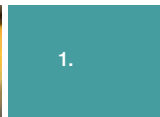




<p>QUARTER 1</p> <ul style="list-style-type: none"> » Final recommendations on MDLs 30 April 2009 and 12 May 2009 MPOC Change Requests » Determination on appeal in respect of VTC Change Request » Consultation on the Statement of Proposal Participative Regulatory Option in respect of transmission pipeline balancing » Event audits at two major gas-gates initiated to investigate reports of excessive unaccounted-for-gas (UFG) in May 2009 	<ul style="list-style-type: none"> » Options Paper with respect to Retail Contract Terms released for consultation » Industry Conference held on 11 August » Annual Report tabled in Parliament on 30 September » Retail Gas Governance Forum on switching and compliance issues » Approval of MDL Critical Contingency Management Plan
<p>QUARTER 2</p> <ul style="list-style-type: none"> » Initial review of TSOs compliance with Interconnection Guidelines » Industry Code Development (ICD) process held » Recommendation on Direct Use of Gas » Vector Critical Contingency Plan approved » First formal hearing of Rulings Panel 	<ul style="list-style-type: none"> » Minor amendment to Downstream Reconciliation Rules accepted by Associate Minister » Development of performance indicators for gas governance arrangements » Final Recommendation on MPOC 5 October 2009 Change Request » Electricity and Gas Complaints Commission becomes the approved complaints scheme » Draft Balancing recommendation published
<p>QUARTER 3</p> <ul style="list-style-type: none"> » Critical Contingency Management Regulations go live » Industry workshops on proposed Balancing Rules » Advice to Associate Minister on third party access to private pipelines » Recommendation on benchmark Retail Contract Terms approved » Workshop with industry on Direct Use of Gas technical report 	<ul style="list-style-type: none"> » Downstream Reconciliation Rules review » Publication of Supplement to Statement of Proposal regarding transmission pipeline balancing » Performance audit programme commenced » Associate Minister approved FY2011 Levy
<p>QUARTER 4</p> <ul style="list-style-type: none"> » Baseline Assessment of retail gas contracts commenced » Retail Gas Governance Forum on switching rule changes, reconciliation, and consumer issues » Workshops to finalise wholesale market governance documents » Wholesale market trading platform ready for operation 	<ul style="list-style-type: none"> » Consideration of issues relating to capacity on the North Pipeline » Delivery of the FY2011-13 Strategic Plan

HIGHLIGHTS

FY2010



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1. CHAIR'S FOREWORD

THE STRATEGIC DIRECTION FOR THE SECTOR IS SET BY THE NEW ZEALAND ENERGY STRATEGY ('NZES'). AT THE TIME OF PREPARING THIS FOREWORD, THE GOVERNMENT HAD RELEASED A NEW DRAFT NZES FOR CONSULTATION. IT INDICATES THAT THE GOVERNMENT'S GOAL FOR THE ENERGY SECTOR IS TO MAXIMISE ITS CONTRIBUTION TO ECONOMIC GROWTH.

RECOMMENDATIONS AND ADVICE TO THE MINISTER 2005 – 2010

- » Recommendation to the Minister of Energy on fixed charges for small users and other consumer issues (including invoice transparency) (Jun 06)
- » Recommendation to the Minister of Energy on the specification for reticulated natural gas (Jul 06)
- » The New Zealand gas industry in 2006: Review of its status and performance (Allen Report Nov 06)
- » Recommendation to the Minister of Energy on switching arrangements for the New Zealand gas industry (May 07)
- » Recommendation to the Minister of Energy on regulations for enforcement of switching arrangements (May 07)
- » Recommendation to the Minister of Energy on wholesale market development (Aug 07)
- » Recommendation to the Minister of Energy on gas disconnection and reconnection (Sept 07)
- » Recommendation to the Minister of Energy on arrangements for the allocation and reconciliation of downstream gas quantities (Mar 08)
- » Recommendation to the Minister of Energy on arrangements for the effective management of critical contingencies (June 08)
- » Recommendation to the Minister of Energy on amendments to the Gas (Downstream Reconciliation) Rules 2008 (Jul 09)
- » Recommendation to the Associate Minister on the approval of a complaints resolution system under the Gas Act (Nov 09)
- » Various recommendations on the enforcement of gas governance arrangements (Compliance Regulations)
- » Advice to the Associate Minister to extend review of compliance with Interconnection Guidelines (Nov 09)
- » Recommendation to the Associate Minister on the Direct Use of Gas (Dec 09)
- » Recommendation to the Associate Minister on the endorsement of arrangements for the oversight of gas retail contracts (Mar 10)
- » Interconnection to private transmission pipelines: Advice to the Associate Minister (May 10)

The draft NZES focuses on four priorities: developing resources; promoting energy security and affordability; achieving efficient use of energy; and environmental responsibility.

The draft NZES acknowledges that New Zealand has successfully transitioned from a single dominant source of gas supply to supply from multiple gas fields, and a more sophisticated gas market. As this market continues to develop, it will require a governance framework that supports competitive markets, timely investment in infrastructure, and open access to key infrastructure.

The Commerce Commission is responsible for price-quality regulation of gas pipeline services, which has a significant impact on investment incentives. The Government Policy Statement on Gas Governance (GPS) sets out the Government's desired outcomes for co-regulation.

Gas Industry Co has now completed the major part of the recommendations required by the GPS in relation to wholesale and retail markets. Industry participants can trade with confidence that there are robust systems for switching customers, accurately reconciling downstream quantities of gas, and managing critical contingencies. Recommendations have also been accepted on a consumer complaints resolution scheme and benchmark retail terms. These are designed to improve the consumer's experience of gas supply.

The Company's policy focus has now shifted to third party infrastructure access. Some work has been completed, such as the gas processing information disclosure rules and the new interconnection guidelines, but there is more to do in other areas such as transmission pipeline balancing arrangements and options for allocating capacity on the constrained northern pipeline network owned by Vector.



The Board is aware that stakeholders prefer contractual access arrangements over regulated access, but this can be difficult to achieve considering the multiple different interests. A further complexity is the ever-present need to find solutions that suit the unique physical characteristics of New Zealand's pipelines.

On behalf of the Board, I would like to thank the executive of Gas Industry Co for their collective efforts in advancing the work programme set out in the GPS. In particular, I want to recognise the work of the Chief Executive, Christine Southey, who is moving on after five years with the Company. During Christine's stewardship, Gas Industry Co made good progress in implementing governance arrangements that support competitive markets and open access to infrastructure (see table).

I agree with the Associate Minister that the Company is now well positioned to tackle future challenges in meeting Government objectives for the gas sector.



Rt Hon James B Bolger, ONZ
CHAIR

"I would like to personally thank Christine for her leadership of the GIC over the past five years. I have been pleased with the progress made with the GIC since I assumed Ministerial responsibility for the GIC in 2009. A large number of work streams have been completed with new initiatives implemented over this time ... These achievements give the GIC a good foundation to tackle future challenges."

ASSOCIATE MINISTER OF ENERGY AND RESOURCES, HON PANSY WONG, PAYS TRIBUTE TO CHRISTINE SOUTHEY'S CONTRIBUTION TO THE GAS INDUSTRY WHEN HER RESIGNATION IS ANNOUNCED / PRESS RELEASE 1 JUNE 2010

2. CHIEF EXECUTIVE'S REVIEW

THE GOVERNMENT HAS CLEARLY SIGNALLED ITS INTENTION TO INTRODUCE NEW REGULATION ONLY WHEN IT IS SATISFIED THAT IT IS 'REQUIRED, REASONABLE, AND ROBUST'. GAS INDUSTRY CO FOR ITS PART TAKES GREAT CARE TO ENSURE ALL NON-REGULATORY OPTIONS ARE FULLY EXPLORED BEFORE IT RECOMMENDS A REGULATORY SOLUTION.

In the last 12 months, Gas Industry Co has spent considerable time engaging with the industry on ways to improve the efficiency of balancing arrangements across both transmission pipeline networks. At the time of writing this report, the Company has delayed submitting its formal recommendation for a participative regulation of balancing arrangements to enable it to discuss matters further with the Associate Minister and the industry.

Gas Industry Co developed interconnection guidelines and worked with transmission pipeline owners to assist them to incorporate these guidelines in their operating codes. The Company also began a process of exploring with Vector a number of options to improve access to capacity on the Vector northern pipeline once the constraints on that pipeline became known.

At the request of the Minister, Gas Industry Co considered the desirability of applying some of the best practice arrangements outlined in its interconnection guidelines to private pipelines and concluded that they would not be suitable for private pipelines as they were drafted with open access pipelines in mind. The advice also noted a number of wider issues that would need to be considered if access were to be extended to pipelines that are currently not open to third parties.

In relation to existing regulations, Gas Industry Co continues to ensure these are delivered efficiently and effectively for the benefit of the industry as a whole. Experience to date with the existing regulations and rules has highlighted areas where improvements could potentially be made. We have therefore initiated work on a review of the Downstream Reconciliation Rules and the Switching Rules. The proposed changes intend to clarify existing market processes and to sharpen incentives for industry participants to provide as accurate data as possible.

A suite of indicators to track the effectiveness of the Downstream Reconciliation Rules and the Switching Rules has been instituted. These measures show that the rules are having the desired effect: there has been an improvement in the competitive environment and increased competitive activity in the retail gas sector since these rules went live.

Progress has also been made on our work to improve consumer outcomes. In December 2009, the Associate Minister approved the Company's recommendation that the Electricity and Gas Complaints Commission (EGCC) be confirmed as an 'approved disputes resolution scheme' under the Gas Act. The Company was also pleased to get the approval of the Associate Minister on its proposed voluntary oversight scheme for retail gas contracts.

Another important area of activity has been policy research. This year the Company commissioned a significant technical report on the direct use of gas, which was well received by the industry. The Company considers that research that promotes greater understanding of the issues affecting the sector is an important contribution to its achievement of the Government's objectives for the sector.

The overall cost of these activities was \$6.3m. This was less than our total revenues of \$7.3m. The variance was the result of lower than expected work stream costs (as a number of work streams took a different path from that expected at the time the levy was established) and wholesale levy income being much greater than expected (as we budgeted on 145 PJ and the final result was 161 PJ). The resulting surplus, after adjusting for the refund of market fees, will be available to reduce future levies.



As always, I am grateful to the Board and the team at Gas Industry Co for their important contributions during the last year. As this is my last report as Chief Executive I would like to thank all the Company's stakeholders for their ongoing support of the co-regulatory model. As noted in the Chair's report, a number of initiatives have been put in place to improve gas governance in New Zealand under this innovative regulatory model.



Christine Southey
CHIEF EXECUTIVE

3. ACCESS TO INFRASTRUCTURE

ACCESS TO INFRASTRUCTURE ON REASONABLE TERMS IS NECESSARY TO ENSURE THAT 'GAS IS DELIVERED TO EXISTING AND NEW CUSTOMERS IN A SAFE, EFFICIENT AND RELIABLE MANNER' (GAS ACT, SECTION 43ZN(A)).

Open access transmission pipelines and distribution networks are shared by many users, and have elements of natural monopoly. As well as operating these assets, pipeline owners are involved in related markets such as gas production and gas trading. These characteristics demand that a degree of oversight or regulation is present to ensure that the objectives of the Gas Act are met.

Although the Company works with industry participants to improve access through best practice guidelines and industry agreements, individual commercial interests can make this an inefficient process. In such cases the Company may develop rules or regulations. For example, rules providing for information disclosure about gas processing facilities were implemented when industry agreement on voluntary information disclosure arrangements could not be achieved.

In FY2010, following industry feedback, the Company gave priority to issues related to transmission pipeline balancing and interconnection. During the year, when it became clear that a capacity constraint on Vector's North pipeline was likely to affect competition and growth in the Auckland market, the Company also commenced a review of pipeline capacity. This work will identify the options for addressing short- and long-term issues in the capacity market.

The Company also continues to perform a role in considering changes to the Maui Pipeline Operating Code and the Vector Transmission Code, and to report to the Associate Minister on its work in general, and on specific issues. During FY2010 the Company provided advice to the Associate Minister on access to pipelines that do not offer open access.

PIPELINE BALANCING

Transmission pipeline balancing involves managing the inventory of gas in a pipeline within acceptable limits. Effective balancing arrangements are a necessary component of open access. The Company's objective in this area is to provide an efficient, unified balancing arrangement for managing pipeline imbalance. It has developed and consulted on draft balancing rules to achieve this objective. It has also facilitated an Industry Code Development (ICD) process aimed at designing and implementing a unified balancing regime that would avoid or minimise the need for regulatory intervention.

Although the ICD process reached consensus on the broad design of a balancing regime, it was clear that commercial interests would frustrate agreement on the detail. Seeing this, the owners of the Maui Pipeline took the initiative to propose changes to their pipeline's access regime that they believed would meet many of the Gas Act objectives.

During the second half of FY2010, Gas Industry Co worked with the industry to assess the costs and benefits of the regulatory and non-regulatory options, and to refine the draft balancing rules. In April 2010, this culminated in the publication of a supplement to the October 2009 Statement of Proposal. This supplement confirmed that the Company believes that a regulatory solution is required to meet the regulatory objective. However, submissions on the supplement confirm that there remains a substantial body of industry opinion opposed to such regulation.

Gas Industry Co has delayed submitting its formal recommendation so that it can discuss the best way forward with the Associate Minister and the industry.



INTERCONNECTION

The ability to interconnect facilities such as gas treatment plants, major industrial facilities, power stations, and distribution networks to transmission pipelines in an efficient and timely manner is a key element of competitive gas markets. In 2009, Gas Industry Co published a set of guidelines for transmission pipeline owners and interconnection seekers to follow in establishing a new connection to a transmission pipeline.

In December 2009, Gas Industry Co reviewed the alignment of transmission pipeline owners' interconnection arrangements with the guidelines. Since pipeline owners appeared to be making good progress in improving their arrangements, the Company agreed with the Associate Minister that some extra time should be allowed and that the pipeline arrangements would not be measured against the objectives of the Gas Act until mid-2010. This review is currently under way.

DISTRIBUTION CONTRACTS

During FY2010, Gas Industry Co resumed its review of whether gas distribution arrangements are safe, efficient and reliable. It is expected that the Company will consult on distribution issues, including issues related to gas quality, early in FY2011.

TRANSMISSION PIPELINE CAPACITY REVIEW

In 2009, Vector declared that it was unable to provide any new 'firm capacity' to users of the pipeline supplying Auckland. Gas Industry Co is concerned that this may restrict competition and growth in the Auckland gas market, and is investigating the situation.

The Associate Minister wrote to Gas Industry Co in December 2009 requesting it release an options paper on transmission capacity issues by June 2010. The Company released an *Options for Vector Transmission Capacity* paper for consultation on 27 May 2010. On 9 June, the Company held a workshop in Auckland to discuss the paper. Over 30 industry participants attended, including pipeline owners, shippers, major end-users, and the MED.

The wide-ranging representation at the workshop confirmed the significance of this issue and the importance of a timely solution. The Company plans to hold another workshop early in FY2011, which will discuss submissions on the Options paper and further work done by the Company and Vector.

MPOC AND VTC CHANGES

Gas Industry Co has roles under both the Maui Pipeline Operating Code (MPOC) and the Vector Transmission Code (VTC) involving making recommendations on changes to those codes. These roles are reactionary – a proposed change will be initiated by a party to the code, not by Gas Industry Co. In contrast, the Company's regulatory role is a pro-active one – driven by its analysis of the issues and consideration of remedial options. Both roles involve assessments against the objectives of the Gas Act, so are not in conflict. Nevertheless, improvements achieved through code changes can bring sufficient improvements to make a 'competing' regulatory solution unnecessary.

In FY2010 Gas Industry Co was asked to make recommendations on three code changes, one relating to the VTC and two relating to the MPOC. The VTC change relates to the provision of gas flow data on non-business days. The Company is awaiting further information it has requested of the submitting party before progressing its recommendation.

The first MPOC change related to changes necessary to allow for the introduction of a gas 'trading hub'. Gas Industry Co supported the change, and it has since been made. The second MPOC change predominantly related to MPOC balancing provisions. It was complex to analyse and a final recommendation was released in early FY2011.

ACCESS TO GAS PROCESSING FACILITIES

Each year, information about surplus capacity is collected under the Gas (Processing Facilities Information Disclosure) Rules 2008, collated, and published on the Company's website for the benefit of access seekers. This information enables Gas Industry Co to report to the Associate Minister on access constraints and recommend whether more extensive regulation is necessary.

STRATEGIC PLAN PERFORMANCE ASSESSMENT

Targets were set for the Infrastructure Access Group in the Strategic Plan FY2010-12. Of these, all objectives except for those relating to balancing were met. Certain unplanned-for tasks were also completed in this financial year, as noted previously.

4. COMPETITIVE MARKETS

GAS INDUSTRY CO OVERSEES AND ADMINISTERS A NUMBER OF ARRANGEMENTS THAT ENHANCE THE EFFICIENCY AND OPERATION OF THE WHOLESALE AND RETAIL GAS MARKETS. THESE ARRANGEMENTS INCLUDE:

- » Gas (Switching Arrangements) Rules 2008 (Switching Rules), which provide for a central registry of customers and facilitate switching among retailers;
- » Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules), which provide a process by which volumes of gas consumed are appropriately attributed to the retailers, wholesalers, and pipeline shippers responsible for them;
- » Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations), which provide a means by which industry participants plan for, and respond to, a serious incident affecting supply via the gas transmission pipelines.

All of these gas governance arrangements are underpinned by the Gas Governance (Compliance) Regulations 2008 (Compliance Regulations), under which alleged breaches of the rules and regulations are determined and settled.

The benefits to industry participants of these arrangements are clear. Simply put, the operation of the wholesale and retail gas markets is now more efficient and more effective than before the governance arrangements were put into place. The role of Gas Industry Co is to administer these arrangements in a way that enhances and promotes efficient outcomes.

As with any new process, it is important to monitor how effective the governance arrangements are in achieving the market outcomes they were designed to facilitate. In the past year, Gas Industry Co has instituted a set of performance measures that are published on a quarterly basis.

As well as the effective operation of the regulatory market arrangements, Gas Industry Co has pursued non-regulatory solutions to market operation issues. In this sphere, a significant milestone was achieved in June with the opening of the New Zealand Gas Exchange, a market for the sale and purchase of wholesale gas.

SWITCHING AND GAS REGISTRY

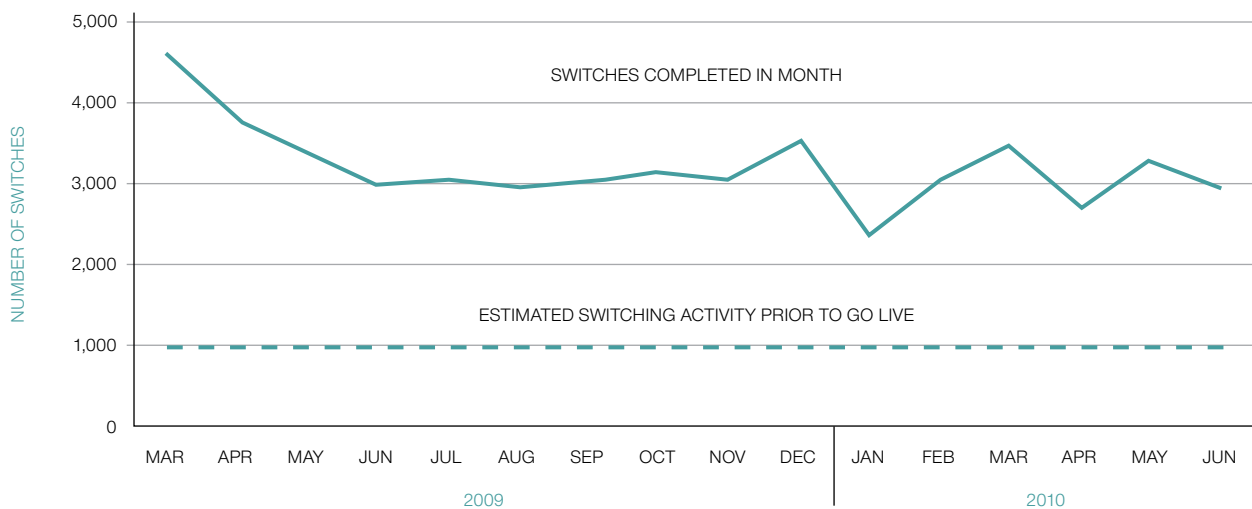
Under the Switching Rules, retailers have access to a central customer registry, and the process of switching customers among retailers has been streamlined and simplified. Switches can now be accomplished in a more timely and efficient manner, which benefits consumers and facilitates greater competitive activity in the retail sector.

Since the inception of the Gas Registry, switching activity has increased dramatically. In the year to June 2010, a total of 36,650 switches were processed through the registry, a 200% increase over previous switching levels. Switching levels since go-live are presented in the chart on the next page (Chart 1).

The focus of this work stream for FY2010 has been on overseeing the operation of the Switching Rules, including the gas registry that went live on 2 March 2009. The regular aspects of this work have involved reviewing the performance of the registry operator, providing guidance on the operation of the Rules, and considering transitional exemption applications as required.

In addition, Gas Industry Co has, with the benefit of experience, developed a series of amendments to the Switching Rules that will help to refine and clarify aspects of the Switching Rules that have proven to be ambiguous. These changes are considered to be minor and technical amendments and, subject to consultation, are expected to be gazetted late in calendar year 2010.

CHART 1: MONTHLY SWITCHING ACTIVITY



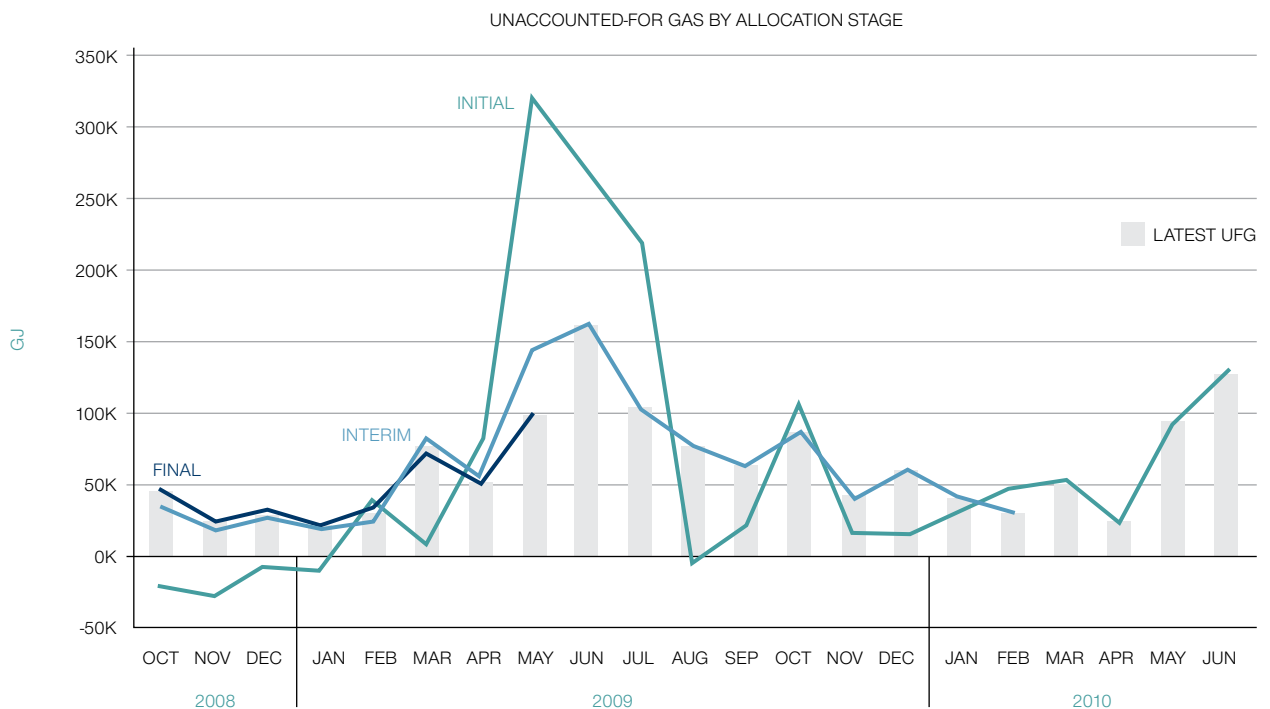
DOWNSTREAM RECONCILIATION

The allocation system under the Gas (Downstream Reconciliation) Rules 2008 (the Reconciliation Rules) went live on 1 October 2008. As can be seen from the chart that follows, the amount of unaccounted for gas (UFG) has fallen since this time (Chart 2). There is a seasonal pattern to the volumes of UFG experienced, but the chart shows that the amount of UFG in autumn and winter 2010 is lower than the same submissions in the previous year. This is good news, as lower UFG implies more efficient and competitive outcomes in the wholesale and retail gas sectors.

EVENT AUDITS

The chart on the next page also shows the large amounts of UFG that were experienced in May and June 2009. Gas Industry Co commissioned event audits in respect of those months at the Greater Auckland and Tawa A gas gates, the two gas gates that experienced the highest amount of UFG for those months. The audits found three sources of UFG: small pressure factor and metering discrepancies; poor retailer estimation processes; and the under-reporting of consumption information by one retailer, E-Gas. Of these, the auditors considered that the under-reporting was a material potential breach of the rules. (It should be noted that breaches as a result of poor estimation cannot be alleged until the results of the final allocation round are known, so that breaches in respect of the poor estimation in May and June 2009 were alleged in June and July 2010).

CHART 2: MONTHLY UFG VOLUMES



PERFORMANCE AUDITS

Ensuring that allocation participants are complying with the Reconciliation Rules is an important component in safeguarding the integrity of the allocation and reconciliation process. Gas Industry Co has instigated a programme of performance audits that will assess participants' data processes, including receipt and validation of meter reading data, creation of consumption estimates, and production and transmission of data files to the allocation agent. A pilot performance audit was commissioned in April 2010, and a draft report is expected to be available in August. The findings of this performance audit will then help to refine the terms of reference that are used for subsequent retailer performance audits. In this way, the performance audits will be conducted in a manner that is as consistent and rigorous as possible.

REVIEW OF THE RECONCILIATION RULES

While it is pleasing to see the decrease in UFG that has been experienced in 2010 compared to 2009, Gas Industry Co considers that improvements could still be made with regard to accuracy of retailers' consumption estimates. To this end, work has substantially progressed on a project to review the Reconciliation Rules, with a particular focus on identifying ways that incentives on retailers to improve data quality could be strengthened. It is anticipated that work will continue on this project in the coming year, culminating in a recommendation to the Associate Minister for rule changes.

CRITICAL CONTINGENCY MANAGEMENT

The CCM Regulations went live in January 2010, following the approval by Gas Industry Co of the Critical Contingency Management Plans prepared by Maui Development Limited (for the Maui transmission pipeline) and Vector (for the Vector transmission pipeline). As required by the CCM Regulations, the Critical Contingency Operator staged a test exercise of the contingency arrangements. The test was conducted successfully and provided useful feedback on ways that the contingency arrangements could be refined further. One of the identified areas for improvement was to promote understanding of the CCM Regulations among consumers who may need to curtail gas use during such events, and Gas Industry Co worked with the Critical Contingency Operator on a brochure describing the regime and the responsibilities of those consumers in the event of a critical contingency.

WHOLESALE MARKET TRADING PLATFORM

A major milestone was accomplished with the opening of the New Zealand Gas Exchange (NZGE), the wholesale market trading platform. This was the culmination of a number of inter-related processes, including the finalisation and sign-off of the relevant governance documents, the approval of a change request on the Maui Pipeline Operating Code, and the signing of an interconnection agreement with MDL.

The NZGE is located at www.nzge.co.nz and gas physically changes hands at the Trading Hub, a pair of notional welded points on the Maui pipeline, located at Bertrand Road. At the time of publication, Gas Industry Co understands that a number of potential market participants are in the process of preparing applications to join the market as traders.

The NZGE is being run as a trial of the wholesale market concept and in the coming year, Gas Industry Co will assess the outcome of the trial and report its findings and recommendations to the Associate Minister.

COMPLIANCE & ENFORCEMENT

The Compliance Regulations provide for the enforcement of the gas governance rules and regulations in a manner that is as effective and efficient as possible. Under the compliance regime, alleged breaches have the opportunity to be settled at each step in the compliance process. Breaches that are not settled at the Market Administrator or Investigator level are heard by a Rulings Panel. This quasi-judicial process provides the robustness and integrity of a regular court process, but with fewer time delays. In addition, the use of a single Rulings Panel promotes consistent outcomes across breach determinations.

In terms of compliance activity, there has been a settling-in period following the introduction of the gas governance arrangements and a number of different issues have been heard by the Rulings Panel. Some of these matters have involved issues of rule interpretation, some have involved testing the limits of the arrangements, and some have arisen due to the event audits. Gas Industry Co is pleased to note that the number of alleged breaches seems to be on a downward trend for both the Switching Rules and the Reconciliation Rules. No breaches of other Rules have been alleged.

SWITCHING COMPLIANCE

The switching and registry regime implemented in March 2009 was a substantial change from the existing arrangements. Retailers had to adapt to the new regulatory framework and incorporate this framework into their own IT systems. A transitional period ensued, where almost all registry participants had some level of non-compliance. Aside from a couple of significant cases, the vast majority of those rule breaches were determined to be not material.



With the resolution of participants' systemic issues eight months after go-live, compliance improved dramatically with alleged breaches falling from over 1,500 per month to present levels of around 10-20 breaches being alleged per month. Against a backdrop of between 3,500 and 4,000 switches per month, this represents a success for both the switching regime and the compliance process.

DOWNSTREAM RECONCILIATION COMPLIANCE

The downstream reconciliation process is structured into periodic stages, so the obligations on participants build up over time. The requirement to submit consumption information for final allocation, and the test of accuracy of information submitted for initial allocation, are two stages of the process that did not occur until the end of 2009, 12 months after the Reconciliation Rules came into effect. Compliance with the Reconciliation Rules necessarily follows this periodic process, so there is more scope for participants to breach rules now than there was in 2008. This goes some way to explain the trend in breach activity for the Reconciliation Rules.

Prior to December 2009, instances of non-compliance were limited to between 10 and 30 breaches per month. There was then a step change when reporting of retailer estimation accuracy threshold breaches began. Since then, breach levels have varied between 150 and 240 breaches per month. The assessment of the materiality of the accuracy threshold breaches has been hampered by the difficulty retailers are facing in quantifying the impact of individual breaches. A collaborative solution is currently being sought that, it is hoped, will provide a systematic approach to the determination of the breaches and provide a framework for compensation.

STRATEGIC PLAN PERFORMANCE ASSESSMENT

The Markets Operations Group has met all targets set for this year in the Strategic Plan 2010-12.

"My workload [on the Rulings Panel] has been busy, particularly in the last two quarters. A number of matters have involved complex legal issues relating to the operation of the various rules and the regulations. I am pleased to note that most industry participants appear to have increasing knowledge of the rules, compliance regime, and procedural matters. I note and appreciate the role played by Gas Industry Co staff and the Investigator in assisting [the Rulings Panel] to fulfil its duties."

5. IMPROVING CONSUMER OUTCOMES

THE SMALL SCALE OF GAS CONSUMPTION IN NEW ZEALAND BY RESIDENTIAL AND SMALL BUSINESS USERS, COMBINED WITH THE COMPETITION THAT GAS FACES FROM ALTERNATE ENERGY SOURCES, MEANS THAT CAREFUL DECISIONS NEED TO BE MADE ABOUT THE OPTIONS FOR IMPROVING CONSUMER OUTCOMES TO ENSURE THAT THE BENEFITS OF INTERVENTION OUTWEIGH THE COSTS.

Gas Industry Co, following a broad-based review of consumer issues in 2007, has focused its efforts on three distinct issues:

- » Improving the information available to consumers about their energy choices;
- » Determining the most appropriate arrangement for the oversight of retail gas contracts; and
- » Efficient resolution of consumer complaints.

In June 2009, the Associate Minister requested the Company bring forward its work programmes on consumer issues and direct use of gas, and ensure that these activities are 'advanced as matters of equal importance as transmission, balancing and interconnection'. At the same time, the Associate Minister offered to transfer the conduct of an industry performance review to MED (with assistance from Gas Industry Co).

DIRECT USE OF GAS

If every North Island customer that uses electricity or coal to provide space, water, and intermediate process heating switched to gas, this would represent a total of approximately 30PJ per annum out of a total annual gas consumption of approximately 150PJ per annum. Gas Industry Co commissioned a technical report, '*Cost: benefit analysis for increasing the direct use of gas in New Zealand*'¹, to examine whether it would be beneficial from a private and a national perspective for further direct use of gas in these areas. The report indicated that the factors that have the greatest bearing on the relative economics are fuel prices, fuel CO² emission intensities, appliance capital costs, and appliance efficiencies.

The private benefit and national benefit analyses in the study suggest that:

- » Electric heat pumps and log burners are the preferred means for space heating, and the arguments in favour of promoting the direct use of gas for space heating are not strong;
- » Instant gas is the preferred means for water heating and there may be a case for a low level of policy intervention in support of instant gas water heating, particularly if it is possible to extend an existing scheme; and
- » There may be a short-term private incentive to convert industrial boilers from gas-firing to coal-firing and this may not be in the national interest. However, given that the cap on CO² prices under the New Zealand ETS is due to be lifted post-2012, it is not believed that this will result in material levels of fuel switching.

After reviewing this technical report and assessing some of the barriers to the uptake of gas by consumers, Gas Industry Co recommended to the Associate Minister that a modest financial incentive should be made available for the installation of instant gas water heating, either in a new build situation or for conversion from an existing water cylinder.

¹ <http://www.gasindustry.co.nz/work-programme/direct-use-gas> (see 'Expert Report' tab).



CONSUMER COMPLAINTS SCHEME

When faced with poor service from a supplier, many customers are uncertain about how to proceed with a complaint and may find dealing with a large company daunting. As such, successive GPSs have required Gas Industry Co to make recommendations on a suitable system for the resolution of complaints between customers and their retailers. It should be free, independent, and easily accessible. In March 2005, Gas Industry Co made an initial recommendation to the Minister of Energy for the approval (in respect of gas) of the then-existing Electricity Complaints Commission as the approved complaints scheme. Consideration was deferred for a variety of reasons.

Work re-started in December 2007 in anticipation of a revised GPS for each of the electricity and gas sectors. The new aim was to develop a single, dual-fuel scheme. The steps taken to achieve this aim included the development of scheme requirements (achievement standards) by mid-2008, the issuing of a request for applications in September 2008, and the choice of the Electricity and Gas Complaints Commission (EGCC) as the preferred candidate, subject to certain changes being made to the EGCC constitution. A consultation paper was released in February 2009, comparing EGCC approval with other regulated options. As a result of this consultation, and based on the passing of the desired changes to the EGCC Constitution, the EGCC scheme was approved in December 2009 by the Electricity Commission and the Associate Minister of Energy and Resources.

RETAIL CONTRACTS

The small size of the New Zealand gas market means that consumers can often face a limited choice of gas retailers. As such, it is important to ensure that the contractual terms to which the consumers must agree are fair and reasonable.

In March 2010, the Company recommended an oversight scheme for gas retail contracts for small consumers. The scheme involved the independent assessment of gas supply arrangements against a set of selected outcome-based benchmark contract terms. These terms also required the provision to customers of clear information about the roles of retailers, distributors, and meter owners. Initially, only a consolidated assessment will be published, followed by a transitional period in which retailers will be able to bring their contracts into alignment with the benchmarks. Once the transition is complete, individual assessments will be published annually allowing consumers to make comparative judgments of each retailer's gas supply arrangements.

The assessment process will also enable the co-regulator to monitor the degree of compliance and decide if any further steps are required to ensure consumers are supplied gas on fair and reasonable terms.

STRATEGIC PLAN PERFORMANCE ASSESSMENT

The Office of the Chief Executive is pleased to report that it met the Associate Minister's amended requirements in all its work areas during FY2010, ahead of most of the Strategic Plan targets.

6. EFFECTIVE CO-REGULATION

ENSURING THAT GAS INDUSTRY CO HAS SUFFICIENT FUNDING TO MEET ITS STATUTORY OBJECTIVES IS A CRITICAL ASPECT OF PROVIDING EFFECTIVE CO-REGULATION.

The Company is fortunate that the Gas Act empowers it to recommend levy regulations each financial year to support the activities proposed in the corresponding Strategic Plan. Alongside this ability sits a significant accountability process to ensure transparency in the application of levy funds.

LEVY CONSULTATION

In October 2009, the Company held its co-regulatory forum at which it presented its FY2010 indicative work programme and budget to representatives from the industry. The Associate Minister also met with the Board in November 2009 to discuss these matters. A statement of proposal with respect to the levy was released in December 2009 for consultation and submissions were considered in February 2010.

The resulting feedback from industry participants, government officials, and the Associate Minister was taken into consideration in the development of the recommendation for the proposed levy for the 2010 financial year. The Board accepted the concerns of industry participants and the Government, and worked with the Company's executive to deliver a recommendation that held the total levy required for FY2010 at the same level as the levy established in FY2009.

EXTERNAL RELATIONS

While there are no specific milestones in the Strategic Plan with respect to external relationships, the GPS requires the Company to report quarterly to the Associate Minister. The Company delivered a report to the Associate Minister for each quarter of the financial year and the Chair and Chief Executive have met regularly with the Associate Minister and her officials.

The Company also held an industry conference in August 2009, which was well attended by industry and government representatives. The Consumer Forum in October 2009 provided valuable contributions to the work on benchmarks for retail gas contracts, for which the recommendation on oversight was accepted by the Associate Minister in May 2010. Gas Industry Co sees the facilitation of industry discussions as a vital function for the smooth operation of the co-regulatory model.

ANNUAL GENERAL MEETING 2009

The Company's Annual General Meeting was held on 30 October 2009. In accordance with the director rotation provisions in the constitution, Messrs Jim Bolger and Keith Davis retired and put themselves forward for re-election. They were unanimously reappointed.

In his address to the meeting, the Chair spoke about the challenges and achievements of the co-regulatory model over the past five years. He noted that the Company is moving from a policy design focus to the management of various governance arrangements. Throughout this period, the Company has sought market-based solutions and resorted to regulation only when absolutely necessary.



SHAREHOLDERS

The Company has eight shareholders, as noted in the table below.

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.

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.

GAS INDUSTRY CO SHAREHOLDERS (AS AT 30 JUNE 2010)

- | | |
|-------------------------------------|------------------------------------|
| » Contact Energy Limited | » OMV New Zealand Limited |
| » Genesis Power Limited | » Powerco Limited |
| » Mighty River Power Limited | » Shell (Petroleum Mining) Limited |
| » Greymouth Gas New Zealand Limited | » Vector Limited |

There have been no changes to the shareholding of Gas Industry Co in the past year.

PERFORMANCE ASSESSMENT

The Corporate Services Group has ensured that the Company met all its statutory accountability requirements under the Gas Act, the Companies Act, and the GPS.

BOARD OF DIRECTORS

The Board of Gas Industry Co meets at least 10 times per year 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 on an issue must exceed the number of non-independent directors voting on the same matter.

At the end of January 2010, Mark Verbiest resigned as a Director. The Board appointed Andrew Brown to fill the casual vacancy thus created, and his appointment was finalised on 10 June 2010. Mr Brown's ongoing appointment is subject to confirmation by the shareholders at the 2010 Annual General Meeting.

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.

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, and a member of the firm's Global Board from 1992 to 1995.

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.

ANDREW BROWN, LLB

INDEPENDENT DIRECTOR

Andrew Brown is a consultant to Bell Gully and is recognised as one of New Zealand's leading corporate lawyers. He has particular expertise and experience in advising energy sector companies.

Andrew's appointment to the Board took effect on 10 June 2010.

**DAVID BALDWIN, BE (CHEMICAL), MBA**

NON-INDEPENDENT DIRECTOR

David Baldwin was appointed Chief Executive of Contact Energy Limited in May 2006. 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 Power Limited. He also serves as Chairman of the Genesis Oncology Trust and is the Chairman of Energy Online. Albert has more than 35 years' experience in New Zealand and internationally in technical, operational, and senior management positions, with the last decade concentrated in the power industry.

SIMON MACKENZIE, Grad Dip BS (Dist), Dip Fin, NZCE

NON-INDEPENDENT DIRECTOR

Simon Mackenzie is Group Chief Executive for Vector Limited and has extensive experience in the energy sector including the areas of strategy, regulation, network management, information technology, the energy market, and telecommunications.

GOVERNANCE

The Board has two standing subcommittees.

The Board Subcommittee comprises the Chair, Deputy Chair, and one non-independent director (currently David Baldwin). This subcommittee's role is to address matters of urgency arising between Board meetings. It was not required to be convened during this past financial year.

The Independent Directors' Subcommittee comprises the four independent directors. Among other tasks, the Independent Directors' Subcommittee considers change requests for the respective transmission pipeline operating codes and exemption applications under the Switching Rules and Downstream Reconciliation Rules.

ATTENDANCE

DIRECTORS	J BOLGER	R HILL	M VERBIEST (TO 31 DEC)	A BROWN (FROM 10 JUN)	K DAVIS	S MACKENZIE	D BALDWIN	A BRANTLEY
MEETINGS ATTENDED	10	9	6	1	10	3	7	7

ALTERNATES	D MCCARTHY (ALTERNATE FOR S MACKENZIE)	J WOODS (ALTERNATE FOR D BALDWIN)	S BIELBY (ALTERNATE FOR D BALDWIN)	M ALEXANDER (ALTERNATE FOR A BRANTLEY)
MEETINGS ATTENDED	6	2	1	1

INDEPENDENT DIRECTORS' SUBCOMMITTEE	J BOLGER	R HILL	K DAVIS	A BROWN (FROM 10 JUN)
MEETINGS ATTENDED	3	3	3	1

The Board and Subcommittees have also attended to some matters through circulated written resolution.



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. At the time of preparing this Annual Report, the Board was conducting a search for a new chief executive.

CHRISTINE SOUTHEY, LLB BA (Hons)

CHIEF EXECUTIVE

Christine Southey oversees the overall delivery of Gas Industry Co's work programme and is responsible for strategic issues and the consumer outcomes work stream.

PETER DAVIES, BBS MBA (Dist) CA

GENERAL MANAGER - CORPORATE SERVICES

Peter Davies manages Gas Industry Co's corporate functions: finance, human resources, IT, communications, legal, and administration.

IAN DEMPSTER, BE (Hons) M.Com (Hons)

PRINCIPAL ADVISER - MARKET OPERATIONS

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

IAN WILSON, BSc (Hons) BBS MNZIG

PRINCIPAL ADVISER - INFRASTRUCTURE ACCESS

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

7. FINANCIAL STATEMENTS

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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 2010.

The Board of Directors of the Company authorised these financial statements for issue on 9 September 2010.

On behalf of the Board:

Rt Hon James B Bolger, ONZ

CHAIR

21 September 2010

Robin G Hill

DEPUTY CHAIR

21 September 2010



AUDIT REPORT

TO THE SHAREHOLDERS OF GAS INDUSTRY COMPANY LIMITED

We have audited the financial statements on pages 26 to 47. The financial statements provide information about the past financial performance and cash flows of the company for the year ended 30 June 2010 and its financial position at that date. This information is stated in accordance with the accounting policies set out on pages 30 to 35.

DIRECTORS' RESPONSIBILITIES

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view of the financial position of the company as at 30 June 2010 and the results of operations and cash flows for the year ended on that date.

AUDITORS' RESPONSIBILITIES

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

BASIS OF OPINION

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

- » the significant estimates and judgements made by the Directors in the preparation of the financial statements, and
- » whether the accounting policies are appropriate to the Company'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 statements are 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 statements.

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



UNQUALIFIED OPINION

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

In our opinion:

- » proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- » the financial statements on pages 26 to 47:
 - comply with generally accepted accounting practice in New Zealand; and
 - comply with International Financial Reporting Standards; and
 - give a true and fair view of the financial position of the Gas Industry Company Limited as at 30 June 2010 and the financial performance and cash flows for the year ended on that date.

Our audit was completed on 21 September and our unqualified opinion is expressed as at that date.

Grant Thornton New Zealand Audit Partnership

WELLINGTON, NEW ZEALAND

23 September 2010

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

ACTUAL 2009 \$		NOTES	ACTUAL 2010 \$	BUDGET 2010 \$
	Income			
6,876,989	Operating income	4	7,339,924	7,269,400
52,313	Interest income		43,277	27,645
6,929,302			7,383,201	7,297,045
	Expenditure			
5,721,027	Operating expenditure	5	6,288,704	7,491,000
2,052	Finance costs	12	2,352	-
5,723,079			6,291,056	7,491,000
1,206,223	Profit/ (loss) before tax		1,092,145	(193,955)
15,694	Income tax expense	6	12,983	-
1,190,529	Profit/ (loss) for the year		1,079,162	(193,955)
-	Other comprehensive income		-	-
1,190,529	TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,079,162	(193,955)

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

	INDUSTRY RESERVES \$	RETAINED EARNINGS \$	TOTAL EQUITY \$	BUDGET \$
Balance at 1 July 2008	1,065,857	100,000	1,165,857	1,165,857
Total comprehensive income for the year				
Profit/ (loss) for the year	–	1,190,529	1,190,529	1,180,633
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	–	1,190,529	1,190,529	1,180,633
Transfer between equity reserves				
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	2,346,490
Balance at 1 July 2009	2,166,386	190,000	2,356,386	2,346,490
Total comprehensive income for the year				
Profit/ (loss) for the year	–	1,079,162	1,079,162	(193,955)
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	–	1,079,162	1,079,162	(193,955)
Transfer between equity reserves				
Industry Advances Reserve transfers	1,362,976	(1,362,976)	–	–
Industry Asset Amortisation Reserve transfers	(363,814)	363,814	–	–
BALANCE AT 30 JUNE 2010	3,165,548	270,000	3,435,548	2,152,535

The accompanying notes form an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

ACTUAL 2009		NOTES	ACTUAL 2010	BUDGET 2010
\$			\$	\$
	ASSETS			
	<i>Current assets</i>			
746,447	Cash and cash equivalents	7	2,259,887	824,440
78,337	Trade and other receivables	8	186,871	138,535
19,169	Prepayments		38,275	-
1,569	Income tax receivable	6	611	51,147
845,522	Total current assets		2,485,644	1,014,122
	<i>Non-current assets</i>			
200,710	Property, plant and equipment	10	171,172	190,995
2,039,629	Intangible assets	11	1,667,677	1,744,406
2,240,339	Total non-current assets		1,838,849	1,935,401
3,085,861	Total assets		4,324,493	2,949,523
	LIABILITIES			
	<i>Current liabilities</i>			
440,230	Trade and other payables	9	649,696	553,278
33,034	Asset restoration provision	12	22,386	31,869
191,960	Employee entitlements		216,855	211,832
64,243	Income in advance		-	-
8	Redeemable shares	14	8	9
729,475	Total current liabilities		888,945	796,988
729,475	Total liabilities		888,945	796,988
	EQUITY			
2,166,386	Industry Reserves	15	3,165,548	1,882,535
190,000	Retained Earnings	15	270,000	270,000
2,356,386	TOTAL EQUITY		3,435,548	2,152,535

These financial statements were authorised for issue by the signatories below on 9 September 2010.

On behalf of the Board:



Rt Hon James B Bolger, ONZ

CHAIR

21 September 2010



Robin G Hill

DEPUTY CHAIR

21 September 2010

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

ACTUAL 2009 \$		ACTUAL 2010 \$	BUDGET 2010 \$
	<i>Operating Activities</i>		
	Cash was provided from		
4,540,433	Levy revenue	4,538,106	3,983,826
2,233,470	Market fee revenue	2,910,876	3,167,900
90,000	Annual fees	80,000	80,000
52,313	Interest received	43,277	37,674
25,013	Net GST	(5,535)	28,341
6,941,229		7,566,724	7,297,741
	Cash was applied to		
(2,770,271)	Payment to suppliers	(3,666,619)	(2,151,343)
(2,145,128)	Payment to employees	(2,081,894)	(4,517,730)
(262,460)	Payments to directors	(275,468)	(262,460)
(17,263)	Income taxes paid	(12,025)	-
(5,195,122)		(6,036,006)	(6,931,533)
1,746,107	Net cash inflows from operating activities	1,530,718	366,208
	<i>Investing Activities</i>		
	Cash was applied to		
(158,135)	Purchase of property, plant and equipment	(17,278)	(263,000)
(2,187,134)	Purchase of intangible assets	-	-
(2,345,269)	Net cash outflows from investing activities	(17,278)	(263,000)
(599,162)	Net increase / (decrease) in cash and cash equivalents	1,513,440	103,208
1,345,609	Opening cash and cash equivalents	746,447	721,232
746,447	CLOSING CASH AND CASH EQUIVALENTS	2,259,887	824,440

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

1. REPORTING ENTITY

These financial statements comprise the financial statements of the Gas Industry Company Limited (the "Company") for the year ended 30 June 2010.

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

The Company is a limited liability company incorporated and domiciled in New Zealand and is registered under the Companies Act 2003. The address of its registered office is 95 Customhouse Quay, Wellington.

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

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

The financial statements have been approved for issue by the Board of Directors on 9 September 2010.

2. BASIS OF PREPARATIONS

(A) STATEMENT OF COMPLIANCE

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.

(B) BASIS OF MEASUREMENT

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

(C) PRESENTATION CURRENCY

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

(D) COMPARATIVES

The comparative financial period is 12 months. Comparatives have been reclassified from that reported in the 30 June 2009 financial statements where appropriate to ensure consistency with the presentation of the current year's financial position, performance and cash flows.

(E) BUDGET FIGURES

The budget figures are approved by the Board of Directors in line with Company's strategic plans. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those used in preparing these financial statements.

(F) JUDGMENTS AND ESTIMATIONS

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates is revised and in any future years affected.

(G) CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new and amended New Zealand equivalents to IFRS and IFRIC interpretations as of 1 July 2009. The changes have had only a presentation and disclosure impact.

AMENDMENTS TO NZ IAS 1 PRESENTATION OF FINANCIAL STATEMENTS

The revised standard separates owner and non-owner changes in equity in the Statement of Changes in Equity and introduces the term “other comprehensive income” (i.e. changes in equity during the year, other than those resulting from transactions with owner’s in their capacity as owners and the profit or loss for the year).

Revised NZ IAS 1 introduces a new primary financial statement the “Statement of Comprehensive Income”, which discloses all movements in equity in the year other than transactions with owner’s in their capacity as owners. All non-owner changes in equity are presented in either one Statement of Comprehensive Income or two linked statements (i.e. an Income Statement and a Statement of Comprehensive Income). The Company has elected to present one Statement of Comprehensive Income.

AMENDMENTS TO NZ IAS 24 – RELATED PARTY DISCLOSURES

The amended standard simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. The Company has elected to early adopt the revised standard.

IMPROVEMENTS TO IFRSS

In May 2008 and April 2009 the IASB issued the omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position, performance or cash flows of the Company.

- » NZ IAS 7 *Statement of Cash Flows*: Explicitly states that only expenditure that results in recognising an asset (or disposal of an asset) can be classified as cash flows from investing activities.
- » NZ IAS 16 *Property, Plant and Equipment*: Replaces the term “net selling price” with “fair value less costs to sell”. The Company has amended its accounting policy accordingly, but this did not result in any change in financial position.
- » NZ IAS 18 *Revenue*: Guidance has been added to determine whether an entity is acting as a principal or as an agent in revenue transactions. The Company has assessed its revenue arrangements against the criteria provided by the revised standard and concluded current treatment is consistent with the standard.

The impact of improvements to IFRSs issued in 2008 and 2009 resulted in disclosure changes to the financial statements. Amendments to accounting policies have been applied on a prospective basis.

(H) NEW NZ IFRS STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At the date of authorisation of these financial statements, certain new standards and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all pronouncements will be adopted by the Company for the first year beginning after the effective date of the pronouncement. The new standards and interpretations issued are not expected to have a material impact on the Company financial statements, given the nature of its operations and financial instruments held.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) CASH AND CASH EQUIVALENTS

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

(B) TRADE DEBTORS AND OTHER RECEIVABLES

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

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

Receivables with a short duration are not discounted.

(C) 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 costs are charged to the profit/(loss) in the Statement of Comprehensive Income in the year in which the expense is incurred.

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

The residual value of property, plant and equipment is reassessed annually.

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 of the asset. These are included in the Statement of Comprehensive Income.

(D) INTANGIBLE ASSETS

Intangible asset acquired by the Company, which have a finite useful life, are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in the Statement of Comprehensive Income on a straight-line basis over the estimated useful life of the asset.

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



(E) FINANCIAL INSTRUMENTS

Financial instruments are comprised of trade debtors and other receivables, cash and cash equivalents, and trade creditors and other payables. The Company does not hold or issue derivative financial instruments i.e. (hedging instruments).

The Company has no off-balance sheet financial instruments.

RECOGNITION AND DE-RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for those carried at fair value through profit or loss, which are measured at fair value. Fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date for similar financial instruments of similar maturity and credit risk.

SUBSEQUENT MEASUREMENT OF 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.

IMPAIRMENT OF FINANCIAL ASSETS

All financial assets are subject to review for impairment at least once each reporting year. Accounts receivable are reviewed for impairment when accounts are past due or when other objective evidence is received that a specific counterparty will default. Impairment of trade receivables are presented in the Statement of Comprehensive Income, within expenses.

SUBSEQUENT MEASUREMENT OF FINANCIAL LIABILITIES

Trade payables and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

(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.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indicators exist, the Company estimates the asset's recoverable amount, to measure the reversal of any previous period impairment charges. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Reversals of impairment are recognised in the Statement of Comprehensive Income.

(G) TRADE CREDITORS AND OTHER PAYABLES

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

(H) PROVISIONS

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

A provision for onerous contracts is recognised when the benefits expected from the contract are lower than the unavoidable costs of meeting contract obligations.

(I) EMPLOYEE ENTITLEMENTS**SHORT TERM BENEFITS**

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

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

The Company recognises a liability for sick leave. The amount is calculated based on the unused sick leave entitlements that can be carried forward at balance date, to the extent that the Company anticipates that it will be used by staff to cover those future absences.

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

LONG-TERM BENEFITS

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

(J) PREFERENCE SHARES

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

(K) REVENUE

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

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

LEVY REVENUE

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

MARKET FEE REVENUE

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

- » Market fees to recoup operating costs to be recognised as revenue at the time the invoice is raised as a proxy for recognising it at the time the leviable event occurs.



- » Market fees to recover capital costs to be recognised as revenue once the expenditure the fees were raised to cover has been incurred.

ANNUAL FEES

Annual fees are recognised when invoiced.

INTEREST INCOME

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

(L) OPERATING 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 Statement of Comprehensive Income 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.

(M) FOREIGN CURRENCY TRANSLATIONS

Transactions in foreign currencies that are settled in the accounting period are translated at the settlement rate. Transactions in foreign currency that are not settled in the accounting period, resulting in monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to NZD at the foreign exchange rate ruling at that date. Foreign exchange differences arising on their translation are recognised in the Statement of Comprehensive Income.

(N) INCOME TAX

Taxation expense in the Statement of Comprehensive Income 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 has no material deferred tax balances as the majority of assets and liabilities are used to provide non-taxable activities.

(O) GOODS AND SERVICES TAX (GST)

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

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

(P) 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.

The Company is exposed to interest rate risk through the return on any funds it has invested and the cost of borrowed funds which 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. The Company does not hold any significant interest bearing liabilities, and therefore is not subject to interest rate risk on borrowings.

4. OPERATING INCOME

	ACTUAL 2010 \$	ACTUAL 2009 \$
Wholesale levy revenue	2,862,998	2,648,853
Retail levy revenue	1,649,662	1,911,368
Market fee revenue	2,747,264	2,226,768
Annual fees	80,000	90,000
TOTAL OPERATING INCOME	7,339,924	6,876,989

5. OPERATING EXPENDITURE

	ACTUAL 2010 \$	ACTUAL 2009 \$
Depreciation & amortisation	423,294	309,199
Operating lease expenses	317,349	232,884
Fees paid to audit firm – financial statement audit	9,900	8,000
Fees paid to audit firm – other services	–	–
Accounting and taxation advice	–	52,249
Directors' fees	244,860	262,460
General expenses	472,364	557,458
Recruitment expenses	60,337	131,023
Technical, economic, and legal advice	1,249,234	1,208,560
Service provider fees	1,429,993	620,136
KiwiSaver contributions	42,370	37,113
Foreign exchange loss	1,797	1,767
Employee benefit expense	2,037,206	2,300,178
TOTAL OPERATING EXPENDITURE	6,288,704	5,721,027

6. INCOME TAX

	ACTUAL 2010 \$	ACTUAL 2009 \$
a) Income tax expense		
Current year income tax expense	12,983	15,694
Deferred tax movement	–	–
Total income tax expense	12,983	15,694
b) Reconciliation of current year income tax expense		
Profit before tax	1,092,145	1,206,223
Income tax expense at 30 per cent	327,643	361,867
Permanent differences	(314,660)	(346,173)
Timing differences	–	–
Current year income tax expense	12,983	15,694
c) Income tax receivable		
Opening balance	1,569	7
Tax refunds received	(1,569)	(7)
Current year income tax expense	(12,983)	(15,694)
Income tax paid	13,594	17,263
CLOSING BALANCE	611	1,569

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

7. CASH AND CASH EQUIVALENTS

	ACTUAL 2010 \$	ACTUAL 2009 \$
Bank account	259,387	745,947
Money market account	2,000,000	–
Petty cash	500	500
TOTAL	2,259,887	746,447

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

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

8. TRADE AND OTHER RECEIVABLES

	ACTUAL 2010 \$	ACTUAL 2009 \$
Levy debtors	154,171	78,337
Other receivables	32,700	-
TOTAL	186,871	78,337

Trade debtors and other receivables are non-interest bearing and receipt is normally on 30-day terms. Therefore, the carrying value of trade debtors and other receivables approximates their fair value.

As at 30 June 2010 and 2009, all overdue receivables have been assessed for impairment and appropriate allowances applied. All trade receivables are subject to credit risk exposure.

The ageing profile of receivables at year-end is detailed below:

0-30 days	5,904	69,557
31-60 days	13,768	3,482
61-90 days	9,556	3,240
> 91 days	124,943	2,058
TOTAL	154,171	78,337

No provision for doubtful debts has been required because all significant receivable balances are owed pursuant to various gas governance regulations and rules, and so are a statutory obligation on the creditor. Therefore, collectability is highly probable.

9. TRADE AND OTHER PAYABLES

	ACTUAL 2010 \$	ACTUAL 2009 \$
Accounts payable	322,344	322,270
Accrued expenses	320,196	96,312
GST payable	7,156	21,648
TOTAL	649,696	440,230

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

10. PROPERTY, PLANT AND EQUIPMENT

	LEASEHOLD IMPROVEMENTS	FURNITURE AND OFFICE EQUIPMENT	COMPUTER	TOTAL
	\$	\$	\$	\$
<i>Cost</i>				
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
Balance at 1 July 2009	113,837	145,736	41,859	301,432
Additions	1,756	7,359	6,748	15,863
Transfers	-	-	-	-
Disposals	-	-	-	-
Balance at 30 June 2010	115,593	153,095	48,607	317,295
<i>Accumulated depreciation and impairment losses</i>				
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
Balance at 1 July 2009	5,701	67,101	27,920	100,722
Depreciation expense	12,744	25,483	7,174	45,401
Disposals	-	-	-	-
Impairment losses	-	-	-	-
Balance at 30 June 2010	18,445	92,584	35,094	146,123
NET BOOK VALUE	97,148	60,511	13,513	171,172

11. INTANGIBLE ASSETS

	SOFTWARE	INDUSTRY ASSETS	CONSTRUCTION IN PROGRESS	TOTAL
	\$	\$	\$	\$
<i>Cost</i>				
Balance at 1 July 2008	46,789	-	-	46,789
Additions	4,683	2,182,448	54,000	2,241,131
Transfers	-	-	-	-
Disposals	-	-	-	-
Balance at 30 June 2009	51,472	2,182,448	54,000	2,287,920
Balance at 1 July 2009	51,472	2,182,448	54,000	2,287,920
Additions	59,942	-	-	59,942
Transfers	-	-	-	-
Disposals	-	-	(54,000)	(54,000)
Balance at 30 June 2010	111,414	2,182,448	-	2,293,862
<i>Accumulated amortisation and impairment losses</i>				
Balance at 1 July 2008	8,041	-	-	8,041
Depreciation expense	13,092	227,158	-	240,250
Disposals	-	-	-	-
Impairment losses	-	-	-	-
Balance at 30 June 2009	21,133	227,158	-	248,291
Balance at 1 July 2009	21,133	227,158	-	248,291
Depreciation expense	14,080	363,814	-	377,894
Disposals	-	-	-	-
Impairment losses	-	-	-	-
Balance at 30 June 2010	35,213	590,972	-	626,185
NET BOOK VALUE	76,201	1,591,476	-	1,667,677

12. ASSET RESTORATION PROVISION

	ACTUAL 2010 \$	ACTUAL 2009 \$
<i>Gross balance of provision</i>		
Opening	64,571	13,000
Additions	–	51,571
Disposals	13,000	–
Closing gross provision	51,571	64,571
<i>Discount for time value of money</i>		
Opening	31,537	12,008
Additions	–	18,975
Movement due to change in discount rate	–	–
Unwinding of discount	(2,352)	554
Closing discount	29,185	31,537
PROVISION NET CARRYING AMOUNT	22,386	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. RELATED PARTY TRANSACTIONS

A) TRANSACTIONS WITH SHAREHOLDERS

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 2010 \$	ACTUAL 2009 \$
<i>Directors' Fees</i>		
Rt. Hon. James Bolger, ONZ (Chair)	93,500	93,500
Robin Hill (Deputy Chair)	63,360	63,360
Mark Verbiest (resigned February 2010)	35,200	52,800
Keith Davis	52,800	52,800
Andrew Brown (appointed June 2010)	–	–
Simon Mackenzie	–	–
David Baldwin	–	–
Albert Brantley	–	–

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

C) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

	ACTUAL 2010 \$	ACTUAL 2009 \$
SALARIES AND OTHER SHORT-TERM EMPLOYEE BENEFITS	1,035,010	1,395,780

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

D) REMUNERATION AND BENEFITS

	ACTUAL 2010	ACTUAL 2009
\$100,001 – \$110,000	1	–
\$110,001 – \$120,000	–	1
\$120,001 – \$130,000	1	2
\$160,001 – \$170,000	–	–
\$170,001 – \$180,000	1	1
\$190,001 – \$200,000	–	–
\$200,001 – \$210,000	–	–
\$210,001 – \$220,000	–	1
\$220,001 – \$230,000	–	1
\$230,001 – \$240,000	1	–
\$240,001 – \$250,000	1	1
\$420,001 – \$430,000	–	1
\$460,001 – \$470,000	1	–

The remuneration and benefits received by the Chief Executive are in the \$460,001 – \$470,000 band.

The annual remuneration of the Chief Executive is \$350,000. On 22 July 2009, the Board approved a performance payment of \$40,000 in respect of the 2008/09 financial year, which was paid on 28 July 2009. On 25 June 2010, the Board approved a performance payment of \$70,000 in respect of the 2009/10 financial year, which was paid on 30 June 2010.

During the financial year, a total of \$20,000 was paid to one employee by way of redundancy compensation.

14. REDEEMABLE SHARES

	ACTUAL 2010 \$	ACTUAL 2009 \$
Redeemable shares – value in dollars	8	8
Redeemable shares – number	8	8

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.

15. RESERVES AND RETAINED EARNINGS

	ACTUAL 2010 \$	ACTUAL 2009 \$
Industry advances reserve	1,574,072	211,096
Industry asset amortisation reserve	1,591,476	1,955,290
Retained earnings	270,000	190,000
TOTAL EQUITY RESERVES	3,435,548	2,356,386

A) INDUSTRY ADVANCES RESERVE

	ACTUAL 2010 \$	ACTUAL 2009 \$
Opening balance	211,096	1,065,857
Transfer from retained earnings	1,362,976	(854,761)
CLOSING BALANCE	1,574,072	211,096

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

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 2010 \$	ACTUAL 2009 \$
Opening balance	1,955,290	-
Transfer from retained earnings	(363,814)	1,955,290
CLOSING BALANCE	1,591,476	1,955,290

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

C) RETAINED EARNINGS

	ACTUAL 2010 \$	ACTUAL 2009 \$
Opening balance	190,000	100,000
Profit for the year	1,079,162	1,190,529
Transfer to industry advances reserve	(1,362,976)	854,761
Transfer to industry asset amortisation reserve	363,814	(1,955,290)
CLOSING BALANCE	270,000	190,000

The Board has resolved that shareholders' annual fees will be set aside to establish capital reserves.

16. CONTINGENCIES

As at 30 June 2010, the Company has no contingent liabilities (2009: \$Nil). There is an arrangement with Westpac Banking Corporation Limited whereby Gas Industry Company has a liability (limit \$100,000) and a payroll Letter of Credit facility (limit \$150,000).

17. COMMITMENTS

A) CAPITAL COMMITMENTS

The Company has no material capital commitments (2009: \$Nil).

B) OPERATING LEASE COMMITMENTS

	ACTUAL 2010 \$	ACTUAL 2009 \$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	310,972	320,462
Later than one year but not later than five years	1,356,130	1,135,135
Later than five years	380,766	918,318
TOTAL	2,047,868	2,373,915

C) SERVICE PROVIDER COMMITMENTS

	ACTUAL 2010 \$	ACTUAL 2009 \$
New service provider agreements commenced in 2008/09 for the Downstream Reconciliation Rules and the Switching and Registry Rules payable as follows:		
Within one year	920,408	920,408
Later than one year but not later than five years	2,171,088	3,091,496
Later than five years	-	-
TOTAL	3,091,496	4,011,904

18. 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 this set of financial statements.

19. MAJOR BUDGET VARIANCES

STATEMENT OF COMPREHENSIVE INCOME

Expenses

The majority of the expense variance relates to an under-spend in the work programmes and, in particular, the critical contingency work programme. A full year of service provider fees (\$660,000) was expected to be incurred during the year, however due to the delay in going live, only \$182,459 was incurred, giving rise to a saving of \$477,541. Additional savings were made by completing much of the required work in-house as opposed to using external consultants.

STATEMENT OF FINANCIAL POSITION

Cash and cash equivalents

The cash balance was positively affected by the over-collection of market fees (\$257,556), which will be returned to the industry participants, catchup levy payments for prior years (\$241,319), and the estimated cash savings on the reduction in expenditure (\$879,346).

Equity

The majority of the increase in equity of \$1,283,013 is explained due to the above two factors.

20. 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 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. No significant monetary assets were denominated in foreign currencies at year-end.

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 which 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. The Company does not hold any significant interest-bearing liabilities, and therefore is not subject to interest rate risk on borrowings.

CREDIT RISK

Credit risk is the risk that a third party defaults on its obligation to the Company, causing the Company to incur losses. The Company has no significant concentration of credit risk in relation to accounts receivable. The Company does not expect the non-performance of any obligations at balance date. The carrying value of trade debtors, other receivables, cash and cash equivalents and short-term bank deposits represents the Company's maximum exposure to credit risk at balance date.

LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The executive holds 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 Statement of Financial Position.

21. RECONCILIATION OF PROFIT TO NET CASH INFLOWS FROM OPERATING ACTIVITIES

	ACTUAL 2010 \$	ACTUAL 2009 \$
Profit/ (loss) for the year	1,079,162	1,190,529
Non cash items		
Depreciation and amortisation expense	423,294	309,199
Unwind of discount factor on restoration provision	2,352	2,052
Impact of changes in working capital items		
Prepayments	(19,106)	101,788
Trade and other payables	107,738	96,521
Employee entitlements	24,895	54,336
Trade and other receivables	(75,836)	(49,195)
GST payable	(14,492)	20,724
Income tax receivable	2,711	20,153
NET CASH FLOWS FROM OPERATING ACTIVITIES	1,530,718	1,746,107

22. CAPITAL MANAGEMENT

The Company's capital is its total equity, being the net asset of the Company, represented by retained earnings and other equity reserves. The primary objective of the Company's capital management policy is to ensure working capital is maintained in order to support its activities. The Company manages its capital structure and makes adjustment to it, in light of changes to funding requirements. To maintain or adjust the capital structure, budgeted discretionary expenditure is reduced to avoid the need for external borrowings.

