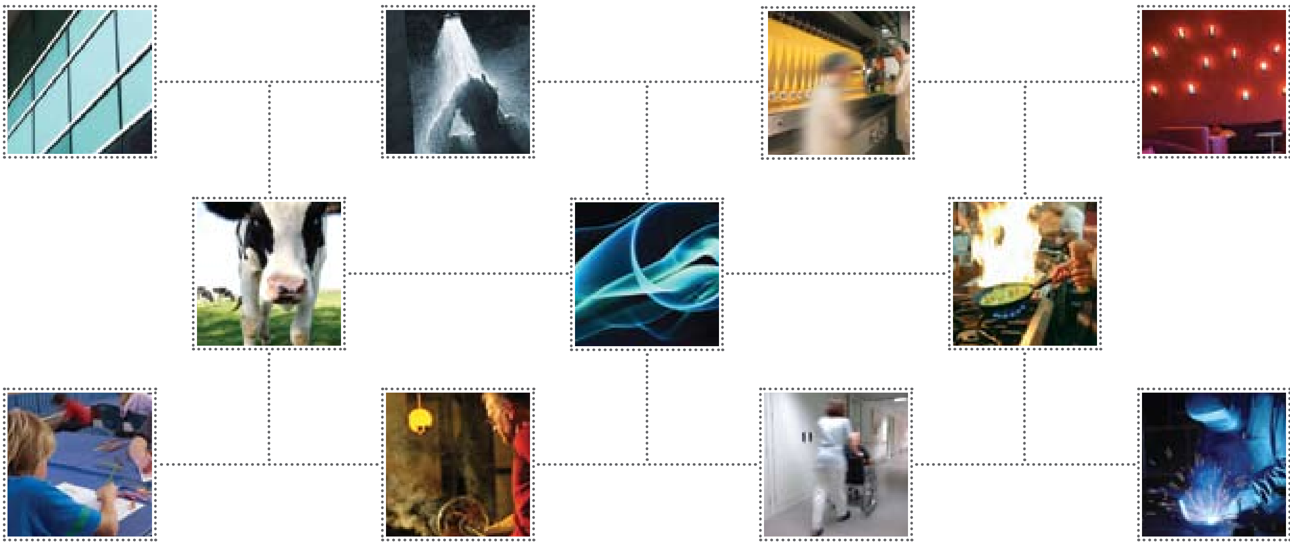
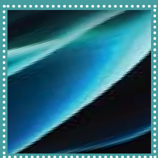


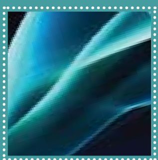
ANNUAL REPORT
2008–2009

GAS INDUSTRY COMPANY LIMITED



GPS
PRINCIPAL
OBJECTIVE

TO ENSURE THAT GAS IS DELIVERED TO EXISTING AND NEW CUSTOMERS IN A SAFE, EFFICIENT, FAIR, RELIABLE AND ENVIRONMENTALLY SUSTAINABLE MANNER.



CONTENTS

ABOUT GAS INDUSTRY CO

Gas Industry Co was formed to be the co-regulator under the Gas Act.

As such, its role is to:

- Recommend arrangements, including rules and regulations where appropriate, which improve:
  - the operation of gas markets
  - access to infrastructure, and
  - consumer outcomes
- Administer, oversee compliance with and review such arrangements; and
- Report regularly to the Minister of Energy on the performance and present state of the New Zealand gas industry, and the achievement of the Government's policy objectives for the gas sector.

Gas Industry Co's principal objective in recommending gas governance arrangements is to ensure gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner.

Rt Hon James B Bolger, ONZ
CHAIR

Robin G Hill
DEPUTY CHAIR

27 August 2009

Presented to the House of Representatives pursuant to section 43ZY of the Gas Act 1992, as amended by the Gas Amendment Act 2004.

1. CHAIR'S FOREWORD

When this Company was formed in December 2004, the gas industry was governed by codes that were variously outdated, inadequate, not supported by all industry participants, or that did not meet the needs of consumers.

Gas Industry Co was established to fulfil the role of the industry body under the Gas Act 1992 to develop, in conjunction with industry participants and other stakeholders, new market arrangements that meet the Government's policy objectives and outcomes for the gas sector. The principal objective is to ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable, and environmentally sustainable manner.

In seeking to provide targeted solutions to areas of identified market failure, Gas Industry Co has taken a building block approach. It has now received Ministerial approval for six gas governance arrangements. The focus of the past year has been on implementing these recommendations, with five service providers appointed and three IT systems developed. The industry now has fully operational arrangements for switching, downstream reconciliation, and gas processing, all supported by a compliance regime. Only detailed implementation work remains before the critical contingency management and the wholesale trading platform also go live. This is a significant achievement and the culmination of the market design work started by industry working groups in early 2005.

The implementation of these arrangements represents a major step change in governance for the New Zealand gas industry and signals a shift in focus for the Company – from pure market design to market services and administration. Cognisant of this, the Company completed a restructure of the organisation during the financial year to realign its capabilities with its evolving market services role.

Reflecting on the past five years, two aspects of the co-regulatory model stand out. The first is industry ownership and board composition. The co-regulatory model is a unique approach for utility industries in New Zealand. It stems from the Government's desire for industry involvement in developing new policy settings for the gas sector. A defining feature of Gas Industry Co is its corporate structure; Gas Industry Co is a private company whose shareholders are participants in the gas industry. However, the Company has powers and obligations under the Gas Act such that it does not exist for the benefit of its shareholders but for the industry as a whole. It must act as a 'good regulator', which essentially means that it must treat all industry participants in the same even-handed manner. Beneficially, the Company's corporate structure provides increased transparency, engagement and accountability over its regulatory counterparts. Moreover, a not-for-profit industry-owned entity is a logical vehicle that enables the industry to ensure market services remain efficient and 'right sized' going forward.

Another feature of the co-regulatory model is the Board composition. I believe that one of the model's great strengths is the participation of industry representatives on the Board. The non-independent directors' experience and expertise provide a litmus test for all gas governance proposals and ensure a true dialogue with industry on what I describe as the 'conversations that matter'. It is relevant to note that industry directors have a duty to act in the best interests of Gas Industry Co and to adhere to the Company's constitution, which in turn requires them to apply the objectives in the Gas Act. Balancing industry director participation is the role of the majority of independent directors. The Company has attracted and retained experienced independent directors of the highest calibre whose roles have been, and will continue to be, to underpin the success of the model.

The second standout aspect is the support and input received from the Government. In November 2008, the Board was able to thank the outgoing Minister, the Hon David Parker, for his contribution to and support of the co-regulatory model. Subsequently, the warrant for Gas Industry Co was passed in March 2009 to the Associate Minister of Energy and Resources, the Hon Pansy Wong, who has already begun an active dialogue with the Company on her strategic priorities for the gas sector.

As always, I am grateful to the Board for its important contribution during the year. I also thank Christine Southey and the staff at Gas Industry Co. They have proven over the past five years to be a dedicated, professional and highly competent team.

Finally, I would emphasise that important work remains to be done, principally in finalising the design of access to transmission pipelines but also in ensuring that operational arrangements remain efficient, effective and relevant. I look forward to continuing to work with both the industry and the Government to meet these commitments, and to ensure the continued success of the co-regulatory model.

Rt Honourable James B Bolger, ONZ
CHAIR

2. CHIEF EXECUTIVE'S REVIEW

It has been a busy year for Gas Industry Co, one that has focused on the implementation of five new gas governance arrangements:

» Gas (Processing Facilities Information Disclosure) Rules 2008 to enhance information about surplus capacity in gas processing facilities;

» Gas (Downstream Reconciliation) Rules 2008 to ensure more efficient and accurate reconciliation of gas in downstream markets;

» Gas (Switching Arrangements) Rules 2008 to improve customer switching arrangements between competing retailers;

» Gas Governance (Critical Contingency Management) Regulations 2008 to establish backstop contingency arrangements that will minimise costs to the economy during a gas contingency and maintain market confidence; and

» Gas Governance (Compliance) Regulations 2008 to provide confidence that approved arrangements will be adhered to by all industry participants.

Implementing these arrangements has required substantial engagement with the industry on detailed implementation issues, from appointing service providers to finalising detailed aspects of market design. I am conscious of the burden this places on participants; however, the resulting arrangements have benefited greatly from the industry knowledge and input of stakeholders. Further, I am confident our commitment to seeking a high degree of industry support will lead to enduring arrangements and greater levels of compliance over the longer term.

Though the implementation of the approved arrangements has proven very successful, it has also placed considerable pressure on the Company's operating budget. As such, an important focus for the Company over the past year has been on managing costs and ensuring that the new arrangements deliver value for money.

Total expenditure for the 2009 financial year was $7.79m. This increase in expenditure over previous years primarily reflects the $2.7m in establishment costs of the approved governance arrangements.

A key task for the Company is to seek a balance between the costs and benefits to industry participants of regulation. The downside is the prospect of increased costs, but the upside is industry 'buy-in' during the implementation of rules and regulations through the Company's inclusive approach that sees the industry assisting in the design of governance arrangements and providing input to the selection of service providers.

The Company acknowledges the effect on the industry of the implementation of a number of arrangements within a relatively short timeframe. This was a necessary consequence of the successive Government Policy Statements on Gas Governance that represented a 'call for action' on a number of long-standing industry issues. In responding to these Policy Statements, the Company has always focused on targeted solutions that recognise the size of the New Zealand gas market. Gas Industry Co is required to undertake an assessment of the costs and benefits associated with each proposal when making a recommendation to the Minister. As a general rule, a policy recommendation is made only when the benefits exceed the net present value of the costs. Therefore, the ongoing gas governance arrangements are expected to deliver cost savings. Figure 1 compares the costs against the expected benefits of three gas governance arrangements – switching, reconciliation and contingency management.

FIGURE 1

ACTUAL COSTS AND PROJECTED BENEFITS

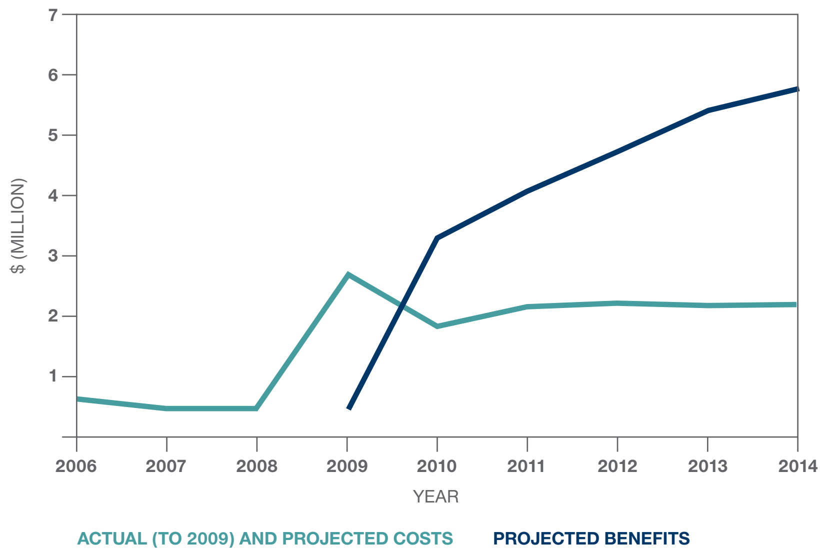


Figure 1 demonstrates that costs are accrued during lead time as market design work proceeds through options analysis, consultation, and recommendation to the Minister. In particular, I draw attention to the cost 'bubble' experienced over the past year in establishing these new arrangements – primarily the development of major IT platforms. When various rules and regulations are implemented, the costs start to be offset as the benefits begin to be realised.

It is important to remember that, while charges are being imposed, these arrangements bring substantial benefits over time. Gas Industry Co relies on savings estimates provided by industry participants, along with competition, to ensure those benefits flow on to consumers. It is relevant to highlight that the majority of these costs are not 'new' but are the result of a centralisation of those that the industry has been paying – either directly or indirectly – for years. Centralising these provides greater transparency for the industry, accountability for service providers, and ensures that costs fall appropriately on those who benefit from them.

Gas Industry Co has always set stretch targets for delivery against its objectives. However, progress towards these is often constrained by the complexity of the issues and the need to consult thoroughly with the industry. As well, providing cost/benefit analyses of all practicable options and engaging with an industry focused on day-to-day operations can limit the pace of activities. Ultimately, we believe we can achieve the right balance of initiatives that serve the needs of an efficient market, while also ensuring that consumer issues are addressed.

In the coming years, we will continue to consult and advise on issues of policy facing the industry, while also providing oversight of the operation of and compliance with governance arrangements implemented thus far.

Christine Southey
CHIEF EXECUTIVE

3. KEY EVENTS 2008/09

QUARTER 1

» M-co Ltd appointed as downstream allocation agent

» Gas processing information disclosures available on Gas Industry Co's website

» Jade Ltd appointed as registry service provider

» The Gas Governance (Compliance) Regulations came into effect 11 September 2008

» Current Issues for Domestic and Small Business Gas Consumers paper published

» Gas Industry Co's Annual Report 2008 published

QUARTER 2

» The Gas (Downstream Reconciliation) Rules arrangements went live as scheduled

» Vector appointed as Critical Contingency Operator

» The Gas Governance (Critical Contingency Management) Regulations came into effect

» Transmission Pipeline Balancing Options paper published

» Gas Industry Co's Constitution amended

QUARTER 3

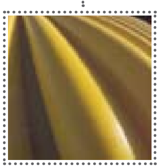
» The Gas (Switching Arrangements) Rules and central registry went live as scheduled

» Transfer of warrant to Associate Minister

» Transmission Interconnection Guidelines published

» Independent expert review of Vector's transmission capacity arrangements published

QUARTER 4



» NZX takeover of M-co and assignment of allocation agent and wholesale market service provider agreements

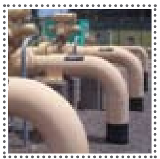
» Appointment of Rulings Panel by the Associate Minister of Energy and Resources

4. OPERATIONS REVIEW

4.1 OVERVIEW

This section describes the key activities and milestones for the 2008/09 year for each of Gas Industry Co's work streams. Where relevant, it shows how each work stream relates to the objectives and outcomes in the Gas Act 1992 and Government Policy Statement (GPS).

The following table sets out Gas Industry Co's work streams and shows how these relate to the Company's strategic priority areas.

STRATEGIC PRIORITIES		WORK STREAMS
IMPROVEMENTS TO THE RETAIL MARKET		Switching and registry Compliance and enforcement Downstream reconciliation
DEVELOPMENT OF WHOLESALE MARKET ARRANGEMENTS		Wholesale market Critical contingency management
REVIEW OF INFRASTRUCTURE ACCESS ARRANGEMENTS		Access to gas processing facilities Transmission access Pipeline balancing Upstream reconciliation Distribution contracts
EFFECTIVE OPERATION OF THE CO-REGULATORY MODEL		Corporate services Legal services Co-regulatory framework
OTHER GPS MATTERS		Advice on the direct use of gas Other advice on matters relating to the performance of the gas industry Consumer complaints scheme Retail contract terms and conditions

IMPROVEMENTS TO THE RETAIL MARKET

The primary discipline on retail prices is competition among retailers. A central focus for the Company since its inception has been the development of retail market systems to promote competition. This work came to fruition during the year with new governance arrangements for switching customers and the allocation of downstream gas quantities becoming operational.

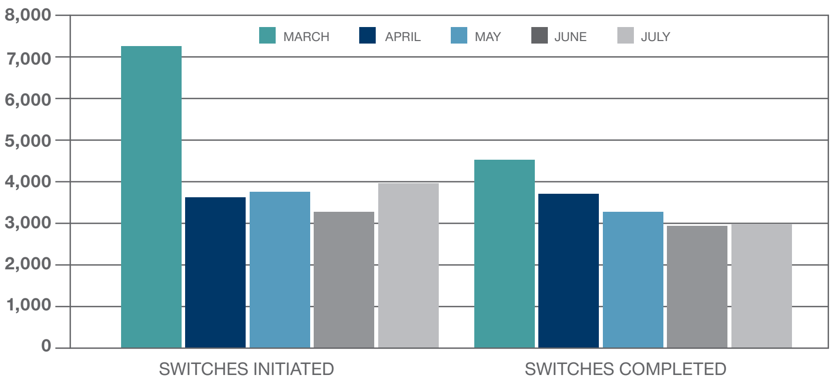
4.2 SWITCHING AND REGISTRY

In March 2008, the Gas (Switching Arrangements) Rules 2008 came into effect. These establish a central registry to hold ICP-related data and facilitate the customer-switching process by providing for timely and accurate exchange of information between retailers, distributors and meter owners.

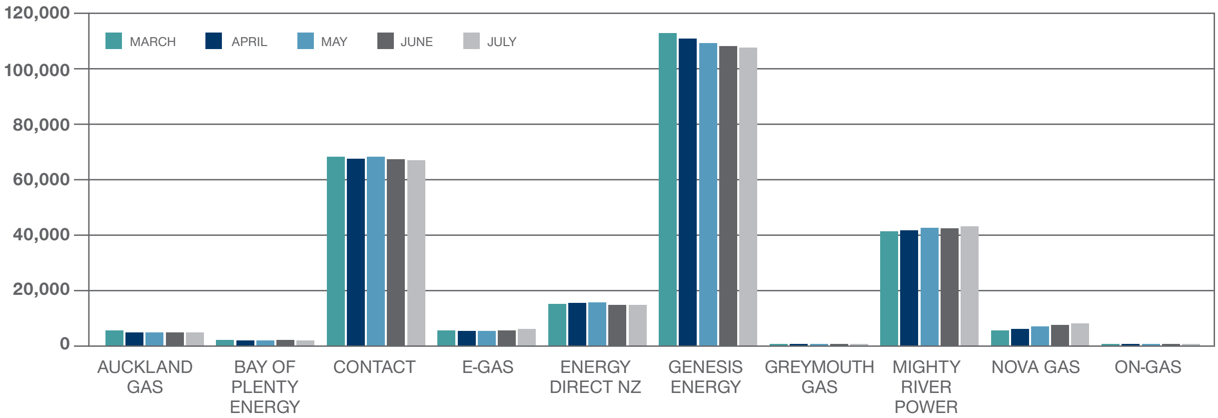
The central registry, which underpins the Switching Rules, went live as scheduled on 1 March 2009. Formal migration of data into the registry has occurred, and all major registry functions have been established and tested. Accordingly, the registry and the switching regime set out in the Switching Rules are now fully operational.

A key step in the implementation process was the appointment of Jade Software as the registry operator. A competitive process was conducted for this appointment based on the issue of an RFP, the evaluation of proposals by an industry panel, and the negotiation of agreements with the chosen respondent. The two agreements resulting from this process – an Operating Agreement and a Development and Establishment Agreement – were executed on 1 September 2008 and are available on Gas Industry Co's website, www.gasindustry.co.nz

NUMBER OF SWITCHES



RETAILER MARKET SHARES BY CUSTOMER NUMBERS



WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES	STATUS
Switching and Registry	Effective and efficient customer switching arrangements that minimise barriers to customer switching	Implement switching arrangements	Registry 'go live' by March 2009	Achieved

The completion of this work is significant for the industry. Efficient switching processes incentivise retailers to seek new customers – it is therefore expected that these new arrangements will significantly improve retail competition and the consumer's 'switch' experience.

4.3 COMPLIANCE AND ENFORCEMENT

In addition to developing gas governance arrangements, Gas Industry Co needs to have systems in place so that the new arrangements are complied with and can be enforced. To ensure that industry participants comply with approved arrangements, the Company has recommended an industry-specific compliance regime.

The Gas Governance (Compliance) Regulations 2008 came into effect on 11 September 2008. Their purpose is to provide for the monitoring and enforcement of the following arrangements:

» Gas (Switching Arrangements) Rules 2008;

» Gas (Processing Facilities Information Disclosure) Rules 2008;

» Gas (Downstream Reconciliation) Rules 2008; and

» Gas Governance (Critical Contingency Management) Regulations 2008.

The Compliance Regulations allow participants in the above gas governance arrangements, including service providers, Gas Industry Co, consumers, and other persons to allege breaches of the above rules or regulations. During the past year, the Company's focus has been on establishing the compliance regime and its associated operational systems and processes. A Market Administrator, Investigator, and a Rulings Panel have been appointed under the Regulations to undertake a range of functions in relation to alleged breaches as follows:

» The Market Administrator receives breach allegations, refers material allegations to the Investigator, and attempts to settle non-material allegations. The Market Administrator function is currently being undertaken by Gas Industry Co.

» The Investigator investigates allegations of material breaches (and unresolved non-material breaches referred by parties) and attempts to settle them. Jacquie Kean has been appointed as the Investigator.

» The Rulings Panel has jurisdiction to approve or reject settlements and determine breach allegations. Hon Sir John Hansen KNZM has been appointed as the Rulings Panel.

There were 115 alleged breach notices reported to the Market Administrator during the past financial year, 50 of those relating to the Switching Rules and 65 to the Reconciliation Rules. There were no reported alleged breaches in respect of the Critical Contingency Regulations – which are in force but are yet to go live – and the Information Disclosure Rules. Of the breach notices considered by the market administrator, 19 have been deemed to raise a material issue and referred for investigation.

All compliance determinations are available on Gas Industry Co's website, www.gasindustry.co.nz

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES	STATUS
Compliance and Enforcement	Gas governance arrangements are supported by appropriate compliance and dispute resolution processes	Implement compliance arrangements	Compliance regime 'go live' by 1 October 2008	Achieved
		Amend compliance regime	As required, regime amended to support new gas governance arrangements	Achieved

4.4 DOWNSTREAM RECONCILIATION

The Gas (Downstream Reconciliation) Rules 2008 were approved by the Minister in May 2008 with a 'go-live' date of 1 October 2008. The tight timetable was the consequence of a deliberate commitment to begin operations at the start of the forthcoming gas year, ie 1 October 2008. The Company anticipated that meeting this timetable would require extensive transitional exemptions. However, this enabled the benefits of the Reconciliation Rules – more accurate, reliable, and appropriate allocations of gas and the addressing of excessive UFG – to immediately be gained by the industry.

The Reconciliation Rules require allocations to be performed by an independent allocation agent. A competitive process was carried out with the selection recommended by an industry panel convened by Gas Industry Co. M-co was appointed and a service provider agreement signed on 3 September 2008. A Deed of Novation was signed with NZX on 4 June 2008 amending this agreement following its purchase of M-co. The functions of the allocation agent needed to be supported by an IT platform, called the allocation system. The system was initially based on the very similar system in place for electricity, but significant changes needed to be made to adapt it to the requirements of the Reconciliation Rules and the industry. Implementation of the Reconciliation Rules also involved the Company assisting with preparatory work by the industry, developing a range of determinations and guideline documents for the practical operation of the Reconciliation Rules, and granting 18 exemptions to deal with transitional and 'special case' issues. Exemptions have all been granted on a time-limited basis to enable underlying issues to be further investigated before moving to a permanent solution.

The first monthly allocation occurred as planned in November 2008 and successive allocations throughout the remainder of the financial year have shown the Reconciliation Rules to be operating effectively and efficiently. Overall, the project has been very successful.

Underestimation of the development and establishment cost, however, resulted in a funding shortfall for Gas Industry Co.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES	STATUS
Downstream Reconciliation	Accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities	Implement new rules	Arrangements 'go live' by October 2008	Achieved

DEVELOPMENT OF WHOLESALE MARKET ARRANGEMENTS

This strategic priority includes the following work streams:

» Wholesale Market Trading Platform; and

» Critical Contingency Management.

4.5 WHOLESALE MARKET

The Government is seeking more 'efficient arrangements for the short-term trading of gas'. To meet the requirement of the GPS task, Gas Industry Co is proposing a simple electronic platform to match buyers and sellers of gas.

Gas Industry Co published a standard short-term trading contract in April 2007 and recommended the development of a simple matching platform on a trial basis. The Minister of Energy endorsed the Company's approach in his letter dated December 2007:

I endorse your plan to commission, on a trial basis and subject to a minimum number of users, the electronic matching platform proposed. It is understood this will facilitate industry participants and Gas Industry Co working through outstanding issues and refining aspects of the platform's functional specification and governance architecture, as proves necessary to meet the government's objectives in this area, prior to a final recommendation being made.

In August 2007, M-co was selected as the service provider for the trading platform. Governance documents for trading on the market were prepared in 2008 as well as development of the operational aspects of the market in order for the market trial to go ahead in 2009.

Gas Industry Co has experienced some setbacks in designing this market. It has modified its approach and now proposes that it will:

» Be the welded party for two non-physical welded points that would comprise the trading hub;

» Provide each trader with information on its assessment of that trader's net traded quantity (TQ) each day;

» Buy from, or sell to, the pipeline any quantities of gas required to balance the trading hub each day; and

» Identify the trader or traders whose nominations differed from their net TQ and cash them out for any differences.

To implement this solution, MDL is currently working on an MPOC change request that will extend the definition of welded points so as to encompass non-physical points and facilitate the creation of the trading hub. An evaluation of the effectiveness of the trial market will take place six to nine months after its inception. Following that review, a formal recommendation will be made to the Minister of Energy and Resources about whether it should be continued. The Company will be taking a hands-on role during the trial.

Whether or not the market trial proceeds is dependent upon shippers supporting Gas Industry Co's proposed MPOC change request and the willingness of traders to support a voluntary, contract-based market.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES	STATUS
Wholesale Market	Efficient arrangements for the short-term trading of gas	Administer, monitor and evaluate wholesale market platform	Report to the Minister on the outcomes of 'trial' market within 12 months of platform commencement	Not Applicable – Trial delayed

4.6 CRITICAL CONTINGENCY MANAGEMENT

Historically, the management of contingency situations has been by way of an industry plan, the National Gas Outage Contingency Plan (NGOCP). However, with the greater number of players now in the industry and more diverse ownership, the lack of commercial imperatives in the plan meant that not all parties were willing to support it.

In recognition of industry dissatisfaction with existing voluntary arrangements, and in line with the GPS requirement for sound arrangements for the management of critical gas contingencies, Gas Industry Co has developed regulations for critical contingency management. The purpose of the 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 Gas Governance (Critical Contingency Management) Regulations 2008 came into effect in December 2008. Under the regulations, Gas Industry Co is required to appoint a Critical Contingency Operator (CCO). Vector Gas Limited was appointed by Gas Industry Co as CCO on 28 November 2008. A copy of the service provider agreement is available on the Company's website, www.gasindustry.co.nz

The regulations also aim to preserve industry capability and flexibility to ensure the right people manage critical contingency situations. Thus, Transmission System Owners (TSOs) are required to prepare and publish plans describing how they will manage such events. Before the new arrangements 'go live', Vector and Maui Development Limited (MDL) are each required to have their Critical Contingency Management Plans (CCMPs) approved by Gas Industry Co. During the second half of 2008, the Company put considerable effort into assisting TSOs to prepare for this, including preparation of a skeleton plan that TSOs could use as a template and convening two working groups, the Contingency Management Implementation Group and the Contingency Imbalance sub-group.

It was envisaged that 'go live' would be achieved in the second quarter of the 2009 calendar year. However, both TSOs have found it challenging to finalise plans that adequately address the matters required by the Regulations. Gas Industry Co is currently working with TSOs to address these implementation issues. The arrangements go live on the fifth business day after Gas Industry Co publishes a statement in the New Zealand Gazette that it has approved CCMPs for all of the transmission systems. The Company anticipates the new arrangements being fully operational by the second quarter of the next financial year.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES	STATUS
Critical Contingency Management	Sound arrangements for the management of critical gas contingencies	Implement critical contingency management regulations	Appoint Critical Contingency Operator by January 2009	Achieved
			New arrangements 'go live' by March 2009	Not Achieved

REVIEW OF INFRASTRUCTURE ACCESS ARRANGEMENTS

This strategic priority includes the following work streams:

» Access to Gas Processing Facilities;

» Transmission Access;

» Pipeline Balancing;

» Upstream Reconciliation; and

» Distribution Contracts.

4.7 ACCESS TO GAS PROCESSING FACILITIES

In June 2008, the Gas (Processing Facilities Information Disclosure) Rules 2008 came into effect. They ensure mandatory disclosure of information about surplus capacity in processing facilities and third-party access. The purpose of disclosure is to facilitate the market discovery process and identify inefficiency in the current arrangements.

Over the past year, information supplied about surplus capacity under the new rules has been collated and published on Gas Industry Co's website. The Company is pleased to report that it has achieved full compliance with the new disclosure obligations. Copies of the disclosures are available on the Company website, www.gasindustry.co.nz This information will enable the Company to report to the Minister on any access constraints and whether more extensive regulation is necessary.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES	STATUS
Access to Gas Processing Facilities	Gas industry participants and new entrants are able to access third-party gas processing facilities on reasonable terms and conditions	Collect and monitor disclosed information	Publish collated information by August 2008	Achieved

4.8 TRANSMISSION ACCESS

The purpose of this work stream is to ensure that shippers and new entrants are able to access New Zealand's two transmission systems on reasonable terms and conditions.

As noted in last year's Annual Report, Gas Industry Co has changed its approach to transmission access regulations from a generic framework solution to a targeted incremental approach to identified problem areas. The Minister of Energy endorsed this approach in a letter dated 7 August 2008:

It is unfortunate that the framework approach Gas Industry Co had proposed for regulating transmission access and other related issues has not proven feasible. [However] I am encouraged that Gas Industry Co is planning to make progress on these important areas through discrete work streams. Given the urgency of some of these issues, I would encourage Gas Industry Co to press ahead with the interconnection, balancing and capacity work streams.

Interconnection

Gas Industry Co's 2006 review of transmission access issues identified a number of concerns relating to interconnection with transmission pipelines. Subsequent discussions between Gas Industry Co and interconnecting parties suggest that:

» Interconnection processes are poorly defined;

» Technical requirements for interconnection equipment have been changed during the course of projects;

» Roles and responsibilities have been confusing; and

» Liability/insurance matters have not been addressed until late in the process.

The objective of the interconnection work stream is to ensure that the arrangements for interconnection with transmission pipelines are reasonable. As the industry body under the Gas Act, Gas Industry Co may, if necessary, recommend the introduction of rules or regulations to achieve the objectives of the Gas Act and the GPS.

During the past year, Gas Industry Co has developed Interconnection Guidelines that set out its view on the features of good interconnection practice. Although these guidelines have no legal standing, Gas Industry Co intends that TSOs should use them to develop their interconnection services. It is also intended that parties seeking interconnection use them as a guide to the principles, processes, documentation and dispute arrangements that might apply.

Gas Industry Co will monitor the interconnection services provided by pipeline owners. If these services do not meet the requirements of the Gas Act and GPS, Gas Industry Co will consider other options for improvement, including recommending rules or regulations to the Minister. An initial review will be conducted in September 2009.

Vector short-term capacity

Gas Industry Co also identified access to short-term capacity on the Vector pipeline as an issue in its 2006 Transmission Access Issues Review paper. In submissions on the paper, all but one submitter considered that the lack of 'reasonably priced' short-term capacity was a problem and various suggestions were made as to how the situation could be improved.

The 2007 Vector Transmission Code (VTC) development process did not tackle the issue, but Vector and its shippers scheduled it for further discussion, possibly during the 2009 VTC review. The specific objective of this project is to stimulate the debate between Vector and its shippers by providing an independent expert review of Vector's capacity arrangements. Gas Industry Co published an independent expert review of Vector's capacity arrangements in February 2009. Gas Industry Co intends to monitor this matter.

MPOC and VTC changes

Gas Industry Co has accepted 'market services' roles under two industry agreements: in making change requests to the Maui Pipeline Operating Code (MPOC); and, in making recommendations on appeals against rule change requests under the Vector Transmission Code. During the financial year, Gas Industry Co received four MPOC change requests. The Company has made a final recommendation with regard to two of these. It has also completed one final and one draft recommendation on three VTC appeals.

The past year has highlighted that though Gas Industry Co's role in these industry-based arrangements can be time-consuming and costly, it is highly valued by stakeholders.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES	STATUS
Transmission Access	Gas industry participants and new entrants are able to access transmission pipelines on reasonable terms and conditions	Prepare further Statement of Proposal on new access regulations	Release further Statement of Proposal by December 2008	Achieved
		Prepare recommendation on access regulations	Recommendation to Minister by 30 April 2009	Not Applicable

4.9 PIPELINE BALANCING

Until recently, the balance between unplanned supply and demand variations in the pipeline network was addressed through the Maui production station either increasing or decreasing production. This legacy arrangement is being progressively phased out and a more market-oriented balancing function is evolving. The objective of this work stream is to ensure that transmission pipeline balancing arrangements allow for the safe, efficient and reliable delivery of gas.

In April 2008, Gas Industry Co released a Research Paper on Transmission Balancing that described transmission balancing arrangements in New Zealand and measured them against the guidelines for best practice in Europe. With the help of an industry advisory group, an Issues Paper was developed that further analysed the shortcomings of current balancing arrangements and identified a number of market failures. Gas Industry Co released this paper for consultation in August 2008.

In December 2008, Gas Industry Co issued a further consultation paper titled Transmission Pipeline Balancing Options. This identified and assessed reasonably practicable options for providing effective transmission pipeline balancing arrangements. It proposed that Gas Industry Co takes the lead in improving balancing arrangements, in particular by:

» Recommending the appointment of an independent Balancing Agent;

» Commissioning an independent expert review of tolerances applicable under the MPOC;

» Developing daily allocation options to lessen the risks for mass market retailers; and

» Developing options for extended nominations.

The Company has received and analysed submissions on this paper and envisages making a recommendation to the Minister of Energy and Resources by December 2009 on how effective transmission pipeline balancing should be achieved.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES	STATUS
Pipeline Balancing	Gas industry participants and new entrants are able to access transmission pipelines on reasonable terms and conditions	Review balancing operations on Vector and Maui pipelines and develop practicable options for identified issues	Release consultation paper by October 2008	Achieved

4.10 UPSTREAM RECONCILIATION

Upstream reconciliation is the name given to the process of transferring legal title, or ownership, to a tranche of gas. The objective of the work stream is to consider whether the arrangements for upstream reconciliation/title tracking are fair and efficient and, if not, to recommend alternative arrangements.

This work stream is on hold as it is closely linked to the development of the balancing work stream. Once the direction for balancing is better known, it will be possible to develop the upstream reconciliation/title tracking project with greater certainty.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES	STATUS
Upstream Reconciliation	Accurate, efficient and timely arrangements for the allocation and reconciliation of upstream gas quantities	Review issues	Release issues paper by November 2008	Not Achieved

4.11 DISTRIBUTION CONTRACTS

The purpose of this work stream is to identify issues where distribution sector arrangements are causing outcomes that are inconsistent with those sought under the Gas Act and the GPS, and to develop a range of options that address identified shortcomings. This could include prescribing reasonable terms and conditions of access to distribution pipelines, providing for information disclosure, or facilitating pan-industry agreement on relevant issues.

Gas Industry Co is committed to minimising any regulatory duplication or overlap and has concluded that it would be inefficient to investigate and recommend terms and conditions for access to distribution pipelines until the nature of the gas control regime administered by the Commerce Commission is clearer. As such, this work stream has been deferred. It is now anticipated that a consultation paper on any identified issues surrounding distribution contracts will be issued in September 2010.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES	STATUS
Distribution Contracts	Gas industry participants and new entrants are able to access distribution pipelines on reasonable terms and conditions Consistent standards and protocols apply to the operations relating to access to all distribution pipelines	Prepare recommendation on distribution contract arrangements	Release issues paper on distribution contracts by September 2008 Release statement of proposal on distribution contracts by April 2009 if required Recommendation to Minister on distribution contracts by December 2009	Not Achieved

EFFECTIVE OPERATION OF THE CO-REGULATORY MODEL

This strategic priority includes the following work streams:

» Compliance and Enforcement; and

» Corporate Services, Legal Services and Co-Regulatory Framework.

4.12 CORPORATE, LEGAL SERVICES AND CO-REGULATORY FRAMEWORK

These work streams encompass Gas Industry Co's statutory reporting requirements and the 'back office' functions of the Company. Reflecting the changing nature of Gas Industry Co's activities, the Company completed a restructure during the year to ensure it was aligned with its increasing market services role and to reduce costs. In conjunction with this review, a particular focus for the corporate team over the past year has been bedding down detailed project reporting and management practices to support the effective financial management of the operational gas governance arrangements.

Previously, the Legal Services work stream provided internal legal advice for all work streams and other corporate requirements, and company secretarial services to the organisation. However, as a result of the restructure, this was disestablished as a standalone work stream. All legal work is now directly allocated to work streams. This provides increased transparency and accountably as individual work streams can now be fully costed.

During the year, the Company also reviewed and amended its constitution. On 30 September 2008, the shareholders of Gas Industry Co passed a resolution approving the amendments, which have been incorporated into the constitution. The purpose of the amendments was to remove ambiguity, clarify intents and improve the operation of certain procedures covered by the constitution. In particular, the clauses relating to the procedures for the appointment of directors have been reviewed in response to a shareholder's request at the Company's 2007 Annual Meeting.

A copy of the amended constitution is available on the Company's website, www.gasindustry.co.nz

The Co-Regulatory Framework work stream is the Company's response to ensuring it constantly reviews its processes to ensure their efficiency, internal consistency, and compliance with best regulatory practice. During the year, the Company has expanded on its policy development process published in late 2007, with guidelines for the management of proposed changes to gas governance rules and regulations. Further, given the underestimation of establishment costs for the new downstream reconciliation arrangements, the Company initiated both an internal and external (conducted by PricewaterhouseCoopers) review of the project. The 'lessons learned' and recommendations from these two reviews have also been incorporated into the Company's processes.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES	STATUS
Corporate Services	Compliance with accountability framework set out in the Act, GPS and the Companies Act	Prepare Quarterly Reports to Minister on performance and achievement of objectives	Provide Quarterly Reports within 60 days of the end of each quarter	Achieved
		Develop and consult on 2009/10 Levy	Recommendation on 2009/10 Levy to the Minister by 31 March 2009	Achieved
		Prepare 2007/08 Annual Report	Deliver to the Minister and shareholders by September 2008	Achieved
		AGM	Hold AGM by 31 December 2008	Achieved
		Prepare 2010 – 2012 Strategic Plan	Deliver to the Minister by May 2009	Achieved
Legal Services	Compliance with accountability framework set out in the Act, GPS, the Companies Act and the Company's constitution	Provide legal advice	As required, provide advice to Gas Industry Co	Achieved
		Review the Company's constitution	Implement any agreed changes by December 2008	Achieved
Co-Regulatory Framework	Comply with Gas Act processes	Develop a general framework for policy development (including approach to cost benefit, cost allocation and consultation)	Publish framework by December 2008	Achieved
		Develop guidelines for annual levy	Publish guidelines by December 2008	Not Achieved

OTHER GPS MATTERS

4.13 STRATEGIC ISSUES

Gas Industry Co's 2009 -11 Strategic Plan established a new work stream to encompass all the activities the Company undertakes in relation to strategic issues for the industry. It is obliged to provide advice to the Minister of Energy and Resources on:

» The performance and present state of the gas industry; and

» Any other matters Gas Industry Co thinks fit or that the Minister requests in writing.

The 2008 GPS tasks Gas Industry Co with providing advice to the Government on the extent to which the direct use of gas will mitigate greenhouse gas emissions and the likely cost of implementing those policies. The key focus of the direct use of gas study is to establish, at an economy-wide level, whether direct use of gas will be of net benefit to New Zealand, taking into account (but not limited to) greenhouse gas emissions, and the full supply-chain costs of gas and its alternatives. A key output will be an appraisal of whether current market and policy settings are delivering an optimal fuel mix for end-use applications, particularly with respect to the levels of direct use of gas. Cognisant that the new Government is currently reviewing the wider energy policy framework – including the New Zealand Energy Strategy – Gas Industry Co has commenced this work and will report to the Associate Minister during FY2010.

In regard to Gas Industry Co's general obligation to report to the Minister on the performance of the gas industry and the achievement of Government policy objectives for the sector, the Company will primarily focus its efforts on measuring the performance of approved gas governance arrangements. As five gas governance arrangements are now operational, the Company anticipates presenting the first of these performance indicators to the Minister in the next financial year.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES	STATUS
Strategic Issues	Good information is publicly available on the performance and present state of the gas sector	Update baseline report and give advice on any other matters requested by the Minister	Deliver by a date agreed with the Minister (depends on implementation of new arrangements)	Not Applicable
	Provide advice on the extent to which policies to enhance the direct use of gas will mitigate greenhouse gas emissions and the likely costs of implementing those policies	Research issues relating to the direct use of gas and provide advice on suitable policies	Provide advice to the Minister by December 2009	On Track

4.14 IMPROVING CONSUMER OUTCOMES

The emphasis of government policy for the energy sector is on enhancing competition as the principal means of providing benefits to consumers. There is an expectation that consumers will benefit over the long term from the market development work undertaken by Gas Industry Co. However, the Gas Act includes a number of other mechanisms targeted specifically at improving consumer outcomes. The possible existence of weak competition, unequal bargaining power and asymmetry of information can, individually or in combination, prompt the need to intervene to protect consumer interests.

A key Government expectation from the co-regulatory model's inception was that it would deliver improved outcomes for gas consumers. Gas Industry Co has two work streams focused on issues of particular importance to consumers: ensuring consumers have access to an effective complaints resolution system; and a review of general consumer outcomes.

Consumer complaints

A significant focus for Gas Industry Co over the last year has been working with the Electricity Commission on a joint governance approach to approval and monitoring of a single multi-fuel complaints resolution scheme.

At the February 2009 meeting, the Gas Industry Co Board agreed to the selection of the Electricity and Gas Complaints Commission (EGCC) as the preferred applicant for a single, dual-fuel consumer complaints scheme for approval under the Gas Act. This selection followed the consideration of a report prepared by an evaluation panel jointly appointed by the Electricity Commission and Gas Industry Co. However, the selection of the EGCC as the preferred applicant was conditional upon changes being made to the EGCC constitution. A general meeting of the EGCC failed to pass the proposed changes.

Gas Industry Co is continuing to work with the Electricity Commission and all stakeholders to swiftly progress these issues and, most importantly, to ensure all gas customers have access to an effective complaints resolution service.

Review of current consumer issues

Since its inception in 2004, Gas Industry Co has undertaken a significant body of work aimed at addressing consumer issues. These work streams have largely been progressed as discrete projects and, though some have been completed, others are less well-advanced and progress has been slower than expected, particularly on matters relying on industry agreement. In August 2008, the Company released a discussion paper, *Current Issues for Domestic and Small Business Gas Consumers*, which reviewed the entire consumer issues-focused work undertaken to date. This project especially builds on work previously carried out on retail model contracts, connections and disconnections, and assessing the performance of gas markets.

This review was designed to capture and update the work Gas Industry Co has previously performed in relation to consumer outcomes while taking a broad view of the issues of importance to consumers and doing this through a principles-based approach. The key objective of the work is to create a platform for moving forward on addressing consumer issues in the gas sector.

Submissions on the paper highlighted broad agreement with the set of 18 'consumer expectations' presented that applied in the three relationship phases of most importance to consumers: 'making a choice'; 'business as usual'; and 'dealing with problems'. Gas Industry Co is currently developing an options paper for new gas governance arrangements for retail contract terms and conditions, including connections and disconnections. This will be consulted on in the next financial year.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES	STATUS
Improving Consumer Outcomes	Domestic and small business gas consumers have effective access to a complaints resolution scheme	Work with the Electricity Commission to recommend a scheme to the Minister	Recommendation to the Minister by December 2008	Not Achieved
	Contractual arrangements adequately protect the long-term interests of domestic and small business consumers The respective roles of gas metering, pipeline, and gas retail participants are able to be clearly understood	Analyse whether the current arrangements are meeting gas consumers' needs and propose policy solutions	New arrangements recommended by June 2009	Not Achieved

5. GAS INDUSTRY CO: ROLE, OBJECTIVE AND GOVERNANCE

5.1 ROLE OF ASSOCIATE MINISTER AND COMPANY

The warrant for oversight of co-regulatory activities by the Company was passed to the Associate Minister of Energy and Resources, the Hon Pansy Wong, in March 2009.

Gas Industry Co was formed to be the co-regulator under the Gas Act. As such, its role is to:

» Recommend to the Associate Minister of Energy and Resources arrangements, including rules and regulations where appropriate, which improve:
  - the operation of gas markets
  - access to infrastructure, and
  - consumer outcomes

» Administer, oversee compliance with, and review such arrangements; and

» Report regularly to the Associate Minister of Energy and Resources on the performance and present state of the New Zealand gas industry, and the achievement of the Government's policy objectives for the gas sector.

Gas Industry Co's principal objective, in recommending gas governance arrangements to the Associate Minister of Energy and Resources, is to ensure gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner.

GAS INDUSTRY CO SHAREHOLDERS (AS AT 30 SEPTEMBER 2009)
Contact Energy Limited
Genesis Power Limited
Mighty River Power Limited
Powerco Limited
Vector Limited
Greymouth Gas New Zealand Limited
Shell (Petroleum Mining) Limited
OMV New Zealand Limited

5.2 COMPANY SHAREHOLDERS

Gas Industry Co encourages all industry participants to become shareholders in the Company. Every 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.

Gas Industry Co's shareholders are listed in the table alongside. One of the Company's major strengths is the diversity of its shareholders across all sectors of the gas industry – production, transmission, distribution, wholesaling, retailing, and consumption.

During the year there was one change to the shareholding of Gas Industry Co, with Wanganui Gas Limited redeeming its shareholding in June 2009.

5.3 BOARD OF DIRECTORS

The Board of Gas Industry Co meets each month to consider operational reports and recommendations from Gas Industry Co's executive. The Board is a mix of independent and non-independent directors appointed by shareholders. The company's constitution limits the Board to no more than seven directors, four of whom (including the Chair) must be independent of the gas industry. The number of independent directors voting must exceed the number of non-independent directors voting on the same matter.

At every annual meeting, the Company's constitution requires that at least two directors must retire from office. At the Company's annual meeting in October 2008, in accordance with the Rotation of Director provisions of Gas Industry Co's Constitution, Deputy Chair Robin Hill and Director Mark Verbiest retired as independent directors and were duly re-elected.

One non-independent director position had arisen after the resignation of Murray Jackson on 29 August 2008. The Company received three nominations for the position from shareholders within the timeframe required by the Constitution. However, no candidate achieved a shareholder majority vote in the poll at the annual meeting and that meeting was adjourned. At a special meeting of shareholders on 14 November 2008, Albert Brantley received a shareholder majority vote and was therefore deemed elected as a non-independent director.

Entries in the interests register

At its 29 April 2008 meeting, the Board noted Mark Verbiest's appointment as Chair of the Electricity Transmission Pricing Methodology Working Group (notwithstanding the absence of a transaction or formal relationship with the Company).

At its 31 October 2008 meeting, the Board approved the appointment of Vector Limited as the Critical Contingency Operator. Simon Mackenzie was absent from discussion on that decision and the Board was aware of Mr Mackenzie's ongoing disclosure of an interest arising from his position as Group Chief Executive for Vector Limited.

BOARD OF DIRECTORS

RT HON JAMES (JIM) B BOLGER
ONZ

CHAIR AND INDEPENDENT DIRECTOR

Jim Bolger has had a distinguished career in politics that includes being Prime Minister of New Zealand from October 1990 to December 1997, holding ministerial positions for 16 years, and leading the New Zealand National Party for 12 years. He was New Zealand's Ambassador to the United States from June 1998 to January 2002 and is chairman of several organisations in addition to Gas Industry Co. These include New Zealand Post Limited and its subsidiary Kiwibank, Express Couriers Limited, the Advisory Board of the World Agricultural Forum, Trustees Executors Limited, and the Ian Axford Fellowships in Public Policy. He is also a trustee of the Rutherford Trust, President of the NZ/US Council, a patron of the Institute of Rural Health, and Chancellor of the University of Waikato.

ROBIN G HILL
B COMM, FCA

DEPUTY CHAIR AND INDEPENDENT DIRECTOR

Robin Hill has an extensive background in financial and business management. He was Chairman and Chief Executive of PricewaterhouseCoopers New Zealand from 1992 to 2003. He was also a member of the firm's Global Board from 1992 to 1995 and its Executive Advisory Group from 1999 to 2000. Robin has provided a wide range of advisory services to a number of large corporations including several energy companies. He is a director of the Public Trust.

KEITH DAVIS
PGDIPBUS

INDEPENDENT DIRECTOR

Keith Davis has extensive experience in the information technology, telecommunications and venture-funding industries, and has held senior management roles with McDonnell Douglas, Compaq Computers, and BellSouth. He has worked in several countries including the United Kingdom, South Africa, Singapore, Japan and, more recently, Australia. Keith was Chairman of the Electricity Retailers' Forum during deregulation of the industry. He was also a director of Prime Television Limited.

MARK J VERBIEST
LLB

INDEPENDENT DIRECTOR

Mark Verbiest has extensive experience of regulatory structures and competition law, as well as involvement in the energy sector. He is a director of AMP Haumi Management Limited, the manager of AMP NZ Office Trust. He is also a director of Southern Cross Medical Care Society, a Trustee of Southern Cross Health Trust, Chairman of software company Aptimize Limited, and a consultant to Simpson Grierson. Until 30 June 2008, he was Group General Counsel for Telecom Corporation of New Zealand Limited and a member of the Telecom Senior Executive Committee. Before joining Telecom in 2000, Mark was a senior partner at Simpson Grierson specialising in corporate, securities, competition, and energy-related law.

DAVID BALDWIN
MBA, BE (CHEMICAL)

NON-INDEPENDENT DIRECTOR

David Baldwin was appointed Chief Executive of Contact Energy Limited in May 2006. Before that, he was based in Asia and the United States, overseeing the energy asset interests of a US-based investment fund. He has held senior roles in Asia and the US with Mid-American Energy Holdings Company, a US-based global energy company, and with Shell in New Zealand and The Netherlands.

ALBERT BRANTLEY
BSC, P GEOL, F AUSIMM

NON-INDEPENDENT DIRECTOR

Albert Brantley is Chief Executive of Genesis Energy. He also serves as Chairman of the Genesis Oncology Trust and Chairman of Energy Online.

Albert's background has largely been in heavy industry, including oil and gas infrastructure development as well as the mining and power sectors. He has had more than 35 years' experience in New Zealand and internationally in technical, operational and senior management positions, concentrated particularly in the power industry over the past decade. He has had considerable experience in leading businesses requiring political, regulatory and environmental management, both in New Zealand and overseas.

SIMON MACKENZIE
GRAD DIP BS (DIST), DIP FIN, NZCE

NON-INDEPENDENT DIRECTOR

Simon Mackenzie is Group Chief Executive for Vector and has extensive experience in the energy sector including the areas of strategy, regulation, network management, information technology, and the energy market and telecommunications. During his time at Vector, Simon has been heavily involved in many of the industry reforms, both at a policy and a business level. He also has experience in construction and consultancy environments in New Zealand and offshore. He was previously chief operating officer with Vector. This role incorporated the strategy, regulation, pricing and performance areas as well as responsibility for the core operating divisions of electricity, gas and a number of subsidiary companies.

5.4 EXECUTIVE

Gas Industry Co has a small senior management team that works closely with expert external advisers and industry project teams to deliver on the Company's work programme.

CHRISTINE SOUTHEY
LLB BA (HONS)

CHIEF EXECUTIVE

Christine Southey oversees the overall delivery of Gas Industry Co's work programme.

IAN DEMPSTER
BE (HONS) M COM (HONS)

PRINCIPAL ADVISER – MARKETS

Ian Dempster's responsibilities include the management of the switching, reconciliation, critical contingency arrangements, wholesale market design and compliance arrangements.

IAN WILSON
BSC (HONS) BBS MNZIGE

PRINCIPAL ADVISER – PIPELINES

Ian Wilson's work is mainly concerned with regulation of access to essential gas infrastructure – transmission and distribution pipelines and gas processing plants.

PETER DAVIES
BBS MBA CA

GENERAL MANAGER – CORPORATE SERVICES

Peter Davies manages Gas Industry Co's corporate functions: Finance, HR, IT, Property, Communications, Legal, and Administration.

5.5 INDUSTRY WORKING GROUPS

Gas Industry Co has made extensive use of industry advisory and working groups over the past year. Industry participants have been particularly involved in detailed establishment planning for the new governance arrangements. This has included industry participation in the selection process for the two major IT platform developments. Advisory and working groups have included:

» The Transmission Pipeline Balancing Advisory Group;

» The Contingency Management Implementation Group;

» The Contingency Imbalance Sub Group;

» The Registry Implementation Forum; and

» The Retail Gas Governance Forum.

6. GOVERNMENT POLICY STATEMENT ON GAS GOVERNANCE – APRIL 2008

PRINCIPAL OBJECTIVE

To ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner.

OBJECTIVES

The 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	Energy and other resources used to deliver gas to consumers are used efficiently	Barriers to competition in the gas industry are minimised	Incentives for investment in gas processing facilities, transmission and distribution, energy efficiency and demand-side management are maintained or enhanced	The full costs of producing and transporting gas are signalled to consumers	Delivered gas costs and prices are subject to sustained downward pressure
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	The quality of gas services where those services include a trade-off between quality and price, as far as possible, reflects customers' preferences	Risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties	Consistency with Government's gas safety regime is maintained	The gas sector contributes to achieving the Government's climate change objectives as set out in the NZES, by minimising gas losses and promoting demand-side management and energy efficiency	

SPECIFIC OUTCOMES

All small gas consumers have effective access to a complaints resolution system	Contractual arrangements between gas retailers and small consumers adequately protect the long-term interests of small consumers	Effective and efficient customer switching arrangements that minimise barriers to customer switching	Accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities	An efficient market structure for the provision of gas metering, pipeline and energy services	The respective roles of gas metering, pipeline and gas retail participants are able to be clearly understood
Efficient arrangements for the short-term trading of gas	Accurate, efficient and timely arrangements for the allocation and reconciliation of upstream gas quantities	Access to: – third party gas processing facilities; – transmission pipelines; and – distribution pipelines on reasonable terms and conditions	Consistent standards and protocols apply to operations relating to access to all distribution pipelines	Sound arrangements for the management of critical gas contingencies	Gas governance arrangements are supported by appropriate compliance and dispute resolution processes
Gas governance arrangements approved by the Minister of Energy are monitored by Gas Industry Co for ongoing relevance and effectiveness		Good information is publicly available on the performance and present state of the gas sector		Provide advice on the extent to which policies to enhance the direct use of gas would mitigate greenhouse gas emissions and the likely costs of implementing those policies	

7. FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Board of Directors has pleasure in presenting the Annual Report of Gas Industry Company Limited, incorporating the Financial Statements and the Audit Report, for the year ended 30 June 2009.

For and on behalf of the Board:

Rt Hon James B Bolger, ONZ
CHAIR

Robin G Hill
DEPUTY CHAIR

27 August 2009

Grant Thornton

AUDIT REPORT

TO THE SHAREHOLDERS OF GAS INDUSTRY COMPANY LIMITED

We have audited the financial report on pages 38 to 55. The financial report provides information about the past financial performance of Gas Industry Company Limited and its financial position as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 42 to 45.

Board of Directors' Responsibilities

The Directors are responsible for the preparation of a financial report which gives a true and fair view of the financial position of the Gas Industry Company Limited as at 30 June 2009 and the results of its operations and cashflow for the year ended on that date.

Auditors' Responsibilities

It is our responsibility to express to you an independent opinion on the financial report presented by the Directors.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial report. It also includes assessing:

» the significant estimates and judgements made by the Directors in the preparation of the financial report, and

» whether the accounting policies are appropriate to Gas Industry Company Limited's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial report is free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial report. We have not audited the budget information and therefore pass no opinion on it.

Other than in our capacity as auditors we have no relationship with or interests in Gas Industry Company Limited.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

» proper accounting records have been kept by the Gas Industry Company Limited as far as appears from our examination of those records; and

» the financial report on pages 38 to 55:

- complies with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of Gas Industry Company Limited as at 30 June 2009 and the results of its operations and cashflow for the year ended on that date.

Our audit was completed on 27 August 2009 and our unqualified opinion is expressed as at that date.

Grant Thornton

Grant Thornton
WELLINGTON

31 August 2009

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

ACTUAL 2008 $		NOTES	ACTUAL 2009 $	BUDGET 2009 $
5,277,651	Revenue	3	6,876,989	6,111,269
108,628	Other income	4	52,313	143,755
4,559,392	Expenses	5	5,723,079	5,798,283
826,887	**Profit before tax**		**1,206,223**	**456,741**
35,847	Income tax expense	6	15,694	–
791,040	**PROFIT AFTER TAX**		**1,190,529**	**456,741**

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009

	INDUSTRY RESERVES	RETAINED EARNINGS $	TOTAL EQUITY $	BUDGET $
Balance at 1 July 2007	374,817	–	374,817	(218,332)
Profit for the year	–	791,040	791,040	308,322
Industry Advances Reserve transfers	691,040	(691,040)	–	–
Balance at 30 June 2008	**1,065,857**	**100,000**	**1,165,857**	**89,990**
Balance at 1 July 2008	1,065,857	100,000	1,165,857	89,990
Profit for the year	–	1,190,529	1,190,529	456,741
Industry Advances Reserve transfers	(854,761)	854,761	–	–
Industry Asset Amortisation Reserve transfers	1,955,290	(1,955,290)	–	–
BALANCE AT 30 JUNE 2009	**2,166,386**	**190,000**	**2,356,386**	**546,731**

The accompanying notes form an integral part of these financial statements

BALANCE SHEET AS AT 30 JUNE 2009

ACTUAL 2008 $		NOTES	ACTUAL 2009 $	BUDGET 2009 $
	ASSETS			
	Current assets			
1,345,609	Cash and cash equivalents	7	746,447	900,698
150,098	Trade and other receivables	8	97,505	66,708
7	Taxation receivable	6	17,263	–
1,495,714	**Total current assets**		**861,215**	**967,406**
	Non-current assets			
178,401	Property, plant and equipment	9	200,710	1,231,431
–	Intangible Assets	10	2,039,629	–
178,401	Total non-current assets		2,240,339	1,231,431
1,674,115	**Total assets**		**3,101,554**	**2,198,837**
	LIABILITIES			
	Current liabilities			
343,901	Trade and other payables	11	343,918	468,069
12,008	Provisions	12	33,034	–
137,625	Employee Benefit Liabilities		191,960	–
–	Tax Payable		15,694	–
14,715	Other Liabilites	13	160,554	–
9	Redeemable shares	15	8	10
508,258	**Total current liabilities**		**745,168**	**468,079**
508,258	**Total liabilities**		**745,168**	**468,079**
	EQUITY			
1,065,857	Industry Reserves	16	2,166,386	1,440,758
100,000	Retained Earnings	16	190,000	290,000
1,165,857	**TOTAL EQUITY**		**2,356,386**	**1,730,758**

These financial statements were authorised for issue by the signatories below on 27 August 2009:

On behalf of the Board.

Rt Hon James B Bolger, ONZ
CHAIR

Robin G Hill
DEPUTY CHAIR

27 August 2009

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2009

ACTUAL 2008 $		ACTUAL 2009 $	BUDGET 2009 $
	Operating Activities		
	Cash was provided from		
5,160,193	Levy revenue	4,540,433	4,446,269
–	Market fee revenue	2,233,470	1,665,000
100,000	Shareholder annual fees	90,000	90,000
108,628	Interest received	52,313	80,232
(7,811)	Net GST	25,013	–
5,361,010		**6,941,229**	**6,281,501**
	Cash was applied to		
(2,280,777)	Payment to suppliers	(2,770,271)	(2,962,086)
(1,942,580)	Payment to employees	(2,145,128)	(2,135,673)
(265,111)	Payments to directors	(262,460)	(261,980)
(35,847)	Taxes paid	(17,263)	(26,477)
(4,524,315)		**(5,195,122)**	**(5,386,216)**
836,695	**Net cash inflows from operating activities**	**1,746,107**	**895,285**
	Investing Activities		
	Cash was applied to		
(69,042)	Purchase of property, plant and equipment	(158,135)	(1,275,606)
–	Purchase of intangible assets	(2,187,134)	–
(69,042)	**Net cash outflows from investing activities**	**(2,345,269)**	**(1,275,606)**
	Financing Activities		
	Cash was applied to		
(400,000)	Repay shareholder loans	–	–
(400,000)	**Net cash outflows from financing activities**	**–**	**–**
367,653	Net cash inflows	(599,162)	(380,321)
977,956	**Opening cash and cash equivalents**	**1,345,609**	**1,281,019**
1,345,609	**CLOSING CASH AND CASH EQUIVALENTS**	**746,447**	**900,698**

The accompanying notes form an integral part of these financial statements

STATEMENTS OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2009

1. General information

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. Gas Industry Company Limited (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. The address of its registered office is 95 Customhouse Quay, Wellington.

These financial statements have been approved for issue by the Board of Directors on 27 August 2009.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

(a) Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Statutory base

Gas Industry Company Limited is a company registered under the Companies Act 1993.

The financial statements have been prepared in accordance with the requirements of sections 43ZW to 43ZY of the Gas Act 1992, the Financial Reporting Act 1993 and the Companies Act 1993.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

(b) Revenue recognition

(i) Levy revenue

Levy revenue comprises amounts received or due in accordance with the Gas (Levy of Industry Participants) Regulations 2006. 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.

(i) 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.

(ii) Annual fees

Annual fees are recognised when invoiced.

(iii) Interest income

Interest income is recognised on a time-proportionate basis using the effective interest method.

(c) Income taxes

Taxation expense in the profit and loss account 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 profits for the year, which differ from the profit 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's liability for current tax is calculated at tax rates that have been enacted at balance sheet date.

(d) Goods and Services Tax (GST)

The income statement has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(e) Leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(f) Impairment of non-financial assets

Property, plant and equipment, and other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the greater of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows. Where the company would, if deprived of the asset, replace its remaining future benefits, value in use is determined as the depreciated replacement cost.

(g) 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 that are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(h) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of these receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(i) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items and an estimate of any asset restoration obligations.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

(j) Depreciation

Depreciation is calculated on the straight-line basis to write off the cost of the assets to their residual values over their estimated useful lives as follows:

CATEGORY	ESTIMATED USEFUL LIFE
Leasehold improvements	Amortised over period of lease
Furniture and office equipment	4 to 10 years
Computer equipment	4 years

(k) Carrying amount

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(l) Intangible assets

Software costs, which include those items identifed as "Industry Assets", have a finite useful life. Software costs are capitalised and amortised over an economic useful life of between 4 and 5 years.

Costs associated with developing or maintaining software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development employees and an appropriate portion or relevant overheads.

(m) Trade 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.

(n) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(o) Employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave, and accumulating sick leave expected to be settled within 12 months of the reporting date, are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The liability for employee entitlements is carried at the present value of the estimated future cash flows.

(p) Financial assets

All financial assets of the Company are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are initially recognised at fair value plus transaction costs. Loans and receivables are carried at amortised cost using the effective interest method.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(r) Statement of cash flows

The following are the definitions of the terms used in the Cash Flow Statement.

» Operating activities include all transactions and other events that are not investing or financing activities.

» Investing activities are those activities relating to the acquisition, holding and disposal of investments. Investments can include securities not falling within the definition of cash.

» Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.

(s) Foreign currency translation

(i) Functional and presentation currency

The financial statements are presented in New Zealand dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(t) Changes in accounting policies

Uniform accounting policies have been applied by the Company on a consistent basis throughout the period.

(u) Critical accounting estimates and judgments

The Company makes estimates and assumptions regarding the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are outlined below.

(v) Comparative figures

The amounts for the year ended 30 June 2008, which are included in this year's financial statements for comparative purposes, have been reclassified / restated so as to conform to the current year's presentation.

(w) Provisions

The Company recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

3. Revenue	ACTUAL 2009 $	ACTUAL 2008 $
Operating Income		
Wholesale levy revenue	2,648,853	3,107,049
Retail levy revenue	1,911,368	2,070,602
Market fee revenue	2,226,768	–
Annual shareholder fees	90,000	100,000
	6,876,989	**5,277,651**

In December 2006, the Board resolved that annual shareholder fees would be utlised to build up a capital base rather than for operating funding. These fees have been classified since 1 July 2007 as contribution from shareholders.

4. Other income	ACTUAL 2009 $	ACTUAL 2008 $
Interest income	**52,313**	**108,628**

5. Expenses	ACTUAL 2009 $	ACTUAL 2008 $
Depreciation & amortisation	309,199	104,630
Lease expense	232,884	89,967
Audit fees paid to auditors	8,000	7,000
Accounting and taxation advice	52,249	1,300
Directors' fees	262,460	262,460
General expenses	1,179,645	392,255
Recruitment expenses	131,023	213,732
Technical, economic, and legal advice	1,208,561	1,775,866
Kiwisaver contributions	37,113	10,728
Foreign exchange loss	1,767	804
Employee benefit expense	2,300,178	1,700,650
Total expenses	**5,723,079**	**4,559,392**

6. Taxation	ACTUAL 2009 $	ACTUAL 2008 $
a) Income tax recognised in the income statement		
Current tax expense	15,694	35,847
Deferred tax credit	–	–
Income tax expense	**15,694**	**35,847**
Profit before tax	1,206,223	826,887
Income tax expense at 30 percent	361,867	272,873
Permanent differences	(346,173)	(237,026)
Timing differences	–	–
	15,694	**35,847**
b) Current tax receivable		
Opening balance	7	7
Charge during the period	(15,694)	(35,847)
Tax payments	17,263	35,847
Closing balance	**1,576**	**7**

c) The company has no recognised or unrecognised deferred tax balances as at 30 June 2009, 30 June 2008, 30 June 2007 and 30 June 2006. The company has no imputation credits available for distribution.

7. Cash and cash equivalents	ACTUAL 2009 $	ACTUAL 2008 $
Cash at bank and in hand	**746,447**	**1,345,609**

8. Trade and other receivables	ACTUAL 2009 $	ACTUAL 2008 $
Debtors	78,336	29,142
Prepayments	19,169	120,956
	97,505	**150,098**

9. Property, plant and equipment	LEASEHOLD IMPROVEMENTS $	FURNITURE AND OFFICE EQUIPMENT $	COMPUTER EQUIPMENT $	TOTAL $
Cost				
Balance at 1 July 2007	144,366	124,463	52,797	321,626
Additions	–	23,241	18,124	41,365
Transfers	–	(28,201)	18,749	(9,452)
Disposals	–	–	–	–
Balance at 30 June 2008	**144,366**	**119,503**	**89,670**	**353,539**
Balance at 1 July 2008	144,366	119,503	89,670	353,539
Additions	117,116	35,520	5,499	158,135
Transfers	–	–	–	–
Disposals	(147,645)	(9,287)	(53,310)	(210,242)
Balance at 30 June 2009	**113,837**	**145,736**	**41,859**	**301,432**
Accumulated depreciation and impairment losses				
Balance at 1 July 2007	61,096	34,401	19,919	115,416
Depreciation expense	36,904	12,036	28,758	77,698
Disposals	–	–	–	–
Impairment losses	–	–	20,770	20,770
Balance at 30 June 2008	**98,000**	**46,437**	**69,447**	**213,884**
Balance at 1 July 2008	98,000	46,437	69,447	213,884
Depreciation expense	35,842	24,946	8,161	68,949
Disposals	(128,141)	(4,282)	(49,688)	(182,111)
Impairment losses	–	–	–	–
Balance at 30 June 2009	**5,701**	**67,101**	**27,920**	**100,722**
Net Book Value	**108,136**	**78,635**	**13,939**	**200,710**

10. Intangible Assets	SOFTWARE $	INDUSTRY ASSETS $	CONSTRUCTION IN PROGRESS $	TOTAL $
Cost				
Balance at 1 July 2007	9,660	–	–	9,660
Additions	27,677	–	–	27,677
Transfers	9,452	–	–	9,452
Disposals	–	–	–	–
Balance at 30 June 2008	**46,789**	**–**	**–**	**46,789**
Balance at 1 July 2008	46,789	–	–	46,789
Additions	4,686	2,182,448	54,000	2,241,134
Transfers	–	–	–	–
Disposals	–	–	–	–
Balance at 30 June 2009	**51,475**	**2,182,448**	**54,000**	**2,287,923**
Accumulated depreciation and impairment losses				
Balance at 1 July 2007	1,891	–	–	1,891
Amortisation expense	6,153	–	–	6,153
Disposals	–	–	–	–
Impairment losses	–	–	–	–
Balance at 30 June 2008	**8,044**	**–**	**–**	**8,044**
Balance at 1 July 2008	8,044	–	–	8,044
Amortisation expense	13,092	227,158	–	240,250
Disposals	–	–	–	–
Impairment losses	–	–	–	–
Balance at 30 June 2009	**21,136**	**227,158**	**–**	**248,294**
Net Book Value	**30,339**	**1,955,290**	**54,000**	**2,039,629**

11. Trade and other payables	ACTUAL 2009 $	ACTUAL 2008 $
Accounts payable	322,270	342,644
Operating lease liability	–	333
GST Payable	21,648	924
	343,918	**343,901**

12. Provisions	ACTUAL 2009 $
Asset Restoration	
Opening Balance	12,008
Additional provision	21,026
Closing Balance	**33,034**

The asset restoration provision relates to the make good clauses in the lease of the company's premises. The provision has been accreted to account for the discounting and will be released when the expenditure occurs.

13. Other liabilities	ACTUAL 2009 $	ACTUAL 2008 $
Deferred Income	64,243	–
Accrued expenses	96,311	14,715
	160,554	**14,715**

14. Related party transactions

a) Transactions with shareholders

Various shareholders have, from time to time, provided administrative assistance to Gas Industry Co at no cost. Levy payments (which are detailed in note 3) are made by industry participants who, in many cases, are also shareholders of Gas Industry Co.

b) Transactions with directors

	ACTUAL 2009 $	ACTUAL 2008 $
Directors' Fees		
Rt Hon. James Bolger, ONZ (Chair)	93,500	93,500
Robin Hill (Deputy Chair)	63,360	63,360
Mark Verbiest	52,800	52,800
Keith Davis	52,800	52,800
Simon Mackenzie	–	–
David Baldwin	–	–
Albert Brantley	–	–
Murray Jackson (Ret Aug 08)	–	–

Other than the Directors' fees paid, no other transactions with Directors occurred.

c) Transactions with key management personnel

	ACTUAL 2009 $	ACTUAL 2008 $
Salaries and other short-term employee benefits	**1,395,780**	**1,210,902**

Key management personnel include the Chief Executive and her direct reports.

d) Remuneration

	ACTUAL 2009 $	ACTUAL 2008 $
Salary Band		
$110,001 – $120,000	1	–
$120,001 – $130,000	2	–
$160,001 – $170,000	–	1
$170,001 – $180,000	1	1
$190,001 – $200,000	–	1
$200,001 – $210,000	–	1
$210,001 – $220,000	1	–
$220,001 – $230,000	1	–
$240,001 – $250,000	1	–
$370,001 – $380,000	–	1
$420,001 – $430,000	1	–

The Chief Executive's annual remuneration and benefits are in the $420,001 – $430,000 band. In 2008, the Chief Executive's annual remuneration and benefits were in the $370,001 – $380,000 band.

During the financial year, a total of $148,402 was paid to three employees by way of redundancy compensation.

15. Redeemable shares

	ACTUAL 2009 $	ACTUAL 2008 $
Redeemable shares – Value in dollars	8	9
Redeemable shares – Number	8	9

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.

On 30 June 2009, Wanganui Gas Limited redeemed its one share ownership, thereby making eight the total number of redeemable shares for the upcoming financial year.

16. Reserves and retained earnings

a) Industry advances reserve

	ACTUAL 2009 $	ACTUAL 2008 $
Opening balance	1,065,857	374,817
Transfer from retained earnings	(854,761)	691,040
Closing balance	**211,096**	**1,065,857**

To allow for the timely enactment of the levy regulations each financial year, Gas Industry Co must set its budget and work programme nine months prior to the beginning of that year and prior to the completion of the Strategic Plan. In practice, this requires the company to forecast where it expects to be in the policy development process before it has fully analysed the issues, or engaged with stakeholders on their concerns. This factor, and the fact that the levy is based in part on variable gas sales volumes, means there is a risk of over or under-recovery of levy funds every year.

This prospect is anticipated by section 43ZZC(3) of the Act, which provides for any over or under-recoveries to be taken into account in subsequent levies. The Company considers any over or under-recovery for a particular financial year should be attributed to the levy segment from which it has been gathered. For example, if there was an over recovery as a result of an increase in estimated wholesale gas volumes, or because of an over-estimation of the costs of a work stream paid by the wholesale gas levy, this over-recovery should be offset against the wholesale levy requirements of subsequent years.

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

b) Industry asset amortisation reserve

	ACTUAL 2009 $	ACTUAL 2008 $
Opening balance	–	–
Transfer from retained earnings	1,955,290	–
Closing balance	**1,955,290**	**–**

The industry asset amortisation reserve represents capital items purchased with market fees recognised as an asset and amortised over their economic lives. Its value is equal to the unexpired amortisation balances of the industry assets.

c) Retained earnings

	ACTUAL 2009 $	ACTUAL 2008 $
Opening balance	100,000	–
Profit for the year	1,190,529	791,040
Transfer to/from Industry advances reserve	854,761	(691,040)
Transfer to/from Industry asset amortisation reserve	(1,955,290)	–
Closing balance	**190,000**	**100,000**

The Board has resolved that shareholders' annual fees will be set aside to establish cash reserves, rather than using them to defray operational costs. FY2008 was the first year this policy was implemented.

17. Contingencies

As at 30 June 2009, the Company has no contingent liabilities (2008: nil). There is an arrangement with Wetspac Banking Corporation Limited whereby Gas Industry Company has a liability (limit $100,000) and a payroll Letter of Credit facility (limit $150,000).

18. Commitments

a) Capital commitments

The Company has no material capital commitments.

b) Operating lease commitments

	ACTUAL 2009 $	ACTUAL 2008 $
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	320,462	85,531
Later than one year but not later than five years	1,135,135	15,162
Later than five years	918,318	–
Total	**2,373,915**	**100,693**

c) Service provider commitments

	ACTUAL 2009 $	ACTUAL 2008 $
New service provider agreements commenced in 2008/09 for the Downstream Reconciliation and Switching and Registry Rules payable as follows:		
Within one year	920,408	–
Later than one year but not later than five years	3,091,496	–
Later than five years	–	–
Total	**4,011,904**	**–**

19. 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 sets of financial statements.

20. Major budget variances

Statement of financial performance

Revenue

The majority of the revenue variance relates to the under-estimation of the ongoing operational Reconciliation database costs ($300,000) against an actual amount of $765,000. A further variance of $95,411 was incurred in the development of the Registry database with actual revenue of $1,095,411 against a budget of $1,000,000.

Statement of financial position

Cash and cash equivalents

The cash balance was adversely affected by the non-budgeting of the Reconciliation database which resulted in an unfavourable cash impact of $1,052,617. This was partially offset by receiving $620,371 additional levy revenue above the budgeted amount and a reduction in company expenditure by $286,954.

Non-current assets

Due to the uncertanity regarding the costs relating to the development of the Reconciliation database ($1,052,617), the costs were not included within the 2009 budget set in April 2008.

Trade and other payables

The establishment of deferred income relating to the Critical Contingency development ($64,243), the improved accrual process of the company's expenditure ($130,418) and an increase in employee entitlements ($54,335) has resulted in an increase in the Trade and other payables amount from a budget of $468,069 to an actual of $745,169.

21. Financial risk management

The Company's activities expose it to a variety of financial risks: currency risk, interest rate risk, credit risk and liquidity risk. To manage and limit the effects of those financial risks, the Board of Directors has approved policy guidelines. The policies approved at balance date are outlined below.

Currency risk

During the normal course of business, the Company contracts overseas consultants to provide services, the costs of which are denominated in foreign currencies. The currency risk attached to these contracts (which are normally denominated in Australian dollars) is not actively managed by the Company and there is a resultant risk that creditors due in foreign currency will fluctuate because of changes in foreign exchange rates.

Interest rate risk

The Company is exposed to interest rate risk through the return on any funds it has invested and the cost of borrowed funds that will fluctuate due to changes in market interest rates. All cash and cash equivalents are held on floating interest rates and all shareholder liabilities attract floating interest rates.

Credit risk

Credit risk arises from cash and cash equivalents as well as credit exposures to industry participants, including outstanding receivables and committed transactions. All cash and cash equivalents are held only with the Board of Directors' approved counterparty, being Westpac Bank.

The Group has no other significant concentrations of credit risk. Amounts owed as accounts receivable are unsecured and expected to settle within 30 days.

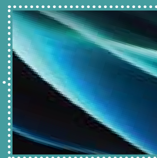
Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Management hold sufficient liquid assets in the form of cash and cash equivalents to meet expected outflows. All trade payables are expected to be settled within 30 days.

Fair values

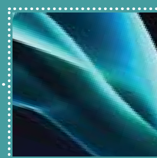
The fair value of all financial instruments is equivalent to the carrying amount disclosed in the balance sheet.

22. Reconciliation of profit to net cash inflows from operating activities	ACTUAL 2009 $	ACTUAL 2008 $
Reported profit after tax	1,190,529	791,040
Items not involving cash flows		
Amortisation expense	–	–
Depreciation and amortisation expense	309,199	104,630
Unwind of discount factor on restoration provision	2,052	1,094
Impact of changes in working capital items		
Prepayments	101,788	(120,250)
Accounts payable	(20,374)	70,179
Accruals	116,895	(98,312)
Employee entitlements	54,336	114,605
Debtors	(49,195)	(19,089)
GST payable	20,724	(7,811)
Other receivables	–	609
Tax provision	20,153	–
Net cash flows from operating activities	**1,746,107**	**836,695**



TO ENSURE THAT GAS IS DELIVERED TO EXISTING AND NEW CUSTOMERS IN A SAFE, EFFICIENT, FAIR, RELIABLE AND ENVIRONMENTALLY SUSTAINABLE MANNER.

GPS
PRINCIPAL
OBJECTIVE



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