2013

ANNUAL REPORT

GAS INDUSTRY COMPANY LIMITED

AS THE INDUSTRY BODY AND CO-REGULATOR UNDER THE GAS ACT 1992 (GAS ACT), GAS INDUSTRY CO IS RESPONSIBLE FOR DEVELOPING INDUSTRY ARRANGEMENTS THAT ENSURE GAS IS DELIVERED SAFELY,EFFICIENTLY AND RELIABLY TO NEW AND EXISTING GAS CONSUMERS.

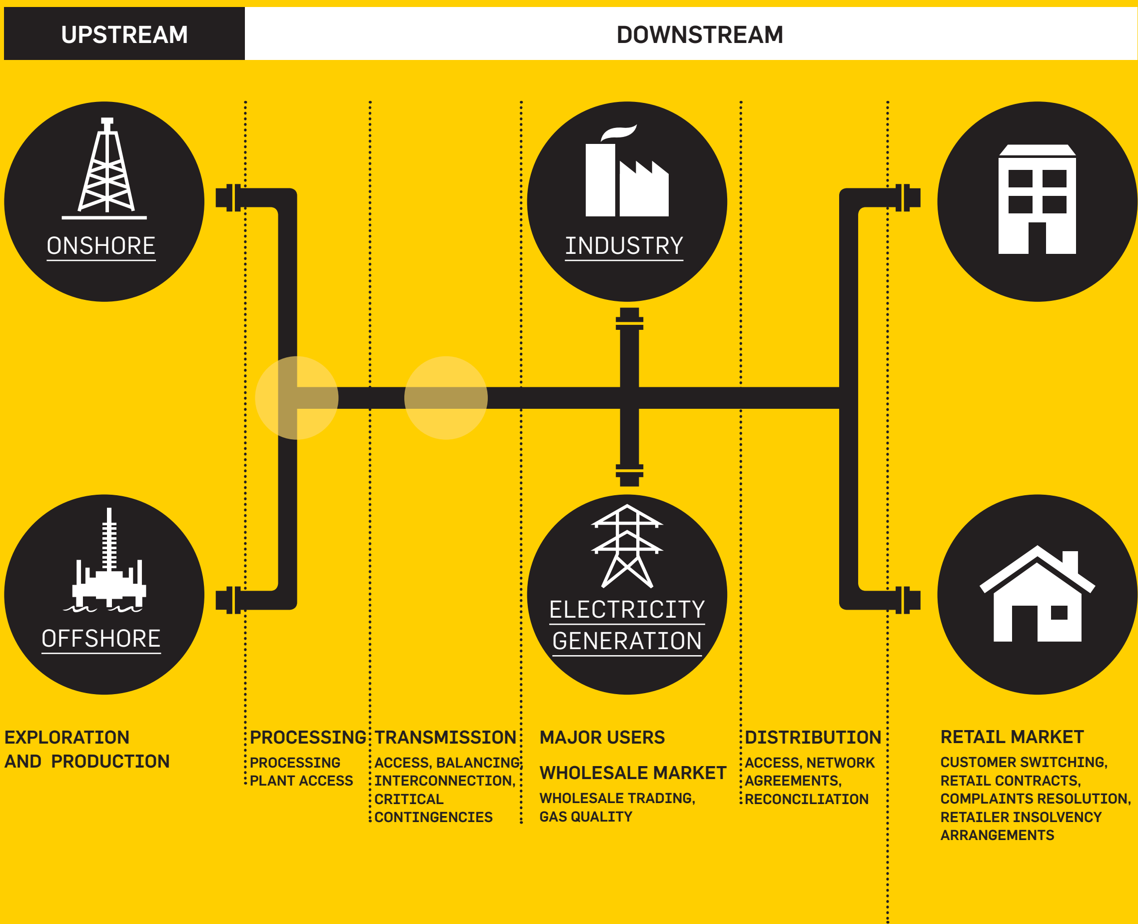
Our strategy is to *optimise the contribution of gas to New Zealand* by:

- promoting efficient, competitive, and confident gas markets;
- facilitating efficient use of, and timely investment in, gas infrastructure;
- delivering effectively on our accountabilities as the gas industry body; and
- building and communicating the New Zealand Gas Story.

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

GAS INDUSTRY STRUCTURE

Gas Industry Co's role covers the gas industry downstream of the exploration and production sector, and includes gas processing, transmission, distribution, and the wholesale and retail markets.



KEY INDUSTRY ARRANGEMENTS

Gas Industry Co currently administers five governance systems that together underpin the downstream gas industry:

- Gas (Switching Arrangements) Rules 2008 (Switching Rules), which provide for a central registry of ICP data, and facilitate customer switching among retailers.
- Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules), which prescribe the process for attributing volumes of gas consumed to the responsible retailers.
- Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations), which set out how industry participants plan for and respond to a serious incident affecting gas supply via the gas transmission pipelines.
- Gas (Processing Facilities Information Disclosure) Rules 2008 (Processing Information Disclosure Rules), which detail information to be provided by owners of gas processing facilities. These will expire in June 2014.
- Gas Governance (Compliance) Regulations 2008 (Compliance Regulations), under which alleged breaches of the rules and regulations set out above are determined and settled efficiently. Gas Industry Co performs the role of Market Administrator under the Compliance Regulations.

The ongoing effectiveness of the governance arrangements is monitored and reviewed, including through a set of industry performance measures. These are published on the Company's website www.gasindustry.co.nz

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CHAIR'S FOREWORD

"In our role as an industry-owned company, working with Government in a co-regulatory partnership, Gas Industry Co is uniquely positioned to support and facilitate industry preparedness for the next significant gas find..."

Responsible development of New Zealand's oil and gas resources, and resilient infrastructure are among the cornerstones of Government objectives for economic growth in New Zealand. Thus it is important that the gas industry is well positioned to optimise the contribution of gas, now and in the future.

Gas remains an important contributor to New Zealand's energy mix and its economic wellbeing, by supporting electricity generation, providing an efficient, cost-competitive fuel for some of the country's largest industries, and offering an important energy choice for around 260,000 homes and businesses.

In each of the past five years, remaining gas reserves have represented a comparatively stable supply/demand outlook of between 10 and 12 years ahead. This has generally been sufficient to maintain market confidence, but clearly it requires sustained efforts through exploration, new discovery development, and production enhancement of existing fields to preserve a degree of gas supply longevity that incentivises its continued use.

In the same period we have seen changing demand patterns, with gas-fired thermal power generation moving increasingly from a baseload to an as-required peaker role, and flat or declining consumer demand, offset by a significant increase in gas use for methanol production.

Government's energy policies are directed at attracting ongoing investment in upstream exploration and production, while ensuring healthy and competitive downstream markets that enable the efficient use of energy, and support market growth. The downstream gas industry is generally in good heart and Gas Industry Co has a key role in developing and maintaining that status.

As we look ahead, the big questions for the Government, the gas industry and Gas Industry Co include the location and timing of the next significant gas discovery; any new infrastructure that may be required; the robustness of today's governance regime to cater for it; and the ability of the domestic market to absorb a large volume of new gas. The scenarios are so broad that these questions don't have immediate answers. It would be impractical to try to develop in advance specific governance arrangements for every conceivable scenario.

It is essential, however, that the industry is thinking ahead, and anticipating challenges.

Gas Industry Co is not a direct participant in the industry. We do not go out to find and develop gas resources; nor do we operate processing and delivery infrastructure, or negotiate the supply and purchase agreements that put the country's gas resources to beneficial use.

PRIORITIES FOR 2013/14

- Complete industry consultation on the Second Advice Report of the Panel of Expert Advisers (PEA) and progress implementation of a preferred option for improved transmission capacity allocation and pricing arrangements.
- Continue working with industry participants to deliver benefits from the Bridge Commitments as an interim means of addressing transmission pipeline capacity access issues in the short-term.
- Implement improvements and manage transition arrangements for the CCM Regulations.
- Conduct the first full assessment of gas distributors' contracts with retailers against principles under the Gas Distribution Contracts Oversight Scheme (Distribution Scheme).
- Complete a review of the Retail Gas Contracts Oversight Scheme (Retail Scheme) to ensure assessments of retailers' contracts with small consumers continue to provide value. Implement any changes arising from the review.
- Facilitate the implementation of industry-led solutions addressing concerns over gas quality arrangements. Assess and address any remaining gas quality issues.
- Complete industry consultation on the second stage of amendments to the Reconciliation Rules. Finalise proposals for any consequential changes to these Rules.
- Support and facilitate industry-led, non-regulated transmission pipeline balancing arrangements in the form of changes to the Maui Pipeline Operating Code (MPOC), the Vector Transmission Code (VTC) and other balancing-related arrangements. Consider the need for regulated solutions if industry initiatives prove to be inadequate.
- Progress a review of the Switching Rules and develop proposals for any consequential amendments.
- Assess any new interconnections with transmission pipelines and report to the Minister on the effectiveness of current interconnection arrangements.
- Maintain the currency of the New Zealand Gas Story.
- Further develop and implement the Company's broader strategy to optimise the contribution of gas to New Zealand, and to increase general awareness of the role of gas in the economy.

Neither are we a casual bystander. In our role as an industry-owned and funded organisation, working with Government in a co-regulatory partnership, Gas Industry Co is uniquely positioned to support and facilitate industry preparedness. Part of this is by making sure downstream gas issues are identified and effectively addressed, that core governance arrangements support upstream investments and can generally translate to changing circumstances, including the potential for a major gas discovery to occur outside the currently sole producing region of Taranaki.

Importantly, Gas Industry Co is able to look beyond regulation and regulatory compliance to also think about energy supply futures. While our statutory mandate is centred on the mid-to-downstream sectors of the industry, we are able to take a broad end-to-end, producer-to-consumer perspective of the industry.

During the year, the Board reconfirmed the core elements of Gas Industry Co's strategy of optimising the contribution of gas to New Zealand as still relevant and appropriate to the current requirements of the gas industry. In delivering our strategies, we have a range of tools that are not limited to regulatory and other formal processes. They include producing information that assists industry investment decisions, adopting an industry leadership role in appropriate circumstances, and facilitating industry conversations on the issues that matter.

Fundamental to our strategic proposition is a belief that an industry flourishes best when it is well informed; where stakeholders have a fair and transparent governance regime in which they can make an effective contribution; and, within the disciplines of competition law, participants can work co-operatively in the pursuit of solutions.

Our commissioning and publication of two special reports during the year – the first substantial study in New Zealand of future gas supply and demand scenarios, and a Consumer Energy Options report confirming the competitive positioning of gas among various energy types – together with our own *New Zealand Gas Story* publication, which sets out the current state and performance of the gas industry, are evidence of our strategy in action. These publications have been well received as contributing to industry understanding and providing some of the information pieces in participants' decision-making.

Similarly, the Gas Transmission Investment Programme (GTIP), which harnesses the knowledge and expertise of a range of industry participants in developing a response to transmission capacity access issues, demonstrates the type of leadership we can bring to encourage the industry to find its own answers.

The Board looks forward to developing similar initiatives that will stimulate discussion and lead to creative outcomes that will benefit industry participants, consumers and the nation alike.

ACKNOWLEDGEMENTS

Gas Industry Co enjoys the ongoing support of its shareholders and the various perspectives they bring to the Company's ownership. The Board encourages all eligible industry participants to become shareholders, and we were pleased to welcome three new shareholders during the year – Methanex New Zealand, New Zealand Oil & Gas and Nova Energy.

The Company's executive and staff again met the challenges of a demanding workload and have achieved the performance objectives we set through strategic planning and work programmes. The Directors record their appreciation to Gas Industry Co's staff for ensuring that the market systems remain efficient, effective and operate to the benefit of participants and consumers.

It is essential that Gas Industry Co's work programme delivers on Government policy objectives, reflects industry stakeholder views on what is important to them, supports good outcomes for consumers, and is executed in a cost effective manner. This Annual Report features comments from various key stakeholders on aspects of the industry that have significance for them. The work plan presented each year in our Statement of Intent is developed in close consultation with industry stakeholders, and is strengthened with the broad input of the industry participants who fund our activities through levies, and other stakeholders with an interest in the efficient operation of energy markets. The Board records its appreciation to all stakeholders for their valuable and welcome contribution.

RT HON JAMES B. BOLGER, ONZ

CHAIR

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CHIEF EXECUTIVE'S REVIEW

"All of these developments … portray an industry that not only understands and acknowledges its issues, but one that is also concerned to resolve them. That remains fundamental to the industry's regulatory compact with the Government."

The Gas Industry Co team has completed an especially busy year in which a range of workstreams reached important milestones.

Reflective of what is unique about the co-regulatory model, these milestones comprised a mix of voluntary and regulated gas governance arrangements that, overall, underpin the health of the downstream gas industry.

Our work during the year led us to making formal recommendations to the Minister of Energy and Resources on a number of matters. Some, like our recommendations that regulations are not needed for gas processing facility access and insolvent retailer arrangements, show that existing practices are generally sound. They demonstrate that regulation is not necessarily a prerequisite for the good governance of the industry.

The use of voluntary industry arrangements provides further reinforcement that regulatory intervention is not always needed to achieve positive outcomes for industry participants and consumers.

New Zealand's gas transmission governance arrangements are founded on voluntary open access and multilateral codes. Our work on the GTIP suggests a strong possibility that this will continue to be so. In particular, the deliberations of the independently-chaired industry group, the PEA, culminated shortly after year-end in recommendations for 'evolutionary convergence' of the existing Maui and Vector codes. Gas Industry Co has broadly endorsed this approach and looks forward to analysing submissions and facilitating the next phase in the development of the current multilateral transmission code arrangements.

The Distribution and Retail Contracts Schemes, together with a newly introduced Information Gathering Protocol, further demonstrate how voluntary, non-regulated arrangements can effectively promote change in participant practices.

These arrangements are being closely monitored and, while Gas Industry Co reserves its position on the need for regulation, it is pleasing to see participants embracing the voluntary approaches with evident goodwill.

Finally, in the third tier of governance arrangements, we continue to improve the existing rules and regulations that provide a fundamental underpinning for the downstream gas market. These were largely put in place in 2008/09 and reviews are appropriate to reflect their first few years of operation. The first tranche of improvements to the Reconciliation Rules successfully took effect on 1 June 2013, and the comprehensive review of the CCM Regulations resulted in the development of recommendations on changes to both these and the Compliance Regulations, which were submitted to the Minister shortly after balance date.

During the year we also provided the Minister with an update on the industry's efforts to improve transmission pipeline balancing arrangements, which has proved to be a problematic and challenging issue over many years. We were able to report significant progress in the light of imminent changes to the MPOC, combined with proposals for parallel changes to the VTC, two separate proposals for the development of wholesale gas markets, and the commencement of the second phase of the Reconciliation Rules review.

In addition to potentially helping balancing arrangements, the unfurling of the two industry-led initiatives for wholesale gas market platforms has broader importance. While there is still some work to do, the successful implementation of transparent wholesale trading would be a significant milestone for the industry and assist it in fulfilling an outstanding Government policy objective that seeks efficient arrangements for the short-term trading of gas.

All of these developments are the result of focused and co-operative work between Gas Industry Co and industry stakeholders. They portray an industry that not only understands and acknowledges its issues, but one that is also concerned to resolve them. That remains fundamental to the industry's regulatory compact with the Government.

STEVE BIELBY

CHIEF EXECUTIVE

TELLING THE NEW ZEALAND GAS STORY

During the year, Gas Industry Co issued three significant publications that together provide a detailed picture of the gas industry in New Zealand. They are designed to help inform industry participants' business planning and decision-making.

THE NEW ZEALAND GAS STORY

The New Zealand Gas Story – the State and Performance of the New Zealand Gas Industry presents a comprehensive account of the industry's history, structure, performance, and place in the New Zealand economy, as well as the regulatory and policy environment in which it operates.

The publication describes an industry that is in generally good shape as it continues to make a major contribution to the energy needs of New Zealand's homes, businesses and community amenities. The industry generally has identified its key issues and opportunities, and is addressing them.

The report fulfils two purposes: an obligation on Gas Industry Co to report to the Minister on the current state and performance of the industry, and as a response to a request by industry participants for Gas Industry Co to take a central role in bringing together the entire story about gas in New Zealand.

It will be regularly updated with the intention of providing industry and wider public stakeholders with a current information resource about a constantly changing industry.

ENERGY OPTIONS

An Energy Options Report – *Consumer Energy Options: An evaluation of the different fuels and technologies for providing water, space and process heat* – was commissioned by Gas Industry Co from Concept Consulting to update a 2009 report on the benefits of the direct use of gas.

It is designed to assist industry participants, as well as energy consumers, to fully understand and assess their energy choices in the highly competitive consumer energy market. The latest report confirms that gas continues to provide a competitive energy choice for home energy and industrial heat applications. Its key findings are:

» instant or continuous gas water heating is the most cost-effective in a majority of cases even if a home does not already have a gas connection. This is due to the lower up-front purchase and installation cost, and cheaper energy price.

- space heating options can vary significantly between consumers and is dependent on the house size, design, insulation, location, and the occupants' heating preferences. For example, free standing resistance electric heaters may be the best option for smaller heating requirements, while the most cost-effective option for larger heating requirements are log burners, gas heaters, and heat pumps.
- for new industrial boiler requirements, gas units are currently significantly cheaper than coal and biomass options.

GAS SUPPLY AND DEMAND

As part of the Gas Transmission Investment Programme work, Gas Industry Co commissioned the first substantive review of gas supply and demand in New Zealand. The report, *Gas Supply and Demand Scenarios 2012-2027*, produced by Concept Consulting, confirms a positive outlook for the continuing contribution of gas to New Zealand's energy supply future.

The report includes national and regional gas supply/demand scenarios and peak demand projections that can assist the industry and large users when considering energy investments. A modelling tool associated with the report enables industry participants to input their own assumptions into the data to inform their business decision-making.

Its main findings include:

- New Zealand's gas supply position is stronger than it has been for many years, driven by the highest level of exploration effort seen for a long time. At the same time, greater gas availability in recent years has been reflected in softer wholesale gas prices.
- long-term gas demand is likely to vary significantly between the different price scenarios. The sectors most sensitive to wholesale gas price changes are petrochemical manufacturing (especially methanol production) and power generation. Gas demand for other industrial, commercial, and residential users is relatively steady across the scenarios.
- with the exception of Vector's North Pipeline, the existing transmission pipeline system is expected to have sufficient capacity to accommodate scenarios involving higher demand. However, some gas users, such as power generators, on the North Pipeline appear to have relatively low cost options to reduce their usage during peak demand periods.

KEY ACHIEVEMENTS IN 2012/13

ACTIVITY	PRIORITIES SET FOR 2012/13	OUTCOMES FOR 2012/13
TRANSMISSION CAPACITY	Continue to work with the industry to deliver benefits from the Bridge Commitments to address short-term issues arising from the North Pipeline constraint. Particular focus on Gas Transmission Exchange (GTX) trading and freeing up potential capacity held by electricity generators. Progress the GTIP to achieve improved transmission access and pricing arrangements.	GTX developed and capacity offers and trading occurring. Some capacity previously reserved for power generation has become available on an interruptible basis. Second Advice Report from the PEA to Gas Industry Co, received shortly after year-end, recommends a future evolution of transmission capacity allocation and pricing arrangements.
CRITICAL CONTINGENCY MANAGEMENT	Complete a review of critical contingency management (CCM) arrangements and make recommendations to improve the industry's emergency response processes.	Comprehensive review of CCM Regulations, involving extensive industry stakeholder consultation, completed and recommended changes, together with consequential changes to the Compliance Regulations, submitted to the Minister shortly after year-end.
DISTRIBUTION CONTRACTS	Implement the Distribution Scheme, using a set of principles to assess contractual arrangements between distributors and retailers.	Distribution Scheme endorsed by the Minister in 2012 and initial assessment completed on distribution contracts as at 1 February 2013.
CONSUMER ISSUES	Complete the third annual review of contracts gas retailers have with small consumers against a set of benchmarks as part of small consumer protection measures. Publish individual retailers' alignment with those benchmarks.	Third annual assessment under the Retail Scheme completed, and shows improvement from 'Moderate' to 'Substantial' overall alignment with benchmarks. Individual retailers' results published. Commencement of review of the Retail Scheme to ensure it remains fit for purpose.
GAS QUALITY	Protect gas and gas pipeline integrity by producing an Update paper evaluating industry arrangements for monitoring gas quality.	Gas quality investigation Update published in August 2012. Focus on facilitating industry-led solutions, particularly through development of a gas retailers' protocol for gas quality information.
DOWNSTREAM RECONCILIATION	Complete a review of the Reconciliation Rules and implement appropriate changes, including to initial allocation processes.	Stage 1 review completed and consequent changes to the Reconciliation Rules approved and implemented in June 2013. Commencement of work on Stage 2 options for initial allocation improvements.
TRANSMISSION BALANCING	Support and facilitate enhanced, industry-led, non-regulated transmission pipeline balancing arrangements in the form of changes to the MPOC, and parallel changes to other balancing-related arrangements.	Industry progressing relevant Code changes. Update report to the Minister in April 2013 notes significant progress towards positive outcomes for gas balancing.
INFORMATION GATHERING	Introduce arrangements to improve Gas Industry Co's access to information to support its policy development process.	Voluntary Protocol for Information Gathering for Policy Development implemented.

UPSTREAM

"AN EFFICIENT AND PRICE TRANSPARENT GAS MARKET IS AN IMPORTANT COMPONENT IN ATTRACTING CAPITAL FOR OIL AND GAS EXPLORATION.

Outside the Taranaki basin, New Zealand is largely unexplored. As an industry we need to be turning our minds to where the next phase of discovery and development will occur, the investment required and how this will help power our economy and provide benefits for the nation."

CHRIS BUSH, CHAIRMAN

PETROLEUM EXPLORATION AND PRODUCTION ASSOCIATION OF NEW ZEALAND

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PROMOTING EFFICIENT, COMPETITIVE, AND CONFIDENT GAS MARKETS

Gas industry Co develops, administers and monitors industry arrangements designed to ensure that the gas markets are efficient and competitive, and that participants have the confidence they need to maintain their investment in the production, delivery and use of gas.

Our work in this area particularly encompasses:

- arrangements between distributors and retailers;
- the reconciliation of downstream gas volumes;
- customer switching processes; and
- improving consumer outcomes.

DISTRIBUTION CONTRACT ARRANGEMENTS

The voluntary Distribution Scheme was endorsed by the Minister of Energy and Resources in September 2012. Its purpose is to ensure that core terms and conditions in contracts between distributors and retailers are clear and reasonable, promote market efficiency and ultimately enhance consumer outcomes. Under the Distribution Scheme, distributors' standard published contracts are assessed against a set of contract principles.

The initial assessment was undertaken on contracts as at 1 February 2013 by the Independent Assessor, Elwood Law. Unfortunately, distributors have taken longer than expected to develop revised contract arrangements consistent with the principles and, as at the date of the assessment, none had published a standard gas distribution contract. As a result, technically the overall alignment of published standard gas distribution contracts with the Distribution Scheme was 'Nil' – meaning no alignment with the intention of the principles.

Gas Industry Co is disappointed that distributors were not able to develop new contracts in time for the initial assessment, as they indicated would be possible during early consultation on the Distribution Scheme. However, each distributor covered by the Distribution Scheme is in the process of developing a standard gas distribution contract and Gas Industry Co is encouraged by a positive indication from the review that these should broadly align with the principles once finalised.

New standard contracts are expected to be published before the next scheduled assessment on 1 February 2014.

As with the introduction of the Retail Scheme in 2010, the initial assessment under the Distribution Scheme resulted in some requests for clarification in the interpretation of elements of the principles. These were within a range of expected implementation issues, and are being addressed by Gas Industry Co, the Independent Assessor and participants as part of the transparent assessment approach being taken.

This current position accordingly underlines the rationale for the Distribution Scheme, and gives good signals that desired improvements are in train. Gas Industry Co's Retail Scheme (discussed on page 16) provides a parallel example that offers positive outcomes. Both Schemes provide for the publication of individual company results.

DOWNSTREAM RECONCILIATION

During the year, the first tranche of amendments to improve aspects of the Reconciliation Rules were approved by the Minister and took effect on 1 June 2013.

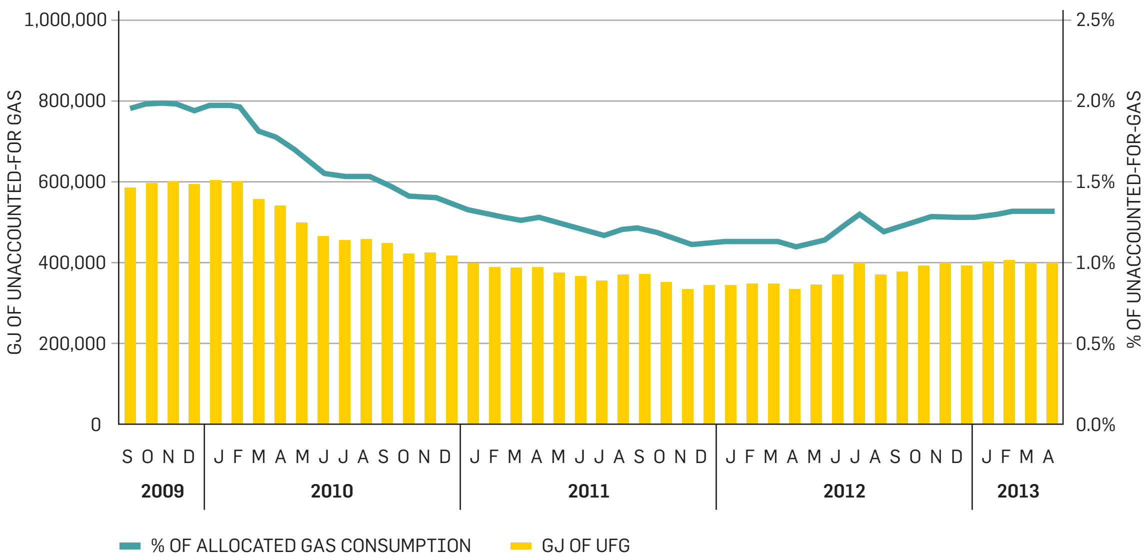
The amendments arose from an extensive review of the Reconciliation Rules, in which Gas Industry Co was assisted by an industry advisory group and with input from stakeholders. The first round of changes included:

» codification of some long-standing exemptions, which removed the compliance burden and uncertainty of rolling-over those exemptions;

» allowing the correction of erroneous annual unaccounted-for gas (UFG) factors, to ensure data accuracy; and

» eliminating the creation of some technical breaches, where the costs of administering those breaches outweigh their impact.

FIGURE 1: ANNUAL UNACCOUNTED-FOR GAS



Based on interim and final allocations. Series commenced in September 2009, with April 2013 allocations the latest as at the date of this Annual Report.

Gas Industry Co was required to further consult with industry participants and make determinations on a number of details arising from these changes, produce guidelines on the new arrangements and revoke or vary some existing exemptions. The Allocation Agent also implemented system changes to comply with a new functional specification that came into effect with the Reconciliation Rules changes.

Following completion of the further consultation process late in the financial year, Gas Industry Co's attention turned to the more complex second phase of the Reconciliation Rules review, involving consideration of initial allocation alternatives. An Options Paper is being prepared for consultation during 2013/14.

The Reconciliation Rules set out a process for reconciling volumes of gas leaving the high pressure transmission system with volumes consumed by end users, and appropriately attributing them to retailers. The difference between the gas volume that retailers estimate their customers have used and the volume leaving the transmission system is UFG, which is allocated, and charged, to retailers in proportion with their consumption submissions.

Since their introduction in 2008, the Reconciliation Rules, and their associated performance and event auditing mechanisms, have been instrumental in reducing UFG from over 2 percent of total annual deliveries to as low as 1.2 percent.

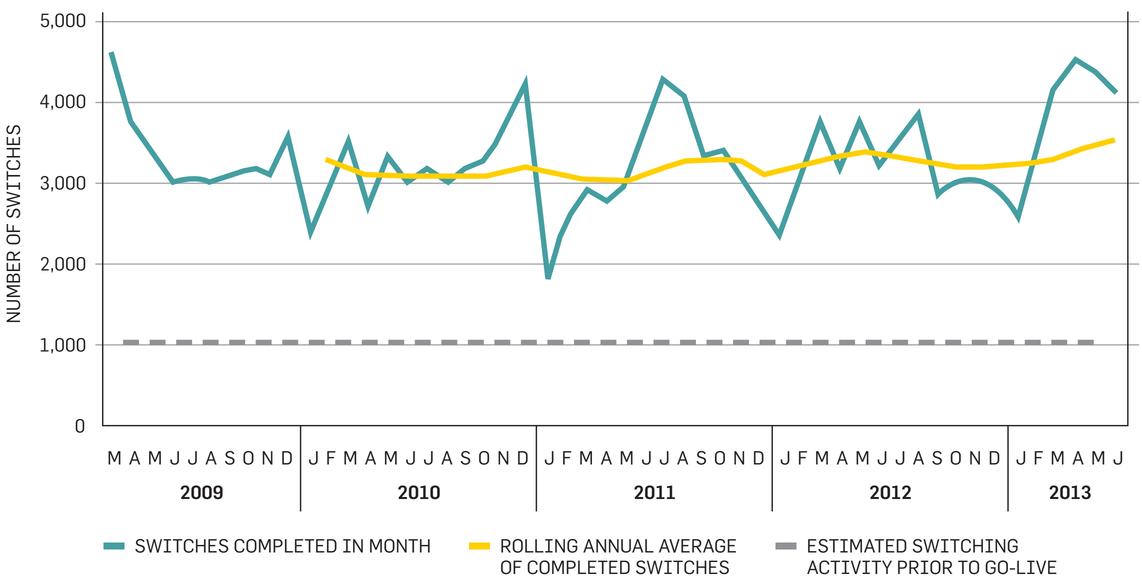
Figure 1 shows the rolling UFG since 2009, both in volume (gigajoules (GJ)) and as a percentage of gas delivered.

CUSTOMER SWITCHING

There continues to be a high level of contestability in the gas market. In the last four months of the financial year, the rate of customer switching between retailers averaged over 4,000 a month (see Figure 2), an increase from the average monthly switching rate of about 3,200.

Total gas customer switches in 2012/13 increased by 5.2 percent to 41,990, representing an annual churn rate of about 16 percent. Annual customer churn in the electricity sector is approximately 18 percent. Prior to the Switching Rules taking effect in March 2009, monthly switches amounted to approximately 1,000, with an annual churn rate of about 4.8 percent.

FIGURE 2: GAS CUSTOMER SWITCHES

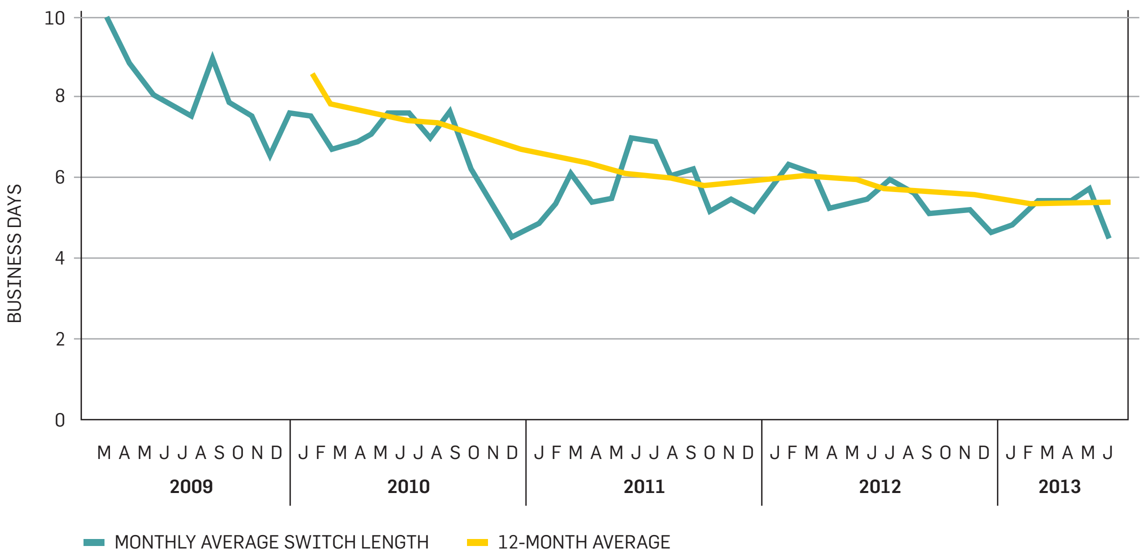


NOTES:
- Includes only switches on open-access distribution networks. Switches from open-access to bypass networks (or vice versa) are not recorded as a switch in the Gas Registry.
- Excludes approximately 6,350 E-Gas customers transferred to Nova Energy in 2010 as a result of Nova purchasing the customer base from E-Gas's liquidator.
- Excludes 're-branding' transfers from Auckland Gas to Nova Energy in 2011 and Bay of Plenty Energy to Nova Energy in 2012, as all are part of the Todd Group.

The time taken to process gas customer switches is also improving year-on-year. The 12-month rolling average switching time (see Figure 3) stands at about 5.3 business days. In 2011/12, it was just under six business days, itself an improvement on the seven business day average in the previous year. Prior to the commencement of the Switching Rules, switching times were measured in weeks or months.

The trends demonstrate that the Switching Rules are effectively delivering on their purpose of enabling consumers to choose, and efficiently alternate between, competing retailers. The Gas Registry, established under the Switching Rules to maintain customer installation data, and to facilitate and monitor the switching process, again operated to its performance standards.

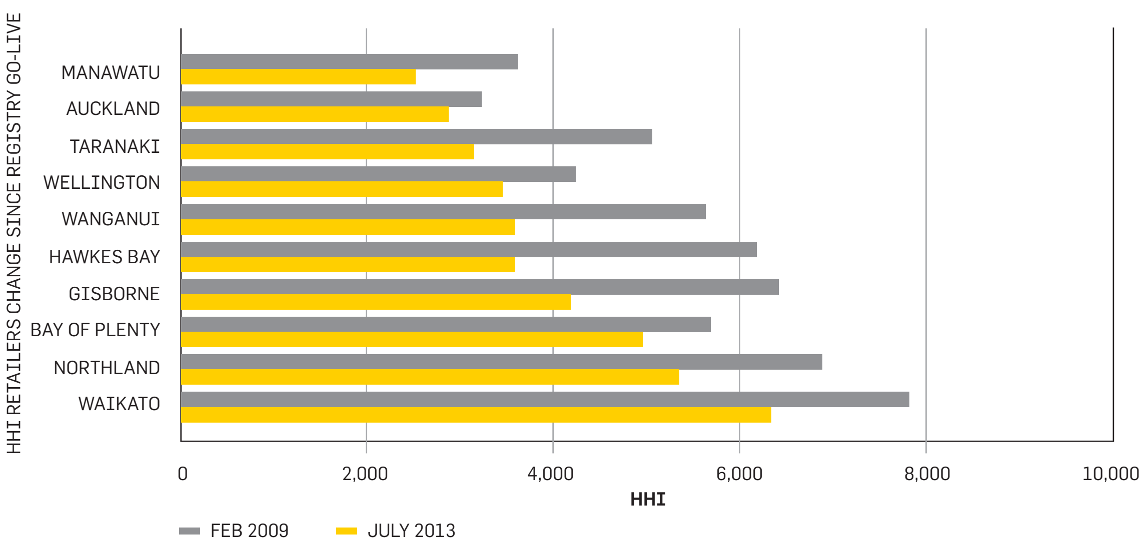
FIGURE 3: GAS CUSTOMER SWITCH TIME



The Herfindahl-Hirschman Index (HHI)[1], which measures market concentration using the size and number of competing firms, further confirms improved contestability in the gas retail market. The HHI has decreased in all regions since the Gas Registry went live (see Figure 4) indicating that the retail gas markets in these regions have become less concentrated as new retailers have entered the market and smaller retailers have increased their market shares.

There are eight retailers, one less than in the previous year due the amalgamation in 2012 of Bay of Plenty Energy (a member of the Todd Energy Group) into Todd Energy's other retail brand, Nova Energy. Over 95 percent of gas customers are connected to a gas gate where at least six retailers trade.

FIGURE 4: HERFINDAHL-HIRSCHMAN INDEX OF MARKET CONCENTRATION



[1] The HHI ranges from 0 to 10,000. A low score indicates a low level of market concentration, which arises when there is a large number of small firms in the market, each with a small proportion of market share. Conversely, an HHI score of 10,000 represents a market with a single retailer. Market concentration is often inversely related to market competition; the more retailers there are, the greater the competition for customers.

IMPROVING CONSUMER OUTCOMES

Particular policy attention is paid to promoting and protecting the longer-term interests of smaller consumers as they do not have the resources or market influence of larger commercial enterprises. In addition to the processes, information disclosure and monitoring regimes associated with the Reconciliation Rules and Switching Rules, smaller consumers receive further benefits from arrangements covering retailer contracts and consumer complaints processes. Similarly, Gas Industry Co's review of arrangements to manage gas retailer insolvencies is also designed to reinforce small consumer confidence in their supply integrity.

RETAIL GAS CONTRACTS OVERSIGHT SCHEME

The third assessment under the Retail Scheme was completed during the year. It confirmed a substantial improvement in published standard terms and conditions for gas retail supply contracts for residential and business consumers using less than 10 terajoules (TJ) a year.

A baseline assessment in 2010 and a transitional assessment in 2011 rated retailers' overall alignment with the Retail Scheme contract benchmarks as 'Moderate'. The third assessment in 2012/13 saw a marked improvement to 'Substantial' overall alignment. As planned, the ratings of individual retailers from the third assessment were published for the first time, after public disclosure of only the consolidated result in the previous two years.

The Retail Scheme was developed by Gas Industry Co in consultation with industry and consumer representatives to ensure retailer and consumer obligations are clear, the contracts reflect market structures, they support an effective complaints resolution process and, overall, are in the long-term interests of consumers.

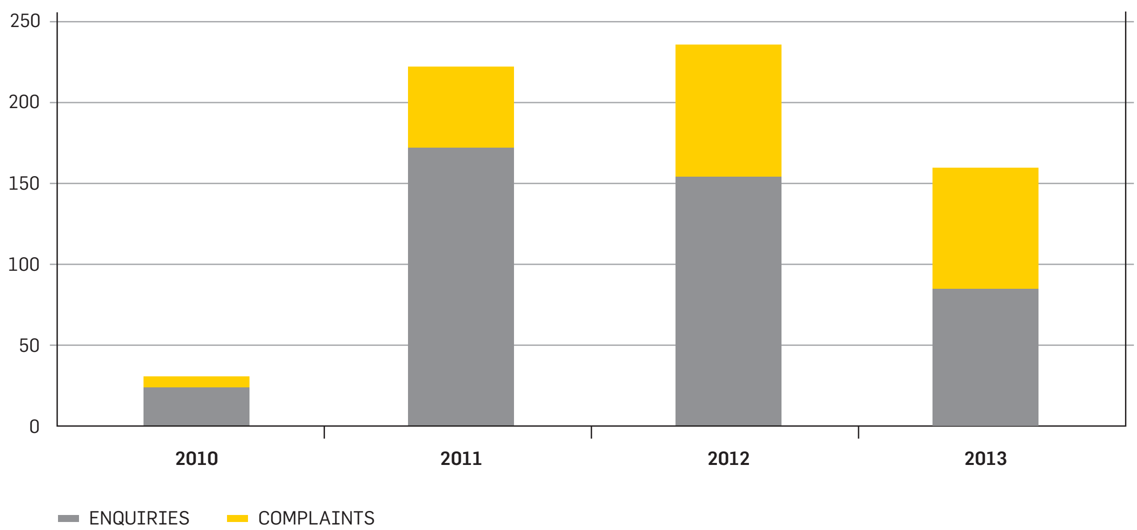
Following completion of the third assessment, Gas Industry Co issued a Consultation Paper as the first step in a scheduled review of the Retail Scheme to confirm future work, ensure it remains fit for purpose and that compliance costs are appropriate compared with the benefits. The review is continuing into 2013/14. As it is unlikely retailers' contracts will be further amended in the near future, Gas Industry Co has advised the Minister that it would be appropriate to suspend further contract assessments until the review is completed.

CONSUMER COMPLAINTS SCHEME

An effective, free and independent complaints resolution process is available to gas consumers through the Electricity and Gas Complaints Commissioner Scheme (EGCC).

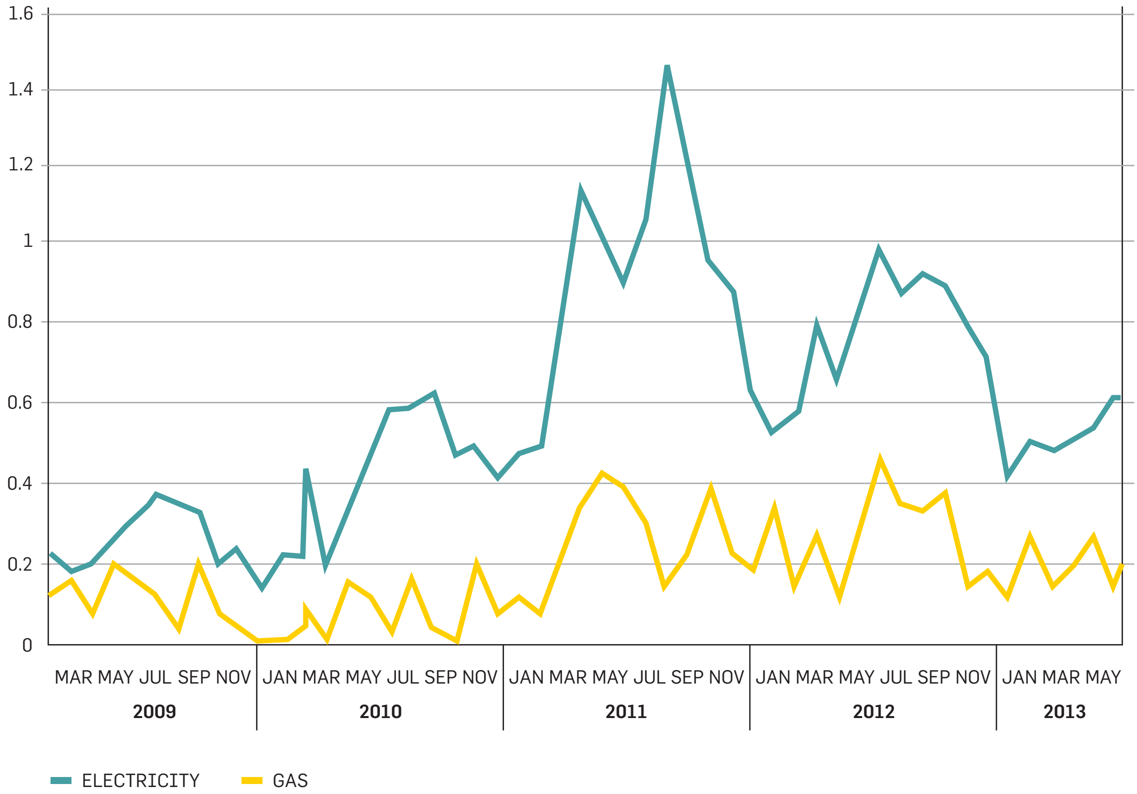
In its Annual Report for the year ended 31 March 2013, the EGCC records a 15 percent reduction in total inquiries and complaints compared with the record levels received in the previous financial year. It notes that an increased ratio of deadlocked cases to complaints is a good development as it indicates companies are settling more complaints and the EGCC is focused on the more intractable or complex cases.

FIGURE 5: GAS-RELATED INQUIRIES AND COMPLAINTS



– Note: 2010 covers only three months, from the commencement of EGCC as the approved consumer complaints resolution scheme on 1 April 2010, to 30 June 2010.

FIGURE 6: ELECTRICITY AND GAS COMPLAINTS PER 10,000 ICPs



The EGCC received fewer gas and dual fuel (electricity and gas) cases during 2012/13. Consumer enquiries relating specifically to gas declined from 155 to 83, continuing a declining trend from 173 in 2010/11, and gas-related complaints fell from 82 to 74. Dual fuel consumer enquiries declined from 38 to 27, and dual fuel complaints fell from 130 to 62. Overall, the most common grounds for consumer complaints continued to involve billing, which accounted for almost half of all complaints, followed by customer service, disconnection, metering, and debt issues.

The gas sector is the subject of substantially fewer complaints than the electricity sector on a complaints per 10,000 ICPs basis. During 2012/13, complaints per 10,000 ICPs relating to the gas sector averaged 0.24 per month (down from 0.26 in 2011/12), compared with an electricity sector monthly average of 0.67 (down from 0.88).

The EGCC was approved as the consumer complaints resolution scheme for the electricity and gas industries on 1 April 2010 upon the joint recommendation of Gas Industry Co and the then Electricity Commission. The scheme was expanded in December 2010 to include reticulated LPG. During the year ended 30 June 2013, the EGCC received seven inquiries and one complaint relating to reticulated LPG. There were no cases in the corresponding previous year.

Gas Industry Co continues to liaise closely with EGCC, the Electricity Authority (EA) and the Ministry of Business, Innovation and Employment (MBIE) to stay informed of issues relevant to consumers.

INSOLVENT RETAILER ARRANGEMENTS

The commercial failure of a company in a competitive market can have undesirable consequences for other participants and consumers. Gas Industry Co's inquiries during the year into insolvent retailer arrangements resulted in a recommendation to the Minister that permanent backstop regulation is not necessary to manage potential risks.

The review was initiated following the voluntary liquidation of a gas retailer, E-Gas, in 2010. Special regulations, the Gas Governance (Insolvent Retailers) Regulations 2010, were promulgated to assist in managing the effects of the E-Gas liquidation on its customers, but these were ultimately not needed as the liquidator was able reach a commercial solution for their transfer to Nova Energy. Gas Industry Co subsequently recommended to the Minister that the temporary regulations be allowed to lapse, but that it look into the need for permanent regulation.

Gas Industry Co engaged external specialists, Castalia Strategic Advisers, to assist in determining whether there was a need for a regulatory backstop in the event of a gas retailer becoming insolvent. During consultation, industry participants generally agreed that a market failure associated with a retailer insolvency was 'orphaned customers' – consumers who are physically connected to a gas network and able to draw gas, but without a retailer to pay for the use of that gas.

Gas Industry Co subsequently issued an Options Paper setting out alternatives for managing the market failure risks posed by orphaned customers. Following consultation on the options, Gas Industry Co advised the Minister that normal insolvency arrangements generally worked well and should be allowed to run their course. The advice noted that gas-specific backstop regulations could reduce the incentive for industry participants to reach a commercial agreement; may lack flexibility to deal with a range of potential retailer defaults; and may reduce the scope for a new competitor to enter the gas market by acquiring an insolvent retailer's assets.

GAS QUALITY

Gas Industry Co does not have direct jurisdiction over gas quality, but is working with industry participants on quality matters given the Company's particular obligations under the Gas Act to ensure that gas is delivered in a safe, efficient and reliable manner, and that risks relating to security of supply are properly and efficiently managed by those parties best able to manage such risks.

Following the completion in 2011/12 of its review of industry arrangements for controlling, monitoring and reporting gas quality, Gas Industry Co concluded it needed to develop a better understanding of current contractual and operational arrangements for monitoring gas quality.

During 2012/13, Gas Industry Co issued an Investigation Update Report, suggesting areas where the safety and reliability of gas supply can be improved, and discussing options for making those improvements.

A key recommendation from the Investigation Update is that parties in the physical supply chain give prompt attention to a protocol to ensure a good exchange of information, which has been proposed by certain gas retailers. Gas Industry Co considers this to be a potentially low cost and unobtrusive way of improving gas quality management transparency. If this is not successful, the parties should jointly review alternative options for improving transparency.

Although the possibility of a gas quality incident is small, such an event could cause serious economic and reputational harm, as quality affects combustion performance, safety, the reliability of gas supply, and the long-term integrity of the gas transport system.

The Gas (Safety and Measurements) Regulations 2010 (Safety Regulations) clarified the responsibility that gas wholesalers and retailers have for gas quality. Gas Industry Co has previously reported participant concerns that the parties with the legislative responsibility for achieving compliance with the gas specification, established by NZS 5442:2008 Specification for Reticulated Natural Gas (the Gas Specification), may not have sufficient influence over the parties who physically control gas quality. There have also been concerns that the costs of a quality-related outage may not be borne by the party that caused the problem. Gas Industry Co understands that MBIE may be conducting a review of the Safety Regulations in 2013/14, which may also address this issue.

If a regulated solution is ultimately considered to be desirable, it would require close interface between agencies, including MBIE and the Commerce Commission, which have a legislative responsibility for gas quality and gas pipelines.

WHOLESALE GAS MARKET DEVELOPMENTS

During the year, Gas Industry Co was involved in discussions on two separate, industry-led proposals to establish spot market platforms. Both are expected to be operating during 2013/14 and have the potential to fulfil Government policy objectives to facilitate and promote gas supply through access to competitive market arrangements and, in particular, a GPS call for efficient market arrangements for the short-term trading of gas.

Accordingly, the establishment of a wholesale market has long been considered a desirable goal. Gas Industry Co is not associated with the two commercially-driven market initiatives, but has an oversight role, including to review transmission system interconnection agreements relating to the operation of wholesale markets.

LARGE CONSUMERS

"OUR MEMBERS MAKE UP A LARGE PROPORTION OF THE PRODUCTIVE SECTOR IN NEW ZEALAND AND USE NATURAL GAS AS RAW MATERIAL FOR TRANSFORMATION AND AS FUEL FOR ENERGY.

It's the fuel of choice because of its low capital cost of utilities, low operating cost (excluding the fuel), cleaner burning characteristics and ease of operation and consenting. What's important is long-term security of supply, delivered at competitive prices via resilient infrastructure and on flexible terms – the gas industry needs to ensure it delivers these things to consumers."

RICHARD HALE, DIRECTOR

HALE & TWOMEY, AND MAJOR GAS USERS GROUP (MGUG) REPRESENTATIVE

FACILITATING EFFICIENT USE OF,AND TIMELY INVESTMENT IN, GAS INFRASTRUCTURE

Infrastructure access is essential to the operation of competitive and efficient markets. In addition to a strong focus on priority transmission capacity issues, Gas Industry Co's workstreams on infrastructure include pipeline balancing and interconnection, and gas processing facility access.

TRANSMISSION CAPACITY ACCESS

The Gas Transmission Investment Programme continued as a constructive and participative process that is delivering high quality results. Importantly, work during the year showed that circumstances had changed since capacity constraint issues came to light in 2009, to the extent that the risks of constraint have eased, and investment in new transmission capacity is unlikely to be required in the immediate future.

This easing situation reflects a reported reduction in market demand for reserved capacity, and commercial discussions between participants that have resulted in some North Pipeline capacity previously reserved for thermal power generation becoming available on an interruptible basis.

The GTIP is an industry-supported initiative to:

» ensure that existing and future gas transmission assets are used efficiently;

» establish the need for gas transmission investment; and

» develop an effective pathway for efficient gas transmission investment to take place.

It emerged from industry concerns after Vector announced in 2009 that it had no more capacity to sell on its North Pipeline. In August 2011, Vector and the majority of Shippers on the North Pipeline made seven commitments under an industry-led arrangement, known as the 'Bridge Commitments', to address short-term issues arising from consumer concerns, and to participate in a project to develop longer-term solutions.

Gas Industry Co has continued to monitor and report regularly on the Bridge Commitments. In a relatively small and flat market there has been limited use of the GTX, an online bulletin board introduced in 2012 to match buyers and sellers of transmission capacity rights on the North Pipeline. However, the Bridge Commitments generally have been useful in providing a mechanism for industry participants seeking solutions to capacity issues in the short term.

Two advisory panels have been helping to guide the GTIP and to advise Gas Industry Co, which will ultimately decide recommendations to be put to the industry. The PEA, comprising industry and external specialists across a range of disciplines, has led a core GTIP project looking at options for improved transmission access and pricing arrangements, and a Panel of Strategic Advisers (PSA), consisting of senior industry participant representatives, has provided strategic oversight.

The PEA gave its First Advice to Gas Industry Co in July 2012, and set out a 'strawman' proposal for change. Following industry stakeholder feedback, the PEA re-examined the problem definition and reset its focus against what it considers are characteristics of an ideal transmission market in New Zealand. It also extended its analysis from Vector's pipeline alone, to include capacity on both the Vector and Maui pipelines, their different access regimes and inter-operations, and how these could be harmonised.

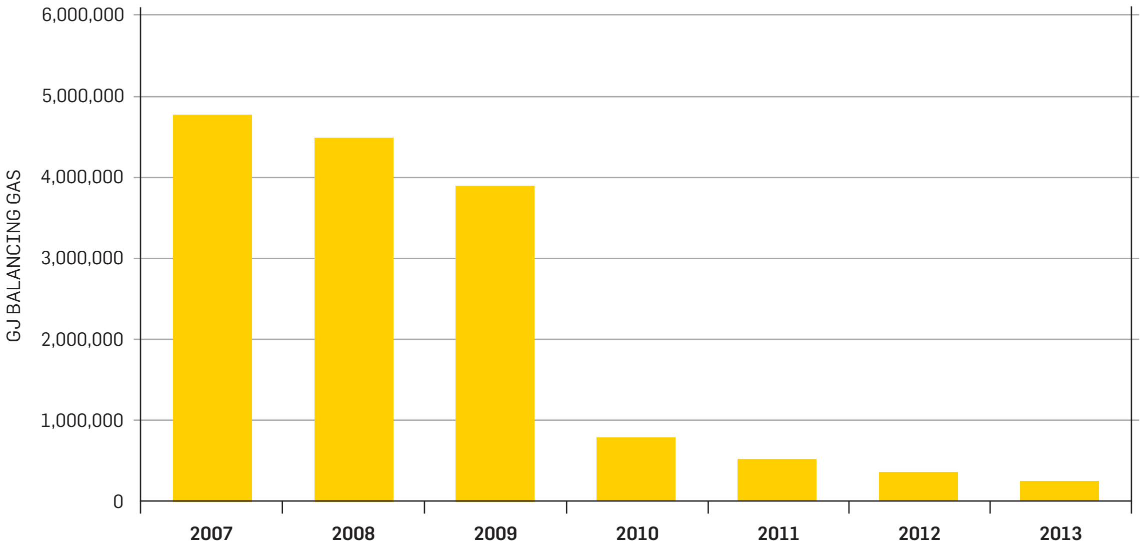
The PEA's deliberations, which included a number of stakeholder workshops, culminated shortly after year-end in its Second Advice to Gas Industry Co. Noting that Shippers generally need to use both the Maui and Vector pipelines to get gas to consumers, the Second Advice proposes an 'evolutionary convergence' approach that builds on the many commonalities between the two access regimes. It also proposes a set of guiding principles to facilitate this evolution.

In reaching this conclusion, the PEA rejected a number of other options it believes will not achieve the ideal characteristics criteria, or which are overly complex and expensive in the New Zealand context. It suggests the improvement process should commence immediately.

Gas Industry Co's preliminary position has been to endorse the PEA's recommendations as a practical path forward, but reserves its final view until further consultation with industry stakeholders is completed in 2013/14.

In association with the release of the PEA's advice, Gas Industry Co published a companion paper updating the status of broader workstreams within the GTIP. It concludes that, while work remains to be done, the GTIP to date has been a valuable process, with each project bringing benefits to the industry. As at the date of this Annual Report Gas Industry Co was assessing industry participant submissions on the PEA and Gas Industry Co papers.

FIGURE 7: ANNUAL PURCHASES AND SALES OF BALANCING GAS



PIPELINE BALANCING

Developments with transmission code changes, wholesale gas market proposals, and progress with the Reconciliation Rules review during the year have provided a more optimistic outlook for reaching solutions to long-standing transmission pipeline balancing issues.

Effective pipeline balancing – the management of the inventory of gas in a pipeline to maintain gas pressures within safe operating limits – is necessary for reliable transportation. However, balancing arrangements have been a contentious issue for the gas industry since the commencement of open access to the Maui pipeline in 2005.

A complicating factor in finding enduring solutions is the physical and commercial overlap between the Maui pipeline, governed by the MPOC, and the Vector transmission system, governed by the VTC. Gas Industry Co has previously suggested a regulated solution, but has deferred at this time to a preference by industry participants for non-regulated arrangements.

Changes to the MPOC, making causers of pipeline balancing actions more accountable for balancing costs and designed to improve balancing processes, were approved during the year, but implementation has been deferred pending other improvements sought by industry participants. These include better access to the balancing market, more timely downstream allocation of delivery quantities and extended nomination arrangements.

Key initiatives are proposals to align relevant provisions of the VTC with the imminent MPOC changes, two separate industry-led proposals to establish wholesale market platforms, and the commencement of the second phase of the Reconciliation Rules review, which will look at the feasibility of more timely allocations. Together these represent significant progress towards positive outcomes for gas balancing. Formal advice on these developments was provided to the Minister in April 2013.

While the industry continues to work towards robust and enduring transmission pipeline balancing arrangements, previous measures, including the introduction of an online Balancing Gas Exchange (BGX) in 2009, have enabled participants to self-balance more effectively and have been instrumental in substantially reducing balancing costs in recent years.

Volumes of gas required to be purchased or sold by Maui Development Limited (MDL) to balance the Maui pipeline have fallen from 4,778,125 GJ in 2007, to 264,400 GJ in 2013 (see Figure 7).

INTERCONNECTION TO TRANSMISSION PIPELINES

Gas Industry Co's inquiries into the sole interconnection with a transmission system during the year confirmed that the Guidelines on Interconnection with Transmission Pipelines were followed and the interconnection was completed smoothly.

The interconnection involved the tying-in of Tag Oil's Cheal field to Vector's Frankley Road pipeline in Taranaki. Inquiries by Gas Industry Co revealed the parties were satisfied with the timing, communication and documentation associated with it.

The assessment was the second undertaken in accordance with a Ministerial request in 2010 for Gas Industry Co to formally review interconnection arrangements following the next two interconnections to each of the Maui and Vector pipeline systems, or by the end of 2013, whichever is sooner.

Since then, there have been two interconnections to the Vector pipelines – Tag Oil's Sidewinder and Cheal fields – and none to the Maui pipeline. Both of the completed interconnections took about 40 weeks from the interconnection application being lodged to first gas flow.

Gas Industry Co will report formally to the Minister once any interconnection arrangements associated with wholesale gas spot market developments are completed and reviewed.

Prior to the Interconnection Guidelines taking effect, terms and conditions for connecting to transmission systems to inject or take gas were inconsistent and uncertain. Gas Industry Co considered that standardised interconnection arrangements are integral to infrastructure access and the efficient operation of gas markets, but concluded that a guideline, rather than a regulatory approach would provide an appropriate framework.

TRANSMISSION CODE CHANGES

Under memoranda of understanding with MDL and Vector, Gas Industry Co processes MPOC change requests, and VTC change request appeals. Proposed changes to the MPOC require Gas Industry Co's support before they can proceed, and the Company makes determinations on VTC change appeals.

During the year, two MPOC change requests and three VTC change request appeals were received.

Gas Industry Co supported both MPOC change requests, one seeking a number of minor and technical changes to the MPOC, and the other adjustments to the times that certain nominations must be carried out. A VTC change request appeal by Vector, relating to prudential security and disputed invoices, was withdrawn.

At year end, Gas Industry Co was still considering a VTC change request appeal relating to changes proposed by Vector on balancing processes, peaking charges and disputed invoices, and a VTC change request appeal brought by Contact Energy proposing that change requests must relate to only a single issue or a related series of issues.

GAS PROCESSING INFORMATION DISCLOSURE

Gas Industry Co completed its analysis of gas processing facility access, concluding that regulated access is not currently required. Accordingly, the Company recommended to the Minister in June 2013 that the Processing Information Disclosure Rules should be allowed to lapse when they expire in 2014.

The purpose of the disclosure regime has been to determine whether access to gas processing facilities should be permanently regulated. It requires gas processing facility owners to file annual information about the processing capability, capacity availability and use of their facilities, as well as details of any requests for third party access to them. Gas Industry Co receives and publishes the disclosures, and monitors owners' responses to access requests.

To assist its analysis, Gas Industry Co engaged independent specialists, Concept Consulting, to analyse information provided under the disclosure regime and to interview relevant industry participants. That process found nothing to support a need for a regulated access regime, and noted a general opposition among those interviewed to regulated access.

Since the Processing Information Disclosure Rules came into effect in 2008, there have been few access requests to facility owners by third parties, and these have been satisfactorily resolved. Further, interviewed parties stated they found little use for the information disclosed under the regime.

Gas Industry Co concluded there is no market failure to regulate and that the GPS requirement that gas industry participants and new entrants are able to access third party gas processing facilities, among other infrastructure assets and services, is being met without the need for regulated access.

The Company has not ruled out the future possibility of a market failure associated with gas processing facility access, but is satisfied it can respond with any necessary governance requirements using existing powers under the Gas Act.

ENERGY GENERATOR/ RETAILER

"GAS REMAINS A KEY PART OF THE ELECTRICITY MARKET BUT ITS ROLE HAS CHANGED.

The increase in renewable generation has moved gas generation increasingly into a peaking role where it offers secure generation when renewable generation cannot meet demand. Contact has invested heavily in energy assets that create the flexibility to support this more limited role, including the Stratford Peakers that are adjacent to the Taranaki Combined Cycle (TCC) Power Station at Stratford. The Stratford Peakers and the reduced operation of Otahuhu B and TCC are supported by the Ahuroa storage facility and a new gas transmission pipeline that links Ahuroa to Stratford. These assets represent a valuable and highly flexible contribution to New Zealand gas and electricity markets."

JAMES KILTY, GENERAL MANAGER, TRADING, DEVELOPMENT AND GEOTHERMAL RESOURCES

CONTACT ENERGY

DELIVERING EFFECTIVELY ON OUR ACCOUNTABILITIES AS THE INDUSTRY BODY

As the industry body Gas Industry Co recommends and administers governance arrangements that fulfil the principal policy objective set by the Gas Act, which is to ensure gas is delivered to existing and new customers in a safe, efficient and reliable manner. The GPS requires Gas Industry Co to also have regard to fairness and environmental sustainability in its recommendations.

The Gas Act and GPS together set other objectives and outcomes that Gas Industry Co takes into account when formulating industry arrangements, either regulated or non-regulated.

Many of the Government's policy objectives have been met through governance arrangements introduced to date. Gas Industry Co monitors these arrangements to ensure their ongoing relevance and effectiveness, and improves them as required.

INFORMATION GATHERING FOR POLICY DEVELOPMENT

Where policy objectives have yet to be met, Gas Industry Co, in liaison with the industry, is progressing initiatives to develop and implement solutions. These are mainly in the areas of transmission capacity access, transmission pipeline balancing and the development of a short-term wholesale gas market.

In June 2013, Gas Industry Co issued a *Protocol for Information Gathering for Policy Development*, following consultation with industry stakeholders on an appropriate means of addressing difficulties in the Company's ability to obtain full and timely information for its policy development work.

Gas Industry Co deferred making a recommendation to the Minister for framework regulation, as originally planned, in favour of a Protocol after industry participants committed to support a voluntary approach, and subsequently demonstrated that commitment by providing information in response to two pilot information requests.

The Protocol provides that, where Gas Industry Co has identified a need for information regarding a specific workstream, it will draw up a formal request notice outlining what that information is and how it will assist the Company with the progression of the particular workstream. The operation of this formal request process will determine whether regulations might be needed at a later date.

CRITICAL CONTINGENCY MANAGEMENT

Gas Industry Co completed its extensive review of critical contingency management arrangements and submitted a recommendation to the Minister for changes to the CCM Regulations shortly after year-end.

The review, which included comprehensive consultation with stakeholders, was initiated following a Maui pipeline outage which seriously disrupted gas supplies in the upper half of the North Island for five days in October 2011. It was the first major test of the CCM Regulations.

The recommended changes to the CCM Regulations reflect lessons emerging from that outage and, subject to Government approval, will be implemented in 2013/14.

Natural gas infrastructure has proved to be very reliable since natural gas supplies began more than 40 years ago, and major supply disruptions are rare. The Maui pipeline incident, however, demonstrated that they can occur and highlighted the importance for industry participants and gas users to have robust contingency plans in place to deal with them.

Overall, the regulated arrangements worked effectively in the Maui pipeline outage, but it brought to light a number of areas requiring improvements.

These included a need to tighten the Essential Services Provider (ESP) criteria and designation process. There was large demand from businesses with an ESP designation, but it was clear they could not be supplied for any reasonable length of time. A number of businesses sought ESP designations when the outage occurred, and a subsequent analysis of all ESPs showed a wide interpretation of the criteria, with some only loosely fitting the requirements, and others not meeting them at all.

It was apparent that many business users were not well prepared and had not considered the possibility of a gas outage in their business continuity planning. Improvements were also needed to public communication of information about serious gas supply outages.

To maximise the chances of gas delivery systems surviving significant events, the recommended changes to the CCM Regulations redefine which services are 'essential' for the purposes of the Regulations, and specify that gas supply will be limited to just that part of the user's operations that is deemed 'essential'. The focus is on preserving life and limb and providing critical care - which is reflected in a recommended new, top-priority consumer band, Critical Care Providers (CCPs) - and maintaining water, wastewater, and emergency services.

Also recommended are a new band for Electricity System Security Providers (ESSPs), to allow temporary use of gas to better support the electricity system when gas is in short supply, and broader criteria for Minimal Load Consumer (MLC) designations, to include completion of critical processing, as well as existing measures to avoid serious plant or environmental damage while undertaking an orderly plant shutdown.

It is proposed that Gas Industry Co will become responsible for processing and determining these special designations, a role currently performed by gas retailers, and that expanded communications responsibilities will apply to affected asset owners to provide publicly available information.

The overarching purpose of the CCM Regulations is the effective management of critical gas outages and other security of supply contingencies without compromising the long-term security of supply. In practice, this involves maintaining safe delivery pressures in gas transmission and distribution pipelines. If gas pressures drop below safe operating parameters, gas cannot flow and the delivery systems must be shut down. Consumers could then be without gas for weeks, or months, while a lengthy restart process is undertaken.

COMPLIANCE

Gas Industry Co is continuing to effectively deliver on its accountabilities through oversight of existing arrangements that ensure the integrity of key markets. This includes administration of the Compliance Regulations, which provide for the monitoring and enforcement of rules and regulations.

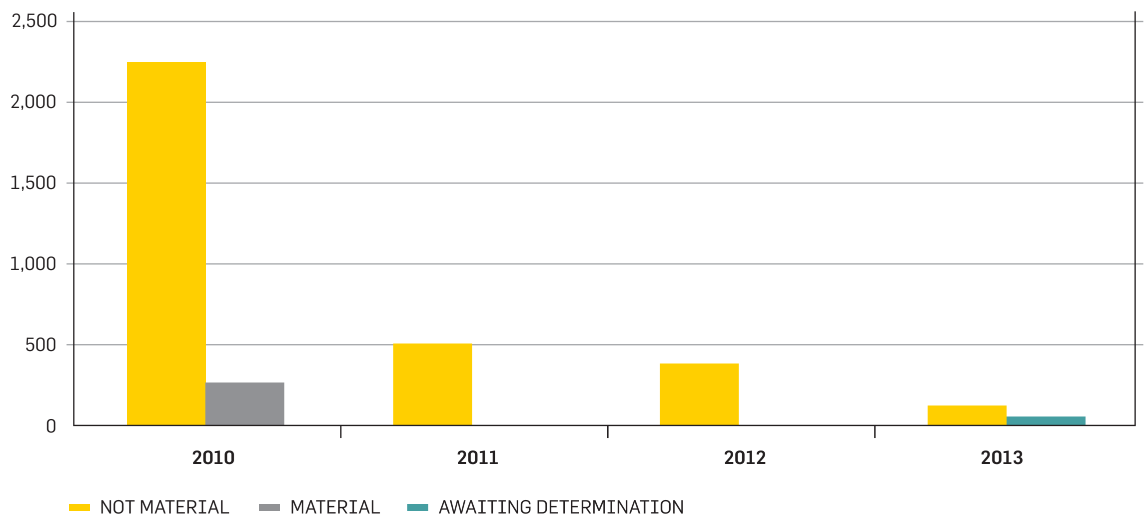
The number of breach allegations considered by Gas Industry Co in its role as the Market Administrator during 2012/13 totalled 2,414, a 10 percent decrease on the 2,695 alleged breaches referred to it in the corresponding previous year. Of the breach allegations considered during the year under review, 1,922 – or 80 percent – were determined not to raise material issues, 270 (11 percent) were referred to the Investigator, and 222 (9 percent) are awaiting determination.

The ratio of breach allegations found to have not raised material issues was similar to the previous year, when 82 percent of alleged breaches were determined to be not material.

Breach allegations were again predominantly associated with the Reconciliation Rules and Switching Rules. However, 48 alleged breaches (three were alleged in the previous financial year) of the CCM Regulations arising out the Maui pipeline outage in 2011 were also determined by the Market Administrator during 2012/13. The CCM Regulations breaches alleged that businesses continued to use gas contrary to instructions during the Maui pipeline outage and two of these alleged breaches were referred to the investigator for settlement.

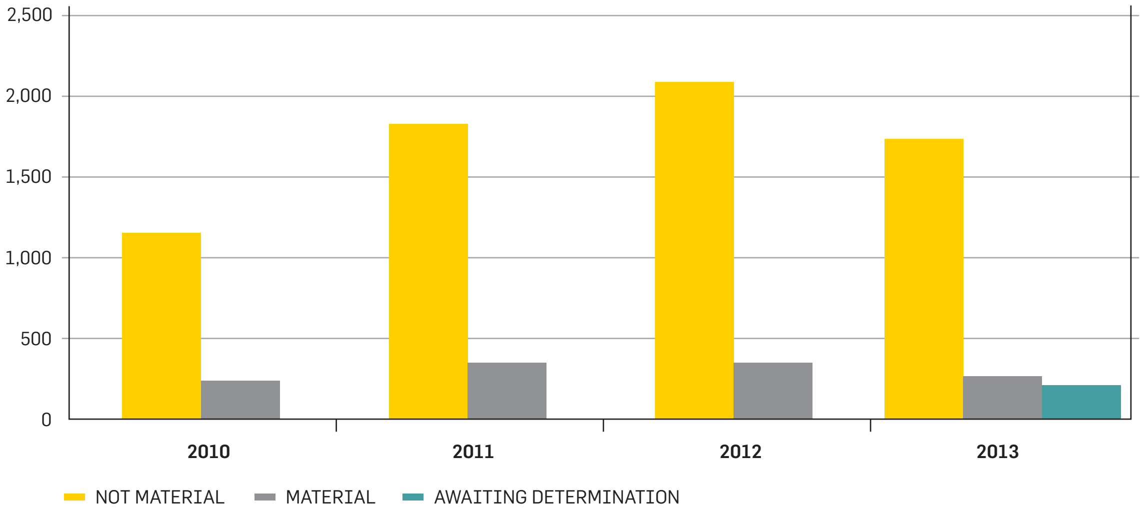
Figure 8 shows that breaches of the Switching Rules continue to decline. Gas Industry Co attributes this to growing familiarity with the Switching Rules.

FIGURE 8: SWITCHING RULES BREACHES



Breach levels under the Reconciliation Rules have remained relatively consistent over the last few years. It is possible that changes to the Reconciliation Rules effective from June 2013 will see breach levels drop during the next year. However, over 90 percent of breaches alleged under the Reconciliation Rules relate to rule 37, which requires the accuracy of consumption provided at the initial allocation stage to be within a specified tolerance level of the information provided at the final stage. Rule 37 remains unchanged as a result of the recent Reconciliation Rule amendments.

FIGURE 9: RECONCILIATION RULES BREACHES



INVESTIGATOR AND RULINGS PANEL – APPROVED SETTLEMENTS AND DETERMINATIONS

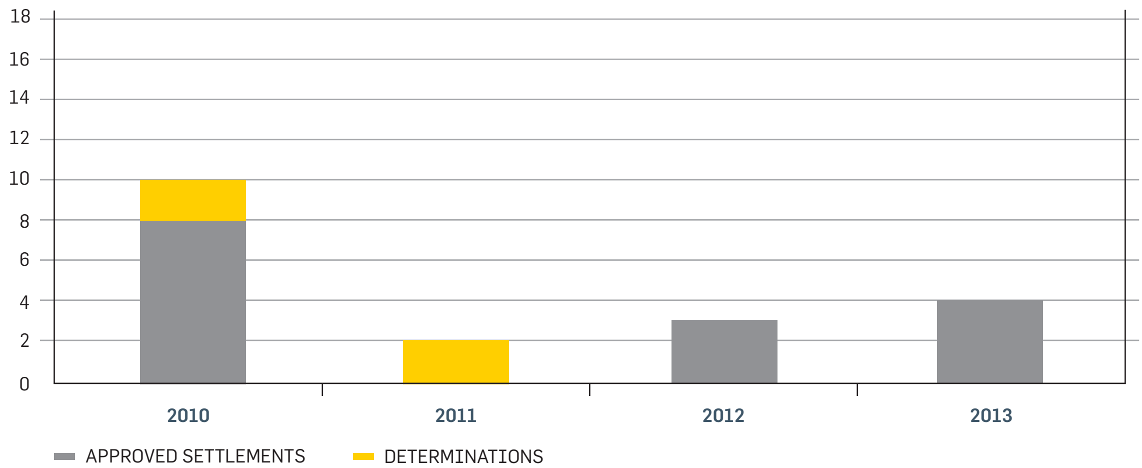
In accordance with the Compliance Regulations, Gas Industry Co must appoint one or more persons as Investigators to carry out independent investigations of alleged breaches that have been determined by the Market Administrator as raising a material issue.

The Investigator must endeavour to effect settlements of alleged breaches, and these must then be referred to the Rulings Panel for approval or rejection.

The Rulings Panel is an independent body appointed by the Minister of Energy and Resources under the Compliance Regulations. The current Rulings Panel is the Hon Sir John Hansen, KNZM. The Rulings Panel approves or rejects settlements proposed by the Investigator and, in a quasi-judicial process, determines breach allegations that are unable to be settled, or in respect of which a settlement has not been approved.

Four settlements were approved during 2012/13. No matters were referred to the Rulings Panel for determination.

FIGURE 10: RULINGS PANEL APPROVED SETTLEMENTS AND DETERMINATIONS



COMPLIANCE REGULATIONS REVIEW

The Compliance Regulations continue to work well and, partly as a result of earlier enforcement activity, there is a high level of industry participant compliance with gas governance rules and regulations.

During 2012/13, Gas Industry Co completed a review of the Compliance Regulations, consistent with its policy to periodically assess governance arrangements for their ongoing effectiveness. The outcome of the review of the CCM Regulations (reported above) also has consequential effects on the Compliance Regulations.

Recommended changes to the Compliance Regulations were submitted to the Minister shortly after year-end in conjunction with the recommendations in respect of changes to the CCM Regulations.

In addition to amendments arising from the proposed changes to the CCM Regulations, the recommendations in respect of the Compliance Regulations seek to introduce a change, in the form of a threshold, to the mandatory breach reporting requirements on the Allocation Agent and Gas Registry Operator, and to make minor and technical drafting changes.

Under the proposed threshold regime, the Allocation Agent and Gas Registry Operator would not be required to allege minor breaches of a type unlikely to raise a material issue. These types of alleged breaches create administrative processing costs – ultimately borne by customers – which outweigh their impact and harm caused.

LPG

Gas Industry Co's jurisdiction covers the bottled LPG markets and gaseous LPG supplied via reticulated networks. It does not extend to bottles themselves, the supply and bulk storage of LPG, or to pipelines carrying LPG in liquid form between transport depots and bulk storage facilities. Gas Industry Co receives reports from the EGCC regarding consumer complaints about LPG supplies, and maintains regular communication with the LPG industry trade group, the LPG Association of New Zealand. At this time, the Company does not consider there are substantial issues that warrant regulatory intervention. Gas Industry Co continues to monitor these markets.

DISTRIBUTION

"COLLECTIVELY, GAS DISTRIBUTORS OPERATE OVER 16,000KM OF GAS NETWORKS SUPPLYING AROUND 260,000 CUSTOMERS THROUGHOUT THE NORTH ISLAND.

We are committed to ensuring the safety, integrity and reliability of our systems. We recognise that consumers supplied from our networks have an energy choice, and we seek to work closely with gas retailers, developers and suppliers to ensure consumers are educated, aware of their choices, and attracted to the benefits that gas offers."

STUART DICKSON, GENERAL MANAGER, GAS

POWERCO LIMITED

EFFECTIVE CO-REGULATION

Gas Industry Co was established in 2004 and that year was approved as the gas industry's co-regulatory body under Part 4A of the Gas Act. The Company fully commenced operations in 2005 and works with the Government, industry and other stakeholders to develop recommendations on governance arrangements that meet the objectives of the Gas Act and the GPS.

The Company's oversight encompasses the gas wholesale and retail markets, processing facilities, and the transmission and distribution sectors of the industry.

Gas Industry Co is also progressing a broader corporate strategy, involving closer liaison with all participants in the industry, to optimise the contribution of gas to New Zealand.

STAKEHOLDER RELATIONS

Gas Industry Co works closely with other regulatory bodies, including MBIE and the Commerce Commission, whose responsibilities also encompass the gas industry, and maintains relationships with many other agencies engaged in the energy and related sectors. These include the Electricity Authority, Energy Efficiency and Conservation Authority (EECA), the Petroleum Exploration and Production Association of New Zealand (PEPANZ), the Gas Association of New Zealand, LPG Association, and the EGCC.

Facilitating industry contributions and debate is an important function for the smooth operation of the co-regulatory model and Gas Industry Co conducts an annual Co-regulatory Forum to discuss matters that will form the forthcoming year's work programme, upon which the levy is calculated. The Company also convenes workshops to engage with the industry and consumers on particular issues arising from ongoing workstream activity.

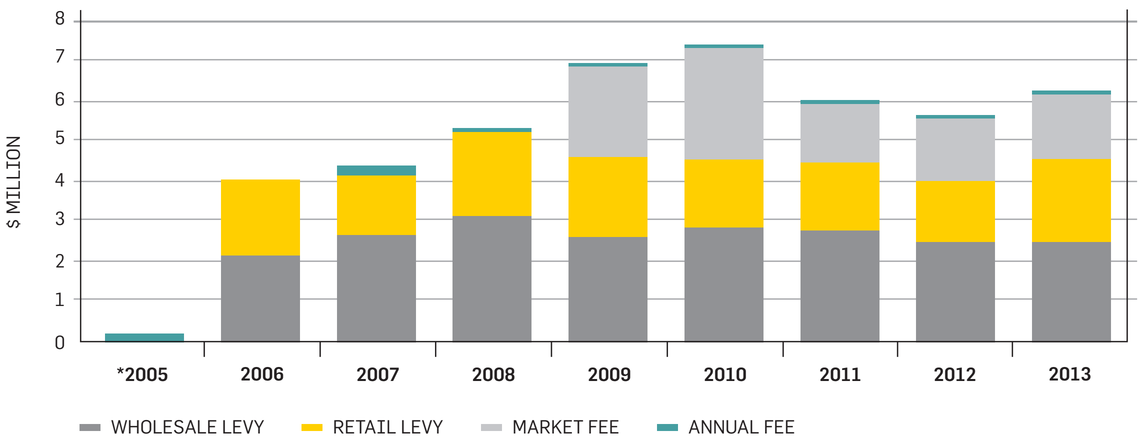
FUNDING

Between October and March each financial year, Gas Industry Co conducts a detailed consultation programme to establish its strategic priorities for the coming year and, from that, to recommend levies to the Minister of Energy and Resources for approval. The consultation with industry participants overlaps with the Company's views, as the industry body, on the overall role of gas in New Zealand and the governance requirements for ensuring efficient and competitive markets.

Gas Industry Co is committed to ensuring that the levies are well justified and used carefully.

The composition of the Company's total levy revenue has remained stable in recent years (see Figure 11). It includes user-targeted market fees to fund the administration of certain rules and regulations, including the recovery of the costs of external service providers and consultants. In addition, retail and wholesale levies are applied each year to cover the costs of the Company's policy and market administration work. The Company's Constitution enables the Board to charge shareholders an annual fee. During the year, the Board resolved to reduce this fee from $10,000 to $5,000 per shareholder per annum. Shareholders' fees are set aside as a contingency reserve.

FIGURE 11: LEVY AND FEE REVENUE



* 8 months. 2005 revenue comprised only the annual fee on shareholders.

FINANCIAL DISCUSSION

Gas Industry Co's financial year runs from 1 July to 30 June. Its budget is developed along with its work programme in discussions with stakeholders that begin in the preceding October and concludes in March with the preparation of its Statement of Intent (previously called a 'strategic plan') and the making of a recommendation to the Minister for levy regulations.

The budget is set to ensure the Company has sufficient resources to meet its work programme obligations, but also recognises the need to be cost-effective as the levy is ultimately incorporated into consumer prices. While revenue from the retail levy, which is based on customer ICPs, is relatively predictable, the revenue from the wholesale levy, based on purchased gas volumes, can fluctuate significantly depending on the weather. For example, gas use is affected if the weather is hotter or colder than normal, and if greater use is needed of gas-fired power stations. As such, the wholesale levy rate is set conservatively to ensure that sufficient revenue is collected to cover budgeted costs.

Gas Industry's Co's financial performance is therefore most meaningfully measured by comparing the budgeted costs to actual expenditure, as the Company has more control over how it spends than it does over the amount of revenue collected. As shown in Figure 12, both budgeted and actual expenditure has been flat or dropping in recent years, a trend that is expected to continue in 2013/14.

In the year ended 30 June 2013, actual operating expenses were $5,910,534 against the Strategic Plan budgeted expenses of $6,354,007. This reflects the result of a programme of cost-saving initiatives, as well as undertaking some work without using external consultants. Some workstreams also include provision for contingent amounts, such as the cost of an expert to determine imbalance price during a critical contingency event. Several of these contingent amounts were not required in the financial year. Expenses were down from $5,997,725 in the previous financial year.

Total operating revenue of $6,219,911 for the year ended 30 June 2013 was 2.2 percent above the FY2013-15 Strategic Plan budgeted figure of $6,087,325. This increase is largely reflected in additional Whole Levy income received, which was $246,752 above the FY2013-15 Strategic Plan budgeted amount. It is attributable to increased thermal generation due to drought conditions in early 2013 affecting lake levels for hydro-generation. Methanex increased production in the last year, but this had been considered in estimating FY2013 revenue. Although revenue was just 2 percent above expectation, it was 10.1 percent higher than the $5,650,734 collected in the 2011/12 financial year, reflecting the effects of gas volume fluctuations.

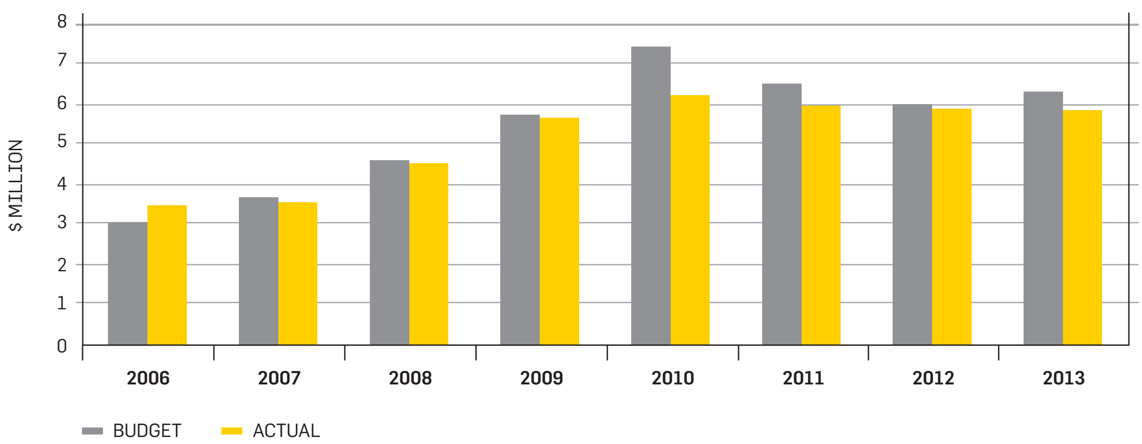
Gas Industry Co's equity reserve as at 30 June 2013 has three components – the Industry Advances Reserve of $605,173, the Industry Amortisation Reserve of $500,034 and Retained Earnings of $485,000.

The Industry Advances Reserve comprises the over-recovery of levy revenue. The Board's policy is to return such over-recoveries, if feasible, as soon as possible after balance date. In December 2012 a total of $287,998 of over-recovered levy revenue was returned to industry participants.

The Industry Amortisation Reserve represents the unexpended amortisation on capital items purchased with Market Fees, including the Switching Registry and Downstream Reconciliation systems. The ongoing annual amortisation costs of $363,814 associated with these assets is met from the Amortisation Reserve and, over time, the value of both the assets and the reserve will reduce to zero.

Retained Earnings are the accumulation of the shareholders' annual fees, and are set aside as a reserve against future contingencies. They do not impact on the levy calculation.

FIGURE 12: OPERATING EXPENSES VS BUDGET



SMALL CONSUMERS

"THE SUPPLY/DEMAND STUDY WE UNDERTOOK FOR GAS INDUSTRY CO REVEALED THAT NEW ZEALAND'S GAS POSITION IS STRONGER AND MORE RESILIENT THAN IT HAS BEEN FOR OVER A DECADE.

This strong position was echoed in our subsequent Consumer Energy Options study which showed gas to be the most economic choice for the majority of consumers looking to invest in new end-use energy options. Whether it be for industrial and commercial process heat boilers, or residential water heating, gas was the most cost-effective choice in most cases. In addition, as well as having a relatively low environmental footprint, gas has many superior non-price attributes relative to its alternatives such as never running out of hot water for a residential household, or being a very clean and controllable technology for industrial and commercial application."

SIMON COATES, DIRECTOR

CONCEPT CONSULTING GROUP AND AUTHOR OF *CONSUMER ENERGY OPTIONS: AN EVALUATION OF THE DIFFERENT FUELS AND TECHNOLOGIES FOR PROVIDING WATER, SPACE AND PROCESS HEAT*

CORPORATE GOVERNANCE

Gas Industry Co is owned by industry participant shareholders and is funded by levies on industry participants. It is incorporated as a company under the Companies Act 1993, and operates in accordance with the Gas Act, the GPS, and the Company's Constitution.

The Company's shareholders represent sectors across the gas industry – production, transmission, distribution, wholesale, retail and consumers. There were 11 shareholders as at 30 June 2013.

CONTACT ENERGY LIMITED

Publicly listed Contact Energy is one of New Zealand's leading energy generators and retailers. It provides electricity, natural gas and LPG to around 560,000 customers nationwide. Contact's electricity generation fleet includes five gas-fired power stations which are supported by a dedicated underground gas storage facility at Ahuroa, Taranaki.

GENESIS ENERGY LIMITED

Genesis Energy is an integrated energy company and New Zealand's largest retailer of electricity and gas, supplying services to over 670,000 customers. It has a retail gas market share of 44 percent. Genesis Energy's market position is supported by a diverse and flexible portfolio of generation assets. It owns New Zealand's largest power station, Huntly, which can run on gas or coal, as well as three hydroelectric schemes and one wind farm around New Zealand. It also has a 31 percent equity share of the Kupe oil and gas field.

GREYMOUTH GAS NEW ZEALAND LIMITED

Part of the Greymouth Petroleum Group, which is a fully integrated New Zealand-owned and operated oil and gas exploration and production company. Greymouth Petroleum holds a portfolio of oil and gas development and exploration properties in the Taranaki and Great South Basins, and offers wholesale natural gas and electricity to commercial end users.

METHANEX NEW ZEALAND LIMITED

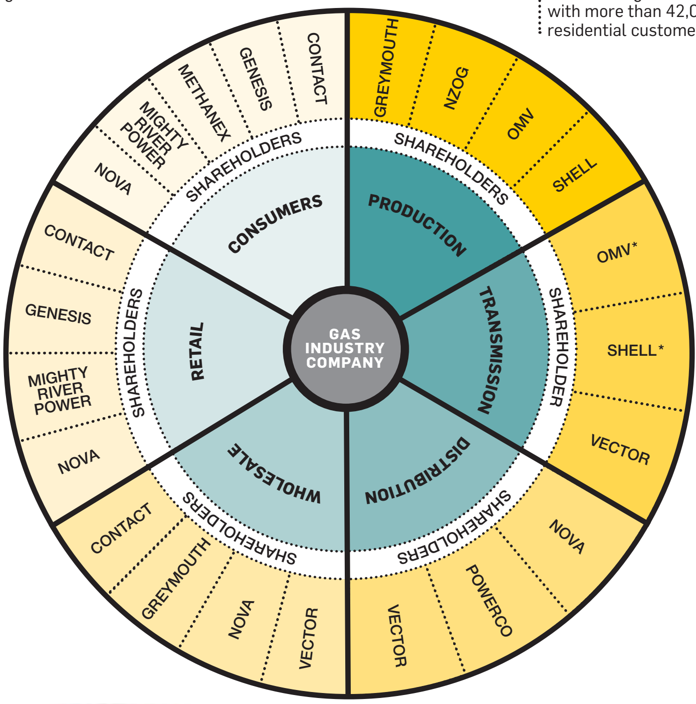
Methanex New Zealand owns and operates the Motunui and Waitara Valley methanol plants in Taranaki. The plants use natural gas as a feedstock for producing high grade methanol for customers in the New Zealand and international markets. They are part of the international methanol operations of Canada-based Methanex Corporation.

MIGHTY RIVER POWER LIMITED

Mighty River Power (MRP), one of New Zealand's largest electricity companies, generates about 17 percent of New Zealand's electricity from nine hydro stations, five geothermal stations and a multi-unit gas-fired station. More than 90 percent of its generation is from renewable sources. MRP sells electricity through multiple channels, including Mercury Energy, GLO-BUG, Bosco Connect and Tiny Mighty Power, and operates a metering business, Metrix. It is also the third-largest reticulated gas retailer with more than 42,000 residential customers.

NEW ZEALAND OIL & GAS LIMITED

New Zealand Oil & Gas is New Zealand's largest listed oil and gas company. Dual-listed on the NZX and ASX, it has two producing assets offshore from Taranaki, and exploration permits around New Zealand and internationally.



* Shell and OMV are involved in the Maui transmission pipeline through Maui Development Limited

NOVA ENERGY LIMITED

Nova Energy, a subsidiary of the Todd Corporation, is an integrated energy provider with wholesale and retail gas, electricity generation and retail, LPG sales and solar panel manufacturing and sales. Across its portfolio, Nova holds interests in nine power stations and a 54 percent interest in regional generator/retailer King Country Energy.

OMV NEW ZEALAND LIMITED

OMV Group, Austria's largest listed industrial company, has a global presence in oil and gas exploration and production. In New Zealand, it is active in the upstream oil and gas sector, holding interests in the Māui, Pohokura and Maari fields and a number of exploration permits, including the Great South Basin.

POWERCO LIMITED

Powerco is an electricity and gas networks owner and operator. Its networks are spread across the upper-central, central and lower regions of the North Island, supplying energy to more than 420,000 consumers.

SHELL NEW ZEALAND (2011) LIMITED

Part of the global Shell organisation, Shell New Zealand has been investing in this country for over 100 years. Shell has interests in, and operates, the Kapuni, Māui and Pohokura fields. Its operating ventures provide more than 65 percent of the gas needed for the New Zealand market. Shell also has interests in exploration licence areas, including the Great South Basin.

VECTOR LIMITED

Vector is a leading New Zealand energy and fibre optic communications infrastructure group. Its energy services include electricity distribution, gas transmission and distribution, electricity and gas metering installations and data management, as well as supplying natural gas and LPG. Vector's assets service more than a million homes and businesses across New Zealand.

Each shareholder holds a $1 share, which is redeemable at the option of the shareholder. Shareholders are entitled to one vote in a poll on resolutions at shareholders' meetings, including those that appoint directors and change the Constitution.

BOARD OF DIRECTORS

The Board of Gas Industry Co meets on regular scheduled occasions to consider operational reports and recommendations from Gas Industry Co's management. Unscheduled meetings are held from time to time to consider matters requiring immediate attention. Directors will attend either in person or via teleconference.

The Board is a mix of Independent and Non-Independent Directors, all appointed by the shareholders. Its composition accords with a Gas Act requirement to have a majority of Independent Directors, including the Chair. This reflects the aim of creating a gas industry co-regulatory body which benefits from industry director participation and experience, balanced by a range of independent expertise. The Company's Constitution limits the Board to no more than seven directors, four of whom are independent of the gas industry. The number of Independent Directors voting on an issue must exceed the number of Non-Independent Directors voting on the same matter.

DIRECTORS AS AT 30 JUNE 2013

RT HON JAMES (JIM) B BOLGER, ONZ

CHAIR, INDEPENDENT DIRECTOR / APPOINTED 4 NOVEMBER 2004

Jim Bolger has had a distinguished career in politics that includes being Prime Minister of New Zealand from October 1990 to December 1997, holding ministerial positions for 16 years, and leading the New Zealand National Party for 12 years. He has been the Chair since the Company's establishment.

INTERESTS REGISTER

Chair: Trustees Executors Limited, Mt Cook Alpine Salmon Limited

Chancellor: Waikato University

ROBIN G HILL, B COMM, FCA

DEPUTY CHAIR, INDEPENDENT DIRECTOR / APPOINTED 4 NOVEMBER 2004

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

INTERESTS REGISTER

Advisory Trustee: NZ Defence Force

ANDREW BROWN, LLB

INDEPENDENT DIRECTOR / APPOINTED 10 JUNE 2010

Andrew Brown is General Counsel at KiwiRail. He is recognised as one of New Zealand's leading corporate lawyers with particular expertise and experience in advising energy sector companies.

INTERESTS REGISTER

Senior Executive, KiwiRail

KEITH DAVIS, PGDIPBUS

INDEPENDENT DIRECTOR / APPOINTED 31 JULY 2006

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.

INTERESTS REGISTER

No interests relevant to Gas Industry Co

DENNIS BARNES

NON-INDEPENDENT DIRECTOR / APPOINTED 13 MAY 2011

Dennis Barnes is Chief Executive Officer of Contact Energy. His role followed 13 years in Australia with Origin Energy, including in a range of gas-related roles and serving on the boards of two Australian gas regulators. Prior to that, Mr Barnes worked in various international energy markets, including managerial roles with Scottish and English electricity companies.

INTERESTS REGISTER

Chief Executive Officer: Contact Energy Limited

Director: Various Contact Energy subsidiaries

Employee: Origin Energy Limited

ALBERT BRANTLEY, BSC, P GEOL, F AUSIMM

NON-INDEPENDENT DIRECTOR / APPOINTED 14 NOVEMBER 2008

Albert Brantley is Chief Executive of Genesis. He also serves as Chairman of the Genesis Oncology Trust. Mr Brantley has had more than 36 years' experience in New Zealand and internationally in technical, operational and senior management positions, concentrated particularly in the power industry over the past decade. He has had considerable experience in leading businesses requiring political, regulatory and environmental management, both in New Zealand and overseas.

INTERESTS REGISTER

Chief Executive Officer: Genesis Energy Limited

Chairman: Energy Online

Director: Various subsidiaries of Genesis Energy Limited, including those holding Genesis's 31 percent interest in the Kupe project

ANDREW KNIGHT, BMS (HONS), CA

NON-INDEPENDENT DIRECTOR / APPOINTED 6 JUNE 2012

Andrew Knight is the Managing Director and Chief Executive of New Zealand Oil & Gas (NZOG). He previously held a range of executive management roles over a 13-year period with Vector Limited, the NGC Holdings Limited Group of Companies, The Australian Gas Light Company and Fletcher Challenge Energy. He is currently a director of PEPANZ and Powerco Limited and was a non-executive director of NZOG from 2008 until his appointment as Chief Executive in 2011. Mr Knight's early career was spent as an auditor with Coopers & Lybrand.

INTERESTS REGISTER

Managing Director/Chief Executive: New Zealand Oil & Gas Limited

Director: Various subsidiaries of NZOG, Powerco Limited, PEPANZ

BOARD COMMITTEE

The Board has one standing committee, the Independent Directors' Committee, comprising the four Independent Directors. The Committee addresses matters where the Non-Independent Directors have potential or actual conflicts of interest. Matters requiring the Committee's consideration during the year were addressed by circulated resolutions.

ATTENDANCE

The Board met on eight occasions during the year ended 30 June 2013.

DIRECTORS	MEETINGS ATTENDED
J BOLGER	7
R HILL	8
A BROWN	8
K DAVIS	8
D BARNES	5
A BRANTLEY	7
A KNIGHT	6

On occasion, a Non-Independent Director, if unable to attend a Board meeting, may have a representative present, who may speak on behalf of the Non-Independent Director, but does not vote on any matter. Some administration matters that required the full Board's attention were addressed by circulated resolutions.

DIRECTORS' REMUNERATION

Directors' remuneration is authorised by ordinary resolution of shareholders and is paid to the Independent Directors only. The current maximum level of Directors' fees, being $275,000, was authorised by shareholders in 2004. Annual fee payments of $93,500 for the Chair, $63,360 for the Deputy Chair, and $52,800 for each other Independent Director were set by the Board in June 2007. Directors' remuneration payments in respect of the year ended 30 June 2013 were:

	$
J BOLGER (Chair)	93,500
R HILL (Deputy Chair)	63,360
A BROWN[1]	54,600
K DAVIS	52,800
D BARNES	-
A BRANTLEY	-
A KNIGHT	-

[1] During the year ended 30 June 2013, the Board approved additional payments of $1,800 to Mr Brown for additional work undertaken as Chair of the Panel of Strategic Advisers established under the GTIP. No other transactions with Directors occurred.

INDEMNIFICATION OF DIRECTORS

As permitted by the Constitution and the Companies Act 1993, Gas Industry Co has indemnified its Directors, and has provided directors' liability insurance for officers and directors. This insurance and indemnity is with respect to potential liabilities and costs they may incur for acts or omissions in their capacity as directors and officers.

During the financial year, Gas Industry Co paid insurance premiums in respect of directors' and officers' liability insurance.

ANNUAL MEETING

The Company's Annual Meeting was held on 22 November 2012. Rt Hon James Bolger and Mr Keith Davis retired at the meeting in accordance with the director rotation provisions of the Company's Constitution, and, being eligible, were re-elected as Independent Directors. Mr Andrew Knight, having been appointed to fill a casual vacancy, retired at the meeting and, being eligible, was elected as a Non-Independent Director.

In his address to the meeting, the Chair described a busy year for the Company, noting that much of the focus was on the GTIP and improvements to critical contingency management arrangements. He acknowledged the accomplishments of the PEA and reported that, through its corporate strategy, Gas Industry Co is committed to fulfilling its objectives under the Gas Act and GPS in an efficient and cost effective manner, and to working hard to support the industry in more general ways.

DELEGATIONS

The Board delegates to the Chief Executive the right to exercise all the financial powers of the Board in relation to the operation of Gas Industry Co in accordance with any applicable Board policies and directives, as well as defined financial delegations for business operations. The Board reserves to itself certain powers, including the approval of strategic and business plans, budgets, accounting policies and other financial matters, and transactions or contracts over specified thresholds.

EXECUTIVE

Gas Industry Co has a small Senior Management Team that leads a total staff of 15 employees to deliver on the Company's strategy and work programme.

STEVE BIELBY, BA LLB (HONS) LLM (LOND)

CHIEF EXECUTIVE

Steve Bielby commenced as Chief Executive in January 2011. Prior to that he held executive positions in several New Zealand energy companies for more than 10 years and spanning most parts of the sector. Mr Bielby has followed the development of Gas Industry Co since its inception. He began his career as a lawyer and was a partner in a leading national law firm.

IAN DEMPSTER, BE (HONS) M COMM (HONS)

GENERAL MANAGER OPERATIONS

Ian Dempster, a foundation member of Gas Industry Co's executive since 2005, leads the Operations Group, a team of advisers with responsibilities for access and operation of gas pipelines, switching, downstream reconciliation, the wholesale market, critical contingency management, and compliance and enforcement.

Mr Dempster was previously a consultant for network industries including water, gas, ports and telecommunications. His energy sector experience also includes corporate finance and mergers, acquisitions and divestments arising from legislation-driven industry restructuring. He has a background in electricity generation planning.

GREIG HINDS, BA, LLB, POST GRAD CERT COMMERCE (LINCOLN)

PRINCIPAL LEGAL COUNSEL

Greig Hinds leads the Corporate Services Group, which is responsible for providing legal, financial and administrative support, including human resources, IT and property management. Mr Hinds joined Gas Industry Co as Legal Adviser (Corporate) in 2009, having previously worked in New Zealand, Hong Kong, and Canada in various professional roles in the energy sector and in university administration. He also performs the role of Company Secretary.

EMPLOYEE REMUNERATION AND BENEFITS

Employees receiving remuneration and related benefits over $100,000 per annum:

	YEAR ENDED 30 JUNE 2013
$100,001 – $110,000	1
$110,001 – $120,000	2
$140,001 – $150,000	2
$150,001 – $160,000	1
$190,001 – $200,000	1
$240,001 – $250,000	1
$430,001 – $440,000	1

BUSINESS GOVERNANCE AND CORPORATE RESPONSIBILITY

Gas Industry Co maintains a comprehensive suite of policies and procedures to govern behaviour and ensure employee wellbeing. These include, but are not limited to:

CONFLICTS OF INTEREST

Employees must inform the Company in writing where they enter into any business arrangement or have personal interests that may conflict with either the Company's business or affect the full, effective, and impartial discharge of the employee's obligations with the Company, as the industry body and co-regulator. Employees are prohibited from owning shares in industry participants.

GIFTS AND HOSPITALITY

Gas Industry Co requires that its employees do not solicit, accept or offer money, gifts, favours, or entertainment that might influence, or appear to influence, their business judgment, particularly given the Company's role as the industry body and co-regulator.

HEALTH AND SAFETY

The Company is committed to providing and maintaining a safe and healthy work environment for employees and visitors to its premises. Gas Industry Co's Health and Safety Policy is set by the Board and includes a goal of 'zero harm' and a range of supporting Health and Safety systems.

USE OF INFORMATION RECEIVED FROM PARTICIPANTS

Gas Industry Co considers that information received from industry participants should be used in an open, accessible, and transparent manner. This policy includes provisions for the treatment of information identified by the information provider as confidential. Employees are also informed of their responsibilities should they become aware of inside information about publicly listed companies, especially if those companies are industry participants.

REMUNERATION AND PERFORMANCE REVIEW

The Company is committed to providing its employees with fair and appropriate remuneration relative to the market rate for each position. Employee remuneration is reviewed annually, with any movements reflecting the results of individual performance reviews.

RISK MANAGEMENT

Gas Industry Co Risk Management Policy is set by the Board and includes an Enterprise Risk Register to record and mitigate strategic, operational, and physical risks that could affect the Company's business. Gas Industry Co also maintains business continuity and emergency preparedness plans. The Management Team reviews the Company's Enterprise Risk Register each month and the register is presented to the Board each quarter.

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FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Board of Directors has pleasure in presenting the Annual Report of Gas Industry Company Limited, incorporating the Financial Statements and the Audit Report, for the year ended 30 June 2013.

The Board of Directors of the Company authorised the financial statements presented on pages 45 to 62 for issue on 22 August 2013.

On behalf of the Board:

RT HON JAMES B BOLGER, ONZ

CHAIR

18 SEPTEMBER 2013

ROBIN G HILL

DEPUTY CHAIR

18 SEPTEMBER 2013

AUDITOR'S REPORT

TO THE SHAREHOLDERS OF GAS INDUSTRY COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Gas Industry Company Limited (''the Company'') on pages 45 to 62. The financial statements comprise the statement of financial position as at 30 June 2013, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the matters to which they relate, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

OPINION

In our opinion the financial statements on pages 45 to 62:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the Company as at 30 June 2013 and of its financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Gas Industry Company Limited as far as appears from our examination of those records.

KPMG

WELLINGTON

22 AUGUST 2013

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	NOTES	ACTUAL 2013 $	BUDGET 2013 $	ACTUAL 2012 $
INCOME				
Operating income	4	6,185,054	6,073,503	5,614,807
Interest income		34,857	13,822	35,927
		6,219,911	6,087,325	5,650,734
Refunded levy income	4	(287,998)	–	–
NET INCOME		**5,931,913**	**6,087,325**	**5,650,734**
EXPENDITURE				
Operating expenditure	5	5,910,534	6,354,007	5,997,725
Finance costs	12	3,258	3,300	2,975
		5,913,792	6,357,307	6,000,700
PROFIT/ (LOSS) BEFORE TAX		**18,121**	**(269,982)**	**(349,966)**
Income tax expense	6	9,760	8,293	10,060
PROFIT/(LOSS) FOR THE YEAR		**8,361**	**(278,275)**	**(360,026)**
Other comprehensive income		–	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**8,361**	**(278,275)**	**(360,026)**

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

	INDUSTRY RESERVES $	RETAINED EARNINGS $	TOTAL EQUITY $	BUDGET $
BALANCE AT 1 JULY 2011	1,591,872	350,000	1,941,872	1,951,893
TOTAL COMPREHENSIVE INCOME FOR THE YEAR				
Profit/ (loss) for the year	–	(360,026)	(360,026)	(263,962)
Other comprehensive income	–	–	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	–	**(360,026)**	**(360,026)**	**(263,962)**
TRANSFER BETWEEN EQUITY RESERVES				
Industry Advances Reserve transfers	(76,212)	76,212	–	–
Industry Asset Amortisation Reserve transfers	(363,814)	363,814	–	–
BALANCE AT 30 JUNE 2012	**1,151,846**	**430,000**	**1,581,846**	**1,687,931**
BALANCE AT 1 JULY 2012	1,151,846	430,000	1,581,846	1,687,931
TOTAL COMPREHENSIVE INCOME FOR THE YEAR				
Profit/ (loss) for the year	–	8,361	8,361	(278,275)
Other comprehensive income	–	–	–	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	–	**8,361**	**8,361**	**(278,275)**
Industry Advances Reserve transfers	317,175	(317,175)	–	–
Industry Asset Amortisation Reserve transfers	(363,814)	363,814	–	–
BALANCE AT 30 JUNE 2013	**1,105,207**	**485,000**	**1,590,207**	**1,409,656**

The accompanying notes form an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	NOTES	ACTUAL 2013 $	BUDGET 2013 $	ACTUAL 2012 $
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	7	1,871,640	952,426	1,495,623
Trade and other receivables	8	20,309	100,481	451,592
Prepayments		40,287	38,834	49,920
Income tax receivable	6	–	3,870	–
TOTAL CURRENT ASSETS		**1,932,236**	**1,095,611**	**1,997,135**
NON-CURRENT ASSETS				
Property, plant and equipment	10	123,152	192,015	160,001
Intangible Assets	11	521,838	500,042	896,677
TOTAL NON-CURRENT ASSETS		**644,990**	**692,057**	**1,056,678**
TOTAL ASSETS		**2,577,226**	**1,787,668**	**3,053,813**
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	9	703,602	372,786	1,196,909
Asset restoration provision	12	31,228	31,256	27,970
Employee entitlements		252,178	223,516	247,080
Income in advance		–	–	–
Redeemable shares	14	11	8	8
TOTAL CURRENT LIABILITIES		**987,019**	**627,566**	**1,471,967**
TOTAL LIABILITIES		**987,019**	**627,566**	**1,471,967**
EQUITY				
Industry Reserves	15	1,105,207	650,102	1,151,846
Retained Earnings	15	485,000	510,000	430,000
TOTAL EQUITY		**1,590,207**	**1,160,102**	**1,581,846**

These financial statements were authorised for issue by the signatories below on 22 August 2013:
On behalf of the Board

RT HON JAMES B BOLGER, ONZ
CHAIR

ROBIN G HILL
DEPUTY CHAIR

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

	ACTUAL 2013 $	BUDGET 2013 $	ACTUAL 2012 $
OPERATING ACTIVITIES			
Cash was provided from			
Levy revenue	4,611,814	4,299,578	4,000,392
Market fee revenue	1,411,051	1,693,925	1,543,061
Annual fees	55,000	80,000	80,000
Interest received	34,856	13,822	35,927
Net GST	2,636	–	24,155
	6,115,357	**6,087,325**	**5,683,535**
Cash was applied to			
Payments to suppliers	(3,051,261)	(3,416,190)	(2,881,464)
Payments to employees	(2,120,739)	(2,252,030)	(2,105,337)
Payments to directors	(264,260)	(262,460)	(267,860)
Refund of levy to industry participants	(287,998)		–
Taxes paid	(9,760)	–	(10,060)
Net GST	–	–	–
	(5,734,018)	**(5,930,680)**	**(5,264,721)**
NET CASH INFLOWS FROM OPERATING ACTIVITIES	**381,339**	**156,645**	**418,814**
INVESTING ACTIVITIES			
Cash was applied to			
Purchase of property, plant and equipment	(4,119)	–	(125,358)
Purchase of intangible assets	(1,203)	–	(36,818)
NET CASH OUTFLOWS FROM INVESTING ACTIVITIES	**(5,322)**	**–**	**(162,176)**
Net increase/ (decease) in cash and cash equivalents	376,017	156,645	256,638
OPENING CASH AND CASH EQUIVALENTS	**1,495,623**	**795,781**	**1,238,985**
CLOSING CASH AND CASH EQUIVALENTS	**1,871,640**	**952,426**	**1,495,623**

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

These financial statements comprise the financial statements of the Gas Industry Company Limited (the "Company") for the year ended 30 June 2013.

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

The Company is a limited liability company incorporated and domiciled in New Zealand and is registered under the Companies Act 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 22 August 2013.

2. BASIS OF PREPARATION

(A) STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). 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 2012 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.

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

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

NZ IFRS 9 Financial Instruments is effective for periods beginning on or after 1 January 2015 and relates to the classification and measurement of financial instruments.

NZ IFRS 13 Fair Value Measurement is effective for periods beginning on or after 1 January 2013 and provides a framework for determining fair value.

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:

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

(D) INTANGIBLE ASSETS

Intangible assets acquired by the Company, which have 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 includes those items classified as "Industry Assets" have a finite useful life. Software costs are capitalised and amortised over an economic useful life of between 4 and 6 years.

"Industry Assets" relate to the databases created and established for the Downstream Reconciliation and Switching Rules.

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 expected benefits 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 and annual leave earned, but not yet taken at balance date.

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

LONG-TERM BENEFITS

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

(J) PREFERENCE SHARES

Preference share capital (disclosed as "Redeemable Shares") is 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.

(Q) RESERVES / EQUITY POLICY

The Board holds surplus levy income in a dedicated Industry Advance Reserve for the future reduction of levy income.

4. OPERATING INCOME

	ACTUAL 2013 $	ACTUAL 2012 $
Wholesale levy revenue	2,938,005	2,522,460
Retail levy revenue	1,627,328	1,487,593
Market fee revenue	1,564,721	1,524,754
Annual fees	55,000	80,000
TOTAL OPERATING INCOME	**6,185,054**	**5,614,807**
Refunded levy income	(287,998)	–

Pursuant to established policy, the Board resolved to return to levy payers over-recovered levy revenue from previous financial years.

5. OPERATING EXPENDITURE

	ACTUAL 2013 $	ACTUAL 2012 $
Depreciation & Amortisation	414,603	418,705
Operating lease expenses	312,875	320,650
Fees paid to audit firm – financial statement audit	13,850	13,850
Fees paid to audit firm – other services	–	10,000
Accounting and taxation advice	–	–
Directors' fees	264,260	267,860
General expenses	308,105	504,094
Bad debts	–	–
Recruitment expenses	28,264	–
Technical, economic, and legal advice	1,107,611	1,061,785
Service provider fees	1,331,022	1,228,384
Kiwisaver contributions	40,450	37,935
Foreign exchange loss	4,112	215
Employee benefit expense	2,085,382	2,134,247
TOTAL OPERATING EXPENDITURE	**5,910,534**	**5,997,725**

6. INCOME TAX

	ACTUAL 2013 $	ACTUAL 2012 $
(A) INCOME TAX EXPENSE		
Current year income tax expense	9,760	10,060
Deferred tax movement	–	–
TOTAL INCOME TAX EXPENSE	**9,760**	**10,060**
(B) RECONCILIATION OF CURRENT YEAR INCOME TAX EXPENSE		
Profit before tax	18,121	(349,966)
Income tax expense at 28 percent	5,074	(97,990)
Permanent differences	4,686	108,050
Timing differences	–	–
CURRENT YEAR INCOME TAX EXPENSE	9,760	10,060
(C) INCOME TAX RECEIVABLE		
Opening balance	–	872
Tax refunds received	–	(872)
Current year income tax expense	(9,760)	(10,060)
Income tax paid	9,760	10,060
CLOSING BALANCE	**–**	**–**

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

7. CASH AND CASH EQUIVALENTS

	ACTUAL 2013 $	ACTUAL 2012 $
Bank account	1,271,140	95,123
Money market account	600,000	1,400,000
Petty cash	500	500
TOTAL	**1,871,640**	**1,495,623**

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 2013 $	ACTUAL 2012 $
Levy debtors	–	434,412
Other receivables	20,309	17,180
TOTAL	**20,309**	**451,592**

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.

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

0-30 days	–	434,412
31-60 days	–	–
61-90 days	–	–
> 91 days	–	–
TOTAL	**–**	**434,412**

No provision for doubtful debts has been required because all significant receivable balances have been subsequently receipted after the reporting date and before authorisation of the financial statements for release.

During FY2012, as a result of a critical contingency incident, the Company recognised both receivables and payables to market participants for payments due as part of the rebalancing process under the Gas Governance (Critical Contingency Management) Regulations 2008. These payments had no net impact on the financial statements of the Company and are shown for comparative purposes only.

9. TRADE AND OTHER PAYABLES

	ACTUAL 2013 $	ACTUAL 2012 $
Accounts payable	299,660	804,820
Accrued expenses	369,149	374,420
GST payable	34,793	17,669
TOTAL	**703,602**	**1,196,909**

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 EQUIPMENT $	TOTAL $
COST				
Balance at 1 July 2011	115,593	157,248	48,346	321,187
Additions	95,607	28,969	782	125,358
Transfers	–	–	–	–
Disposals	(94,863)	(9,103)	(26,792)	(130,758)
BALANCE AT 30 JUNE 2012	**116,337**	**177,114**	**22,336**	**315,787**
Balance at 1 July 2012	116,337	177,114	22,336	315,787
Additions	–	–	4,119	4,119
Transfers	–	–	–	–
Disposals	–	(8,817)	(13,733)	(22,550)
BALANCE AT 30 JUNE 2013	**116,337**	**168,297**	**12,722**	**297,356**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
Balance at 1 July 2011	31,287	115,117	39,766	186,170
Depreciation expense	14,923	19,349	5,240	39,512
Disposals	(35,213)	(8,229)	(26,454)	(69,896)
Impairment losses	–	–	–	–
BALANCE AT 30 JUNE 2012	**10,997**	**126,237**	**18,552**	**155,786**
Balance at 1 July 2012	10,997	126,237	18,552	155,786
Depreciation expense	20,158	16,200	3,219	39,577
Disposals	-	(8,049)	(13,110)	(21,159)
Impairment losses	-	-	-	-
BALANCE AT 30 JUNE 2013	**31,155**	**134,388**	**8,661**	**174,204**
NET BOOK VALUE	**85,182**	**33,909**	**4,061**	**123,152**

11. INTANGIBLE ASSETS

	SOFTWARE $	INDUSTRY ASSETS $	CONSTRUCTION IN PROGRESS $	TOTAL $
COST				
Balance at 1 July 2011	54,733	2,182,448	–	2,237,181
Additions	36,818	–	–	36,818
Transfers	–	–	–	-
Disposals	(3,791)	–	–	(3,791)
BALANCE AT 30 JUNE 2012	**87,760**	**2,182,448**	**–**	**2,270,208**
Balance at 1 July 2012	87,760	2,182,448	–	2,270,208
Additions	1,203	–	–	1,203
Transfers	–	–	–	-
Disposals	(2,155)	–	–	(2,155)
BALANCE AT 30 JUNE 2013	**86,808**	**2,182,448**	**–**	**2,269,256**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
Balance at 1 July 2011	43,343	954,786	–	998,129
Depreciation expense	15,379	363,814	–	379,193
Disposals	(3,791)	–		(3,791)
Impairment losses	–	–	–	–
BALANCE AT 30 JUNE 2012	**54,931**	**1,318,600**	**–**	**1,373,531**
Balance at 1 July 2012	54,931	1,318,600	–	1,373,531
Depreciation expense	11,212	363,814	–	375,026
Disposals	(1,139)	–	–	(1,139)
Impairment losses	–	–	–	-
BALANCE AT 30 JUNE 2013	**65,004**	**1,682,414**	**–**	**1,747,418**
NET BOOK VALUE	**21,804**	**500,034**	**–**	**521,838**

12. ASSET RESTORATION PROVISION

	ACTUAL 2013 $	ACTUAL 2012 $
GROSS BALANCE OF PROVISION		
Opening	51,571	51,571
Additions	–	–
Disposals	–	–
CLOSING GROSS PROVISION	**51,571**	**51,571**
DISCOUNT FOR TIME VALUE OF MONEY		
Opening	23,601	26,576
Additions	–	–
Movement due to change in discount rate	–	–
Unwinding of discount	3,258	2,975
CLOSING DISCOUNT	**20,343**	**23,601**
PROVISION NET CARRYING AMOUNT	**31,228**	**27,970**

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 4) are made by industry participants who, in many cases, are also shareholders of Gas Industry Co.

(B) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

	ACTUAL 2013 $	ACTUAL 2012 $
SALARIES AND OTHER SHORT-TERM EMPLOYEE BENEFITS	**834,526**	**786,663**

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

(C) TERMINATION BENEFITS

No redundancy compensation was paid out during the financial year.

14. REDEEMABLE SHARES

	ACTUAL 2013 $	ACTUAL 2012 $
Redeemable shares – Value in dollars	11	8
Redeemable shares – Number	11	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 2013 $	ACTUAL 2012 $
Industry advances reserve	605,173	287,998
Industry asset amortisation reserve	500,034	863,848
Retained earnings	485,000	430,000
TOTAL EQUITY RESERVES	**1,590,207**	**1,581,846**

(A) INDUSTRY ADVANCES RESERVE

	ACTUAL 2013 $	ACTUAL 2012 $
Opening balance	287,998	364,210
Transfer from retained earnings	317,175	(76,212)
CLOSING BALANCE	**605,173**	**287,998**

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 Statement of Intent. In practice, this requires the company to forecast where it expects to be in the policy development process before it has fully analysed the issues, or engaged with stakeholders on their concerns This factor, and the fact that the levy is based in part on variable gas sales volumes, means every year there is a risk of over or under recovery of levy funds.

Section 43ZZC(3) of the Gas Act provides that any over or under recoveries can be taken into account in setting the levy in subsequent financial years. However, to ensure transparency around the calculation of each year's levy, the Board has determined that, unless required for unanticipated, ongoing work programme costs, any surplus should be returned to levy payers by way of refund once the year-end accounts have been received by shareholders at the Annual General Meeting.

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

(B) INDUSTRY ASSET AMORTISATION RESERVE

	ACTUAL 2013 $	ACTUAL 2012 $
Opening balance	863,848	1,227,662
Transfer from retained earnings	(363,814)	(363,814)
CLOSING BALANCE	**500,034**	**863,848**

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 2013 $	ACTUAL 2012 $
Opening balance	430,000	350,000
Profit for the year	8,361	(360,026)
Transfer to Industry Advances Reserve	(317,175)	76,212
Transfer to Industry Asset Amortisation Reserve	363,814	363,814
CLOSING BALANCE	**485,000**	**430,000**

16. CONTINGENCIES

As at 30 June 2013, the Company has no contingent liabilities (2012: nil). There is an arrangement with Westpac Banking Corporation Limited whereby Gas Industry Company has a business facility (limit $100,000) and a payroll Letter of Credit facility (limit $180,000).

17. COMMITMENTS

(A) CAPITAL COMMITMENTS

The Company has no material capital commitments (2012: $Nil)

(B) OPERATING LEASE COMMITMENTS

	ACTUAL 2013 $	ACTUAL 2012 $
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	328,691	329,408
Later than one year but not later than five years	928,648	1,257,339
Later than five years	–	–
TOTAL	**1,257,339**	**1,586,747**

(C) SERVICE PROVIDER COMMITMENTS

	ACTUAL 2013 $	ACTUAL 2012 $
Service provider agreements for the Downstream Reconciliation, Switching and Registry and Critical Contingency Management Rules payable as follows:		
Within one year	700,705	1,351,709
Later than one year but not later than five years	170,000	870,705
Later than five years	–	–
TOTAL	**870,705**	**2,222,414**

18. 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. Management 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.

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

	ACTUAL 2013 $	ACTUAL 2012 $
Profit/ (loss) for the year	8,361	(360,026)
Non cash items		
Depreciation and amortisation expense	414,603	418,705
Unwind of discount factor on restoration provision	3,258	2,975
Impact of changes in working capital items		
Prepayments	9,633	(2,686)
Trade and other payables	(511,450)	645,229
Employee entitlements	5,098	38,300
Trade and other receivables	434,412	(338,694)
GST payable	17,124	10,223
Income tax receivable	300	4,788
NET CASH FLOWS FROM OPERATING ACTIVITIES	**381,339**	**418,814**

20. 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.

21. SUBSEQUENT EVENTS

No significant events, which would materially affect the financial statements, have occurred subsequent to year-end that require disclosure or adjustment to the carrying value of assets or liabilities in these financial statements.

GLOSSARY

ALLOCATION AGENT	Appointed pursuant to the Reconciliation Rules to apportion downstream gas quantities and allocate daily gas quantities to retailers. The Allocation Agent is currently NZX Limited
BGX	Balancing Gas Exchange
CCM REGULATIONS	Gas Governance (Critical Contingency Management) Regulations 2008
CCO	Critical Contingency Operator
COMPLIANCE REGULATIONS	Gas Governance (Compliance) Regulations 2008
DISTRIBUTION SCHEME	Gas Distribution Contracts Oversight Scheme
EECA	Energy Efficiency and Conservation Authority
EA	Electricity Authority
EGCC	Electricity and Gas Complaints Commission
GAS ACT	Gas Act 1992
GAS REGISTRY	The customer switching platform which facilitates customer switching between retailers and provides an authoritative database of information about consumer installations. The Gas Registry Operator is currently Jade Software Corporation (NZ) Limited
GJ	Gigajoule (10^9 joules). The average residential gas consumption is 23 GJ/year
GPS	Government Policy Statement on Gas Governance (April 2008)
GTIP	Gas Transmission Investment Programme
GTX	Gas Transmission Exchange
ICP	Installation Control Point
MBIE	Ministry of Business, Innovation and Employment
MINISTER	The Minister of Energy and Resources (unless indicated otherwise)
MPOC	Maui Pipeline Operating Code
NORTH PIPELINE	The section of the Vector transmission system from Huntly to Whangarei, via Auckland
OATIS	Open Access Transmission Information System
PEPANZ	Petroleum Exploration and Production Association of New Zealand
PEA	Panel of Expert Advisers
PSA	Panel of Strategic Advisers
PJ	Petajoule (10^{15} joules, or 1 million GJ). 1 PJ is equivalent to the average annual gas use of approximately 43,000 households
PROCESSING INFORMATION DISCLOSURE RULES	Gas (Processing Facilities Information Disclosure) Rules 2008
RECONCILIATION RULES	Gas (Downstream Reconciliation) Rules 2008
RETAIL SCHEME	Retail Gas Contracts Oversight Scheme
SWITCHING RULES	Gas (Switching Arrangements) Rules 2008
TRANSMISSION SYSTEM	A system of pipelines transporting gas at high pressure from production and processing facilities to delivery points supplying end users and lower pressure local area gas distribution networks
TSO	Transmission System Owner
VTC	Vector Transmission Code
UFG	Unaccounted-for gas

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