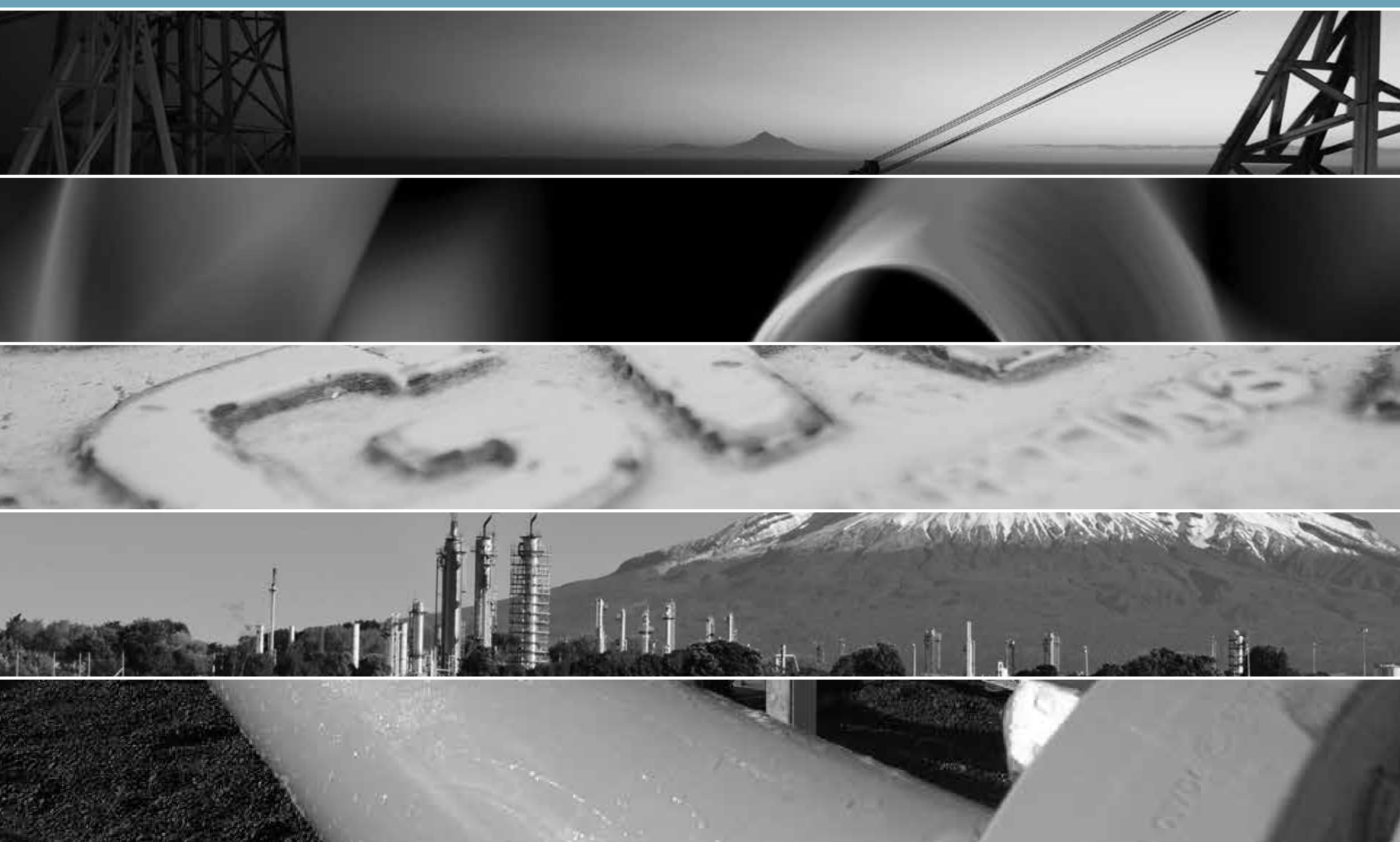
GAS INDUSTRY COMPANY LIMITED

2014 /2015 GAS INDUSTRY CO ANNUAL REPORT



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GAS INDUSTRY COMPANY LIMITED (GAS INDUSTRY CO)

was established in 2004 as the 'industry body' under Part 4A of the Gas Act 1992 (Gas Act). The Company's role as the industry body and a co-regulator is to:

» develop arrangements, including regulations where appropriate, which improve:
  – consumer outcomes;
  – the operation of gas markets; and
  – access to infrastructure;

» develop these arrangements with the principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, fair and environmentally sustainable manner; and

» oversee compliance with, and review such arrangements.

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

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

» delivering effectively on our accountabilities as the gas industry body;

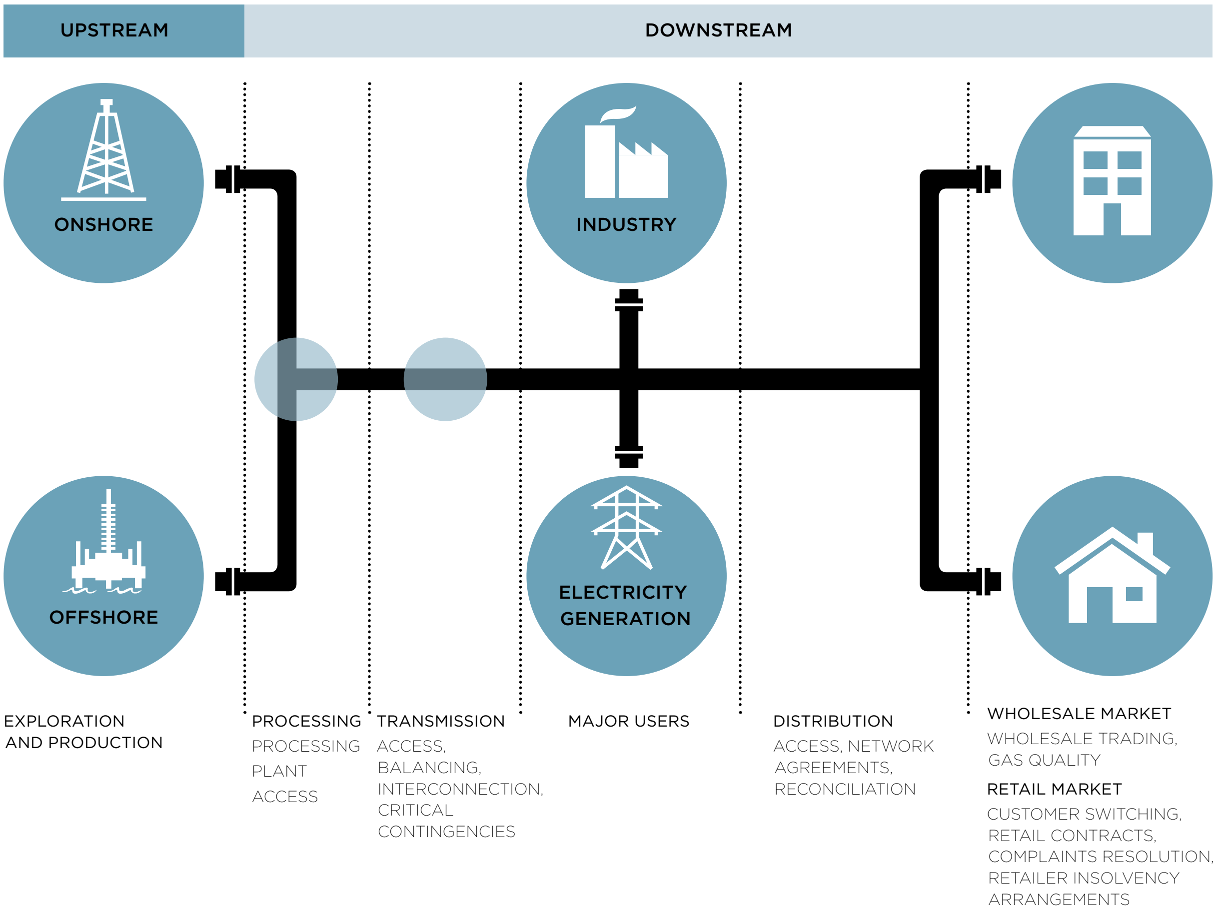
» building and communicating the New Zealand gas story;

» facilitating efficient use of, and timely investment in, gas infrastructure; and

» promoting efficient, competitive, and confident gas markets.

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 administers a range of governance arrangements for the downstream gas industry sector:

- Gas (Switching Arrangements) Rules 2008 (Switching Rules), which provide for a central registry of customer connection data, and facilitate customers switching among retailers.
- Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules), which prescribe the process for attributing volumes of gas distributed 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.
- Retail Gas Contracts Oversight Scheme (Retail Scheme).
- Gas Distribution Contracts Oversight Scheme (Distribution Scheme).
- Framework for Gas Retailer Insolvency Arrangements, which sets out the process Gas Industry Co will follow in the event of a retailer insolvency.
- Guidelines on Interconnection with Transmission Pipelines (Interconnection Guidelines), detailing expectations for transmission system owners' policies and procedures for third party connections to their pipelines.

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 parallel with changes at the high volume end of the gas market, there is ongoing development of a healthy, competitive retail gas sector"

The gas industry in New Zealand continues to be in good health and making a substantial contribution to the country's energy supply mix and economic wellbeing.

However, the year ended 30 June 2015 again demonstrated that it is an industry in constant change and that, despite its isolation from world markets, it is not immune to international influences.

Last year's Annual Report commented on a period of high exploration activity, increased gas reserves from existing field developments, and the importance of ongoing investment to add to these reserves.

Since then, the gas sector in New Zealand and internationally has encountered strong headwinds in the form of a collapse in oil prices that has affected petroleum-related investment.

The New Zealand natural gas industry, although unconnected to international markets through cross-border pipelines or gas import/export, has not escaped its effects. With oil often the primary objective of exploration and production in New Zealand, the fall in global oil prices has inevitably affected upstream investment here. In the past year, we have seen a number of explorers and producers suspend or reduce their investment in exploration and field development.

At the same time, New Zealand's reported proved and probable gas reserves have declined as the intensive exploration efforts of the past few years have not yet yielded the significant new discoveries that many hoped for, and reserves enhancement activity on existing fields has eased.

The industry has always been cyclical, and oil prices have a habit of changing over the longer term. From the most recent petroleum block offers results, it is pleasing to see that New Zealand continues to attract new and large investors.

The New Zealand gas industry otherwise continues to evolve.

In the past year Methanex has returned to full methanol production capability for its existing three trains, while gas use in electricity generation moves further away from its traditional baseload role to a greater, as-required peaking function as geothermal and other renewables assume greater prominence. This trend is evidenced on one hand by the planned closures of the Southdown and Otahuhu B thermal power stations later in 2015. Conversely, the prospects of an additional peaker plant have grown with a call by an industry participant for expressions of interest to construct a third peaking plant under a build, own, operate and transfer arrangement.

These developments, combined with the pending retirement of the remaining coal-fired units at the Huntly power station by 2018 and the recent decision to continue Tiwai aluminium smelter operations, thereby avoiding substantial electricity generation over-capacity, point to a continuing role for gas in underpinning electricity supply security. At the same time, the potential expansion of gas-based urea fertiliser production in South Taranaki could increase gas use for petrochemical manufacture.

In parallel with these changes at the high volume end of the gas market, there is ongoing development of a healthy, competitive retail gas sector, with increasing consumer numbers and new-entrant retailers. The newly-established industry-led wholesale gas market, operated by the Transpower Limited subsidiary, emsTradepoint Limited, is also gaining traction as it involves more market participants and higher traded volumes.

The important contribution of gas to New Zealand's energy supply, and the strengthening of competition in the gas markets, were acknowledged by the Minister in his announcement during the year marking the 10th anniversary of Gas Industry Co's establishment as the industry body and co-regulator. The Minister remarked that New Zealand has a diverse and resilient supply of gas 'which is an essential component of our energy supply', and the Board appreciated his recognition of Gas Industry Co's close work with industry and Government to support investment, competition and the efficient supply of gas to consumers.

Gas Industry Co is firmly committed to a robust programme to continue this work and, as supply and demand patterns continue to change, to facilitate stakeholder discussions about options for new gas discoveries and where the New Zealand gas industry generally may head.

This important discussion is taking place in the context of a global resurgence in gas extraction and use that is helping economies to address climate issues by enabling the replacement of more harmful fossil fuels. Gas extraction by hydraulic fracturing – or 'fracking'- continues to be controversial in many countries, and all of these developments are occurring within a broad policy objective of reducing carbon emissions.

That said, gas stands as an essential component of New Zealand's energy supply for the foreseeable future. In addition to underpinning electricity supply security, gas fuels many of New Zealand's key industries including exporters, and provides over 266,000 consumers with an efficient, price competitive energy option that, in some direct applications, is also the more environmentally effective.

All of this, of course, is central to Gas Industry Co's mandate under the Gas Act and GPS to develop governance arrangements which ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner. Our work programme to achieve this overarching objective continues to be effectively framed by the Company's Corporate Strategy of *optimising the contribution of gas to New Zealand*.

ACKNOWLEDGEMENTS

On behalf of the Board, I record Gas Industry Co's appreciation to all stakeholders for their contribution to the development the Company's annual work programme, and to the detailed work that drives successful outcomes, often through the provision of time and resources to working groups. All can be assured that we remain committed to effective use of our funding in performing our statutory functions, and pursuing our strategic objectives.

The Directors acknowledge, too, the ongoing support of Gas Industry Co's shareholders. The Company continues to benefit from the mix of industry and external perspectives brought to the Board table by the combination of independent and industry-associated Directors. Accordingly, I record my appreciation to my fellow Directors for their commitment to the Company and ensuring robust outcomes for the matters that come before them.

It has been another busy and productive year, and the Board is pleased to record its appreciation to Gas Industry Co's executive and staff for their dedication to their tasks and in ensuring the governance arrangements for which the Company is responsible operate smoothly and efficiently in the interests of all stakeholders.

RT HON JAMES B BOLGER, ONZ

CHAIR

PRIORITIES FOR 2015/16

- Work with industry stakeholders on developing the next phase in converging transmission capacity allocation and pricing arrangements.
- Refine, trial and evaluate a day-after delivery ('D+1') allocation methodology to further improve downstream gas volumes reconciliation processes. Implement as determined by the evaluation.
- Review the efficiency of new Maui pipeline-based transmission balancing arrangements to be introduced in October 2015, and address any identified shortcomings.
- Maintain a *Gas Quality Requirements and Procedures* publication that enhances stakeholders' understanding of gas quality management and the availability of quality-related information.
- Complete an independent assessment of retail gas contracts under the Retail Scheme.
- Further develop a new workstream undertaken in the context of the GPS requirement for an efficient market for metering services.
- Maintain the currency 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

"Many key policy objectives have been achieved, and together they provide a solid foundation for the efficient ongoing operation of this sector of the gas industry"

Developments in Gas Industry Co's work programme during the year ended 30 June 2015 have maintained a strong momentum towards fulfilling consumer needs and Government policy objectives for the downstream gas industry.

After 10 years of Gas Industry Co operations, the platform of fit-for-purpose regulated and non-regulated governance arrangements to meet Gas Act and GPS requirements is largely in place. Many key policy objectives have been achieved, and together they provide a solid foundation for the efficient ongoing operation of this sector of the gas industry.

Some important issues have still to be fully resolved, but good progress has been made and these matters remain firmly in our sights.

During the year, we brought to fruition our workstream on gas retailer insolvency management, took our gas quality review past a significant milestone, and supported changes to the Maui Pipeline Operating Code (MPOC) that we expect will deliver some long-needed improvements to transmission pipeline balancing arrangements. Considerable attention was also applied to Gas Registry enhancements flowing from Switching Rules changes approved by the Minister, as well as to our new role of processing applications for special designations under the CCM Regulations revisions that took effect in March 2014.

We also established the groundwork for further improving downstream reconciliation processes, with a particular focus on testing D+1 allocations.

Our activities continue to benefit from the direct contribution of dedicated industry working groups, which bring targeted skills to particular issues. The working group approach is a proven means of efficiently addressing operational matters and achieving effective governance outcomes. As such it can be an important mechanism in achieving a central requirement of the co-regulatory governance regime - that consideration is given to all reasonably practical options, non-regulated and regulated, that achieve the same regulatory objective.

We can reflect on a number of recent successes attributable to this collaborative approach and shared expertise in the areas of retailer insolvency management, downstream reconciliation, consumer switching and gas quality.

Gas Industry Co appreciates the willingness of industry participants to engage on issues by contributing people, time and other resources to working groups and, in some instances, to proactively lead the quest for solutions. However, there are times when this can be slow and challenging.

It has taken more than six years for the industry to arrive at an outcome for improved balancing arrangements. Further, although the Gas Industry Transmission Access Working Group progressed some recommendations flowing from our Gas Transmission Investment Programme workstream, little advancement was made with the core issue of capacity access and pricing. Both of these projects encountered challenges due to industry resources, costs and limitations to the transmission code change process in bringing about desirable changes.

Gas Industry Co nevertheless played a key role in approving changes to balancing arrangements on the Maui Pipeline, and the industry is now focussed on a 1 October 2015 implementation. Gas Industry Co has also now resumed a more central role in the next phase of harmonising elements of the Maui and Vector transmission codes.

The broad challenge for Gas Industry Co accordingly lies in determining where we can achieve better outcomes by playing a central part and where the industry should have the latitude to progress matters itself.

The co-regulatory governance model adopted for the downstream gas sector provides an effective framework for Gas Industry Co to walk this line. Through our industry forums, consultations and other stakeholder relationship channels, we work hard to get the balance right.

We place major importance on our relationships with stakeholders and are concerned to ensure we remain effective in our engagement with them, while maintaining our integrity as an impartial regulatory body. During 2014/15, our 10th anniversary year, we took the opportunity to formally survey stakeholders' perceptions of the quality and effectiveness of our interactions and overall relationships with them.

It was encouraging to us that the majority of respondents were satisfied with their engagement with Gas Industry Co, and the feedback helpfully pointed to areas where we can improve. We have acted on a number of recurring themes relating to our communications channels and processes and will be repeating the survey during 2015/16 to see if these have been effective.

Given our statutory mandate to ensure good information is available about the gas industry, it was particularly pleasing to see a broad appreciation of the information resources were are building about natural gas, its contribution to New Zealand and the opportunities and challenges facing the industry.

This information pool is fed from diverse streams, including our *The New Zealand Gas Story* publication, and the commissioning of expert reports on topics ranging from future gas supply and demand scenarios, opportunities and challenges associated with a major new gas find, the competitive positioning of gas in the wider retail energy market, and opportunities for voluntary demand curtailment as a management tool in times of transmission capacity constraints.

As ever, our work programme in the year ahead is designed to meet our statutory obligations as the industry body under the Gas Act, and to address Government and industry priorities. It focuses on the efficient administration of governance arrangements currently in place, progressing new or ongoing project commitments and facilitating further forward-looking discussions by the industry on how its sees its future, and anticipating associated issues.

STEVE BIELBY

CHIEF EXECUTIVE

KEY ACHIEVEMENTS IN 2014/15

ACTIVITY	PRIORITIES SET FOR 2014/15	OUTCOMES FOR 2014/15
TRANSMISSION CAPACITY	Facilitate ongoing industry work on improved transmission capacity allocation and pricing arrangements. In parallel, develop a counterfactual design should industry-led initiatives falter.	Progress in the period led by the industry working group, including on transparency, code governance and congestion management. Gas Industry Co's second Options Paper released in May 2015 proposed forward path for outstanding issues and calls for industry stakeholders to help develop a long-term vision to achieve converged transmission access arrangements across the two separate transmission systems. Analysis of Submissions published in August 2015 discussed industry responses and confirms Gas Industry Co taking a more central role in next phase.
CRITICAL CONTINGENCY MANAGEMENT	Complete implementation of changes to the CCM Regulations that took effect on 1 March 2014.	Completed the transition process for implementing the CCM Regulations changes that took effect on 1 March 2014 and processed applications for special designations.
DISTRIBUTION CONTRACTS	Consider recommendations for improvements to the Distribution Scheme and implement as appropriate.	Distributors' use of system agreements with retailers have achieved 'Substantial' alignment with the Scheme principles. Changes are not considered necessary at this time and progress with transitioning to the new agreements is being monitored.
CONSUMER OUTCOMES	Implement changes to the Retail Scheme approved in 2013/14.	Scheme changes implemented and preparations commenced for contract reviews in 2015/16.
GAS QUALITY	Finalise the development of a gas quality protocol to strengthen stakeholders' understanding of gas quality management and information availability.	Worked with industry participants in the development of a Requirements and Procedures document that replaced the proposed Protocol. Final document released in June 2015. Gas Industry Co is monitoring further gas quality work by a transmission system owner with a view to reassessing whether the regulatory objective in relation to gas quality has been met and potential consideration of any need for further intervention.
DOWNSTREAM RECONCILIATION	Develop a preferred allocation option from the phase 2 review of the Reconciliation Rules and implement changes as appropriate.	Extensive focus with industry working groups on further downstream reconciliation improvements, including the development of a D+1 allocation methodology.
TRANSMISSION BALANCING	Support industry-led efforts to improve transmission pipeline balancing arrangements.	Processed and supported Maui Pipeline Operating Code changes for the introduction of market-based balancing, which are scheduled to take effect in October 2015.
CONSUMER SWITCHING	Complete consultation on proposed changes to the Switching Rules, as well as switching and reconciliation thresholds under the Compliance Regulations and implement as appropriate.	Recommended Switching Rules changes supported by the Minister and implemented accordingly. Commenced the process of implementing substantial consequential changes to the operations of the Gas Registry.
RETAILER INSOLVENCY	Complete the development of backstop arrangements relating to gas retailer insolvency.	Recommendation on managing any future retailer insolvency supported by the Minister. Consultation held on a framework for managing a retailer insolvency, including drafting instructions for backstop regulations. Framework implemented post balance date.
TRANSMISSION INTERCONNECTION	Report to the Minister on interconnections to transmission pipelines.	Reports provided to the Minister on physical interconnections to the Maui and Vector transmission pipelines, as well as 'virtual' connections relating to the establishment of a wholesale gas market.
PERFORMANCE AND CURRENT STATE OF THE INDUSTRY	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.	Third edition of *The New Zealand Gas Story* issued in March 2015 and further updated in April 2015. Gas Story presentations made to various stakeholder groups. Commissioned new studies, one updating gas supply/demand scenarios and the other assessing commercialisation options for a major new gas discovery.

03/

DELIVERING EFFECTIVELY ON OUR ACCOUNTABILITIES AS THE GAS INDUSTRY BODY

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

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

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

CRITICAL CONTINGENCY MANAGEMENT

Following the implementation of amendments to the CCM Regulations on 1 March 2014, Gas Industry Co's attention during the year was directed to processing consumer applications for special designations.

The changes strengthened and clarified aspects of the industry's response to serious gas supply disruptions and, in part, moved the responsibility for processing and determining special designations from retailers to Gas Industry Co. The special designations are intended to ensure available gas is supplied to high priority consumers for as long as possible during a critical contingency event.

The changes were the result of a comprehensive review of the CCM Regulations following a five-day Maui pipeline outage in 2011 that seriously affected gas supplies to the upper North Island. They also included:

» clarification and tightening of criteria defining eligibility for an Essential Services designation, and to specify that the designation applies only to that part of the consumer's load that is essential;

» a new, highest priority Critical Care designation;

» a new Electricity supply designation, 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 Critical Processing designations to provide for the completion of critical processing. 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;

» 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 to publicly provide specified information.

SPECIAL DESIGNATIONS UNDER THE CCM REGULATIONS ARE INTENDED TO ENSURE AVAILABLE GAS IS SUPPLIED TO HIGH PRIORITY CONSUMERS FOR AS LONG AS POSSIBLE DURING A CRITICAL CONTINGENCY EVENT.

To date, Gas Industry Co has granted the following special designation applications:

» 193 critical care

» 2 essential services

» 3 critical processing

» 1 electricity supply

Eight applications have been declined as they did not meet the special designation criteria.

A critical contingency exercise, simulating third party damage to the transmission pipeline supplying Bay of Plenty, was held in June 2015. This fulfilled a CCM Regulations requirement for an exercise to be held annually unless there is an actual critical contingency event.

OVERALL COMPLIANCE IMPROVED IN 2014/15, WITH A 21 PERCENT DECREASE IN BREACH ALLEGATIONS REFERRED TO THE MARKET ADMINISTRATOR.

COMPLIANCE

Gas Industry Co oversees governance 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.

Compliance levels improved overall in 2014/15 and breach allegations were again predominantly associated with the Reconciliation and Switching Rules.

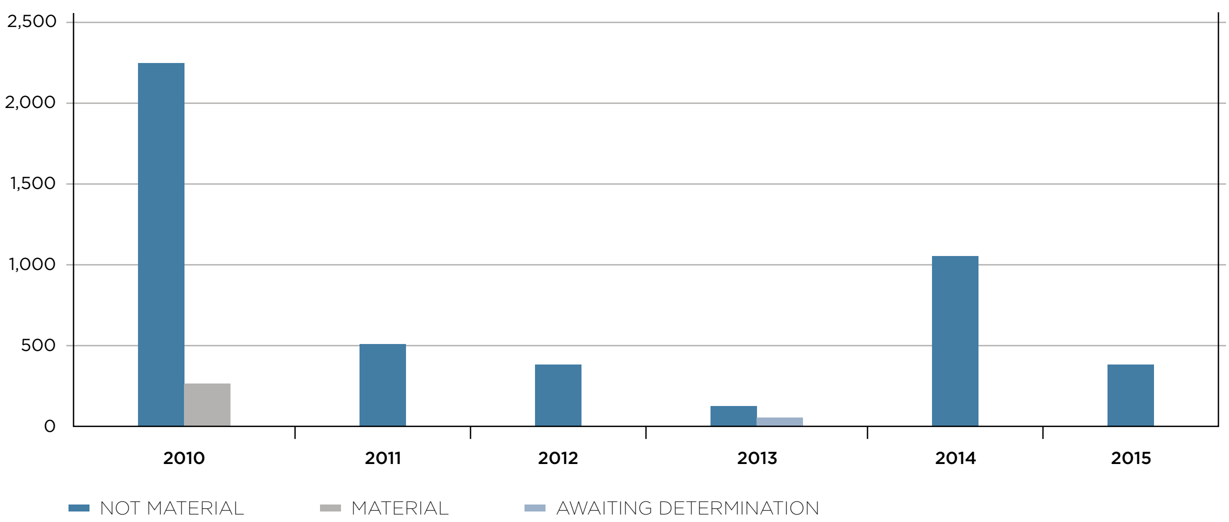
The total number of breach allegations (Switching and Reconciliation) considered by Gas Industry Co in its role as the Market Administrator during 2014/15 totalled 2,356, a 21 percent decrease on the 2,970 alleged breaches referred to it in 2013/14.

The decrease was expected, given the one-off spike in alleged breaches in 2013/14 due to the introduction, by a retailer, of a new customer management system.

Breach levels under the Reconciliation Rules have been relatively consistent in recent years, with almost all alleged breaches 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.

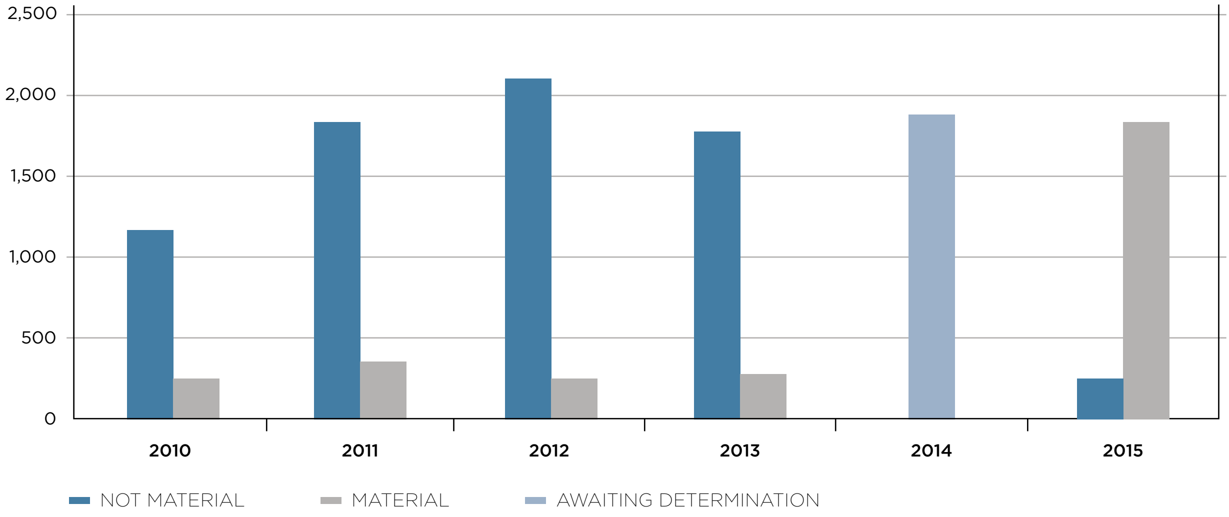
Of the breach allegations considered during the year under review, 542 - or 23 percent – were determined not to raise material issues and 14 were referred to the Investigator for settlement. The 14 material breaches were among a total of 46 alleged breaches arising from retailer performance audits under the Reconciliation Rules. A further 1,800 have yet to be determined, and relate to alleged breaches of rule 37, which are determined in batches.

FIGURE 1: SWITCHING RULES BREACHES



NOTES:
2014: 4 material breaches
2015: 8 alleged breaches awaiting determination

FIGURE 2: RECONCILIATION RULES BREACHES



INVESTIGATOR AND RULINGS PANEL – APPROVED SETTLEMENTS AND DETERMINATIONS

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

The Investigator must endeavour to effect settlements of alleged breaches, and these must 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 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. No matters were referred to the Rulings Panel for determination in 2014/15.

LPG

Gas Industry Co's jurisdiction covers consumer-facing aspects of the LPG market. It does not extend to LPG bottles, 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 Electricity and Gas Complaints Commissioner (EGCC) regarding consumer complaints about LPG supplies, and maintains regular communication with the LPG industry trade group, the LPG Association of New Zealand. Gas Industry Co continues to monitor the LPG markets, and at this time considers there are no substantial issues that warrant regulatory intervention.

04/

BUILDING AND COMMUNICATING THE NEW ZEALAND GAS STORY

Gas Industry Co is required by the GPS to ensure that good information is publicly available about the performance and present state of the gas sector. The Company achieves this outcome in a number of ways, including the publication and regular updating of *The New Zealand Gas Story – the State and Performance of the New Zealand Gas Industry*, Quarterly Reports to the Minister that include industry performance measures, industry-related information published on its website, and through presentations to industry and public conferences and seminars.

The New Zealand Gas Story 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 performing against the Government's policy objectives.

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.

During 2014/15 Gas Industry Co published two reports commissioned from Concept Consulting. The first, *Long Term Gas Supply and Demand Scenarios*, refreshed an initial report published in 2012. The second, *Possible Commercialisation Options for New Gas Discoveries*, provides insights into how a new gas discovery may be utilised. Gas Industry Co also facilitated a workshop for New Zealand gas industry stakeholders in which UK-based NERA Economic Consulting expert, Mr Graham Shuttleworth, discussed the approach to gas pipeline regulation in other countries.

Previous studies commissioned by Gas Industry Co have included:

» *Gas Balancing in Selected European Jurisdictions*, Concept Consulting

» *Commercialisation issues, opportunities and challenges in the event of substantive gas-rich exploration success in New Zealand*, Woodward Partners

» *Consumer Energy Options: An Evaluation of the Different Fuels and Technologies for Providing Water, Space, and Process Heat*, Concept Consulting

» *Investigation of possible scale of gas demand management on the Vector North system*, JT Consulting

THE NEW ZEALAND GAS STORY WAS FIRST PUBLISHED IN 2013 AND IS UPDATED ANNUALLY TO INCORPORATE THE LATEST STATISTICAL INFORMATION, AND RELEVANT NEW DEVELOPMENTS IN THE GAS INDUSTRY, THE WIDER ENERGY SECTOR AND THE GENERAL ECONOMY.

05/

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

Infrastructure access is essential to the operation of competitive and efficient markets. Gas Industry Co's work in this area currently encompasses transmission capacity access, pipeline balancing and pipeline interconnection.

TRANSMISSION CAPACITY ACCESS

There was limited progress towards improving transmission capacity access arrangements during 2014/15.

The Gas Industry Transmission Access Working Group (GITAWG) made some inroads with industry-led deliberations, particularly in the areas of information transparency and congestion management, but little advancement was made with the central issue of capacity access.

Following its Initial Options Paper in 2013, Gas Industry Co paused development of its parallel regulatory counterfactual design process to allow the industry time to formulate and develop its approach. Given the level of progress, however, the Company subsequently issued two consultation papers to add momentum to the project.

The separate workstreams by Gas Industry Co and the industry arise from the Second Advisory Report to Gas Industry Co from the Panel of Expert Advisers (PEA) in 2013. This Report was in turn the outcome of the PEA's review of transmission pricing and access arrangements as part of Gas Industry Co's Gas Transmission Investment Programme (GTIP), an industry-supported initiative to improve transmission capacity access arrangements.

The PEA proposed ways to more closely harmonise the different access codes for the Maui and Vector pipelines through a process of 'evolutionary convergence' to meet the characteristics of a well-functioning market. In particular, it recommended that transmission owners and shippers work towards operationalising the PEA's guiding principles, which was the basis for the GITAWG's formation, while Gas Industry Co develops a counterfactual design, including possible regulation, if the industry-led efforts falter.

Although the GITAWG made some useful progress with transparency, the Vector Transmission Code (VTC) change processes and congestion management, Gas Industry Co became concerned with the lack of movement on the core issue of capacity allocation and pricing. Consequently, shortly before year-end Gas Industry Co produced for consultation *Transmission Access – Options for Improvement #2* (Options Paper 2), which builds on the initial Options Paper, as well as the work of the GITAWG.

It has two objectives. The first assesses progress with three 'initial changes' identified by the PEA as areas where immediate improvements could be made to existing pipeline codes – information transparency, detailed arrangements for an Authorised Quantity (AQ) product on the Maui pipeline, and the development of interruptible services on the Vector system.

In addition to the GITAWG's information transparency work, Gas Industry Co commenced consultation on the Maui AQ product – a service currently provided for in the MPOC but not yet fully described or given detailed terms and conditions. Gas Industry Co's proposals are set out in *Proposed Maui AQ Product*, the second of its two consultation papers issued under this workstream during the year.

Options Paper 2 proposes a way forward for the third 'initial changes' element, Vector interruptible services, although this may be deferred pending the outcome of future work on transmission access.

As its second objective, Options Paper 2 takes a longer-term view and considers whether the gradual 'evolutionary' approach recommended by the PEA remains realistic in the context of the remaining issues or whether it should be effected in a more rapid, single step. It discusses options and proposes an expanded working group to develop a common industry vision for converged arrangements.

Although transmission capacity demand has eased since 2009, and new transmission capacity is unlikely to be required in the immediate future, Gas Industry Co considers that solutions for the longer-term management of transmission capacity should be developed now so that the industry is well prepared if capacity access again becomes an issue of significance.

THE GTIP WORKSTREAM WAS ESTABLISHED FOLLOWING THE EMERGENCE OF CAPACITY CONSTRAINTS ON THE VECTOR NORTH TRANSMISSION PIPELINE IN 2009. IT IS AIMED AT:

- **ENSURING EXISTING AND FUTURE GAS TRANSMISSION ASSETS ARE USED EFFECTIVELY**
- **ESTABLISHING THE NEED FOR GAS TRANSMISSION INVESTMENT**
- **DEVELOPING AN EFFECTIVE PATHWAY FOR EFFICIENT GAS TRANSMISSION INVESTMENT TO TAKE PLACE**

Accordingly, the GTIP work remains a priority in the year ahead. In this respect, the PEA's recommendations remain the foundation of future work, which will continue as a parallel process through the proposed expanded working group that Gas Industry Co will now lead. The Group's work will include development of a vision for converged transmission access arrangements, which could be implemented through regulatory or non-regulatory options.

In the absence of immediate pipeline capacity issues, there is less focus on the Bridge Commitments, a series of commitments designed to address capacity issues in the short-term. Gas Industry Co received no reports of capacity availability constraining retailers' ability to respond to competitive tenders during the year, indicating there is no current capacity shortage on the North Pipeline, or that capacity issues are impeding customer switching and competition.

With more than a year of inactivity on the Gas Transmission Exchange (GTX), a specially-developed online capacity trading bulletin board, this facility was decommissioned in December 2014.

TRANSMISSION PIPELINE BALANCING

After the disappointment expressed in last year's Annual Report about the lack of progress in resolving long-standing transmission pipeline balancing issues, positive steps occurred during the year that should see improvements implemented in 2015/16.

Having supported a series of MPOC changes during 2013/14 which opened the way for the introduction of back-to-back (B2B) balancing that would direct balancing costs to the parties that caused them, Gas Industry Co was discouraged by delays by MDL in its implementation.

A revised market-based approach towards transmission balancing, subsequently proposed by MDL, retained elements of B2B as well as elements of compatibility with the VTC. It also proposed daily cash-out of user imbalances beyond allowed tolerances and, for the first time, proposed utilisation of external spot markets to acquire or sell balancing gas. Balancing procurement was previously limited to the MDL-operated Balancing Gas Exchange (BGX).

Gas Industry Co's assessment of, and consultation on, MDL's market-based balancing change request included an independent cost-benefit analysis prepared by Covec Limited. This found the proposal to be beneficial overall, particularly in terms of dynamic efficiency benefits arising from better price signals and increased market liquidity.

Submissions on the proposal reflected opposing positions of stakeholders. Gas Industry Co acknowledged a number of concerns raised during consultation, but concluded that overall the proposal would improve balancing arrangements. Its central element of daily cash-out is common international practice, the proposal made sense from a pipeline economics perspective, and it broadly aligned with the objectives of the Gas Act. Some remaining issues will be addressed in other workstreams, including the assessment of day-after allocations to provide more timely information to support shippers' transmission capacity nominations (see Downstream Reconciliation in Section 6 below).

Accordingly, in its Final Recommendation Gas Industry Co supported the move to market-based balancing, noting that this resulted from industry participants' inability to agree on a solution through six years of work following an industry request for Gas Industry Co to defer a regulatory proposal and allow the industry to develop a solution itself through code change developments.

Given this background, Gas Industry Co was not persuaded by submissions calling for an alternative, but unspecified, solution to be found and considers the Final Recommendation supporting the change to be reasonable.

It is noted that MDL has responded to concerns relating to the information and tools available to pipeline users to mitigate imbalance risk by providing a 'soft landing' that includes increased tolerances for a period of 18 months following implementation, currently expected on 1 October 2015.

The volume of gas that MDL has been required to buy or sell in order to balance pressures in the Maui pipeline has declined substantially, falling from 4,778,125 GJ in 2007 to as low as 264,400 GJ in 2012 (Figure 3). However, in the first six months of 2014/15, MDL transacted almost as much balancing gas as it did for the entire 2013/14 year.

TRANSMISSION CODE CHANGES

Gas Industry Co continues to have a role in changes to the transmission pipeline codes, although the nature of its involvement in relation to the VTC has changed, and is under review in respect of the MPOC.

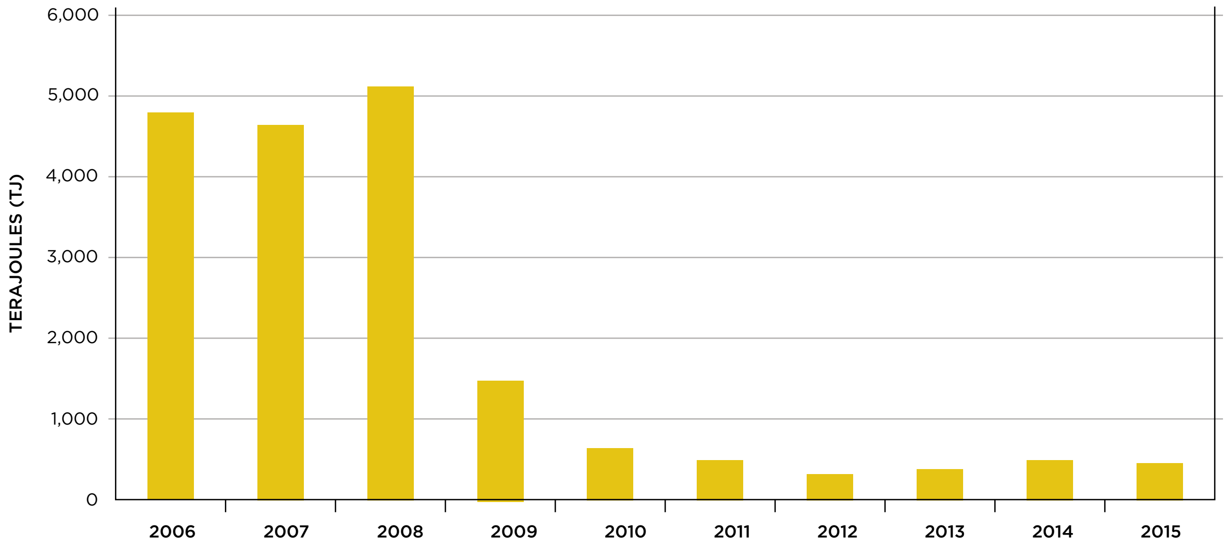
Under a new code change process for the VTC that took effect in April 2015, Gas Industry Co ceased to have a role as the independent appellate body, responsible for making determinations on VTC change appeals. Gas Industry Co, however, is now able to participate more directly in the development of VTC change proposals through the submissions process.

Gas Industry Co made its first submissions under the revised process in response to changes proposed by Vector to congestion management arrangements in the VTC. The proposal emerged from the work undertaken by the GITAWG. Following submissions Vector suspended the process to enable further engagement on matters raised by Gas Industry Co.

Subsequent to the VTC process change, Gas Industry Co received a request proposing a similar approach to the MPOC change request process. This proposal includes the cessation of Gas Industry Co's role in processing, consulting on, and recommending 'support' or 'non-support' of MPOC change requests.

THE TRANSMISSION PIPELINE INTERCONNECTION GUIDELINES ISSUED BY GAS INDUSTRY CO IN 2009 SET OUT GOOD INTERCONNECTION PRACTICES AND ARE DESIGNED TO MINIMISE BARRIERS TO ENTRY BY PROMOTING TRANSPARENCY AND EFFICIENCY.

FIGURE 3: ANNUAL PURCHASES AND SALES OF BALANCING GAS



NOTE: 2015 data available for first six months only.

As this change request requires Gas Industry Co to deliberate on its own role under the MPOC, giving rise to a potential conflict of interest, the Company has supplemented its normal process by appointing the former High Court Judge, Hon Sir John Hansen, as an Independent Expert to review and report on the Company's draft and final recommendations. By Ministerial appointment, Sir John also performs the role of the Rulings panel under the Compliance Regulations.

The final recommendation 'supporting' or 'not supporting' the MPOC change request remains with Gas Industry Co through the Board's Independent Directors Committee. It is expected to be made in the first half of 2015/16.

TRANSMISSION PIPELINES INTERCONNECTION

During the year, Gas Industry Co presented the Minister with two reports on interconnections to gas transmission pipelines.

One report assessed 'virtual' interconnections relating to the establishment of the emsTradepoint wholesale market on the Vector transmission system and of the proposed NZX trading market on the Maui pipeline. The second report assessed physical interconnections to the Maui and Vector pipelines.

In its advice to the Minister, Gas Industry Co noted that the pipeline owners have made significant efforts to improve interconnection arrangements and to facilitate the introduction of the gas trading markets. Gas Industry Co found no issues with the interconnections that required intervention, and is working with the pipeline owners and other market participants on a small number of remaining issues.

Concerns by MDL that market trading may cause pipeline balancing issues were acknowledged, but Gas Industry Co considers such risks are manageable.

The assessment of the physical interconnections concluded these had been effective and that both pipeline owners had comprehensive policies, procedures and documentation which closely align with Gas Industry Co's *Transmission Pipeline Interconnection Guidelines*.

Interconnection assessments are 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, in addition to the two 'virtual' interconnections to each pipeline, there have been two physical connections to Vector's pipelines and one to the Maui pipeline.

06/

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 confidence 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 small consumers who 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, small consumers benefit from arrangements for distributor and retailer contracts, gas quality management, consumer complaints, and gas retailer insolvencies.

DOWNSTREAM RECONCILIATION

The development of alternative allocation methodologies for improved downstream reconciliation processes reached a significant point shortly after year-end with the commencement of day-after delivery (D+1) trials.

This work is integral to the policy review of the Reconciliation Rules and is looking specifically at options to either improve the accuracy of the initial allocation or replacing it with a more timely alternative. The objective is to provide shippers with more timely information on their daily allocated quantities on the day after gas has flowed, which will help them better manage their downstream reconciliation and transmission balancing positions.

A Daily Allocation Working Group (DAWG) of industry participant representatives has been established to assist Gas Industry Co. It covers the end-to-end process, from the collection of daily data, to producing allocations on the day-after gas flow. The scope of the DAWG's work also encompasses matters under the VTC and gas transfer arrangements, calculating daily receipts, Balancing and Peaking Pool (BPP) positions, and revisiting the methodology for wash-ups between parties.

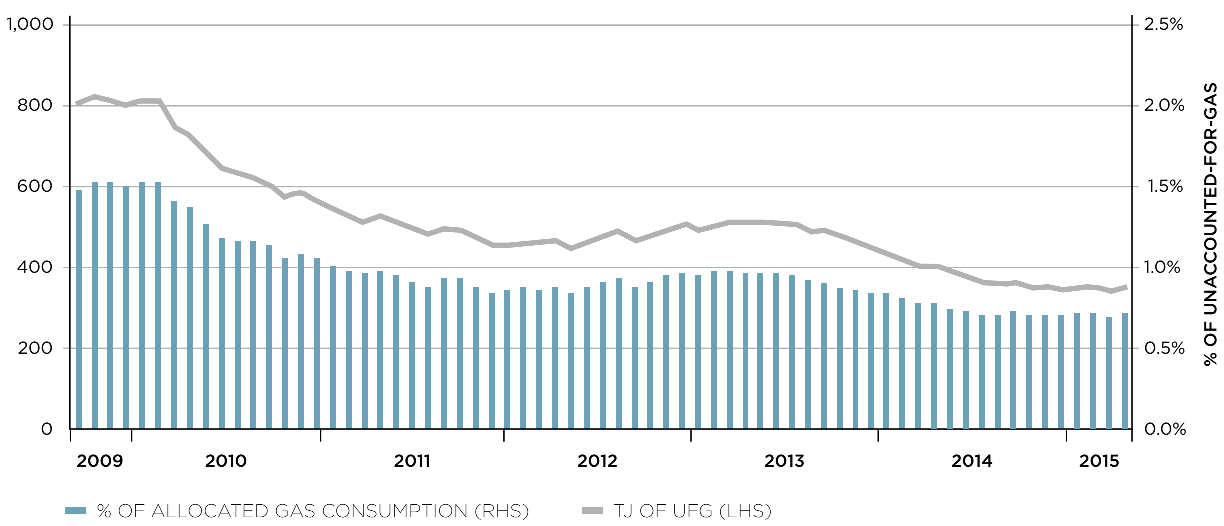
THE RECONCILIATION RULES HAVE BEEN INSTRUMENTAL IN SUBSTANTIALLY REDUCING THE LEVEL OF UNACCOUNTED-FOR GAS.

The policy review commenced in 2010 and first round amendments to the Reconciliation Rules, comprising process enhancements and exemptions codification, were implemented in 2013.

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 with their consumption submissions.

UFG represents gas that retailers must pay for, but have not sold. Since their introduction in 2008, the Reconciliation Rules and the associated performance and auditing mechanisms have been instrumental in reducing UFG from over 2 percent of annual allocated gas to approximately 1 percent. In volume terms, annual UFG has halved since 2009, from about 600,000 GJ to around 300,000 GJ (Figure 4).

FIGURE 4: ANNUAL UNACCOUNTED-FOR GAS



THE NUMBER OF RETAIL GAS CONSUMERS SWITCHING SUPPLIER INCREASED BY 4.8 PERCENT TO 49,743 DURING 2014/15.

GAS CUSTOMER SWITCHING

During the year, the Minister approved changes to the Switching Rules that will enhance Gas Registry operations and consumer switching arrangements. The Gas Registry maintains a centralised database which stores key technical information about every customer installation and facilitates and monitors each customer switch from initiation through to completion.

The changes include more metering fields to increase the accuracy and efficiency of retailers' conversion of metered volumes to energy, increased ICP information quality oversight through performance audits, better alignment of switching timeframes for dual fuel consumers, and fine tuning of processes to better reflect commercial arrangements in the gas market.

Gas Industry Co and the Registry Operator, Jade Corporation, have commenced the process of implementing the consequent amendments to the Registry's operations. A Registry Amendments Implementation Group (RAIG), comprising industry stakeholder representatives, is assisting this work, with a particular focus on coordinating comprehensive data cleansing and conducting user acceptance testing of the Registry amendments prior to go-live.

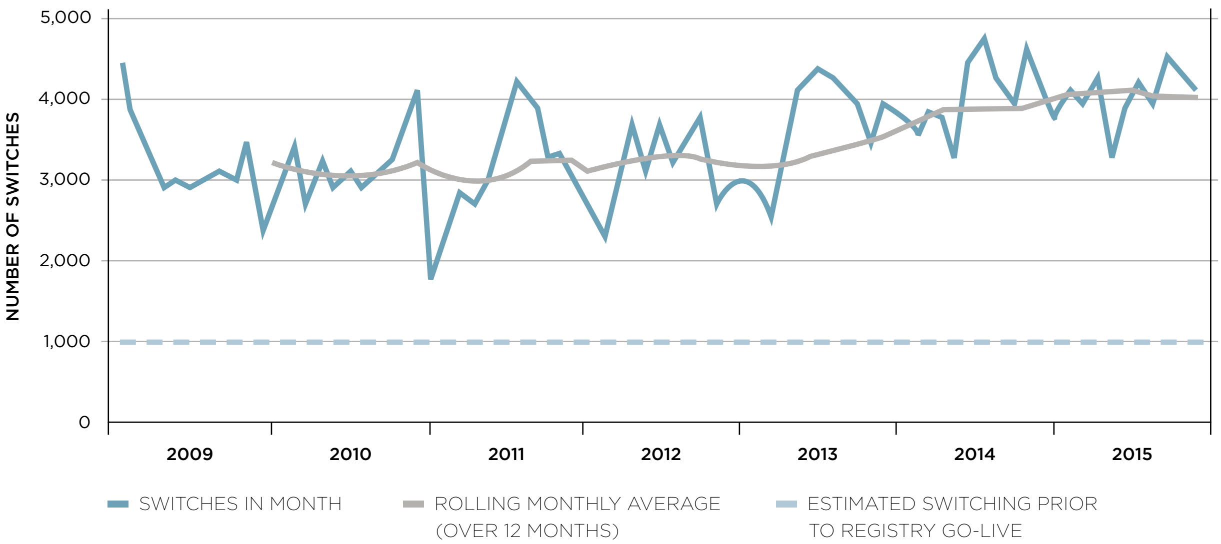
The Switching Rules will be changed once the amendments are in place, expected to be in the first half of 2015/16, after which Gas Industry Co will initiate baseline audits.

The Switching Rules enable consumers to choose, and efficiently alternate between, competing retailers. During the year, 49,743 gas consumers changed retailer, an increase of 4.8 percent on the 47,484 switches in 2013/14. The annual switching rate was 18.6 percent, up from 17.3 percent in 2013/14.

Since the start of the Gas Registry in 2009, 54 percent of residential gas customer sites, 65 percent of small commercial sites, 73 percent of large commercial sites and 46 percent of large industrial sites have switched retailer at least once.

In the same period, there has been a marked reduction in the time taken to process switches. Prior to the commencement of the Switching Rules, switching could take weeks or months to complete. Once the Gas Registry went live, average switching times dropped to about 10 business days and in 2014/15 the 12-month rolling average switching time was 5.5 business days. An increasing number of switches are being completed within three business days.

FIGURE 5: 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 in 2012, as all are part of the Todd Group.

FIGURE 6: SWITCHING BY CUSTOMER SITES SINCE 2009

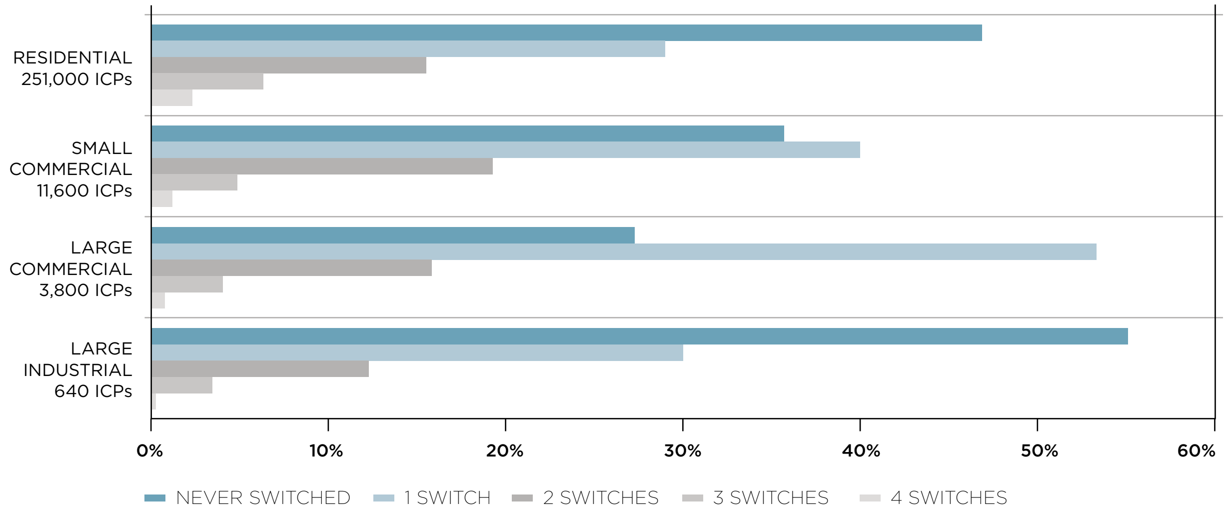
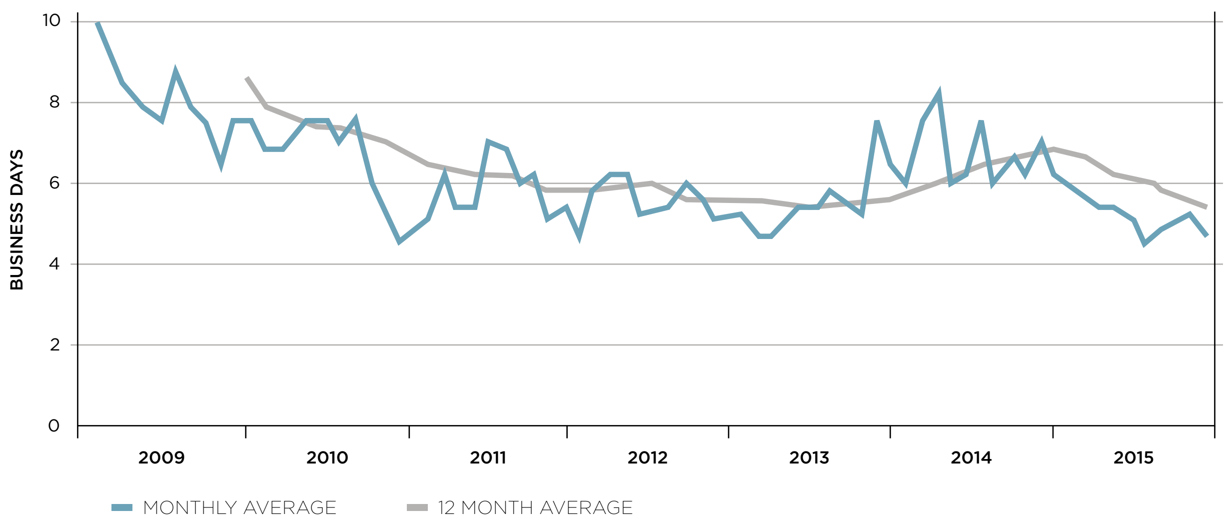


FIGURE 7: GAS CUSTOMER SWITCH TIME



During 2014/15, 77 percent of switches were completed within seven business days, compared with 50 percent in 2009 (Figure 8). This largely reflects a Switching Rules provision that, for a standard switch (where a customer switches retailer supplying the existing location), the new retailer can request a switch date that is not less than seven business days after the inception of the switch. In most cases, this request must be honoured by the existing retailer.

In another measure of market competition, market concentration in all regions of the North Island has diminished due to the market entry of new retailers, and the 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 (see Figure 9). Nationally, the HHI stands at 2,423 compared with 3,033 in 2009.

With the entry of Pulse Energy Limited during 2014/15 and, post balance date, of Switch Utilities Limited, there are now 11 retailer brands competing in the retail gas market. All 10 retailers trading during the year under review were 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 industry consumers.

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

CONTRACT OVERSIGHT SCHEMES

Gas Industry Co administers two non-regulated contract oversight schemes covering retailers' contract arrangements with small consumers, and distributors' standard contracts with retailers.

The fourth independent assessment under the Retail Gas Contracts Oversight Scheme (Retail Scheme) commenced shortly after year-end. This assessment will evaluate the terms and conditions of retailers' published standard contracts with small consumers

FIGURE 8: PROPORTION OF SWITCHES COMPLETED WITHIN SEVEN DAYS

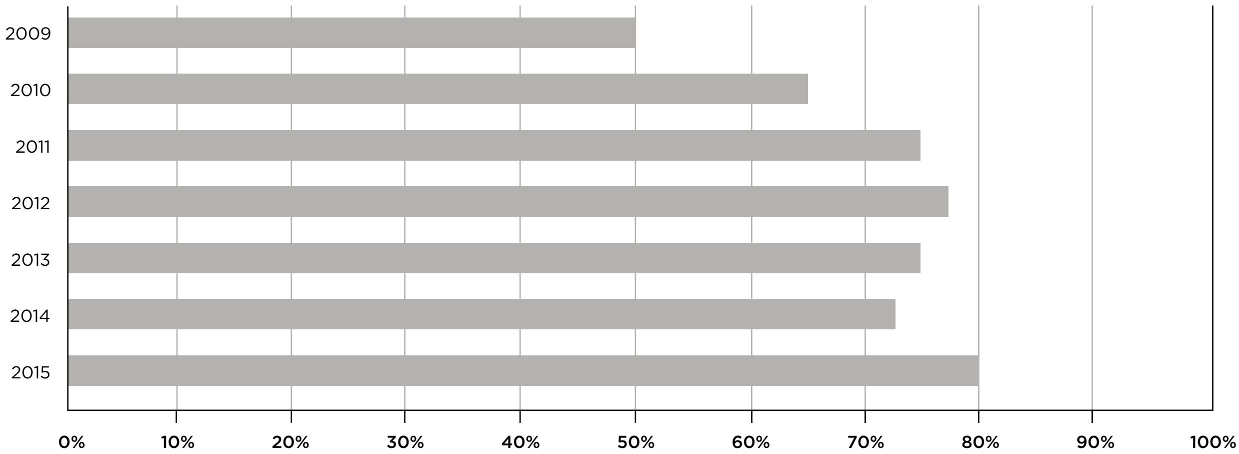
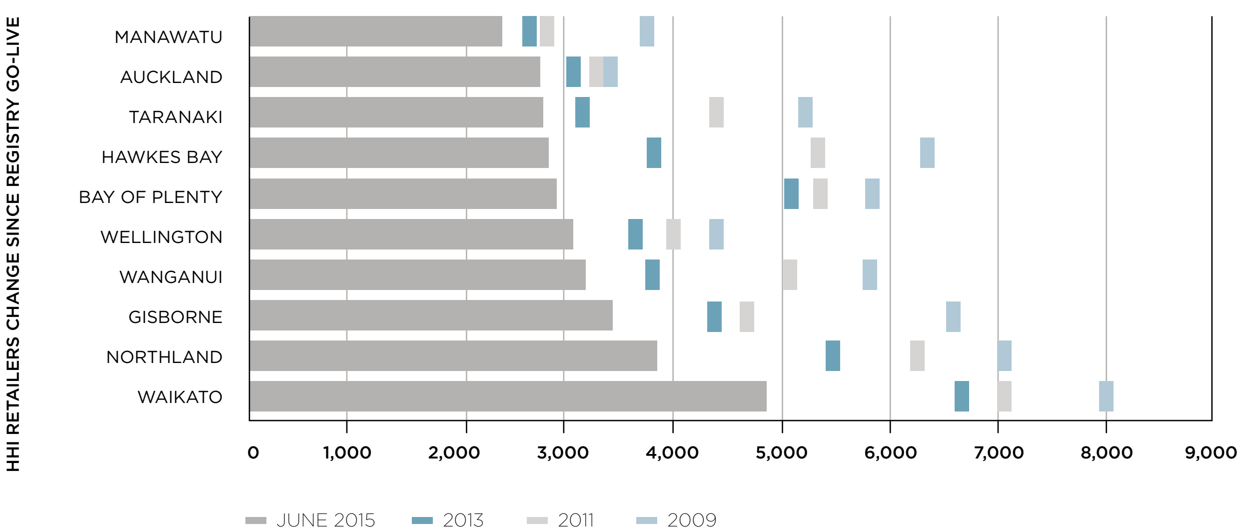


FIGURE 9: HERFINDAHL-HIRSCHMAN INDEX OF MARKET CONCENTRATION



- 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.

as at 1 July 2015 against the Retail Scheme's contract benchmarks and set of Reasonable Consumer Expectations (RCEs). The results for each retailer will be published during 2015/16.

The Retail Scheme was introduced in 2010 to help meet the Government policy objective for contractual arrangements between gas retailers and small consumers to adequately protect the long-term interests of those consumers. The three assessments conducted since then – a baseline assessment in 2010, a transitional assessment in 2011, and a full assessment in 2012 – has seen the alignment of retailers' contracts with the benchmarks improve from 'Moderate' to 'Substantial'.

In the light of this improvement, substantial design changes were introduced following a review of the Retail Scheme after the third assessment. The changes included a move from annual to three-yearly assessments, and the inclusion of the RCEs. Retailers provide Gas Industry Co with annual confirmation as to whether they have amended their standard published contracts.

During the year, Gas Industry Co appointed Palairet Law to succeed Elwood Law as the Independent Assessor under the Retail Scheme.

The objectives of the Gas Distribution Contracts Scheme (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.

Under the Distribution Scheme, gas use of system agreements (GUoSAs) are assessed against a set of contract principles. With its introduction, distributors substantially revised their contracts and the second, and most recent, independent assessment in 2014 found their contracts exhibited 'Substantial' alignment with the principles.

Since then Gas Industry Co has been monitoring progress with executing new GUoSAs with the retailers. Monitoring will continue throughout 2015/16 and if substantial progress is not made Gas Industry Co will meet with stakeholders to consider whether further facilitation is required.

OVERSIGHT SCHEMES HAVE LED TO SUBSTANTIAL IMPROVEMENTS IN THE QUALITY OF STANDARD CONTRACTS OFFERED BY GAS RETAILERS AND DISTRIBUTORS.

GAS QUALITY

Following consultation during the year, Gas Industry Co has published a paper detailing the legal requirements and industry procedures for managing gas quality.

The *Gas Quality Requirements and Procedures* document (Gas Quality R&P) was prepared by Gas Industry Co in liaison with industry stakeholders and is a development on a Protocol approach initially taken by retailers and wholesalers.

Gas Quality R&P will to be maintained by Gas Industry Co and updated from time to time as changes occur and/or new information comes to hand.

In addition to this document, MDL is leading other work to improve gas quality arrangements, particularly in the areas of control, reporting, and monitoring.

Gas Industry Co has previously investigated and consulted on gas quality issues, culminating with an Issues Paper in 2012. Several industry-led gas quality initiatives have since been undertaken, including initial work on a 'Gas Information Exchange Protocol' by a group of wholesalers and retailers concerned to ensure that service providers in the physical supply chain are meeting their obligations.

The proposed Protocol was considered to have broader relevance, requiring input from all participants in the gas supply chain. Gas Industry Co worked with industry stakeholders to further develop the draft Protocol, which evolved into the Gas Quality R&P document.

Gas Industry Co will reassess whether its regulatory objective has been met once the outcome of the MDL initiative is known.

GAS USERS REQUIRE A SAFE, RELIABLE, FIT-FOR-PURPOSE PRODUCT. WHILE THE PROSPECTS ARE SMALL, A GAS QUALITY INCIDENT CAN CAUSE SIGNIFICANT HARM.

GAS-RELATED CASES BEFORE THE EGCC DECLINED BY 31.6 PERCENT TO 136 IN 2014/15.

Gas users require a safe, reliable, fit-for-purpose product. There a number of legislative and contractual arrangements applying to gas quality, and a range of agencies with regulatory powers relating to it. Gas Industry Co has a responsibility when recommending gas governance arrangements under the Gas Act to ensure that those arrangements facilitate the safe, efficient, and reliable delivery of gas.

Investigations by Gas Industry Co in 2012 found no grounds to doubt that gas quality is being managed by parties in the physical supply chain in a rigorous and professional manner. Notwithstanding its low probability, however, a gas quality incident has the potential to cause significant 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 gas quality monitoring and reporting. Under the Gas (Safety and Measurement) Regulations 2012 (Safety Regulations) specific responsibility for the quality of gas delivered to consumers rests primarily with wholesalers and retailers. These participants are concerned that, while they have the legislative responsibility for compliance with the reticulated natural gas standard[1], 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

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 2015, the EGCC records total electricity and gas cases (inquiries and complaints) of 8,056, a 24.8 percent increase over the 6,457 in 2013/14. While total consumer inquiries increased by just 0.3 percent from 4,387 to 4,401, the number of complaints increased by 76.6 percent from 2,070 to 3,655.

The Commissioner reported that the level of new cases received during the year was the highest in the history of the Scheme, due largely to the impact of a member moving to a new billing platform. There were also more deadlocked cases – 497 compared with 189 in the previous year.

The Commissioner also noted that a decision by the Minister of Consumer Affairs to limit exemptions from membership of the Scheme to suppliers of LPG in cylinders under 15kg had resulted in a more diversified membership. There were 82 members of the Scheme as at 31 March 2015, up 23 from a year previously, and membership has since grown to over 100.

Total gas-related cases in the year ended 30 June 2015 declined by 31.6 percent to 136. There were 73 gas inquiries, down from 102 in the previous year, and gas complaints reduced from 97 to 63.

Dual fuel (electricity and gas) inquiries more than halved from 36 to 17. However at 122, there were 54 more dual fuel complaints.

At 44.5 percent, billing was again the largest single cause of consumer issues, followed by customer service (24.1 percent), metering (10.9 percent), supply (5.2 percent), and lines (4.1 percent).

The gas sector continued to draw significantly fewer complaints than the electricity sector on a complaints per 10,000 ICPs basis. During 2014/15, complaints per 10,000 ICPs relating to gas averaged 0.20 per month (down on 0.27 in 2013/14), compared with an electricity sector monthly average of 1.07, which was higher than the 0.98 in the previous year.

RETAILER INSOLVENCY

Gas Industry Co has completed the policy development process for its insolvent retailer workstream. The Company's *Final Decision Paper – Framework for Gas Retailer Insolvency Arrangements* (Final Decision Paper) sets out the process to be followed in the event of a future retailer insolvency, including measures enabled by Switching Rules and Reconciliation Rules amendments approved by the Minister during the year.

The Final Decision Paper is accompanied by drafting instructions – *Insolvent Retailers Drafting Instructions* – which support that process, and can be tailored to the circumstances of a specific retailer insolvency.

Retailer insolvency policy development included extensive consultation and stakeholder input. Any further policy work is expected to be limited to periodic reviews to ensure the retailer insolvency management framework remains effective.

The retailer insolvency workstream originated at the request of the Minister following the voluntary liquidation of a gas retailer, E-Gas, in 2010 and the

[1] NZS 5442:2008 Specification for Reticulated Natural Gas

THE MAIN MARKET FAILURE ASSOCIATED WITH A RETAILER INSOLVENCY IS THE POTENTIAL FOR 'ORPHANED CUSTOMERS', WHO COULD CONTINUE TO CONSUME GAS WHILE HAVING NO RETAILER TO BILL THEM FOR ITS USE.

FIGURE 10: GAS-RELATED INQUIRIES AND COMPLAINTS

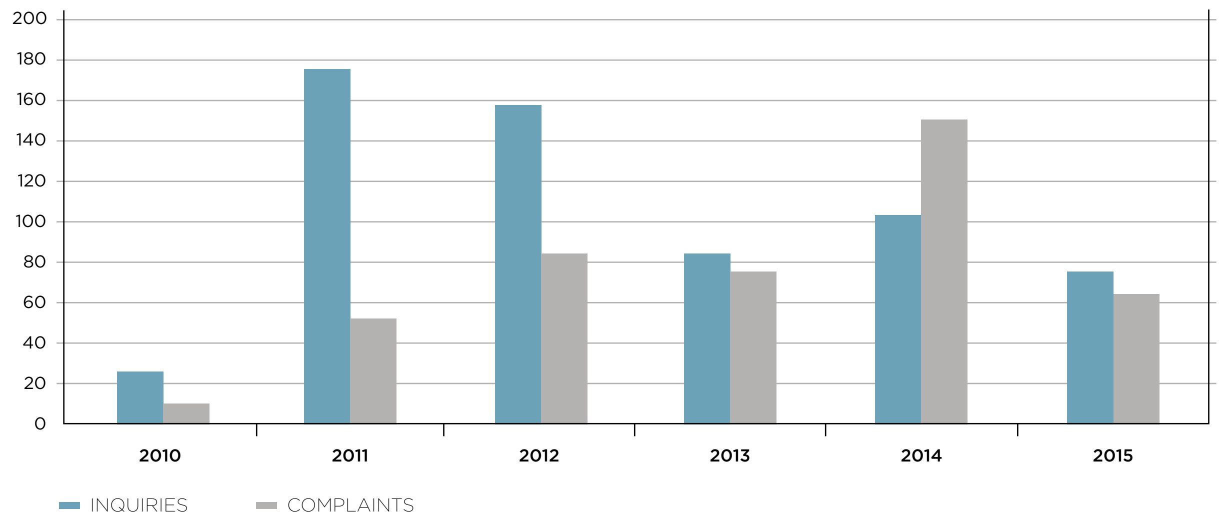
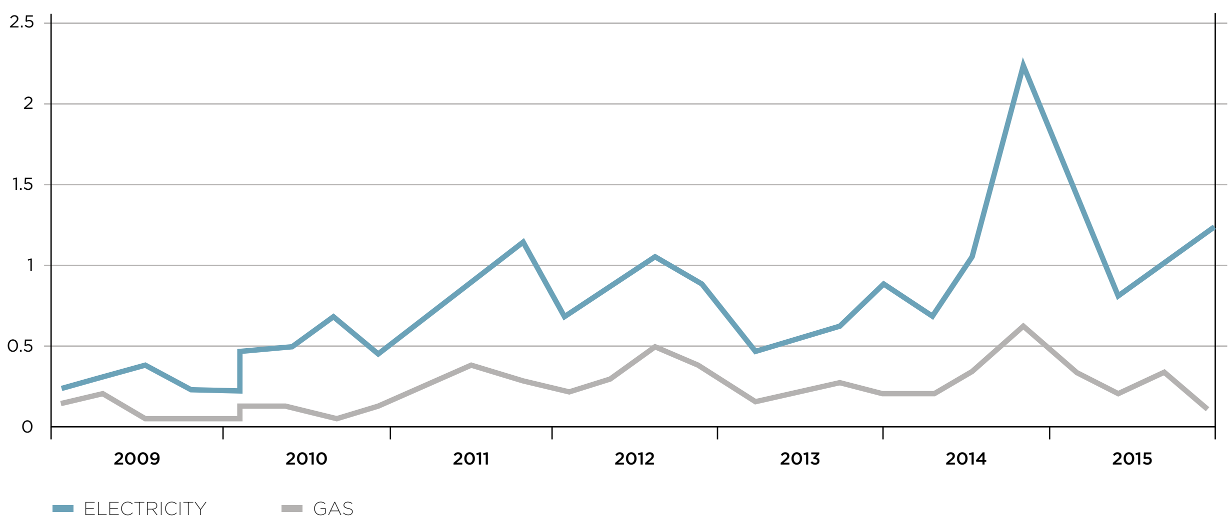


FIGURE 11: ELECTRICITY AND GAS COMPLAINTS PER 10,000 ICPS



subsequent creation of the Gas Governance (Insolvent Retailers) Regulations 2010 using the urgent regulation-making provisions of the Gas Act. The potential for 'orphaned customers', who could continue to consume gas while having no retailer to bill them for its use, has been identified as the main market failure associated with a retailer insolvency.

Following consultation, the Minister accepted Gas Industry Co's recommendation that the 2010 Regulations be allowed to lapse and consideration be given to whether a generic regulatory solution was required to address retailer insolvency. The Minister subsequently accepted Gas Industry Co's advice that normal insolvency arrangements generally work well and should be allowed to run their course in the event of a gas retailer insolvency, but that it would be prudent to develop backstop arrangements for implementation if existing mechanisms were inappropriate or proved to be inadequate for any reason.

07/

EFFECTIVE CO-REGULATION

Gas Industry Co was established in 2004 and that year was approved as the industry 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 close liaison with industry stakeholders, to *Optimise the Contribution of Gas to New Zealand*.

STAKEHOLDER RELATIONS

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

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

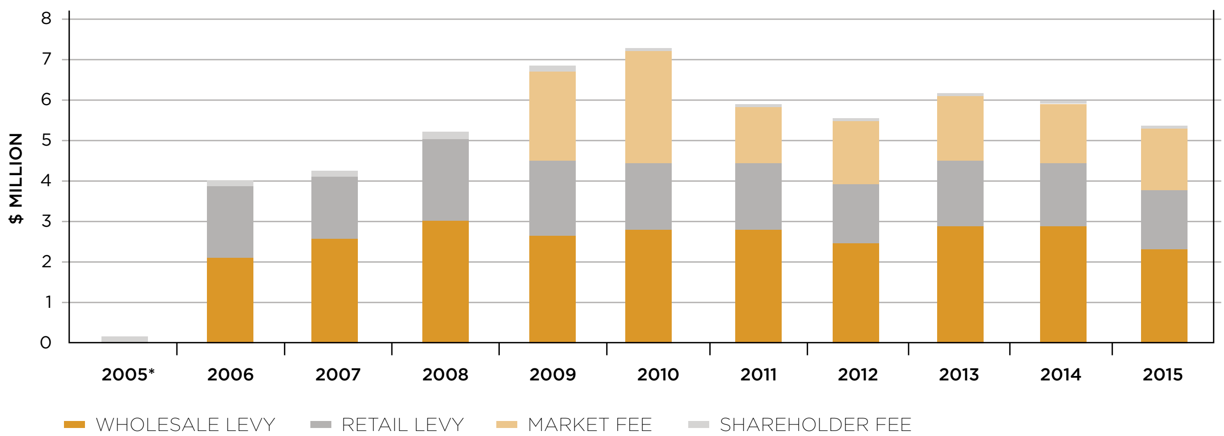
FUNDING

Between October and March each financial year, Gas Industry Co conducts a detailed consultation programme to establish its strategic priorities for the coming year and, from that, to recommend levies to the Minister for regulatory approval. The consultation with industry participants 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.

The composition of the Company's total levy revenue has remained stable in recent years (Figure 12). It includes user-targeted market fees to fund the administration of certain rules and regulations, including recovery of the costs of external service providers and consultants. In addition, retail and wholesale levies are applied each year to cover the costs of 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.

FIGURE 12: REVENUE



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

FINANCIAL DISCUSSION

Gas Industry Co's financial year ends on 30 June. Its work programme and associated budget for the forthcoming financial year are developed in a consultation process that begins with the Co-regulatory Forum for stakeholders in the preceding November and concludes in March with the preparation of a Statement of Intent and the making of a recommendation to the Minister for levy regulations.

The budget is set to ensure the Company has sufficient resources to meet its work programme obligations, while recognising the need to be cost-effective as the levy is ultimately incorporated into consumer prices.

While revenue from the retail levy, which is based on customer ICPs, is relatively predictable, revenue from the wholesale levy, based on purchased gas volumes, can fluctuate significantly depending on consumption by petrochemical manufacturers, as well as the weather, which influences uptake for gas-fired power generation and domestic heating. The wholesale levy rate is therefore set conservatively to ensure sufficient revenue is collected to cover budgeted costs.

As Gas Industry Co has more control over what it spends than what it collects in revenue, the Company's financial performance is most meaningfully measured by comparing budgeted costs to actual expenditure. As shown in Figure 13, budgeted and actual expenditure has been flat or dropping in recent years, a trend that is expected to be maintained in 2015/16.

In the year ended 30 June 2015, actual operating expenses were $5,155,841 against the Statement of Intent budgeted expenses of $5,522,932. This reflects 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 pricings during a critical contingency event. Several of these contingent amounts were not required in the financial year. Expenses were down from $5,891,828 in the previous financial year.

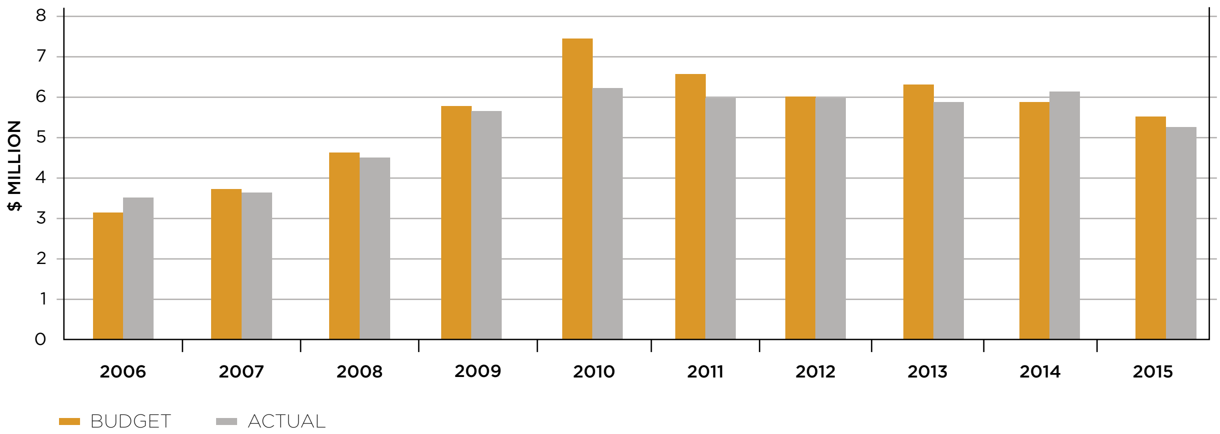
Total operating revenue of $5,480,340 for the year ended 30 June 2015 was in line with the budgeted $5,480,819, and 9.6 percent below the $6,065,604 collected in 2013/14.

Gas Industry Co's equity reserve as at 30 June 2015 has two components – the Industry Advances Reserve of $383,568 and Retained Earnings of $595,000. The Industry Amortisation Reserve, which represents unexpended amortisation on capital items purchased with Market Fees, including the Switching Registry and Downstream Reconciliation systems, had a zero balance at year-end. As previously reported, the remaining Amortisation Costs of $136,220 were recognised in the 2014/15 financial year.

The Industry Advances Reserve comprises the over-recovery of levy revenue. The Board's policy is to 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 2014 a total of $562,621 of over-recovered levy revenue was returned to industry participants.

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

FIGURE 13: OPERATING EXPENSES VS BUDGET



08/

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 2015:

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

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 2015

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 (to 8 July 2015)

Chair: Mt Cook Alpine Salmon Limited

Chair: Hollow Lands Limited

Director: Te Urewera Board

Chancellor: Waikato University

ROBIN G HILL, B Comm, FCA

**DEPUTY CHAIR,
INDEPENDENT DIRECTOR**

APPOINTED 4 NOVEMBER 2004

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

INTERESTS REGISTER

Advisory Trustee: NZ Defence Force

ANDREW BROWN, LLB

INDEPENDENT DIRECTOR

APPOINTED 10 JUNE 2010

Andrew Brown is a leading corporate lawyer with over 25 years' experience in commercial law, including advising energy sector companies. During 2014/15, Mr Brown commenced practice as a Commercial Barrister, having previously served as General Counsel at KiwiRail.

INTERESTS REGISTER

No interests relevant to Gas Industry Co

KEITH DAVIS, PGDipBus

INDEPENDENT DIRECTOR

APPOINTED 31 JULY 2006

Keith Davis has extensive experience in the information technology, telecommunications and venture-funding industries, and has held senior management roles with McDonnell Douglas, Compaq Computers, and BellSouth.

INTERESTS REGISTER

No interests relevant to Gas Industry Co

NIGEL BARBOUR, B.Com, LLB

INDUSTRY-ASSOCIATED 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

INDUSTRY-ASSOCIATED DIRECTOR

APPOINTED 13 MAY 2011

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

INTERESTS REGISTER

Chief Executive Officer: Contact Energy Limited

Director: Various Contact Energy subsidiaries

Employee Origin Energy Limited and Director of various Origin NZ subsidiaries (resigned post-balance date on 11 August 2015)

ANDREW KNIGHT, BMS (Hons), CA

INDUSTRY-ASSOCIATED 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/shareholder: NZOG

Director: Various NZOG subsidiaries

Director: PEPANZ

Director: Taranaki Iwi Holdings Management Limited

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

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 (to April 2015)

Alternate for Mr Barnes

MICHAEL WRIGHT

APPOINTED 10 JUNE 2014

Officer: NZOG

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 Industry-Associated Directors have potential or actual conflicts of interest.

ATTENDANCE

The Board met on eight occasions during the year ended 30 June 2015.

DIRECTORS	MEETINGS ATTENDED
J Bolger	8
R Hill	7
A Brown	8
K Davis	7
N Barbour	5
D Barnes	4
A Knight	4

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

ALTERNATE DIRECTORS	MEETINGS ATTENDED
S Dickson	3
C Thompson	2
M Wright	2

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 2015 were:

DIRECTORS	$
J Bolger (Chair)	93,500
R Hill (Deputy Chair)	66,360
A Brown	52,800
K Davis	52,800
N Barbour	–
D Barnes	–
A Knight	–

During the year ended 30 June 2015, the Board approved additional payments of $3,000 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 27 November 2014. Messrs Hill and Barnes retired at the Annual Meeting in accordance with the director rotation provisions of the Company's Constitution, and, being eligible, were re-elected, respectively, as an Independent Director and an Industry-Associated Director.

In his address to the meeting, the Chair noted that 2014 marked the 10th anniversary of changes to the Gas Act that established an industry body, and Gas Industry Co's formation to fulfil that role and to act as the co-regulator. He commented that it had been a productive decade in terms of working with industry to establish governance arrangements appropriate to an increasingly complex downstream gas sector. Gas Industry Co was committed to seeing to fruition priority issues identified in conjunction with industry stakeholders. He recorded his view that the gas industry was in good health and continued to make a valuable contribution to the nation.

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 14 to deliver 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 Comm (Hons)

GENERAL MANAGER OPERATIONS

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

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

GLENDA MACBAIN, DipOrgPsych, DipBusMgmt

CORPORATE SERVICES MANAGER

As Corporate Services Manager, Glenda MacBain is responsible for the provision of financial, human resources, IT and administrative support to the Company. 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 2015
$120,001-$130,000	1
$130,001-$140,000	1
$150,001-$160,000	1
$160,001-$170,000	1
$200,001-$210,000	1
$260,001-$270,000	1
$450,001-$460,000	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.

INSIDER 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. The Management team reviews the Company's enterprise risk register each month and the register is presented to the Board each quarter.

09/

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 2015.

The Board of Directors of the Company authorised the financial statements presented on pages 38 to 56 for issue on 26 August 2015.

On behalf of the Board:

RT HON JAMES B BOLGER, ONZ

CHAIR

17 SEPTEMBER 2015

ROBIN G HILL

DEPUTY CHAIR

17 SEPTEMBER 2015

AUDITOR'S REPORT

TO THE SHAREHOLDERS OF GAS INDUSTRY COMPANY LIMITED

We have audited the accompanying financial statements of Gas Industry Company Limited (''the company'') on pages 38 to 56. The financial statements comprise the statement of financial position as at 30 June 2015, 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 and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the financial statements on pages 38 to 56 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of Gas Industry Company Limited as at 30 June 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

26 AUGUST 2015

WELLINGTON

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

	NOTES	ACTUAL 2015 $	BUDGET 2015 $	ACTUAL 2014 $
INCOME				
Operating income	4	5,416,656	5,445,819	6,021,358
Interest income		63,684	35,000	44,246
		5,480,340	5,480,819	6,065,604
Refunded levy income	4	(562,621)	(819,190)	(509,253)
NET INCOME		**4,917,719**	**4,661,629**	**5,556,351**
EXPENDITURE				
Operating expenditure	5	5,155,841	5,522,932	5,891,828
Finance costs	12	4,319	4,106	3,500
		5,160,160	5,527,038	5,895,328
PROFIT/ (LOSS) BEFORE TAX		(242,441)	(865,409)	(338,977)
Income tax expense	6	17,832	9,800	12,389
PROFIT/(LOSS) FOR THE YEAR		(260,273)	(875,209)	(351,366)
Other comprehensive income		–	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(260,273)**	**(875,209)**	**(351,366)**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

	INDUSTRY RESERVES $	RETAINED EARNINGS $	TOTAL EQUITY $	BUDGET $
BALANCE AT 1 JULY 2013	1,105,207	485,000	1,590,207	1,590,207
TOTAL COMPREHENSIVE INCOME FOR THE YEAR				
Profit/ (loss) for the year	–	(351,366)	(351,366)	(94,788)
Other comprehensive income	–	–	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**–**	**(351,366)**	**(351,366)**	**(94,788)**
TRANSFER BETWEEN EQUITY RESERVES				
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**	**1,495,419**
BALANCE AT 1 JULY 2014	698,841	540,000	1,238,841	1,495,419
TOTAL COMPREHENSIVE INCOME FOR THE YEAR				
Profit/ (loss) for the year	–	(260,273)	(260,273)	(875,209)
Other comprehensive income	–	–	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**–**	**(260,273)**	**(260,273)**	**(875,209)**
TRANSFER BETWEEN EQUITY RESERVES				
Industry Advances Reserve transfers	(179,053)	179,053	–	–
Industry Asset Amortisation Reserve transfers	(136,220)	136,220	–	–
BALANCE AT 30 JUNE 2015	**383,568**	**595,000**	**978,568**	**620,210**

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

	NOTES	ACTUAL 2015 $	BUDGET 2015 $	ACTUAL 2014 $
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	7	1,819,473	883,836	2,139,021
Trade and other receivables	8	22,007	85,081	44,166
Prepayments		39,591	54,185	65,256
Income tax receivable	6	–	9,800	–
TOTAL CURRENT ASSETS		**1,881,071**	**1,032,902**	**2,248,443**
NON-CURRENT ASSETS				
Property, plant and equipment	10	90,728	180,782	97,692
Intangible Assets	11	16,059	11,358	150,007
TOTAL NON-CURRENT ASSETS		**106,787**	**192,140**	**247,699**
TOTAL ASSETS		**1,987,858**	**1,225,042**	**2,496,142**
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	9	723,558	364,448	982,206
Asset restoration provision	12	39,047	39,007	34,728
Employee entitlements		246,674	201,366	240,356
Redeemable shares	14	11	11	11
TOTAL CURRENT LIABILITIES		**1,009,290**	**604,832**	**1,257,301**
TOTAL LIABILITIES		**1,009,290**	**604,832**	**1,257,301**
EQUITY				
Industry Reserves	15	383,568	25,210	698,841
Retained Earnings	15	595,000	595,000	540,000
TOTAL EQUITY		**978,568**	**620,210**	**1,238,841**

These financial statements were authorised for issue by the signatories below on 26 August 2015:

On behalf of the board

RT HON JAMES B BOLGER, ONZ
CHAIR

ROBIN G HILL
DEPUTY CHAIR

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2015

	ACTUAL 2015 $	BUDGET 2015 $	ACTUAL 2014 $
OPERATING ACTIVITIES			
Cash was provided from			
Levy revenue	3,851,099	3,950,819	4,456,347
Market fee revenue	1,364,356	1,440,000	1,590,897
Annual fees	55,000	55,000	55,000
Interest received	63,684	35,000	44,246
Net GST	–	–	–
	5,334,139	5,480,819	6,146,490
Cash was applied to			
Payments to suppliers	(2,749,537)	(3,008,606)	(2,869,016)
Payments to employees	(2,019,171)	(2,164,041)	(2,206,893)
Payments to directors	(262,460)	(262,460)	(262,460)
Refund of levy to industry participants	(544,549)	(819,190)	(509,253)
Taxes paid	(17,832)	–	(12,389)
Net GST	(15,262)	–	(5,027)
	(5,608,811)	(6,254,297)	(5,865,038)
NET CASH INFLOWS FROM OPERATING ACTIVITIES	(274,672)	(773,478)	281,452
INVESTING ACTIVITIES			
Cash was applied to			
Purchase of property, plant and equipment	(28,555)	(115,000)	(11,482)
Purchase of intangible assets	(16,321)	–	(2,589)
NET CASH OUTFLOWS FROM INVESTING ACTIVITIES	(44,876)	(115,000)	(14,071)
Net increase/ (decease) in cash and cash equivalents	(319,548)	(888,478)	267,381
OPENING CASH AND CASH EQUIVALENTS	2,139,021	1,772,314	1,871,640
CLOSING CASH AND CASH EQUIVALENTS	1,819,473	883,836	2,139,021

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 2015.

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

The Company is a limited liability company incorporated and domiciled in New Zealand and is registered under the Companies Act 1993. The address of its registered office is 95 Customhouse Quay, Wellington.

The financial statements have been prepared in accordance with the requirements of the Gas Act 1992, the Financial Reporting Act 2013 and the Companies Act 1993. For the purposes of financial reporting, the company is a public benefit entity (not-for-profit).

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 26 August 2015.

2/ BASIS OF PREPARATION

(A) STATEMENT OF COMPLIANCE

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

(B) BASIS OF MEASUREMENT

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

(C) PRESENTATION CURRENCY

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

(D) COMPARATIVES

Comparatives have been reclassified from that reported in the 30 June 2014 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 the 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. The budgeted figures are not audited.

(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) STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY 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.

The External Reporting Board of New Zealand ("XRB") has released a new accounting standards framework which establishes the financial standards to be applied to entities with statutory financial reporting obligations. The Company is currently reporting under NZ IFRS PBE. Under the new XRB framework management expects that the Company will be reporting under the PBE Standards as applicable for not-for-profit entities. This will be applicable for the Company's 30 June 2016 year end. 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 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 & Registry rules.

Costs associated with developing or maintaining software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development employees and an appropriate portion of 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") are classified as a liability if it is redeemable on a specific date or at the option of the shareholders.

(K) REVENUE

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

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

LEVY REVENUE

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

MARKET FEE REVENUE

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

- » Market fees to recoup operating costs to be recognised as revenue at the time the invoice is raised as a proxy for recognising it at the time the leviable event occurs.
- » Market fees to recover capital costs to be recognised as revenue once the expenditure the fees were raised to cover has been incurred.

ANNUAL FEES

Annual fees are recognised when invoiced.

INTEREST INCOME

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

(L) OPERATING LEASES

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

(M) FOREIGN CURRENCY TRANSLATIONS

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

(N) INCOME TAX

Taxation expense in the Statement of Comprehensive Income comprises current tax charges. Industry participation levies, annual fees and market fees received are not regarded as gross income, in terms of section CB 1 of the Income Tax Act 2007 and therefore are not taxable. Deductions are not available in respect of the costs incurred in providing services.

Current tax charges are based on taxable profits for the year, which differ from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible.

The Company has no material deferred tax balances as the majority of assets and liabilities are used to provide non-taxable activities.

(O) GOODS AND SERVICES TAX (GST)

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

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

(P) STATEMENT OF CASH FLOWS

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

- » Operating activities include all transactions and other events that are not investing or financing activities.
- » Investing activities are those activities relating to the acquisition, holding and disposal of investments. Investments can include securities not falling within the definition of cash.
- » Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.

(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 2015 $	ACTUAL 2014 $
Wholesale levy revenue	2,371,755	2,944,682
Retail levy revenue	1,457,115	1,559,016
Market fee revenue	1,532,786	1,462,660
Annual fees	55,000	55,000
TOTAL OPERATING INCOME	**5,416,656**	**6,021,358**
Refunded levy income	(562,621)	(509,253)

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

5/ OPERATING EXPENDITURE

	ACTUAL 2015 $	ACTUAL 2014 $
Depreciation & amortisation	185,788	411,362
Operating lease expenses	305,028	311,987
Fees paid to audit firm – financial statement audit	14,543	14,543
Fees paid to audit firm – other services	–	–
Accounting and taxation advice	–	–
Directors’ fees	265,460	271,460
General expenses	248,301	348,671
Bad debts / (bad debts recovered)	(46,579)	–
Recruitment expenses	–	14,917
Technical, economic, and legal advice	669,746	998,973
Service provider fees	1,486,137	1,318,227
Kiwisaver contributions	46,300	52,517
Foreign exchange loss / (gain)	–	(382)
Employee benefit expense	1,981,117	2,149,553
TOTAL OPERATING EXPENDITURE	**5,155,841**	**5,891,828**

6/ INCOME TAX

	ACTUAL 2015 $	ACTUAL 2014 $
(A) INCOME TAX EXPENSE		
Current year income tax expense	17,832	12,389
Deferred tax movement	–	–
TOTAL INCOME TAX EXPENSE	**17,832**	**12,389**
(B) RECONCILIATION OF CURRENT YEAR INCOME TAX EXPENSE		
Profit before tax	(242,441)	(338,977)
Income tax expense at 28 percent	(67,883)	(94,914)
Permanent differences	85,715	107,303
Timing differences	–	–
CURRENT YEAR INCOME TAX EXPENSE	**17,832**	**12,389**
(C) INCOME TAX RECEIVABLE		
Opening balance	–	–
Tax refunds received	–	–
Current year income tax expense	(17,832)	(12,389)
Income tax paid	17,832	12,389
CLOSING BALANCE	**–**	**–**

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

7/ CASH AND CASH EQUIVALENTS

	ACTUAL 2015 $	ACTUAL 2014 $
Bank Account	997	996
Interest Bearing Account	1,817,976	2,137,525
Petty Cash	500	500
TOTAL	**1,819,473**	**2,139,021**

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 2015 $	ACTUAL 2014 $
Levy debtors	11,730	44,166
Other Receivables	10,277	–
TOTAL	**22,007**	**44,166**

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

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

0-30 days	22,007	44,166
31-60 days	–	–
61-90 days	–	–
> 91 days	–	–
TOTAL	**22,007**	**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 2015 $	ACTUAL 2014 $
Accounts payable	423,086	371,173
Accrued expenses	296,592	579,550
GST Payable	3,880	31,483
TOTAL	**723,558**	**982,206**

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 2013	116,337	168,297	12,722	297,356
Additions	1,960	2,648	6,875	11,483
Transfers	–	–	–	–
Disposals	–	–	–	–
BALANCE AT 30 JUNE 2014	**118,297**	**170,945**	**19,597**	**308,839**
Balance at 1 July 2014	118,297	170,945	19,597	308,839
Additions	9,885	16,834	1,837	28,556
Transfers	–	–	–	–
Disposals	–	(1,213)	–	(1,213)
BALANCE AT 30 JUNE 2015	**128,182**	**186,566**	**21,434**	**336,182**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
Balance at 1 July 2013	31,155	134,388	8,661	174,204
Depreciation expense	20,607	14,449	1,887	36,943
Disposals	–	–	–	–
Impairment losses	–	–	–	–
BALANCE AT 30 JUNE 2014	**51,762**	**148,837**	**10,548**	**211,147**
Balance at 1 July 2014	51,762	148,837	10,548	211,147
Depreciation expense	21,197	11,073	3,250	35,520
Disposals	–	(1,213)	–	(1,213)
Impairment losses	–	–	–	–
BALANCE AT 30 JUNE 2015	**72,959**	**158,697**	**13,798**	**245,454**
NET BOOK VALUE AT 30 JUNE 2015	**55,223**	**27,869**	**7,636**	**90,728**

11/ INTANGIBLE ASSETS

	SOFTWARE $	INDUSTRY ASSETS $	TOTAL $
COST			
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**
Balance at 1 July 2014	89,397	2,182,448	2,271,845
Additions	16,320	–	16,320
Transfers	–	–	–
Disposals	–	–	–
BALANCE AT 30 JUNE 2015	**105,717**	**2,182,448**	**2,288,165**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES			
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**
Balance at 1 July 2014	75,610	2,046,228	2,121,838
Depreciation expense	14,048	136,220	150,268
Disposals	–	–	–
Impairment losses	–	–	–
BALANCE AT 30 JUNE 2015	**89,658**	**2,182,448**	**2,272,106**
NET BOOK VALUE AT 30 JUNE 2015	**16,059**	**–**	**16,059**

12/ ASSET RESTORATION PROVISION

	ACTUAL 2015 $	ACTUAL 2014 $
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	16,843	20,343
Additions	–	–
Movement due to change in discount rate	–	–
Unwinding of discount	4,319	3,500
CLOSING DISCOUNT	**12,524**	**16,843**
PROVISION NET CARRYING AMOUNT	**39,047**	**34,728**

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 2015 $	ACTUAL 2014 $
SALARIES AND OTHER SHORT-TERM EMPLOYEE BENEFITS	**1,114,685**	**1,257,420**

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

The above includes remuneration of $265,460 (30 June 2014 $274,460) paid to the Directors for the year.

14/ REDEEMABLE SHARES

	ACTUAL 2015 $	ACTUAL 2014 $
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 2015 $	ACTUAL 2014 $
Industry advances reserve	383,568	562,621
Industry asset amortisation reserve	–	136,220
Retained earnings	595,000	540,000
TOTAL EQUITY RESERVES	**978,568**	**1,238,841**

(A) INDUSTRY ADVANCES RESERVE

	ACTUAL 2015 $	ACTUAL 2014 $
Opening balance	562,621	605,173
Transfer from retained earnings	(179,053)	(42,552)
CLOSING BALANCE	**383,568**	**562,621**

To allow for the timely enactment of the levy regulations each financial year, Gas Industry Co must set its budget and work programme nine months prior to the beginning of that year and prior to the completion of the Statement of Intent. In practice, this requires the Company to forecast where it expects to be in the policy development process before it has fully analysed the issues, or engaged with stakeholders on their concerns.

This factor, and the fact that the levy is based in part on variable gas sales volumes, means every year there is a risk of over or under recovery of levy funds.

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

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

(B) INDUSTRY ASSET AMORTISATION RESERVE

	ACTUAL 2015 $	ACTUAL 2014 $
Opening balance	136,220	500,034
Transfer from retained earnings	(136,220)	(363,814)
CLOSING BALANCE	**–**	**136,220**

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 2015 $	ACTUAL 2014 $
Opening balance	540,000	485,000
Profit for the year	(260,273)	(351,366)
Transfer to Industry Advances Reserve	179,053	42,552
Transfer to Industry Asset Amortisation Reserve	136,220	363,814
CLOSING BALANCE	**595,000**	**540,000**

16/ CONTINGENCIES

As at 30 June 2015, the Company has no contingent liabilities (2014: nil). There is an arrangement with Westpac New Zealand Limited whereby Gas Industry Co 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 (2014: $Nil)

(B) OPERATING LEASE COMMITMENTS

	ACTUAL 2015 $	ACTUAL 2014 $
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	268,776	279,106
Later than one year but not later than five years	380,766	649,542
Later than five years	–	–
TOTAL	**649,542**	**928,648**

(C) SERVICE PROVIDER COMMITMENTS

	ACTUAL 2015 $	ACTUAL 2014 $
Service provider agreements for the Downstream Reconciliation, Switching and Registry and Critical Contingency Management Rules payable as follows:		
Within one year	1,132,813	1,199,161
Later than one year but not later than five years	2,369,380	3,537,121
Later than five years	–	–
TOTAL	3,502,193	4,736,282

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 hold sufficient liquid assets in the form of cash and cash equivalents to meet expected outflows. All trade payables are expected to be settled within 30 days.

FAIR VALUES

The fair value of all financial instruments is equivalent to the carrying amount disclosed in the Statement of Financial Position.

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

	ACTUAL 2015 $	ACTUAL 2014 $
Profit/ (loss) for the year	(260,273)	(351,366)
Non cash items		
Depreciation and amortisation expense	185,788	411,362
Unwind of discount factor on restoration provision	4,319	3,500
Impact of changes in working capital items		
Prepayments	25,665	(24,969)
Trade and Other Payables	(235,879)	304,852
Employee entitlements	6,318	(11,822)
Trade and Other Receivables	32,436	(44,166)
GST payable	(27,603)	(3,310)
Income tax receivable	(5,443)	(2,629)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(274,672)	281,452

20/ CAPITAL MANAGEMENT

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

21/ SUBSEQUENT EVENTS

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

GLOSSARY

ALLOCATION AGENT	Appointed pursuant to the Reconciliation Rules to apportion downstream gas quantities and allocate daily gas quantities to retailers. The Allocation Agent is currently Energy Market Services (EMS)
MAUI AQ	Authorised Quantity product on the Maui pipeline
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
DAWG	Daily Allocation Working Group
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
GITAWG	Gas Industry Transmission Access Working Group
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
MDL	Maui Development Limited
MINISTER	The Minister of Energy and Resources (unless indicated otherwise)
MPOC	Maui Pipeline Operating Code
NORTH PIPELINE	The section of the Vector transmission system from Huntly to Whangarei, via Auckland
OATIS	Open Access Transmission Information System
PEPANZ	Petroleum Exploration and Production Association of New Zealand
PEA	Panel of Expert Advisers
PJ	Petajoule (10^{15} joules, or 1 million GJ). 1 PJ is equivalent to the average annual gas use of approximately 40,000 households.
PROCESSING INFORMATION DISCLOSURE RULES	Gas (Processing Facilities Information Disclosure) Rules 2008
RAIG	Registry Amendments Implementation Group
RECONCILIATION RULES	Gas (Downstream Reconciliation) Rules 2008
RETAIL SCHEME	Retail Gas Contracts Oversight Scheme
SWITCHING RULES	Gas (Switching Arrangements) Rules 2008
TRANSMISSION SYSTEM	A system of pipelines transporting gas at high pressure from production and processing facilities to delivery points supplying end users and lower pressure local area gas distribution networks
TSO	Transmission system owner
VTC	Vector Transmission Code
UFG	Unaccounted-for gas

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KPMG, Wellington

BANKERS

Westpac Banking Corporation Limited