
2013/14
ANNUAL REPORT
10
YEARS AS GAS
INDUSTRY BODY
GAS INDUSTRY
COMPANY LIMITED


40
YEARS SINCE NATURAL GAS FLOWED FROM KAPUNI INTO HOMES, BUSINESSES + COMMUNITIES
GAS INDUSTRY COMPANY LIMITED

CONTENTS

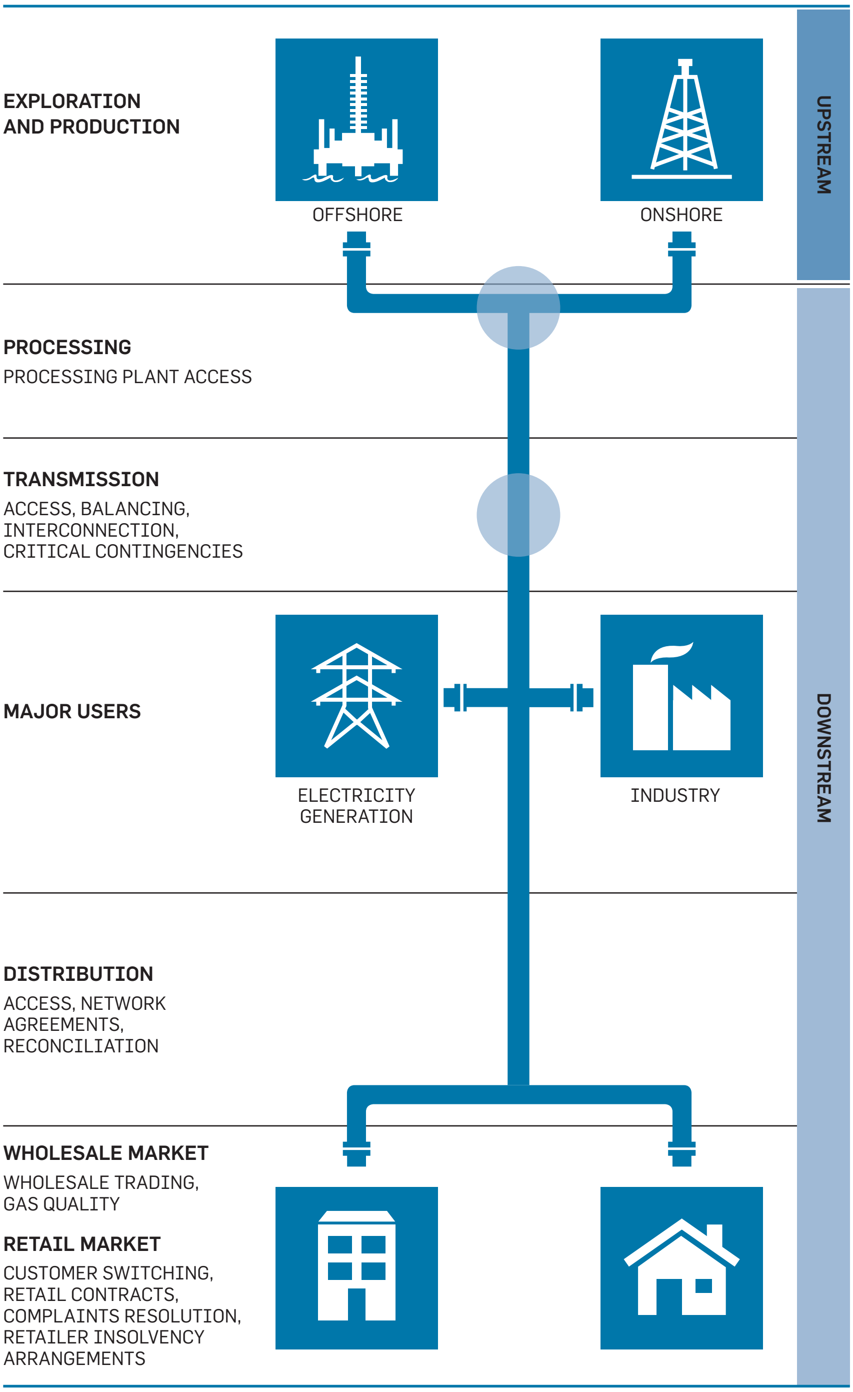
*As the industry body under the Gas Act 1992 (Gas Act), and as co-regulator, Gas Industry Co is responsible for developing industry arrangements that ensure gas is delivered safely, efficiently and reliably to new and existing gas consumers. Our strategy is to '**optimise the contribution of gas to New 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 GOVERNANCE ARRANGEMENTS

Gas Industry Co currently administers four formal governance arrangements in 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 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

01

CHAIR'S FOREWORD

"In looking to the future, the industry can draw on the considerable experience, skills and innovation it has developed in the space of just over four decades since the first natural gas flowed from the Kapuni field and into New Zealand's homes, businesses and communities…"

Gas Industry Co marks its 10th anniversary as the industry body in 2014. In this milestone year, it is pleasing to reflect on the extent of the Company's achievements since its establishment in 2004, and on the continuing success of an industry that is making a substantial contribution to New Zealand's energy supply and economy.

The industry itself continues to evolve. The year ended 30 June 2014 was notable for a number of important developments, among them a very high level of exploration activity, increasing but changing patterns of gas demand, industry-led initiatives for wholesale gas trading, and the introduction of new governance and regulatory arrangements affecting the wider industry.

The picture is similar in the global context, where gas is playing an increasingly important international energy supply role. At the same time, a United Nations report[1] has sounded new warnings about fossil fuel use, and a reminder that gas is inextricably part of the climate change debate. In this regard, there are both opportunities for gas in displacing more harmful fossil fuels, and the challenges arising from the drive of most developed countries towards more renewable energy.

New Zealand is already a world leader in renewable electricity generation through its hydro and geothermal resources, and expanding wind generation fleet. Nonetheless, natural gas has a continuing role in New Zealand's energy supply mix for many years to come – in support of electricity supply security, energy diversity and, through direct use, providing consumers with a competitive energy option.

The substantial investment in the current upstream programme in New Zealand demonstrates this country's ability to attract discretionary exploration spending by international companies. The programme is supported by the Government's policy to find and develop New Zealand's petroleum resources in a responsible manner, and for the benefit of all New Zealanders.

Gas Industry Co's work supports this policy objective. Through workstreams focused on infrastructure access and efficient market mechanisms, we remain firmly committed to meeting the overarching purpose for Gas Industry Co in relation to gas governance arrangements, which is for gas to be delivered to existing and new customers in a safe, efficient and reliable manner.

Gas Industry Co is also required to take account of environmental sustainability in its governance recommendations and we need to be cognisant of issues for gas as a carbon fuel. Independent research we have commissioned confirms there can be positive impacts from gas use in this regard, as it shows that direct gas use in such applications as domestic space and water heating, and industrial process heat, competes well with other energy forms on carbon footprint, price and efficiency.

In this context, there is naturally close attention to New Zealand's current gas resources and the potential for finding new fields. Success from new exploration activity has proved elusive, and there is no guarantee a major new find will materialise. However, further work at the country's four largest fields has seen New Zealand's gas reserves increase by 31 percent in 2013.

1 United Nations Intergovernmental Panel on Climate Change (IPCC) – Climate Change 2014: Mitigation of Climate Change – Working Group III, contribution to the Fifth Assessment Report

Ongoing investment in finding new reserves from existing fields, as well as in new small and medium prospects, remains crucial.

The mid and downstream gas industry in New Zealand continues to be important not just to current consumers but also to underpinning investor confidence in new upstream investment. Although still to resolve a number of important issues, including transmission balancing and capacity access, it has made progress in such other areas as establishing a mechanism for short-term wholesale gas trading.

In carrying out our statutory role, we are also aware of other regulatory developments in related areas. During the year, significant changes were made to the Crown Minerals Act 1991 and associated regulations that govern the exploration and production sector, a new price/quality and information disclosure regime covering gas transmission and distribution owners became effective under Part 4 of the Commerce Act 1986, and diverse workplace and energy safety regulations were consolidated under a single new Crown entity.

In looking to the future, the gas industry can draw on the considerable experience, skills and innovation it has developed in the space of just over four decades since the first natural gas flowed from the Kapuni field and into New Zealand's homes, businesses and communities.

ACKNOWLEDGEMENTS

Gas Industry Co has completed another productive year and the Directors again record their appreciation to the Company's executive and staff for their ongoing efforts to ensure the market systems for which the Company is responsible are efficient and effective for participants, and that they operate in the best interests of consumers.

The Company benefits from the support of shareholders and the broad industry and commercial perspectives brought to the Board's deliberations by the mix of independent and industry-associated Directors.

During the year, the Board farewelled Albert Brantley, the Chief Executive of Genesis Energy Limited, who retired after five years as a Director. On behalf of Directors, I record our appreciation to Mr Brantley for his valuable contribution. With Mr Brantley's retirement, the Board welcomed Nigel Barbour, the Chief Executive of Powerco Limited, as a Director.

Gas Industry Co's work in delivering Government policy objectives necessarily involves wide engagement with stakeholders. The governance development process and outcomes are enriched by this input. The Board records its thanks to all stakeholders for their ongoing contribution, from the early stages of establishing Gas Industry Co's annual work programme priorities to the detailed work that gives substance to the outcomes.

All stakeholders, from the industry participants who fund our activities to those with a keen interest in efficient energy markets, can be assured that Gas Industry Co is committed to performing its functions in a cost-effective way, while maintaining a strong focus on its core accountabilities under the Gas Act and GPS.

Rt Hon James B. Bolger, ONZ
CHAIR

2014/15 PRIORITIES

- Facilitate ongoing industry work on improved transmission capacity allocation and pricing arrangements. In parallel, develop a counterfactual design should industry-led initiatives falter.
- Complete implementation of changes to the CCM Regulations that took effect on 1 March 2014.
- Consider recommendations for improvements to the Gas Distribution Contracts Oversight Scheme (Distribution Scheme), and implement as appropriate.
- Implement changes to the Retail Gas Contracts Oversight Scheme (Retail Scheme) approved in 2013/14.
- Finalise the development of a gas quality protocol to strengthen stakeholders' understanding of gas quality management and information availability.
- Develop a final allocation option from the phase 2 review of the Reconciliation Rules and implement changes as appropriate.
- Support industry-led efforts to improve transmission pipeline balancing arrangements.
- Complete consultation on proposed changes to the Switching Rules, as well as switching and reconciliation thresholds under the Compliance Regulations, and implement as appropriate.
- Complete the development of back-up regulations relating to gas retailer insolvency.
- Report to the Minister on interconnections to transmission pipelines.
- Continue development of *The New Zealand Gas Story* and undertake related initiatives to assess, develop and report on the state and performance of the gas industry.

02

CHIEF EXECUTIVE'S REVIEW

"As we reflect on Gas Industry Co's first decade of operations, we have laid a sound platform for maintaining a healthy downstream gas industry well into the future…"

Gas Industry Co made good progress with its work programme during 2013/14 in pursuit of the goals set for us in the Gas Act and the GPS.

As we reflect on Gas Industry Co's first decade of operations, we have laid a sound platform for maintaining a healthy downstream gas industry well into the future.

The industry's dynamics at the end of the decade are very much different to those encountered by Gas Industry Co when it commenced operating. During those 10 years, the transition from industry dependence on one dominant field, Maui, to supply from multiple smaller fields brought greater complexity to the sector and required new ways of using infrastructure, including opening the Maui pipeline to convey other than Maui gas.

Governance arrangements have evolved in line with the demands of a more competitive trading environment to deliver improved market efficiencies and consumer benefits. Important milestones included the introduction of effective switching and downstream reconciliation arrangements and enhanced critical contingency management processes.

The collaborative work between Gas Industry Co and industry stakeholders in this first decade has established a strong foundation for the ongoing change occurring in the industry.

As such, a growing aspect of our role is around understanding and supporting the next phase of New Zealand's 40-year gas story.

Recent outputs have included the 2012 Gas Supply/Demand Study (*Gas Supply and Demand Scenarios 2012 -2027,* Concept Consulting) that emerged from our Gas Transmission Investment Programme (GTIP) work, and which is currently being updated. During the year we commissioned expert studies into commercialisation issues surrounding any gas-rich exploration success, and the potential effectiveness of demand management incentives to relieve transmission capacity pressures during times of high usage.

In addition to potentially helping industry stakeholders with their strategic decisions, these analyses support aspects of our workstreams, as well as our obligation to report on the state and performance of the industry.

The studies raise important commercial and public policy considerations about how gas finds in either the North or South Islands might be developed and used, and whether the gas market can be expanded. They also help to inform the nature of industry governance arrangements that may be needed in the future.

For example, the reports point to changing demand patterns by the two largest users of gas in New Zealand, where we are seeing substantially higher gas requirements for methanol production, and declining gas use for electricity generation. While the net outcome is a return to annual gas demand of around 200 petajoules (PJ) for the first time in over a decade, the implications of potential large gas discoveries combined with tighter demand concentration are among the industry's broader challenges.

There are encouraging signs of new, innovative and efficient market uses for gas. In addition to traditional reticulation, industrial process heat and transformation into electricity and petrochemical products, technological advancements in the effective use of gas as a transport fuel, and micro technologies for direct use of liquefied natural gas (LNG), are broadening opportunities in larger overseas markets.

Should scale and economics align favourably, such developments may ultimately translate to the smaller New Zealand market with potential energy efficiency and environmental benefits.

During the past 10 years, the co-regulatory model adopted for the gas industry has proved consistently effective in achieving a mix of fit-for-purpose regulated and non-regulated governance arrangements.

The value of the co-regulatory approach has been most recently exemplified in the GTIP, in which the industry and Gas Industry Co together seek to take the existing code-based transmission arrangements to their next level.

Changes in demand on the transmission north pipeline supplying Auckland and beyond have brought some relief to the congestion issues that triggered the GTIP work. However, it is important the impetus towards longer-term solutions continues as the same issues could quickly resurface in the event of a new discovery, a large new downstream consumer requiring infrastructure, or higher demand due to increased economic activity.

Gas Industry Co appreciates the continuing willingness of industry stakeholders to work co-operatively on this issue. At the same time, we are taking the prudent step of developing a counterfactual outcome to be consulted upon should the industry-led endeavours falter for any reason.

In the latest year the workstream on gas processing facility access arrangements was brought to a satisfactory conclusion and others, including the CCM Regulations review and the assessment of retailer insolvency arrangements, were largely put in place. The recently-introduced oversight schemes for contracts between gas distributors and retailers, and between retailers and small consumers, reached new levels of maturity and have demonstrated their value in driving improvements to the terms and conditions of those contracts.

Other matters continue to exercise the attention of industry stakeholders and, while advanced to varying degrees during the year under review, they remain works in progress. It is of particular disappointment that the industry still awaits the introduction of transmission balancing improvements, notwithstanding extensive consultation during the year and Gas Industry Co's support of transmission code changes opening the way for these improvements to occur. Although there has been a marked reduction in balancing costs since the industry began addressing transmission balancing in earnest five years ago, Gas Industry Co believes improved arrangements remain necessary.

The ability to find answers to the industry's issues through a process that encourages the evaluation of all options is an important aspect of the co-regulatory approach to industry governance. The toolkit this provides allows Gas Industry Co to continue its support of the industry's performance while maintaining our sharp focus on fulfilling the role set for us 10 years ago.

Steve Bielby
CHIEF EXECUTIVE

KEY ACHIEVEMENTS 2013/14		
ACTIVITY	PRIORITIES SET FOR 2013/14	OUTCOMES FOR 2013/14
TRANSMISSION CAPACITY	Complete industry consultation on the Second Advisory 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.	Second Advisory Report from the PEA published in July 2013, with a submissions analysis published in October 2013. Gas Industry Co Transmission Access Options Paper issued for consultation in December 2013, with a submissions analysis published in May 2014. Bridge Commitments monitoring reveals limited activity.
CRITICAL CONTINGENCY MANAGEMENT	Implement improvements and manage transition arrangements for the CCM Regulations.	CCM Regulations review consultation completed and changes implemented on 1 March 2014. Commenced transition process, including inviting and processing consumers' applications for designations.
DISTRIBUTION CONTRACTS	Conduct the second full assessment of gas distributors' standard contract offering to retailers against principles under the Distribution Scheme.	Full assessment conducted on distribution contracts as at 1 March 2014. Contract alignment improves from 'Moderate' to 'Substantial'.
CONSUMER OUTCOMES	Complete a review of the Retail Scheme to ensure assessments of retailers' contracts with small consumers continue to provide value. Implement any changes arising from the review.	Retail Scheme changes completed in April 2014 and implemented.
GAS QUALITY	Facilitate the implementation of industry-led solutions addressing concerns over gas quality arrangements. Assess and address any remaining gas quality issues.	Following consultation, and in liaison with an industry working group, Gas Industry Co is progressing development of a Gas Quality Protocol for industry stakeholders.
DOWNSTREAM RECONCILIATION	Complete industry consultation on the second stage of amendments to the Reconciliation Rules. Finalise proposals for any consequential changes to these Rules.	Work continued through the year on developing Phase 2 changes to the Reconciliation Rules, with flow-on into the 2014/15 financial year.
TRANSMISSION BALANCING	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.	All code changes to effect balancing improvements considered and, following consultation, supported. In particular, the substantive change to the MPOC to introduce back-to-back balancing, still awaits implementation.
TRANSMISSION INTERCONNECTIONS	Assess any new interconnections with transmission pipelines and report to the Minister on the effectiveness of current interconnection arrangements.	Interconnection progress report was provided to the Minister in December 2013. Separate reports to the Minister on virtual 'interconnection' of the gas trading markets and physical interconnections to the gas transmission pipelines were provided to the Minister post balance date.
CONSUMER SWITCHING	Progress a review of the Switching Rules and develop proposals for any consequential amendments.	Preparation of consultation documents for Switching Rules changes were well advanced as at year-end.
CORPORATE STRATEGY	Maintain the currency of *The New Zealand Gas Story* publication. 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.	Second edition of *The New Zealand Gas Story* issued in December 2013, and further updated in April 2014. Commissioned study of new gas field commercialisation issues released in May 2014 and draft of follow-up supply/demand study issued for industry feedback shortly after year-end.

03

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.

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 benefit from arrangements covering distributor and retailer contracts, gas quality management, consumer complaints processes and appropriate arrangements in the event of a gas retailer insolvency.

DOWNSTREAM RECONCILIATION

A policy review of the Reconciliation Rules moved further into its second phase during the year, following the implementation of Phase 1 changes on 1 June 2013.

The review commenced in 2010 and has been assisted by an industry advisory group, with input from stakeholders.

The Phase 1 amendments to the Reconciliation Rules comprised process enhancements and exemptions codification, while Phase 2 work addresses more complex initial allocation accuracy issues. It is focused particularly on identifying options to either improve the accuracy of initial allocations under existing processes, or to replace these with an alternative system. Options range from changing the current allocation methodology, to moving to a 'D+1' system that would provide shippers with daily allocated quantities, at a transmission pipeline level, on the day after gas has flowed.

This work will lead to an Options Paper to be issued for consultation during 2014/15.

The Reconciliation Rules improve market efficiency through a process for reconciling volumes of gas leaving the high pressure transmission system with volumes consumed by end-users, and attributing them to the relevant retailers. The difference between the amount of gas that retailers estimate their customers have used and the volume of gas leaving the transmission system is unaccounted-for gas (UFG), which is allocated, and charged, to retailers in proportion to their consumption submissions.

Excessive UFG is economically inefficient as it represents gas that retailers must pay for, but have not sold. Since their introduction in 2008, the Reconciliation Rules, and their associated performance and auditing mechanisms, have been instrumental in reducing UFG from over 2 percent of annual consumption to an annual average of approximately 1.1 percent. Figure 1 shows the rolling UFG since 2009, both in volume (GJ) and as a percentage of gas delivered.

During the year, EMS (Energy Market Services, a business unit of Transpower NZ Limited) was appointed as Allocation Agent under the Reconciliation Rules. The appointment resulted from a competitive tender conducted on the completion of the initial five-year contract period since the Reconciliation Rules came into effect in 2008. The role was performed by NZX Limited from June 2009, when it purchased M-Co Limited, the inaugural Allocation Agent under the Reconciliation Rules.

GAS CUSTOMER SWITCHING

Retail market contestability indicators have continued to improve.

The Switching Rules continued to demonstrate their effectiveness in enabling consumers to choose, and efficiently alternate between, competing retailers. During the year, 47,484 gas consumers changed retailer, an increase of 13 percent on the 41,990 switches in 2012/13 (Figure 2). The overall churn rate rose from approximately 16 percent of total gas consumers in 2012/13, to 18 percent in the year under review.

FIGURE 1: ANNUAL UNACCOUNTED-FOR GAS

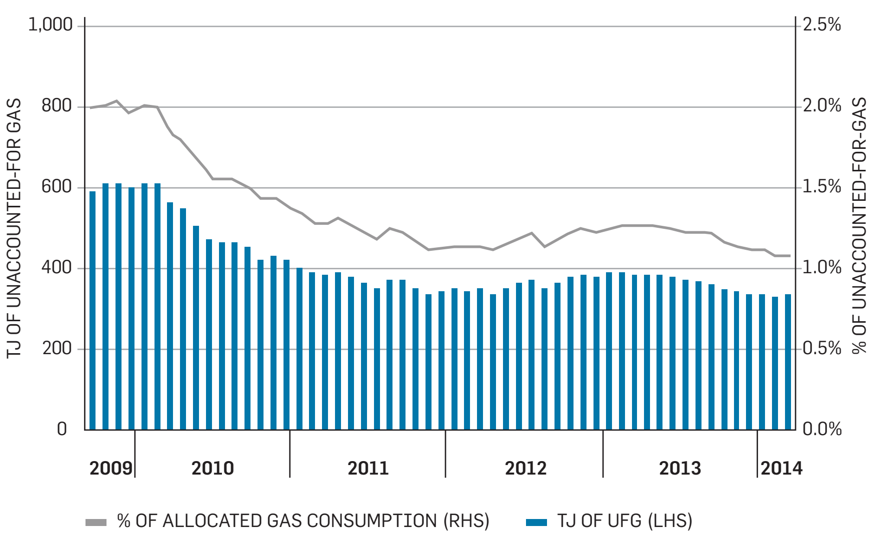
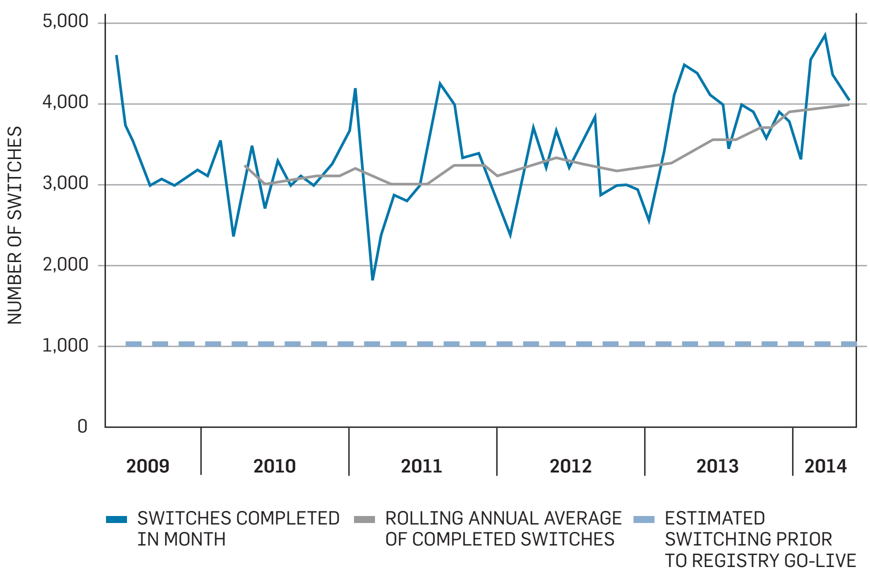


FIGURE 2: GAS CUSTOMER SWITCHES



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 November 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.

Switching times have also improved in the past five years, from weeks or months to approximately six business days (Figure 3).

In the past five years, 48 percent of residential gas customer sites, 63 percent of small commercial sites, 73 percent of large commercial sites and 40 percent of large industrial sites have switched retailer at least once.

Market concentration in all regions of the North Island has diminished due to the entry of new retailers, and smaller retailers increasing their market share. The Herfindahl-Hirschmann Index (HHI), which measures market concentration using the size and number of competing retailers, shows a significant and continuous reduction in market concentration since 2009 (Figure 4).

With the entry of Trustpower Limited in 2013, there are now nine retailers operating in the retail gas market. All are active at a number of gas gates, where gas exits the high pressure transmission system and enters the lower pressure gas distribution networks for delivery to residential, commercial and industrial consumers.

Almost 99 percent of gas consumers are connected to a gas gate where at least six retailers are trading.

FIGURE 3: GAS CUSTOMER SWITCH TIME

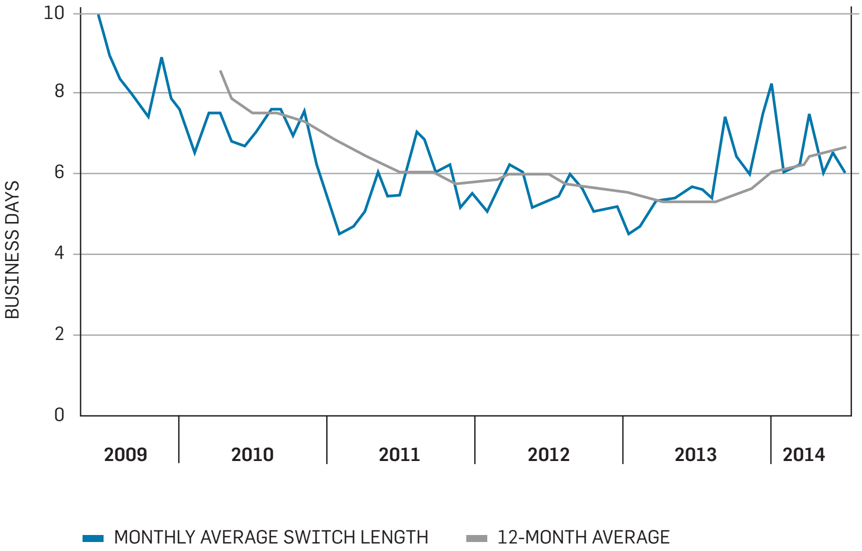
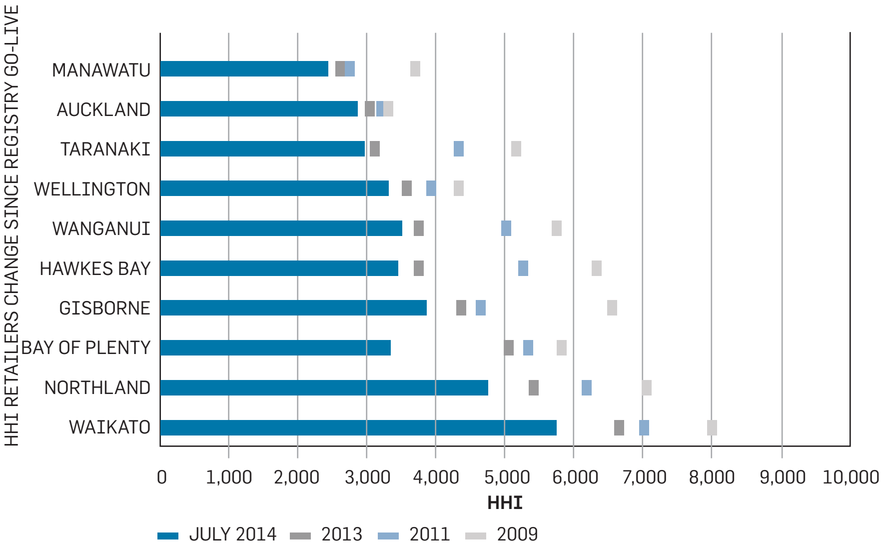


FIGURE 4: HERFINDAHL-HIRSCHMAN INDEX OF MARKET CONCENTRATION



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.

DISTRIBUTION CONTRACT ARRANGEMENTS

During the year, the second assessment under the voluntary Distribution Scheme rated distributors' standard contract offerings to retailers as having 'Substantial' overall alignment with a set of 18 contract principles.

Conducted by the Independent Assessor, Elwood Law, the assessment evaluated distributors' published standard gas distribution services contracts as at 1 March 2014.

The first assessment, in March 2013, resulted in a technical 'Nil' outcome as distributors had not published new contract arrangements, reflecting the principles, by that date. However, the Independent Assessor rated the distributors' then draft contracts as having 'Moderate' alignment with the principles.

In the second assessment report, the Independent Assessor has drawn Gas Industry Co's attention to industry feedback on aspects of the Distribution Scheme requiring clarification, and areas of potential improvement. Gas Industry Co is considering these suggestions.

The objectives of the Distribution Scheme, introduced in 2012, are to ensure that core terms and conditions of distribution services agreements are clear and reasonable, promote market efficiency and enhance consumer outcomes.

RETAIL CONTRACT ARRANGEMENTS

Following marked improvements to retailers' gas supply contracts with small consumers in the previous three years, Gas Industry Co has completed a review leading to a substantial redesign of the Retail Scheme.

As a result, the frequency of assessing retailers' contracts against a set of benchmarks has moved from annually to every three years. The Retail Scheme also now includes a series of Reasonable Consumer Expectations, covering matters that a consumer should expect to see in a gas supply contract and which sit above the more detailed benchmarks. Under the amended Retail Scheme, retailers will provide Gas Industry Co with annual confirmation as to whether they have amended their standard published contracts.

The Retail Scheme, introduced in 2010, is a non-regulatory arrangement designed to meet Government policy objectives for contractual arrangements between gas retailers and small consumers to adequately protect the long-term interests of those consumers.

Annual evaluations of retailers' published contracts by an Independent Assessor, also Elwood Law, have seen alignment with the benchmarks improve from 'Moderate' to 'Substantial'.

From its review, Gas Industry Co concluded that the original reasons for implementing the Retail Scheme remained valid and its continuation was broadly supported by industry participants. The changes reflect the improvements to retail contracts in the first three years of the Retail Scheme, industry stakeholder feedback and the operation of similar relevant contract oversight schemes, particularly that administered by the Electricity Authority (EA).

GAS QUALITY

In liaison with an industry working group, Gas Industry Co is developing a Gas Quality Protocol aimed at enhancing stakeholders' understanding of how gas quality is managed and the availability of gas quality information.

During the year, Gas Industry Co conducted a series of workshops on the Protocol, which was initially developed as an industry initiative by a group of retailers. In the light of subsequent questions raised by industry participants about whether a Protocol as proposed by the retailers was the best option, Gas Industry Co offered to lead an alternative approach and to develop an industry document that would serve a similar purpose of setting out governance arrangements and responsibilities with respect to gas quality.

Investigations by Gas Industry Co in 2012 did not identify any reasons to doubt that gas quality is being managed by parties in the physical supply chain in a rigorous and professional manner. However, the Company also noted that while the possibility of a gas quality incident is small, it has the potential to cause significant economic and reputational harm. Given the 'common pool' nature of gas pipelines, there is a heavy onus on the industry to ensure a high degree of transparency around quality monitoring and reporting.

Under the Gas (Safety and Measurement) Regulations 2012 (Safety Regulations) wholesalers and retailers have a particular responsibility for the quality of gas delivered to consumers. As previously reported, these participants are concerned that, while they have the legislative responsibility for achieving compliance with the specified standard for reticulated natural gas[2], they may not have sufficient influence over the parties who physically control gas quality.

There are also concerns that the costs of a quality-related outage may not be borne by the party who caused it.

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 2014, the EGCC records total electricity and gas inquiries of 6,457, a 1.6 percent increase over 6,357 in 2012/13, but lower than the 7,490 cases in 2011/12.

Gas-related cases totalled 199 and contributed to the overall increase. There were 102 gas inquires, compared with 83 in the previous year, and gas complaints increased from 74 to 97 (Figure 5).

The EGCC also received more dual fuel (electricity and gas) cases during 2013/14. Dual fuel inquiries increased from 27 to 36, while complaints rose from 62 to 68.

FIGURE 5: GAS-RELATED INQUIRIES AND COMPLAINTS

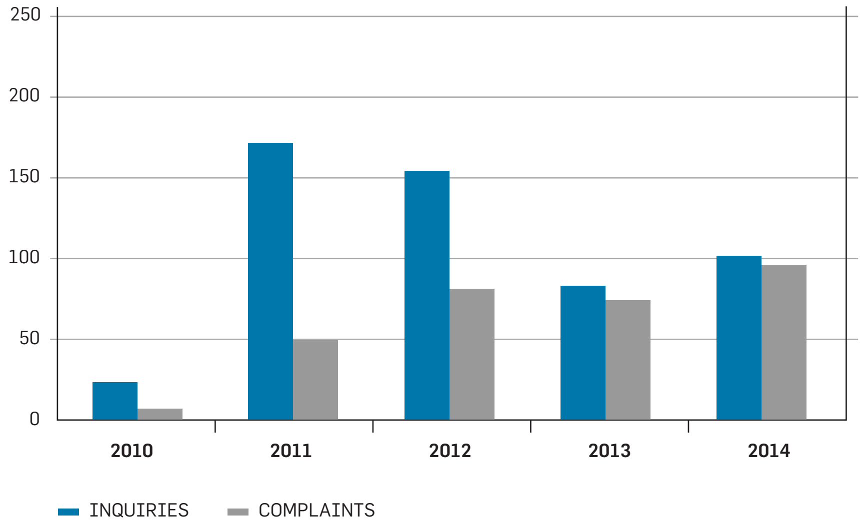
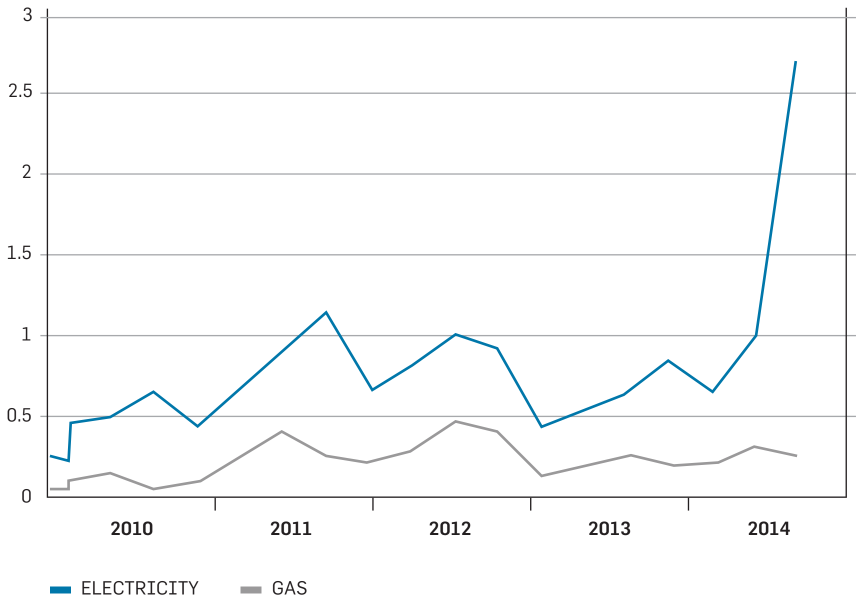


FIGURE 6: ELECTRICITY AND GAS COMPLAINTS PER 10,000 ICPs



2 NZS 5442:2008 Specification for Reticulated Natural Gas

At 43 percent, billing-related issues continued to be the main grounds for complaint overall. Also included in the top five complaints issues were customer service (16.9 percent), disconnection (9.7 percent), metering (9.5 percent) and supply (5.1 percent).

The gas sector continued to draw significantly fewer complaints than the electricity sector on a complaints per 10,000 ICPs basis (Figure 6). During 2013/14, complaints per 10,000 ICPs relating to gas averaged 0.27 per month (up on 0.24 in 2012/13), compared with an electricity sector monthly average of 0.98 (significantly up on 0.67 in the previous year).

RETAILER INSOLVENCY

Gas Industry Co's review of arrangements for managing retailer insolvency events was completed during the year. It culminated with a recommendation, accepted by the Minister, that permanent regulations are not necessary to deal with the consumer implications of an insolvency, but there should be a mechanism for backstop regulations should they become necessary in the future.

The review and consultation process was initiated following the voluntary liquidation of a gas retailer, the E-Gas Group, in 2010.

The review found that unexpected and immediate insolvencies of gas retailers in New Zealand are rare. The main consequence would be if an insolvency resulted in 'orphaned customers', who could continue to consume gas while having no retailer to bill them for its use. This could represent a market failure as it would impose third party costs on other gas market participants.

Gas Industry Co concluded that normal insolvency arrangements generally work well and should be allowed to run their course in the event of a gas retailer insolvency. The Company considered that gas-specific insolvency 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 reduce the scope for a new competitor to enter the gas market by way of acquiring an insolvent retailer's assets.

However, it would be prudent for backstop regulations to be developed for implementation if existing mechanisms were inappropriate or proved to be inadequate for any reason. If required, a regulated response could be tailored to the particular circumstances, recommended to the Minister and made under urgency.

Gas Industry Co has established an industry working group and is preparing drafting instructions for backstop regulations for consultation in 2014/15. Those drafting instructions will be used to recommend urgent regulations in the event of a retailer insolvency.

04

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 during 2013/14 included transmission pipeline balancing and interconnection, and gas processing facility access.

TRANSMISSION CAPACITY ACCESS

The Gas Transmission Investment Programme (GTIP), the industry-supported initiative to achieve improved transmission capacity access arrangements, continued to deliver quality results as it reached significant milestones during the year.

The Panel of Expert Advisers (PEA) provided its Second Advisory Report to Gas Industry Co, proposing ways that the different access codes for the Maui and Vector pipelines could be more closely harmonised through a process of 'evolutionary convergence' to meet the characteristics of a well-functioning market.

Gas Industry Co has endorsed the PEA's approach and, based on the PEA's recommendations, the GTIP work is now proceeding on two fronts:

- Vector has convened a group comprising shippers and Maui Development Limited (MDL) that aims to operationalise the guiding principles developed by the PEA; and
- Gas Industry Co is developing a 'counterfactual design' solution in the event that the industry-led code changes do not eventuate, or prove to be insufficient.

In addition, in response to the importance the PEA placed on having both firm and interruptible services on transmission pipelines, Gas Industry Co commissioned a study into the role of demand management as a means of maximising efficient use of gas transmission pipeline capacity during periods of high demand. The report, *Investigation of Possible Scale of Demand Management on the Vector North System*, undertaken by JT Consulting, Wanganui, indicated some interest by large gas consumers in interrupting or curtailing gas usage at times of high demand if the incentives are right. It noted that success of such a programme would depend on a number of factors, including financial compensation and ease of participation.

As a first step towards developing its counterfactual design, Gas Industry Co issued an Options Paper setting out five potential avenues for addressing the access issues identified by the PEA. The intention is to fully debate all options before narrowing them down to a preferred outcome.

Gas Industry Co has also suggested a number of initial changes, common to all options, that can be readily applied to the existing pipeline codes.

The GTIP work has involved close and regular consultation, including workshops, and continues to be a primary focus area for Gas Industry Co and industry stakeholders in 2014/15.

The GTIP workstream was established following the emergence of capacity constraints on the Vector North transmission system in 2009. It is aimed at:

» ensuring existing and future gas transmission assets are used effectively;
» establishing the need for gas transmission investment; and
» developing an effective pathway for efficient gas transmission investment to take place.

Transmission capacity demand patterns during the year were consistent with indications in 2012/13 of an easing in the risks of constraints, and reinforced a view that new transmission capacity is unlikely to be required in the immediate future. There has also been a continuation of limited use of mechanisms under the Bridge Commitments that are designed to address capacity issues in the short-term, pending a longer-term solution. Activity on the Gas Trading Exchange (GTX), a specially-developed online capacity trading bulletin board, remained subdued and Gas Industry Co is not aware of instances during the year of capacity availability constraining retailers' ability to respond to competitive tenders.

Gas Industry Co continues to monitor this activity closely, but remains convinced that appropriate solutions for the longer-term management of transmission capacity should be found now to improve capacity allocation efficiencies and assist the industry to respond proactively if capacity access again becomes an issue of significance.

PIPELINE BALANCING

A year ago, Gas Industry Co sounded a note of optimism for finding solutions to long-standing transmission pipeline balancing issues in the light of transmission code changes, wholesale gas market developments and Reconciliation Rules amendments then in train.

Unfortunately, that optimism was misplaced. While, following consultation, Gas Industry Co's support of an additional MPOC change request further opened the way for improved balancing arrangements, the industry still awaits its implementation.

The code changes together have provided for the introduction of back-to-back balancing and other improvements that would make causers of balancing actions more accountable for balancing costs. However, implementation has been repeatedly deferred by MDL due to new issues it is concerned about.

Gas Industry Co continues to support efforts for an industry-led solution. However, in the absence of concrete progress Gas Industry Co may have to look back to 2009 when the regulatory solution it then proposed was put aside, at the industry's request, to give the industry a chance to resolve the balancing issues itself.

During the year, three reports and studies were issued to further promote discussion of gas transmission balancing improvements in New Zealand.

A Gas Industry Co-commissioned report, *Gas Balancing in Selected European Jurisdictions*, by Concept Consulting, examined commercial balancing arrangements in Great Britain, Ireland, Belgium and the United Kingdom-Belgium subsea interconnector. Reports released by other parties were *Gas Balancing: International Benchmarks and Good Practices*, by the gas market operator emsTradepoint, and *The Types of Pipeline Balancing and Related Concerns*, produced by the Maui pipeline owner, MDL. Gas Industry Co has invited industry stakeholder comment on these reports.

Although a robust and enduring solution has yet to emerge, Gas Industry Co acknowledges that some industry initiatives, including the introduction by MDL's Commercial Operator of the online Balancing Gas Exchange (BGX) in 2009, have assisted shippers to more effectively self-balance and have substantially reduced the cost of keeping the transmission system in balance.

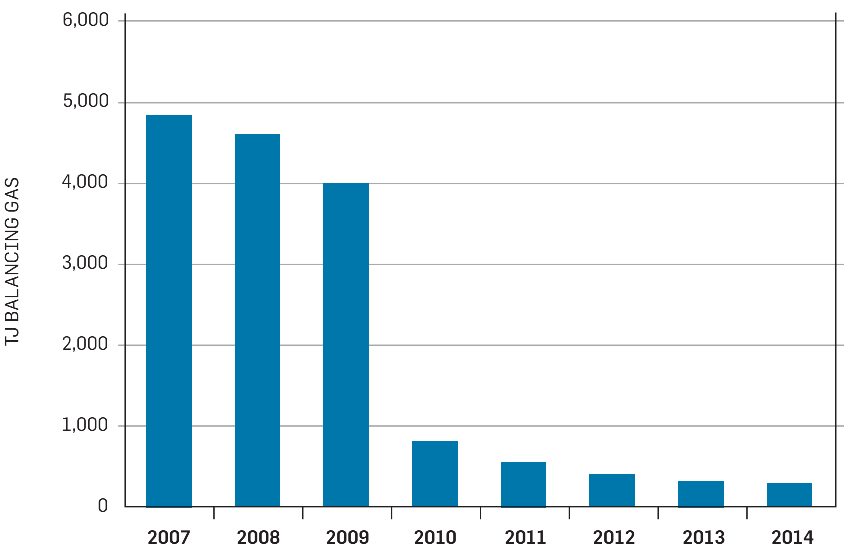
The volume of gas that MDL has been required to buy or sell in order to balance pressures in the Maui pipeline have fallen from 4,778 TJ in 2007, to 284 TJ in 2014 (Figure 7).

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, Gas Industry Co received and consulted on one MPOC change request. In 2012/13, there were two MPOC change requests, and three VTC change request appeals.

FIGURE 7: ANNUAL PURCHASES AND SALES OF BALANCING GAS



INTERCONNECTION TO TRANSMISSION PIPELINES

Transmission balancing issues have also surfaced in the context of Gas Industry's Co's assessments of interconnections to the Maui and Vector transmission pipelines.

The assessments are being undertaken in accordance with a Ministerial request in 2010 for Gas Industry Co to formally review interconnection arrangements in respect of the next two interconnections to each of the Maui and Vector pipelines.

Since then, two physical interconnections to Vector's pipelines had been completed by the end of the 2012/13 financial year, and one physical interconnection was made to the Maui pipeline during the year under review.

Assessments were also made during the year of two 'virtual' interconnections relating to the establishment of the NZX Limited gas trading market on the Maui pipeline, and the emTrade (subsequently renamed emsTradepoint) market on the Vector transmission pipelines.

Shortly after balance date, Gas Industry Co provided formal reports to the Minister in respect of these interconnections.

In relation to the physical interconnections, Gas Industry Co believes the owners of the Vector and Maui pipelines have made significant efforts to improve interconnection arrangements and now have comprehensive interconnection policies, procedures and documentation. Although there are some differences between them, both are closely aligned with the Interconnection Guidelines published by Gas Industry Co in 2009.

The preliminary conclusion is that recent physical interconnections have been effective, although Gas Industry Co has a small number of issues it has to follow up with each pipeline owner.

In relation to the gas market interconnections, interconnection arrangements for a gas market on the Maui pipeline and a gas market on the Vector pipeline were successfully concluded. However, Gas Industry Co's review identified that MDL is concerned that gas market trading may have adverse effects on pipeline balancing, particularly when back-to-back balancing is introduced.

Gas Industry Co recognises these concerns, but considers that risks arising from the gas market are manageable.

Gas Industry Co also believes the introduction of wholesale gas trading markets is a significant step towards achieving the Government policy objective of efficient arrangements for the short-term trading of gas.

GAS PROCESSING INFORMATION DISCLOSURE

Gas Industry Co's assessment of gas processing facility access was completed in 2013/14, with a five-year regime to collect and monitor processing infrastructure information identifying no evidence to suggest a market failure. The Minister accepted Gas Industry Co's recommendation that permanent regulations are not necessary and the Gas (Processing Facilities Information Disclosure) Rules 2008 lapsed upon their expiry on 27 June 2014.

The purpose of the disclosure regime was to determine if there were any issues over access to gas processing facilities that indicate facility owners are able to exercise market power. Gas processing facility owners were required to file annual information about the processing capability, capacity availability and use of their facilities, as well as the result of any inquiries for third party access to them. Gas Industry Co received and published the information disclosures.

The expiry of the Gas Processing Information Disclosure Rules does not limit Gas Industry Co's ability to recommend regulations for access to gas processing facilities in the future if that becomes warranted.

05

DELIVERING EFFECTIVELY ON OUR ACCOUNTABILITIES AS THE GAS INDUSTRY BODY

As the industry body Gas Industry Co must fulfil the principal policy objectives set by the Gas Act and GPS, which are to ensure gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner.

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.

CRITICAL CONTINGENCY MANAGEMENT

Amendments to the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations) to strengthen and clarify aspects of the industry's response to serious gas supply disruptions became effective on 1 March 2014.

The changes were the result of a comprehensive review of the CCM Regulations, involving extensive industry stakeholder consultation, following a five-day Maui pipeline outage in October 2011 that seriously affected gas supplies to the upper North Island.

The industry has entered a transition period in which participants are revising their contingency plans and Gas industry Co is inviting and processing applications from consumers for newly-defined designations. These are intended to ensure available gas is supplied to high priority consumers for as long as possible. Consequential changes to the Compliance Regulations also took effect on 1 March 2014.

Significant changes to the CCM Regulations included:

» clarifying and tightening criteria to define eligibility for an Essential Service Provider (ESP) designation, and to specify that the designation applies only to that part of the consumer's load that is essential;

» a new, highest priority consumer band for Critical Care Providers (CCPs);

» a new band for Electricity System Security Providers (ESSPs), allowing for small amounts of temporary gas usage to better support the electricity system when gas is in short supply;

» adjusting and broadening the criteria for the previous Minimal Load Consumer designations to provide for the completion of Critical Processing (CP). This designation is intended to allow for an orderly shutdown of gas plants to avoid serious damage to equipment, enhance safety and mitigate serious environmental damage;

» establishing Gas Industry Co as the body responsible for processing and determining ESP, CCP, ESSP and CP designations;

» requiring retailers to periodically inform their customers about the CCM Regulations and the existence of the special designation categories; and

» expanding communications responsibilities of affected asset owners and the Critical Contingency Operator (CCO) to publicly provide specified information.

Gas Industry Co also issued guidelines to assist the CCO in making a determination under the CCM Regulations on whether or not an event represents a regional critical contingency. This determination is important as contingency imbalance provisions in the CCM Regulations – relating to the settlement of inadvertent trading of gas during a critical contingency – do not apply to a regional critical contingency.

During the year, a competitive tender process resulted in the appointment of Core Group, New Plymouth, as the CCO. Core Group assumed the role from Vector Gas Limited, which served as the inaugural CCO in the first five-year term of operation of the CCM Regulations.

A critical contingency exercise, simulating a rupture of a transmission pipeline, coinciding with a short duration unplanned outage of a major gas production station, was held in June 2014. This fulfilled a CCM Regulations requirement for an exercise to be held annually unless there is an actual critical contingency event.

COMPLIANCE

Gas Industry Co is continuing to 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.

Breach allegations were again predominantly associated with the Reconciliation and Switching Rules.

The number of breach allegations considered by Gas Industry Co in its role as the Market Administrator during 2013/14 totalled 2,970, a 23 percent increase on the 2,414 alleged breaches referred to it in the corresponding previous year.

This increase is wholly attributable to the introduction, by a retailer, of a new customer management system. None of these alleged breaches were found to raise material issues.

In the absence of this one-off spike, the total number of breach allegations considered by Gas Industry Co in 2013/14 would have been 1,958, a 19 percent decrease on the previous year. Switching breach allegations would have declined by 60 percent.

Breach levels under the Reconciliation Rules have remained relatively consistent over the last few years, with almost all of the breaches alleged under the Reconciliation Rules relating 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.

Of the breach allegations considered during the year under review, 1,079 – or 36 percent – were determined not to raise material issues and four were referred to the Investigator. A further 1,887 have yet to be determined, and relate to alleged breaches of rule 37, which are determined in batches.

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 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.

Two settlements were approved during 2013/14. No matters were referred to the Rulings Panel for determination.

LPG

Gas Industry Co's jurisdiction covers consumer-facing aspects of the LPG markets and gaseous LPG supplied via reticulated networks. It does not extend to 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 continues to monitor the LPG markets, but does not consider there are substantial issues that warrant regulatory intervention.

FIGURE 8: SWITCHING RULES BREACHES

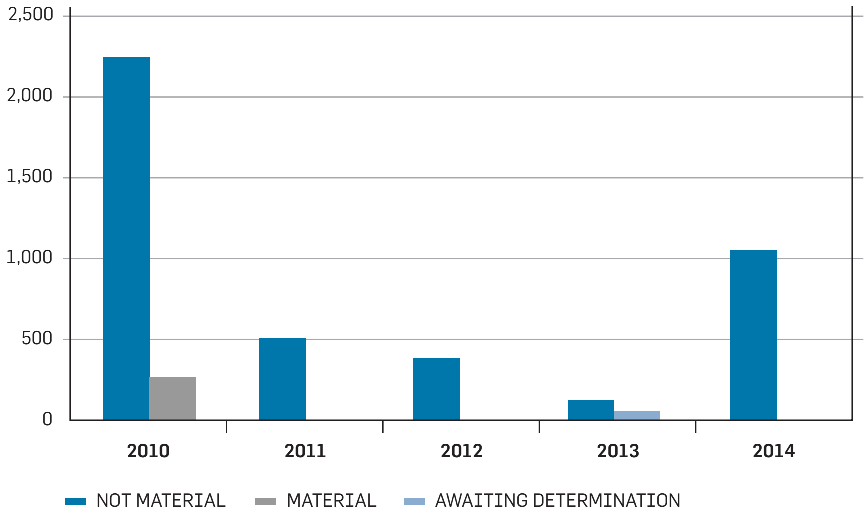
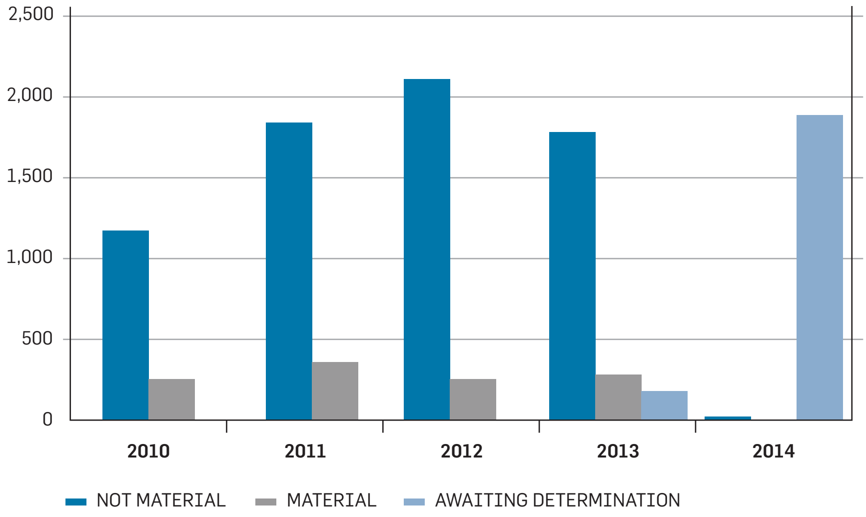


FIGURE 9: RECONCILIATION RULES BREACHES



BUILDING AND COMMUNICATING THE NEW ZEALAND GAS STORY

Gas Industry Co's *The New Zealand Gas Story- the State and Performance of the New Zealand Gas Industry* publication, first published in February 2013, was fully updated in April 2014 to incorporate the latest statistical information and new developments within the gas sector.

The document presents a comprehensive account of the gas industry's history, structure, performance, and contribution to New Zealand's energy supply, as well as the policy and regulatory framework in which it operates. It also includes Gas Industry Co's assessment of how the industry is tracking against Government policy objectives. The conclusion of the updated *New Zealand Gas Story* is that the industry continues to be in good shape, and is proactively addressing the issues that matter to consumers, participants and policymakers.

In addition to the substantive document, Gas Industry Co tells aspects of the New Zealand gas story on its website, in other publications and through conference and seminar presentations.

As referenced earlier in this Annual Report, Gas Industry Co contributes further to the gas industry information pool by periodically commissioning reports from external experts on subjects of specific and current interest.

06

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 both the Government and the industry 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 with other regulatory bodies, including the Ministry of Business, Innovation and Employment (MBIE) and the Commerce Commission, whose responsibilities also encompass the gas industry, and maintains working relationships with other agencies engaged in the energy and related sectors. These include the EA, Energy Efficiency and Conservation Authority (EECA), the Petroleum Exploration and Production Association of New Zealand (PEPANZ), the Gas Association, LPG Association, and the EGCC.

Facilitating industry input 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 stakeholders overlays 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, including placing downward pressure on costs.

The composition of the Company's total revenue has remained stable in recent years (Figure 10). 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. This is currently set at $5,000 per shareholder per annum, having been reduced from $10,000 in 2012/13. Shareholders' fees are set aside as a contingency reserve.

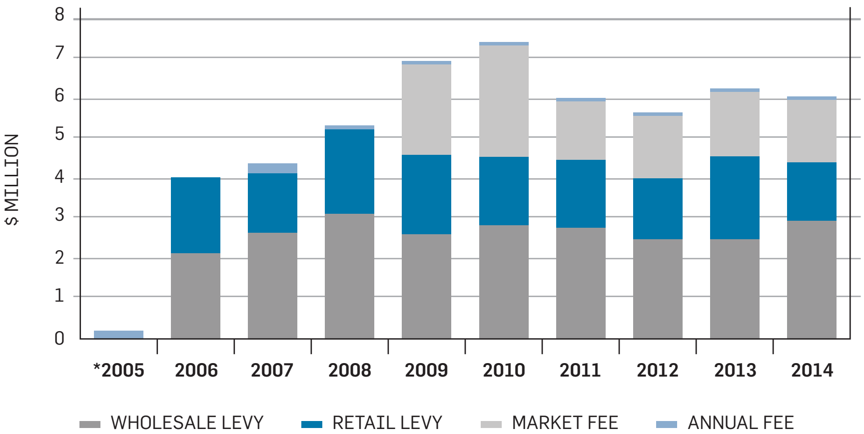
FINANCIAL DISCUSSION

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 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 by gas-fired power stations or petrochemical producers. As such, the wholesale levy rate is set conservatively to ensure that sufficient revenue is collected to cover budgeted costs.

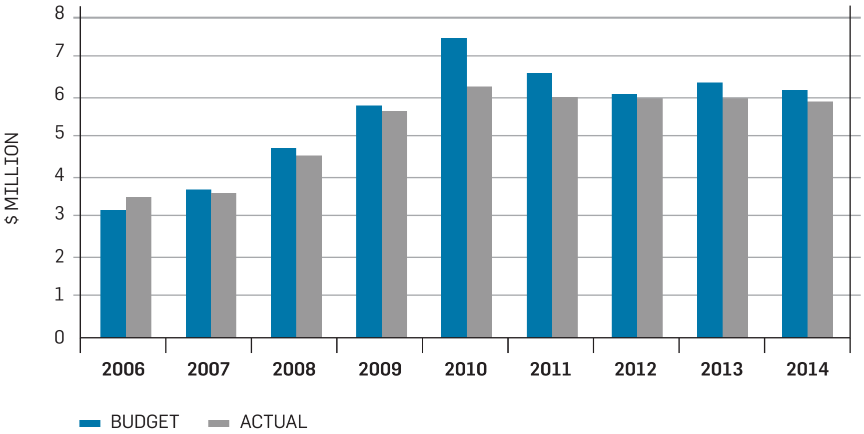
Gas Industry's Co's financial performance is therefore most meaningfully measured by comparing the budgeted costs to actual expenditure, as the Company has more control over what it spends than it does over the amount of revenue collected. As shown in Figure 11, expenditure has been flat or dropping in the past four years.

FIGURE 10: LEVY AND FEE REVENUE



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

FIGURE 11: OPERATING EXPENSES VS BUDGET



In the year ended 30 June 2014, actual operating expenses were $5,891,828 against the Statement of Intent budgeted expenses of $6,137,477. 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 prices during a critical contingency event. Several of these contingent amounts were not required in the financial year and the savings returned to the payers of market fees. Expenses were down from $5,910,534 in the previous financial year.

Total operating revenue of $6,065,604 for the year ended 30 June 2014 was 4.2 percent above the FY2014-16 Statement of Intent budget of $5,819,171, but 2.5 percent below the $6,219,911 collected in the 2012/13 financial year. The increase against budget was attributable largely to additional Wholesale Levy income from increased gas use for methanol production.

Gas Industry Co's equity reserve as at 30 June 2014 has three components – the Industry Advances Reserve of $562,621, the Industry Amortisation Reserve of $136,220 and Retained Earnings of $540,000.

The Industry Advances Reserve comprises any over-recovery of levy revenue. The Board's policy is to generally return such over-recoveries, subject to retaining adequate capital reserves, as soon as practicable after the annual accounts have been received by shareholders at the Company's Annual Meeting. In December 2013 a total of $509,253 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 remaining Amortisation Costs of $136,220 will be recognised this year leaving a zero balance by the end of FY2015.

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.

07

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 2014:

CONTACT ENERGY LIMITED	NOVA ENERGY LIMITED
GENESIS ENERGY LIMITED	OMV NEW ZEALAND LIMITED
GREYMOUTH GAS NEW ZEALAND LIMITED	POWERCO LIMITED
METHANEX NEW ZEALAND LIMITED	SHELL NEW ZEALAND (2011) LIMITED
MIGHTY RIVER POWER LIMITED	VECTOR LIMITED
NEW ZEALAND OIL & GAS LIMITED	

Each shareholder holds a $1 share, which is redeemable at the option of the shareholder. Shareholders are entitled to one vote in a poll on resolutions at shareholders' meetings, including those that appoint directors and change the Constitution. Shareholders pay an annual fee set by the Board, currently $5,000.

BOARD OF DIRECTORS

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

The Board is a mix of Independent and Industry-Associated Directors, all appointed by the shareholders. Its composition accords with 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 Industry-Associated Directors voting on the same matter.

DIRECTORS AS AT 30 JUNE 2014

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

Chair: Mt Cook Alpine Salmon Limited

Chair: Hollow Lands Limited

Chancellor: Waikato University

Robin G Hill, B Comm

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, PGDDipBus

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

Nigel Barbour, B Comm, LLB

NON-INDEPENDENT DIRECTOR

APPOINTED 21 NOVEMBER 2013

Nigel Barbour is the Chief Executive of Powerco. He joined Powerco in October 2002, serving in executive management roles, including General Manager Electricity. He was appointed Chief Executive in October 2011. Mr Barbour has an economics and legal background and previously held roles with Transpower Limited and the Bank of New Zealand.

INTERESTS REGISTER

Chief Executive Officer: Powerco Limited

Member: New Zealand Electricity Networks Association

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, Origin NZ subsidiaries

Employee: Origin Energy Limited

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 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

Director/Chief Executive: New Zealand Oil & Gas Limited

Director: Various NZOG subsidiaries, PEPANZ

Non-material shareholder of:
Genesis Energy Limited, Mighty River Power Limited, Meridian Energy Limited, Fletcher Building Limited, Vector Limited

OTHER DIRECTORS WHO SERVED DURING THE YEAR

Albert Brantley BSc, P Geol, F AuSIMM
NON-INDEPENDENT DIRECTOR

APPOINTED 14 NOVEMBER 2008

RESIGNED 21 NOVEMBER 2013

INTERESTS REGISTER

Chief Executive Officer: Genesis Energy Limited

Chairman: Energy Online

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

ALTERNATE DIRECTORS

Stuart Dickson
APPOINTED 22 MAY 2014

Officer: Powerco Limited

Chair: Gas Association of New Zealand

Alternate for Mr Barbour

Catherine Thompson
APPOINTED 3 JUNE 2014

Officer: Contact Energy Limited

Director: Liquigas Limited

Trustee: Institute for the Study of Competition and Regulation

Alternate for Mr Barnes

Michael Wright
APPOINTED 10 JUNE 2014

Officer: New Zealand Oil & Gas

Director/Owner: Energy Acumen Limited (currently dormant)

Alternate for Mr Knight

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 2014.

DIRECTORS	MEETINGS ATTENDED
J BOLGER	8
R HILL	8
A BROWN	8
K DAVIS	8
N BARBOUR (APPOINTED 21/11/13)	2
A BRANTLEY (RESIGNED 21/11/13)	3
D BARNES	6
A KNIGHT	7

ALTERNATE DIRECTORS	MEETINGS ATTENDED
S DICKSON	1
C THOMPSON	1
M WRIGHT	1

Some administration matters that required the Board's attention were addressed by circulated resolutions approved by all Directors

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 2014 were:

DIRECTORS	$
J BOLGER (CHAIR)	93,500
R HILL (DEPUTY CHAIR)	72,360
A BROWN	52,800
K DAVIS	52,800
N BARBOUR	-
D BARNES	-
A BRANTLEY	-
A KNIGHT	-

During the year ended 30 June 2014, the Board approved additional payments of $9,000 to Mr Hill for additional work undertaken in relation to the Company's governance and strategy.

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 21 November 2013. Mr Brantley retired as a Director at the Annual Meeting and Mr Barbour was elected to the resulting vacancy. Mr Brown retired at the meeting in accordance with the director rotation provisions of the Company's Constitution, and, being eligible, was re-elected as an Independent Director.

In his address to the meeting, the Chair commented that the Company made very good progress with its strategy and work programme, and continued to work closely with stakeholders on priority issues. He noted that New Zealand's gas industry remained in good health and was on track in fulfilling Government policy objectives for the sector.

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 listed New Zealand energy companies NGC, Vector and Contact Energy over more than 10 years, and spanning most parts of the sector. Mr Bielby began his career as a lawyer and was a partner in a leading national law firm.

Ian Dempster, BE (Hons) M Com (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.

Glenda MacBain, DipOrgPsych, DipBusMgmt

CORPORATE SERVICES MANAGER

As Corporate Services Manager, Glenda MacBain is responsible for providing financial and administrative support, including human resources, risk, IT and property management. She joined Gas Industry Co in 2008, serving initially as Programme Manager and then as People and Performance Manager. She has worked in similar roles in Sydney and London and before joining Gas Industry Co was Head of Practice for Westpac NZ Limited's legal business unit.

EMPLOYEE REMUNERATION AND BENEFITS

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

	YEAR ENDED 30 JUNE 2014
$110,001-$120,000	1
$120,001-$130,000	1
$150,001-$160,000	2
$160,001-$170,000	1
$200,001-$210,000	1
$250,001-$260,000	1
$440,001-$450,000	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.

Independent Directors and employees have restrictions on ownership of interests 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 HSE Policy is set by the Board and includes a goal of 'zero harm' with a range of supporting HSE systems.

INFORMATION CONFIDENTIALITY

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.

SHARE TRADING

Employees are informed of their responsibilities should they become aware of inside information about publicly listed companies, including trading in the securities of industry participants that are publicly listed.

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

08

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 2014.

The Board of Directors of the Company authorised the financial statements presented on pages 33 to 51 for issue on 21 August 2014.

On behalf of the Board:

Rt Hon James B Bolger, ONZ
CHAIR

17 SEPTEMBER 2014

Andrew Brown
DIRECTOR

17 SEPTEMBER 2014

INDEPENDENT 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 33 to 51. The financial statements comprise the statement of financial position as at 30 June 2014, 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) and International Standards on Auditing. 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.

Our firm has also provided other assurance services to the company. Subject to certain restrictions, partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the company.

OPINION

In our opinion the financial statements on pages 33 to 51:

» 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 2014 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

21 AUGUST 2014

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	NOTES	ACTUAL 2014 $	BUDGET 2014 $	ACTUAL 2013 $
INCOME				
Operating income	4	6,021,358	5,794,000	6,185,054
Interest income		44,246	25,171	34,857
		6,065,604	5,819,171	6,219,911
Refunded levy income	4	(509,253)	–	(287,998)
NET INCOME		**5,556,351**	**5,819,171**	**5,931,913**
EXPENDITURE				
Operating expenditure	5	5,891,828	6,137,477	5,910,534
Finance costs	12	3,500	3,675	3,258
		5,895,328	6,141,152	5,913,792
PROFIT/ (LOSS) BEFORE TAX		**(338,977)**	**(321,981)**	**18,121**
Income tax expense	6	12,389	7,048	9,760
PROFIT/(LOSS) FOR THE YEAR		**(351,366)**	**(329,029)**	**8,361**
Other comprehensive income		–	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(351,366)**	**(329,029)**	**8,361**

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

	INDUSTRY RESERVES $	RETAINED EARNINGS $	TOTAL EQUITY $	BUDGET $
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)
TRANSFER BETWEEN EQUITY RESERVES				
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**
BALANCE AT 1 JULY 2013	**1,105,207**	**485,000**	**1,590,207**	**1,351,660**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR				
Profit/ (loss) for the year	–	(351,366)	(351,366)	(329,029)
Other comprehensive income	–	–	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	–	**(351,366)**	**(351,366)**	**(329,029)**
Industry Advances Reserve transfers	(42,552)	(42,552)	–	–
Industry Asset Amortisation Reserve transfers	(363,814)	363,814	–	–
BALANCE AT 30 JUNE 2014	**698,841**	**540,000**	**1,238,841**	**1,022,631**

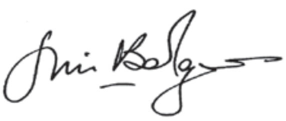
The accompanying notes form an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION

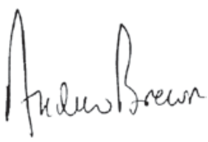
AS AT 30 JUNE 2014

	NOTES	ACTUAL 2014 $	BUDGET 2014 $	ACTUAL 2013 $
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	7	2,139,021	1,117,027	1,871,640
Trade and other receivables	8	44,166	75,081	20,309
Prepayments		65,256	49,185	40,287
Income tax receivable	6	–	7,048	–
TOTAL CURRENT ASSETS		**2,248,443**	**1,248,341**	**1,932,236**
NON-CURRENT ASSETS				
Property, plant and equipment	10	97,692	159,413	123,152
Intangible Assets	11	150,007	277,880	521,838
TOTAL NON-CURRENT ASSETS		**247,699**	**437,293**	**644,990**
TOTAL ASSETS		**2,496,142**	**1,685,634**	**2,577,226**
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	9	982,206	426,700	703,602
Asset restoration provision	12	34,728	34,929	31,228
Employee entitlements		240,356	201,366	252,178
Redeemable shares	14	11	8	11
TOTAL CURRENT LIABILITIES		**1,257,301**	**663,003**	**987,019**
TOTAL LIABILITIES		**1,257,301**	**663,003**	**987,019**
EQUITY				
Industry Reserves	15	698,841	502,631	1,105,207
Retained Earnings	15	540,000	520,000	485,000
TOTAL EQUITY		**1,238,841**	**1,022,631**	**1,590,207**

These financial statements were authorised for issue by the signatories below on 21 August 2014:
On behalf of the Board



Rt Hon James B Bolger, ONZ
CHAIR



Andrew Brown
DIRECTOR

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

	ACTUAL 2014 $	BUDGET 2014 $	ACTUAL 2013 $
OPERATING ACTIVITIES			
Cash was provided from			
Levy revenue	4,456,347	4,133,974	4,611,814
Market fee revenue	1,590,897	1,445,025	1,411,051
Annual fees	55,000	45,000	55,000
Interest received	44,246	25,172	34,856
Net GST	–	–	2,636
	6,146,490	**5,649,171**	**6,115,357**
Cash was applied to			
Payments to suppliers	(2,869,016)	(3,108,398)	(3,051,261)
Payments to employees	(2,206,893)	(2,249,606)	(2,120,739)
Payments to directors	(262,460)	(262,460)	(264,260)
Refund of levy to industry participants	(509,253)	–	(287,998)
Taxes paid	(12,389)	–	(9,760)
Net GST	(5,027)	–	–
	(5,865,038)	**(5,620,464)**	**(5,734,018)**
NET CASH INFLOWS FROM OPERATING ACTIVITIES	**281,452**	**28,707**	**381,339**
INVESTING ACTIVITIES			
Cash was applied to			
Purchase of property, plant and equipment	(11,482)	–	(4,119)
Purchase of intangible assets	(2,589)	(170,000)	(1,203)
NET CASH OUTFLOWS FROM INVESTING ACTIVITIES	**(14,071)**	**(170,000)**	**(5,322)**
Net increase/(decrease) in cash and cash equivalents	267,381	(141,293)	376,017
OPENING CASH AND CASH EQUIVALENTS	**1,871,640**	**1,258,320**	**1,495,623**
CLOSING CASH AND CASH EQUIVALENTS	**2,139,021**	**1,117,027**	**1,871,640**

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 2014.

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 21 August 2014.

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 an 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 2013 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 are 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.

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's 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 include those items classified as "Industry Assets" have a finite useful life. Software costs are capitalised and amortised over an economic useful life of between 4 and 6 years.

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

Costs associated with developing or maintaining software programmes 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 DERECOGNITION 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 the financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(H) PROVISIONS

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

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

(I) EMPLOYEE ENTITLEMENTS

SHORT-TERM BENEFITS

Employee benefits that the Company expects to be settled within 12 months of balance date are measured at nominal value based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date 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 rules and 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 2014 $	ACTUAL 2013 $
Wholesale levy revenue	2,944,682	2,938,005
Retail levy revenue	1,559,016	1,627,328
Market fee revenue	1,462,660	1,564,721
Annual fees	55,000	55,000
TOTAL OPERATING INCOME	**6,021,358**	**6,185,054**
Refunded levy income	(509,253)	(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 2014 $	ACTUAL 2013 $
Depreciation & Amortisation	411,362	414,603
Operating lease expenses	311,987	312,875
Fees paid to audit firm – financial statement audit	14,543	13,850
Fees paid to audit firm – other services	–	–
Accounting and taxation advice	–	–
Directors' fees	271,460	264,260
General expenses	348,671	308,105
Bad debts	–	–
Recruitment expenses	14,917	28,264
Technical, economic, and legal advice	998,973	1,107,611
Service provider fees	1,318,227	1,331,022
Kiwisaver contributions	52,517	40,450
Foreign exchange loss	(382)	4,112
Employee benefit expense	2,149,553	2,085,382
TOTAL OPERATING EXPENDITURE	**5,891,828**	**5,910,534**

6. INCOME TAX

	ACTUAL 2014 $	ACTUAL 2013 $
(A) INCOME TAX EXPENSE		
Current year income tax expense	12,389	9,760
Deferred tax movement	–	–
TOTAL INCOME TAX EXPENSE	**12,389**	**9,760**
(B) RECONCILIATION OF CURRENT YEAR INCOME TAX EXPENSE		
Profit before tax	(338,977)	18,121
Income tax expense at 28 percent	(94,914)	5,074
Permanent differences	107,303	4,686
Timing differences	–	–
CURRENT YEAR INCOME TAX EXPENSE	12,389	9,760
(C) INCOME TAX RECEIVABLE		
Opening balance	–	–
Tax refunds received	–	–
Current year income tax expense	(12,389)	(9,760)
Income tax paid	12,389	9,760
CLOSING BALANCE	–	–

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

7. CASH AND CASH EQUIVALENTS

	ACTUAL 2014 $	ACTUAL 2013 $
Bank account	996	1,271,140
Interest Bearing Account	2,137,525	–
Money Market	–	600,000
Petty cash	500	500
TOTAL	**2,139,021**	**1,871,640**

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

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

8. TRADE AND OTHER RECEIVABLES

	ACTUAL 2014 $	ACTUAL 2013 $
Levy debtors	44,166	–
Other receivables	–	20,309
TOTAL	**44,166**	**20,309**

Trade debtors and other receivables are non-interest bearing and receipt is normally on 30-day terms.

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

0-30 days	44,166	–
31-60 days	–	–
61-90 days	–	–
> 91 days	–	–
TOTAL	**44,166**	**–**

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.

9. TRADE AND OTHER PAYABLES

	ACTUAL 2014 $	ACTUAL 2013 $
Accounts payable	371,173	299,660
Accrued expenses	579,550	369,149
GST payable	31,483	34,793
TOTAL	**982,206**	**703,602**

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 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**
Balance at 1 July 2013	116,337	168,297	12,722	297,356
Additions	1,960	2,648	6,874	11,482
Transfers	–	–	–	–
Disposals	–	–	–	–
BALANCE AT 30 JUNE 2014	**118,297**	**170,945**	**19,596**	**308,838**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
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**
Balance at 1 July 2013	31,155	134,388	8,661	174,204
Depreciation expense	20,607	14,449	1,887	36,942
Disposals	–	–	–	–
Impairment losses	–	–	–	–
BALANCE AT 30 JUNE 2014	51,762	148,837	10,548	211,146
NET BOOK VALUE	**66,535**	**22,108**	**9,048**	**97,692**

11. INTANGIBLE ASSETS

	SOFTWARE $	INDUSTRY ASSETS $	CONSTRUCTION IN PROGRESS $	TOTAL $
COST				
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**
Balance at 1 July 2013	86,808	2,182,448	–	2,269,256
Additions	2,589	–	–	2,589
Transfers	–	–	–	–
Disposals	–	–	–	–
BALANCE AT 30 JUNE 2014	**89,397**	**2,182,448**	**–**	**2,271,845**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
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**
Balance at 1 July 2013	65,004	1,682,414	–	1,747,418
Depreciation expense	10,606	363,814	–	374,420
Disposals	–	–	–	–
Impairment losses	–	–	–	–
BALANCE AT 30 JUNE 2014	75,610	2,046,228	–	2,121,838
NET BOOK VALUE	**13,787**	**136,220**	**–**	**150,007**

12. ASSET RESTORATION PROVISION

	ACTUAL 2014 $	ACTUAL 2013 $
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	20,343	23,601
Additions	–	–
Movement due to change in discount rate	–	–
Unwinding of discount	3,500	3,258
CLOSING DISCOUNT	16,843	20,343
PROVISION NET CARRYING AMOUNT	**34,728**	**31,228**

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 2014 $	ACTUAL 2013 $
SALARIES AND OTHER SHORT-TERM EMPLOYEE BENEFITS	**985,960**	**834,526**

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

(C) TERMINATION BENEFITS

During the financial year, a total of $35,200 was paid by way of redundancy compensation.

14. REDEEMABLE SHARES

	ACTUAL 2014 $	ACTUAL 2013 $
Redeemable shares – Value in dollars	11	11
Redeemable shares – Number	11	11

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 2014 $	ACTUAL 2013 $
Industry advances reserve	562,621	605,173
Industry asset amortisation reserve	136,220	500,034
Retained earnings	540,000	485,000
TOTAL EQUITY RESERVES	**1,238,841**	**1,590,207**

(A) INDUSTRY ADVANCES RESERVE

	ACTUAL 2014 $	ACTUAL 2013 $
Opening balance	605,173	287,998
Transfer from retained earnings	(42,552)	317,175
CLOSING BALANCE	**562,621**	**605,173**

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.

The Company's policy is that, subject to the Company maintaining adequate capital reserves, the balance of the Industry Advances Reserves, comprising over-collected levies, be repaid to the industry as soon as practicable after the annual accounts have been received by shareholders at the Company's Annual Meeting.

(B) INDUSTRY ASSET AMORTISATION RESERVE

	ACTUAL 2014 $	ACTUAL 2013 $
Opening balance	500,034	863,848
Transfer from retained earnings	(363,814)	(363,814)
CLOSING BALANCE	**136,220**	**500,034**

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 2014 $	ACTUAL 2013 $
Opening balance	485,000	430,000
Profit for the year	(351,366)	8,361
Transfer to Industry Advances Reserve	42,552	(317,175)
Transfer to Industry Asset Amortisation Reserve	363,814	363,814
CLOSING BALANCE	**540,000**	**485,000**

16. CONTINGENCIES

As at 30 June 2014, the Company has no contingent liabilities (2013: $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 (2013: $nil)

(B) OPERATING LEASE COMMITMENTS

	ACTUAL 2014 $	ACTUAL 2013 $
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	279,106	328,691
Later than one year but not later than five years	649,542	928,648
Later than five years	–	–
TOTAL	**928,648**	**1,257,339**

(C) SERVICE PROVIDER COMMITMENTS

	ACTUAL 2014 $	ACTUAL 2013 $
Service provider agreements for the Downstream Reconciliation, Switching and Registry Rules and Critical Contingency Management Regulations payable as follows:		
Within one year	1,199,161	700,705
Later than one year but not later than five years	3,537,121	170,000
Later than five years	–	–
TOTAL	**4,736,282**	**870,705**

The increase from 2013 to 2014 reflects the signing of two new five-year service provider agreements for Downstream Reconciliation and Critical Contingency Management, and the rollover for a further two-year term of the Switching Registry.

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 default 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 2014 $	ACTUAL 2013 $
Profit/ (loss) for the year	(351,366)	8,361
Non cash items		
Depreciation and amortisation expense	411,362	414,603
Unwind of discount factor on restoration provision	3,500	3,258
Impact of changes in working capital items		
Prepayments	(24,969)	9,633
Trade and other payables	304,852	(511,450)
Employee entitlements	(11,822)	5,098
Trade and other receivables	(44,166)	434,412
GST payable	(3,310)	17,124
Income tax receivable	(2,629)	300
NET CASH FLOWS FROM OPERATING ACTIVITIES	**281,452**	**381,339**

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 adjustments 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 this set of 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 Energy Market Services (EMS)
BGX	Balancing Gas Exchange
CCM REGULATIONS	Gas Governance (Critical Contingency Management) Regulations 2008
CCO	Critical Contingency Operator. The CCO is currently Core Group
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 a 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
PEPANZ	Petroleum Exploration and Production Association of New Zealand
PEA	Panel of Expert 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
TJ	Terajoule (10^{12} joules, or 1,000 GJ)
TSO	Transmission system owner
VTC	Vector Transmission Code
UFG	Unaccounted-for gas

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