

# 15/ 16

ANNUAL REPORT



# 22%

OF NEW ZEALAND'S PRIMARY ENERGY INPUT,  
GAS IS AN EFFICIENT COMPETITIVE ENERGY OPTION

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# 250,000

HOUSEHOLDS

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# 14,000

COMMERCIAL/COMMUNITY

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# 1,500

INDUSTRIAL

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## KEY INDUSTRY GOVERNANCE ARRANGEMENTS

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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 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 Government Policy Statement on Gas Governance 2008 (GPS).

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

- » promoting efficient, competitive, and confident gas markets;
- » facilitating efficient use of, and timely investment in, gas infrastructure;
- » delivering effectively on our accountabilities as the gas industry body; and
- » developing and communicating the role of gas in meeting New Zealand's energy needs.

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

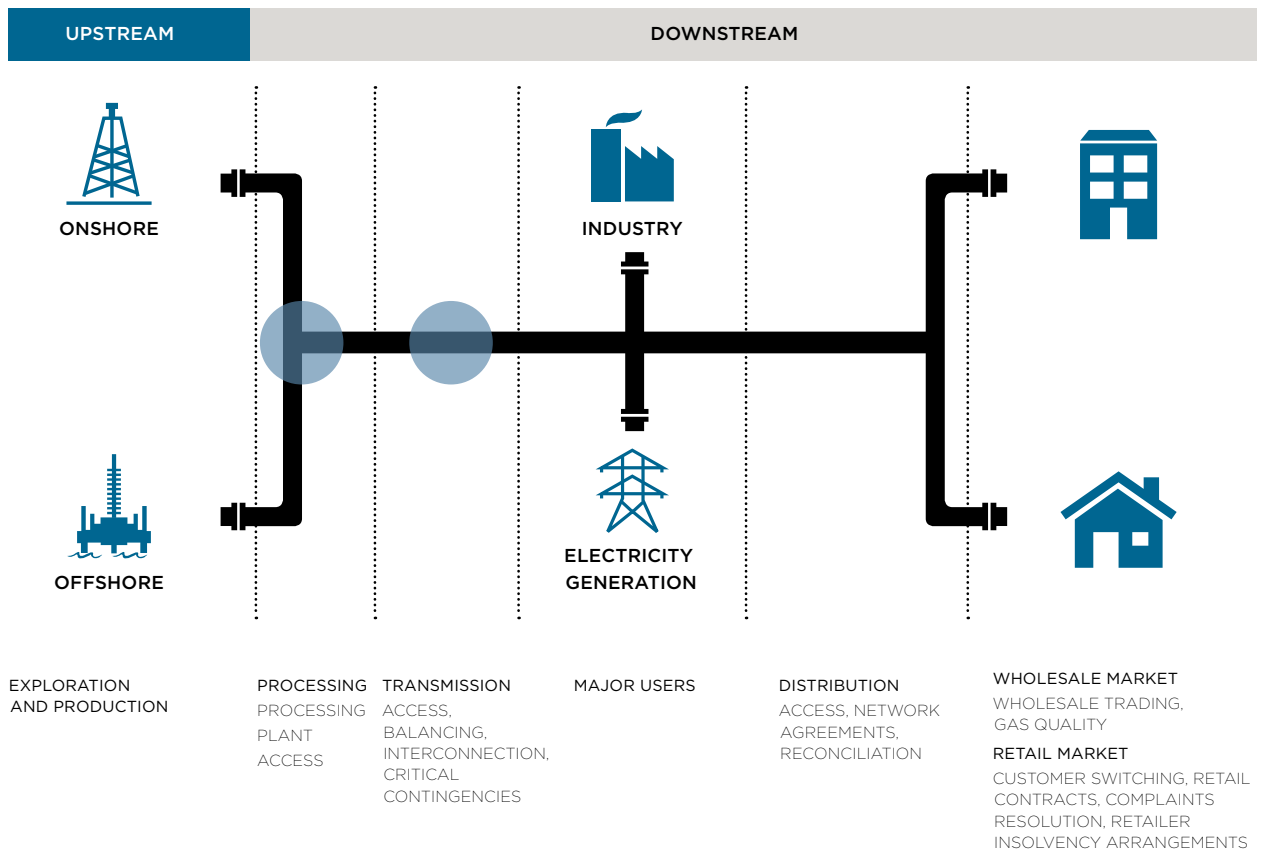
- » Gas (Switching Arrangements) Rules 2008 (Switching Rules), which provide for a central registry of ICP data, and facilitate customer switching among retailers.
- » Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules), which prescribe the process for attributing volumes of gas consumed to the responsible retailers.
- » Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations), which set out how industry participants plan for, and respond to, a serious incident affecting gas supply via the gas transmission pipelines.
- » Gas Governance (Compliance) Regulations 2008 (Compliance Regulations), under which alleged breaches of the rules and regulations set out above are determined and settled efficiently. Gas Industry Co performs the role of Market Administrator under the Compliance Regulations.
- » 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. Highlights of the 30 June 2016 Performance Measures Report is found on page 5.

All publications referred to in this Annual Report can be found on the Company's website [www.gasindustry.co.nz](http://www.gasindustry.co.nz)

# 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.



# 01 CHAIR'S FOREWORD



## DURING THE YEAR ENDED 30 JUNE 2016, NATURAL GAS CONTINUED TO MAKE A VALUABLE CONTRIBUTION TO NEW ZEALAND'S ENERGY SUPPLY AND ECONOMY.

Accounting for over 20 percent of primary energy input, gas provides almost 270,000 consumers with an efficient, competitive energy option for their homes, businesses and community facilities.

Among these are electricity generators, key exporters and a myriad of large and small businesses that operate in highly competitive international and domestic markets. Gas is also used widely in such community facilities as hospitals, aged care homes and schools, as well as in over 250,000 households.

Like many sectors of the economy, gas faces its share of strategic challenges. Low international oil prices have continued to suppress investment in upstream exploration and development. Gas Industry Co's work remains important to the upstream sector in terms of maintaining confidence that New Zealand has a healthy, well-governed downstream market to utilise new discoveries.

New electricity technologies offer both remarkable opportunities and challenges to traditional energy paradigms, including flow-on effects to the gas sector.

The December 2015 COP-21 Paris Agreement to limit future global temperature rises targets net-zero carbon emissions by the end of the century and has significantly increased the priority for countries to address climate change. For signatory nations, which include New Zealand, the pursuit of their individual emissions reduction targets will involve changes to how they manage their economies. New Zealand has committed to reducing its greenhouse gas emissions to 30 percent below 2005 levels by 2030 while also maintaining a policy of economic growth. But, at less than 10 percent of New Zealand's total greenhouse gas emissions, and with the country already generating 80 percent of its electricity from renewable sources, wider solutions are needed.

All these challenges mean that future energy markets will likely be very much different than those of today. However, Gas Industry Co remains confident that natural gas will continue to have an important ongoing role in New Zealand's energy supply and economic wellbeing for the foreseeable future. The 2016 update report on *Consumer Energy Options in New Zealand* commissioned by Gas Industry Co confirms that, in many residential applications,

direct use of gas has an environmental footprint comparable to that of all-electric households. And gas remains the preferred option for process heat in industry and commerce. Gas also has an important ongoing role supporting renewable generation (wind and hydro), other new energy technologies, and meeting peak loads.

Gas Industry Co continues to play a key role in these strategic issues, which are fundamental to its statutory role as the 'industry body' under Part 4A of the Gas Act 1992. Gas Industry Co's strategy to *optimise the contribution of gas to New Zealand*, involves ensuring market arrangements are in place that are appropriate for an optional fuel in a highly competitive and changing energy market.

I can report that the organisation remains in good heart. As we progress through the new financial year, it is pleasing to report that our strategy, work programme and funding continues to find confidence and support among our stakeholders.

## ACKNOWLEDGEMENTS

During the year we welcomed one new shareholder – First Gas Limited – to our register. Following balance date emsTradeport, which operates the spot gas market, also became a shareholder. Both are relative newcomers to the gas industry and are significant participants in the gas transportation and wholesale sectors of the industry. Gas Industry Co's work is enriched by its shareholders, and their broad representation across the industry.

On behalf of the Board, I record Gas Industry Co's appreciation to all stakeholders for their time and effort in contributing to both the development of our annual work programme and the detailed work that flows from it.

I record my appreciation also to my fellow Directors, as well as to the executive and staff of Gas Industry Co for their commitment to the Company, and for the quality of their work in ensuring successful and efficient operations and results for the benefit of all stakeholders.

Rt Hon James B Bolger, ONZ

CHAIR

## PRIORITIES FOR 2016/17

- » Work with First Gas (the new owner of the gas transmission systems), industry participants, and wider stakeholders to define a single new transmission code.
- » Develop an updated edition of the gas supply/demand study and associated model, to assist industry strategy and investment over the medium to long terms.
- » Monitor the efficiency of market-based transmission balancing operations, including wholesale market activity, as a prelude to undertaking a post-implementation review.
- » Complete the review of gas transmission security and reliability. Consider outcomes of the Commerce Commission's planned work relevant to gas transmission disclosure and determine whether further improvements are appropriate or necessary.
- » Pending any change to transmission arrangements, continue to run the day-after-delivery (D+1) pilot scheme.
- » Review remaining issues on gas quality.
- » Review retailers' contracts and provide additional information to assist new entrant retailers to understand their obligations and governance processes.
- » Assess continued support for Gas Industry Co's voluntary *Information Gathering Protocol*. If needed, consult on regulations for mandatory supply of information by participants to inform relevant issues analyses by Gas Industry Co.
- » 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 New Zealand gas industry.

## HIGHLIGHTS FROM GAS INDUSTRY CO'S INDUSTRY PERFORMANCE MEASURES REPORT TO 30 JUNE 2016

About **4,500** gas consumers switch retailer each month.

Around **19.7 percent** of gas consumers have switched in the past 12 months – this is one of the highest rates of retail utility switching worldwide. Gas customers can switch retailers for many reasons, but the high level of activity in the gas retail market suggests that customers find changing retailer easy and can put pressure on retailers to offer competitive terms and pricing. Switching rates have been over **18 percent** for more than two years.

Over **70 percent** of customer switches are completed within three business days of the switch being requested by the new retailer.

**58 percent** of residential consumer sites have switched retailer at least once in the past five years; **64 percent** of small commercial and **75 percent** of large commercial sites have switched at least once.

Nearly **99 percent** of gas customers are connected to a gate where eight or more retailers trade, demonstrating that gas retailers generally are competitive throughout the North Island.

Average annual unaccounted-for gas (UFG) over the past year stands at about **1.1 percent** compared with about **2 percent** in 2009.

Genesis is the largest retailer by customer share. Nova has the largest share of commercial and industrial customers.

Nova Energy, Genesis and Vector Gas Trading are the largest retailers by volume market share.



AS WE REFLECT ON OUR ACTIVITIES DURING 2015/16, I AM PLEASED TO REPORT THAT GAS INDUSTRY CO IS WELL ADVANCED WITH ITS WORK PROGRAMME AGAINST PRINCIPAL GOALS AND OUTCOMES SET OUT IN THE GAS ACT AND GPS.

Gas customer numbers continue to grow. More retailers have joined the market, strengthening competition has expanded consumer choice, and more consumers are taking the opportunity to switch retailers. Our other Industry Performance Measures (highlighted in the panel above) continue to evidence healthy gas markets.

Our 2016 updated report on *Consumer Energy Options in New Zealand*, referred to in the Chair's Foreword above, confirms that gas continues to provide a competitive energy choice for home energy and industrial heat applications. The report is aimed at providing authoritative information that can be used by a range of private and public sector players in guiding consumer energy decision-making. It reflects on issues for gas and LPG as carbon fuels and finds that gas remains a superior or competitive option for home water heating and space heating, and for industrial heat. The report analyses the relative merits of fuel/technology options, and looks at both cost and non-price attributes.

At the wholesale level, the emsTradepoint market established in 2013 has continued to facilitate short-term gas trading and to provide associated benefits to the wider industry. In October 2015, transmission balancing gas transactions were introduced to the market following the commencement of the market-based balancing (MBB) regime. The trading of balancing gas was widely supported by market participants as a way of promoting more efficient pricing of balancing gas, and offers further market liquidity.

Gas Industry Co will commence a review of MBB around October this year, the first anniversary of its implementation.

In a related development, Gas Industry Co is progressing well in the piloting of the day-after delivery (D+1) allocation methodology for downstream reconciliation processes. The arrangement, which has been in place for some months, was developed by the Company and, together with the daily balancing and peaking pool (BPP) processes, is assisting retailers to manage their balancing arrangements. Veritek was commissioned to audit the D+1 pilot processes and reports that the processes are as secure, robust and reliable as reasonably practicable.

Another significant event in the year has been the purchase by Colonial First State Asset Management of Vector's transmission system and non-Auckland distribution networks in April 2016 and of the Maui transmission pipeline from Maui Development Limited (MDL) in June 2016. These are now owned and operated by First Gas Limited. For the present, First Gas is continuing the separate pricing and access arrangements of Vector and MDL, but is working with Gas Industry Co on establishing a single access code governing both systems. This has potential efficiency benefits for the industry, and there will be full consultation on its development.

A feature of the year has been the opportunity to work more closely with the Commerce Commission on gas transmission matters. These include the Commission's review of Input Methodologies and its reset of its price/quality path for gas transmission businesses. The Commission and Gas Industry Co have been conducting joint industry workshops aimed at aligning as far as possible the two organisations' roles and work programmes.

An example of this cooperation is work around gas transmission security and reliability. Gas Industry Co conducted a review of current arrangements and the roles of regulators following questions from large end-users. Gas Industry Co's review found that all the elements for good governance of transmission security and reliability are in place, although some areas are untested and some can be improved. There is now opportunity for those matters to be addressed without need for further regulation, and we are pleased to see First Gas working actively with stakeholders on that.

An independent assessment carried out under the Retail Gas Contracts Oversight Scheme (Retail Scheme) in June 2015 confirmed improved terms are being offered to small gas consumers, and it once again has demonstrated the benefits of this voluntary governance arrangement. The *Benchmark Assessment Report - 2015* is the fourth since the Retail Scheme's introduction in 2010, but the first since the Scheme was amended to provide for three-yearly, rather than annual, reviews as well as the addition of Reasonable Consumer Expectations.



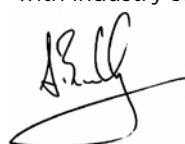
The Retail Scheme was introduced to help meet the GPS objective for contractual arrangements between gas retailers and small consumers to adequately protect the long-term interests of those consumers.

The latest assessment concluded with an overall rating of 'Substantial' alignment with the Retail Scheme's 18 outcome-based benchmarks. Although this overall rating is unchanged from the result of the previous full assessment in 2012, a number of retailers have improved their individual ratings. The Retail Scheme is one of two non-regulated contract oversight schemes covering retailers' contract arrangements with small consumers, and distributors' standard contracts with retailers, and both are administered by Gas Industry Co.

The core of Gas Industry Co's effort otherwise continues to be implementation, enforcement and improvement of the platform of existing governance arrangements. In September 2015, amendments were made to the Switching Rules and the Gas Registry to increase the accuracy and efficiency of retailers' conversion of metered volumes to energy by including better metering information in the Gas Registry; increase oversight of Gas Registry data quality through performance audits of users; better align switching timeframes for dual fuel consumers; and fine-tune processes to better reflect commercial arrangements in the gas market.

The financial year saw the Company continuing to maintain its goal of flat-to-dropping costs, representing good value for gas consumers and the wider industry. There is continued focus on delivering cost efficiency and value for money.

I remain grateful to the Gas Industry Co Board and to the team for their important contributions during the last year, and look forward to continuing our work with industry stakeholders.



**Steve Bielby**  
**CHIEF EXECUTIVE**

#### KEY WORK PROGRAMME ACHIEVEMENTS IN 2015/16<sup>1</sup>

ACTIVITY	PRIORITIES SET FOR 2015/16	OUTCOMES FOR 2015/16
TRANSMISSION - CAPACITY/ACCESS	Work with industry stakeholders on developing the next phase in converging transmission capacity allocation and pricing arrangements.	Progress in the period led principally by the industry working group, including on transparency, code governance and congestion management. Gas Industry Co's second <i>Options Paper</i> <sup>2</sup> released in May 2015 proposed forward path for outstanding issues and calls for industry stakeholders to develop a long-term vision to achieve converged transmission access arrangements across the two separate transmission systems. <i>Analysis of Submissions</i> <sup>3</sup> published in August 2015 discussed industry responses and confirms Gas Industry Co taking a more central role in next phase.
CRITICAL CONTINGENCY MANAGEMENT	Review performance of the Critical Contingency Operator (CCO); monitor any critical contingency events; monitor results of the annual exercise.	CCO function working efficiently. Pohokura Production Station outage event in May 2016 was well managed. Arrangements were further tested in an annual exercise conducted in June 2016.
DISTRIBUTION CONTRACTS	Consider recommendations for improvements to the Distribution Scheme and implement as appropriate.	Distributors' Gas Distribution 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.

<sup>1</sup> With reference to objectives in the FY2017-19 Statement of Intent

<sup>2</sup> Transmission Access Options for Improvement Paper #2

<sup>3</sup> Analysis of Submissions on Transmission Access; Options for Improvement Paper #2

ACTIVITY	PRIORITIES SET FOR 2015/16	OUTCOMES FOR 2015/16
CONSUMER OUTCOMES	Complete an independent assessment of retail gas contracts under the Retail Scheme.	A review of retail gas contracts was completed in 2015. The Independent Assessor concluded that retail gas contracts are, overall, substantially aligned with the Retail Scheme's Principles. Gas Industry Co will continue to monitor retail gas contracts on an exceptions basis.
GAS QUALITY	Maintain a <i>Gas Quality Requirements and Procedures</i> publication that enhances stakeholders' understanding of gas quality management and the availability of quality-related information.	Worked with industry participants in the development of the <i>Gas Quality Requirements and Procedures Paper</i> , released in June 2015. Gas Industry Co is monitoring further gas quality work by First Gas, 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	Refine, trial and evaluate the D+1 allocation methodology to further improve downstream gas volumes reconciliation processes. Implement as determined by the evaluation, including recommending any consequential changes to the Reconciliation Rules.	D+1 trial began in December 2015, with shippers using the daily allocation information to manage their gas positions and Vector/First Gas using the results in its BPP process. Positive feedback from parties on the D+1 trial. Advancement to the Statement of Proposal stage and possible inclusion of D+1 in the Reconciliation Rules postponed until there is clarity over the form of the converged transmission arrangements.
TRANSMISSION BALANCING	Review the efficiency of new Maui pipeline-based transmission balancing arrangements introduced in October 2015, and address any identified shortcomings.	Commenced ongoing monitoring of MBB operation.
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.
METERING	Further develop a new workstream undertaken in the context of the GPS requirement for an efficient market for metering services.	Seed papers prepared on gas metering contract arrangements and on new gas metering technology. These will be issued for consultation in FY2017.
TRANSMISSION INTERCONNECTION	Report to the Minister on interconnections to transmission pipelines.	No new connections during FY2016; interconnection guidelines continue to be relevant.
PERFORMANCE AND CURRENT STATE OF THE INDUSTRY	Maintain the currency of <i>The New Zealand Gas Story</i> . Undertake initiatives to assess, develop and report on the state and performance of the New Zealand gas industry.	Fourth edition of <i>The New Zealand Gas Story</i> issued in March 2016 with two further updates to reflect First Gas' acquisition of the Vector and Maui gas transmission pipelines.  Commissioned an update of the <i>Consumer Energy Options in New Zealand</i> report, published in April 2016. Also commissioned an update of the biannual <i>Long term gas supply and demand scenarios</i> report to be published in late 2016.

Clean burning, efficient, responsive and cost effective. Gas accounts for over a fifth of New Zealand's total primary energy supply.

## 03 PROMOTING EFFICIENT, COMPETITIVE, AND CONFIDENT GAS MARKETS

Gas Industry Co develops, administers and monitors industry arrangements designed to ensure that the gas markets are efficient and competitive, and that participants have 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 governance arrangements for distributor and retailer contracts, gas quality management, consumer complaints, and gas retailer insolvencies.

### DOWNSTREAM RECONCILIATION

Downstream reconciliation has been a major focus of attention for Gas Industry Co over the last year with the development and implementation of a D+1 allocation trial. D+1 is an allocation regime where shipper gas volumes are allocated the day after gas has flowed to customers (hence D+1). The trial established that the D+1 model was sufficiently accurate and the next step was to move to a pilot programme whereby D+1 allocations were used in place of the current 'month-end' initial allocation process where parties are allocated gas volumes the month following consumption.

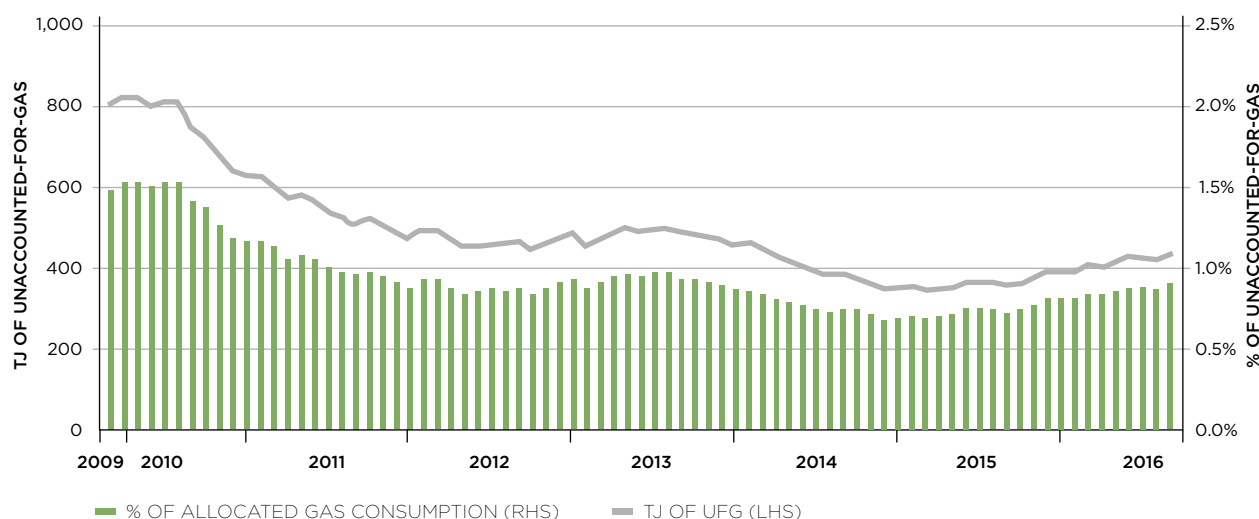
The major benefit of D+1 is that shippers are provided with more timely information on their daily allocated quantities, enabling them to actively manage their gas positions throughout the month. With this information shippers can correct for any imbalance from the previous day.

The improved information flow also enables them to more accurately estimate gas volumes for the following day. An implication of these outcomes is that UFG should be reduced. The daily D+1 allocations also feed in to First Gas' balancing and peaking pool (BPP) calculations, ensuring that there is consistency between downstream allocation and shipper imbalances on the transmission system.

A Daily Allocation Working Group (DAWG) of industry participant representatives has been established to assist Gas Industry Co with the D+1 trial. The DAWG met a number of times over the year to work on a range of implementation issues.

*The Reconciliation Rules have been instrumental in substantially reducing the level of economically inefficient unaccounted-for gas.*

**FIGURE 1: ANNUAL UNACCOUNTED-FOR GAS**



The D+1 pilot will continue until such time as the outcome of the transmission convergence work is known. At that stage it will be necessary to undertake a review as to whether daily allocations are required under the new transmission arrangements and, if so, consider how best to incorporate that into the Reconciliation Rules.

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.

As with previous years, UFG has increased in the autumn and winter months as consumption volumes have increased. UFG tends to be higher as a percentage when total volumes are high. This trend is most likely due to UFG attributable to mass market consumption and the use of fixed factor corrections. In volume terms, annual UFG has decreased dramatically since 2009, when UFG was about 600,000 GJ (600 Terajoules (TJ)) per year. It now stands at about 367,000 GJ (367 TJ), about 1.1 percent of allocated gas consumption (Figure 1).

### GAS CUSTOMER SWITCHING

The Switching Rules enable consumers to choose, and efficiently alternate between, competing retailers. The monthly average number of switches is trending upwards and was about 4,500/month during 2015/16. The churn rate for the year was 19.7 percent (up from 18.6 percent in FY2015), one of the highest rates of retail utility switching worldwide.

Gas customers can switch retailers for many reasons, but the high level of activity in the gas retail market suggests that customers find changing retailer easy and can put pressure on retailers to offer competitive terms and pricing.

*The number of retail gas consumers switching supplier increased by 8.9 percent to 54,149 in the 12 months ended 30 June 2016.*

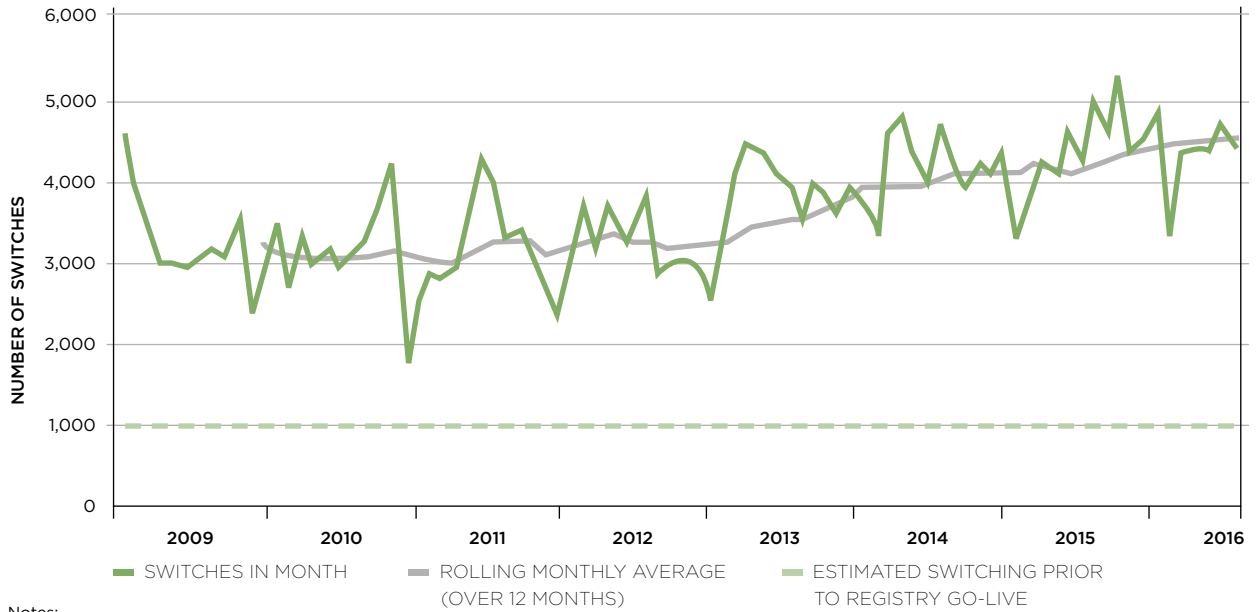
The Switching Rules establish a centralised database of gas connections, called the Gas Registry. The Gas Registry stores key technical information about every gas customer installation and facilitates and monitors each customer switch from initiation through to completion.

During the year, 54,149 gas consumers changed retailer, an increase of 8.9 percent on the 49,743 switches in 2014/15.

Since the start of the Gas Registry in 2009, 58 percent of residential gas customer sites, 64 percent of small commercial sites, 75 percent of large commercial sites, and 58 percent of large industrial sites have switched retailer at least once.

In September 2015, amendments were made to the Switching Rules and the Gas Registry to increase the accuracy and efficiency of retailers' conversion of metered volumes to energy by including better metering information in the Gas Registry; increase oversight of Gas Registry data quality through performance audits of users; better align switching timeframes for dual fuel consumers; and fine-tune processes to better reflect commercial arrangements in the gas market.

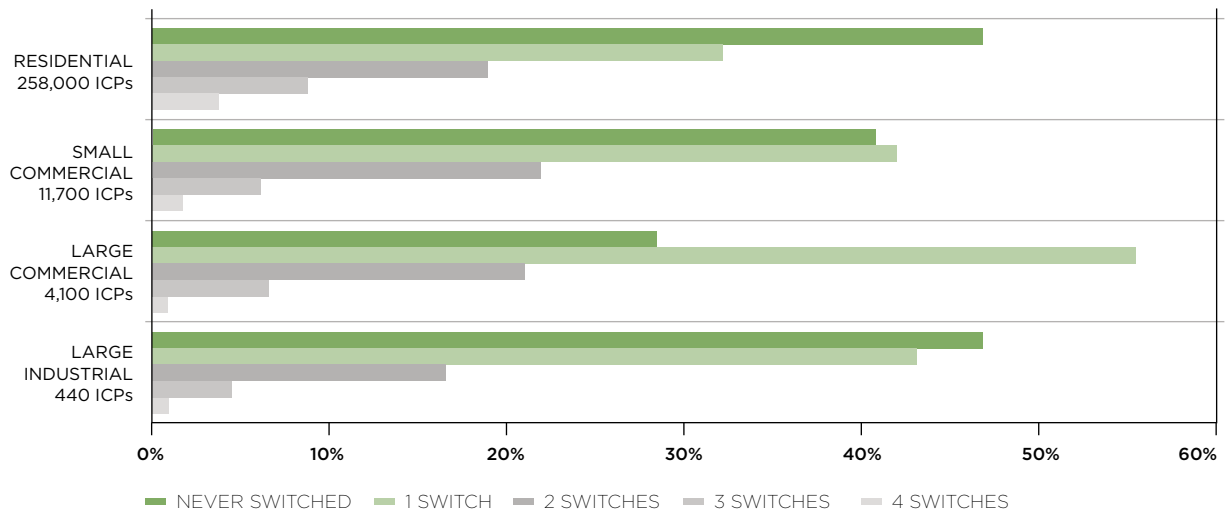
**FIGURE 2: GAS CUSTOMER SWITCHES**



Notes:

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

**FIGURE 3: SWITCHING BY CUSTOMER SITES SINCE 2009**

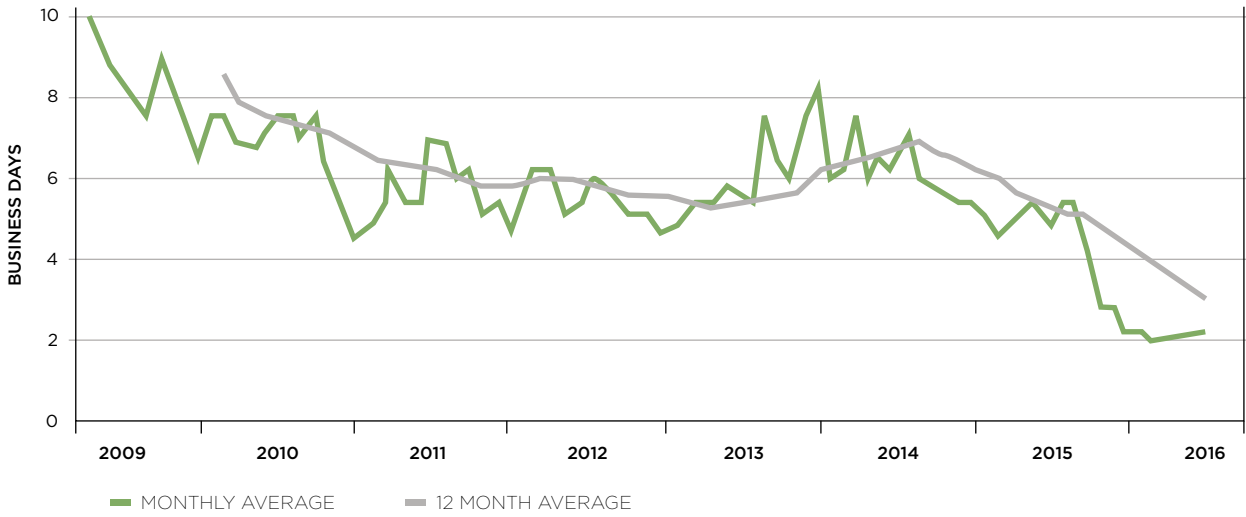


The first two audits of gas retailers against their obligations under the Switching Rules will be conducted in the second half of 2016.

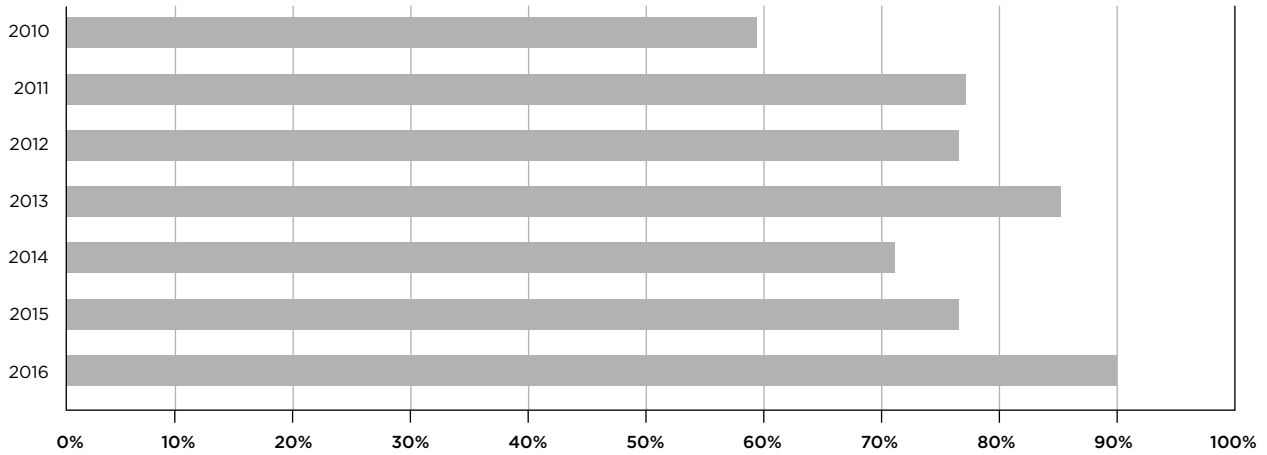
Prior to the commencement of the Switching Rules, switching could take weeks or months to complete. Once the Gas Registry went live, average switching times dropped to about 10 business days and in

2015/16 the 12-month average switching time stood at about three business days. One of the changes introduced in September 2015 was a requirement that all switches must be completed within 10 business days of inception. In 2015/16 72 percent of switches were completed within three days, and this has increased to 81 percent in the early months of 2016/17.

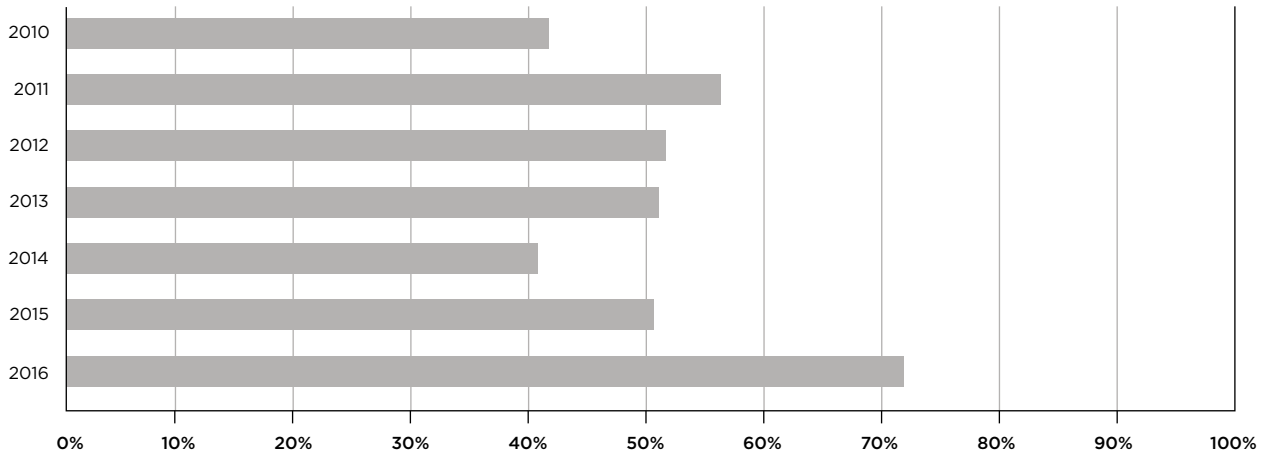
**FIGURE 4: GAS CUSTOMER SWITCH TIME**



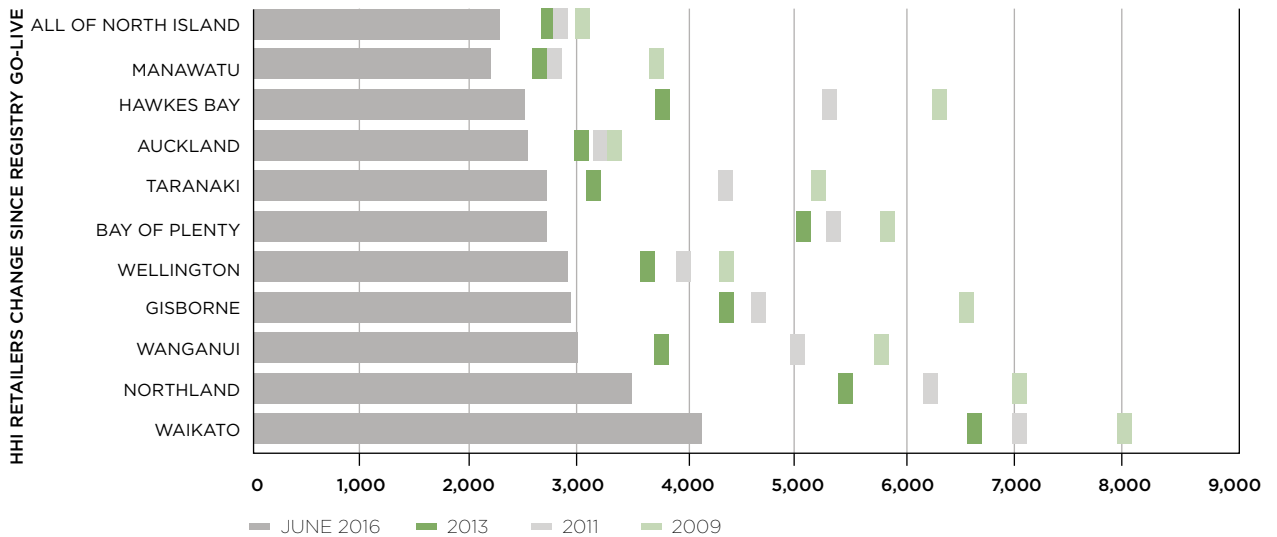
**FIGURE 5: PROPORTION OF SWITCHES COMPLETED WITHIN TEN DAYS**



**FIGURE 6: PROPORTION OF SWITCHES COMPLETED WITHIN THREE DAYS**



**FIGURE 7: HERFINDAHL-HIRSCHMAN INDEX OF MARKET CONCENTRATION - REGIONAL CHANGE SINCE REGISTRY GO LIVE**



- 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.

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 7). The HHI has decreased in all regions since 2009, indicating that the retail market is becoming less concentrated across the North Island. Nationally, the HHI stands at 2,261 compared with 2,423 in 2015 and 3,033 in 2009.

There are now 11 distinct retail brands competing in the retail gas market. All 11 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 industrial consumers.

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

## CONTRACT OVERSIGHT SCHEMES

Two non-regulated contract oversight schemes covering retailers' contract arrangements with small consumers, and distributors' standard contracts with retailers are administered by Gas Industry Co.

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

*The Retail Scheme has again demonstrated benefits to consumers with the latest evaluation finding 'Substantial' alignment with the benchmarks.*

In light of that 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 a set of 'reasonable consumer expectations' – those matters that a consumer would expect to see in a contract. Retailers provide Gas Industry Co with annual confirmation as to whether they have amended their standard published contracts.

The fourth independent assessment carried out in June 2015 was the first since the changes were made to the Retail Scheme. It confirmed that improved terms continue to be offered to small gas consumers, and again demonstrated the benefits of this voluntary governance arrangement. The *Benchmark Assessment Report - 2015* by Independent Assessor, Palairt Law, concludes with an overall rating of 'Substantial' alignment with the Retail Scheme's 18 outcome-based benchmarks. Although this overall rating is unchanged from the result of the previous full assessment in 2012, a number of retailers have improved their individual ratings.

RETAIL SCHEME ASSESSMENT RESULTS 2011-2015			
OVERALL ALIGNMENT	2015	2012	2011
Full	-	-	-
Substantial	9	6	3
Moderate	1	3	4
Low	-	1	3
<b>TOTAL</b>	<b>10</b>	<b>10</b>	<b>10</b>

The Report was provided to the Minister who expressed satisfaction with the outcome of the voluntary Retail Scheme. The Minister also noted that the Retail Scheme demonstrates how a low-cost, non-regulated mechanism can be successful in achieving policy objectives for the gas sector.

Gas Industry Co acknowledges the high level of engagement by retailers in the 2015 assessment, which confirms they are keen to meet the reasonable expectations of customers.

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

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 distributors' progress with executing new distribution contracts with the retailers. Monitoring of processes will continue throughout 2016/17 with a view to determining whether further facilitation is required.

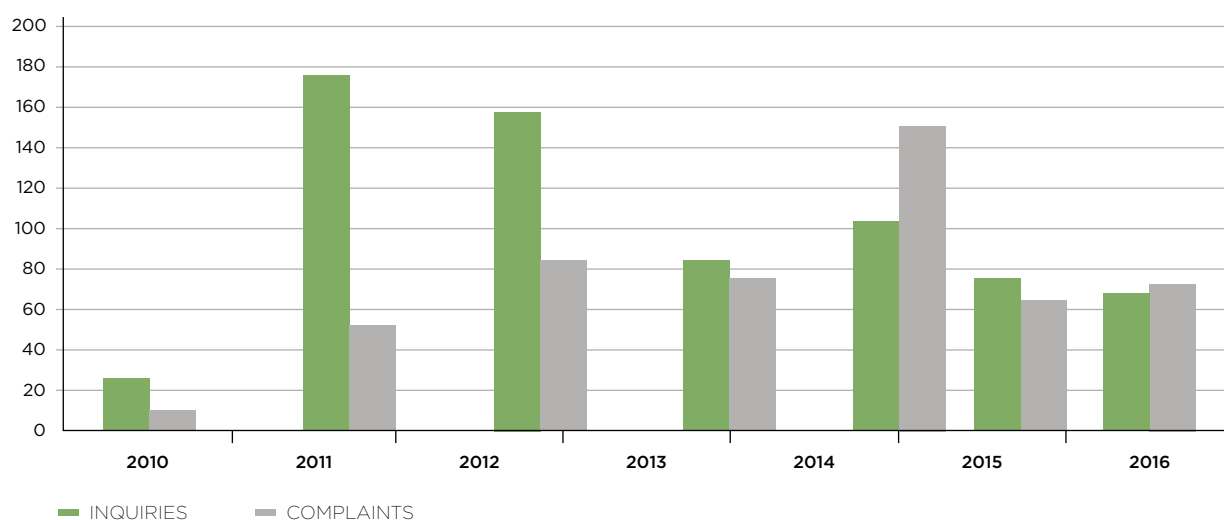
## CONSUMER COMPLAINTS SCHEME

The Electricity and Gas Complaints Commissioner Scheme (EGCC) offers an effective, free and independent service for resolving complaints about electricity and gas providers.

In its Annual Report for the year ended 31 March 2016, the EGCC records total electricity and gas cases (inquiries and complaints) of 6,596, a 18.1 percent decrease over the 8,056 in 2014/15. Total consumer inquiries decreased by 16.9 percent from 4,401 to 3,658, and the number of complaints decreased by 19.6 percent from 3,655 to 2,938.

The Commissioner reported that the impact of a record level of complaints in 2014/15 was still felt in 2015/16. There were 348 deadlocked cases - compared with 497 in the previous year.

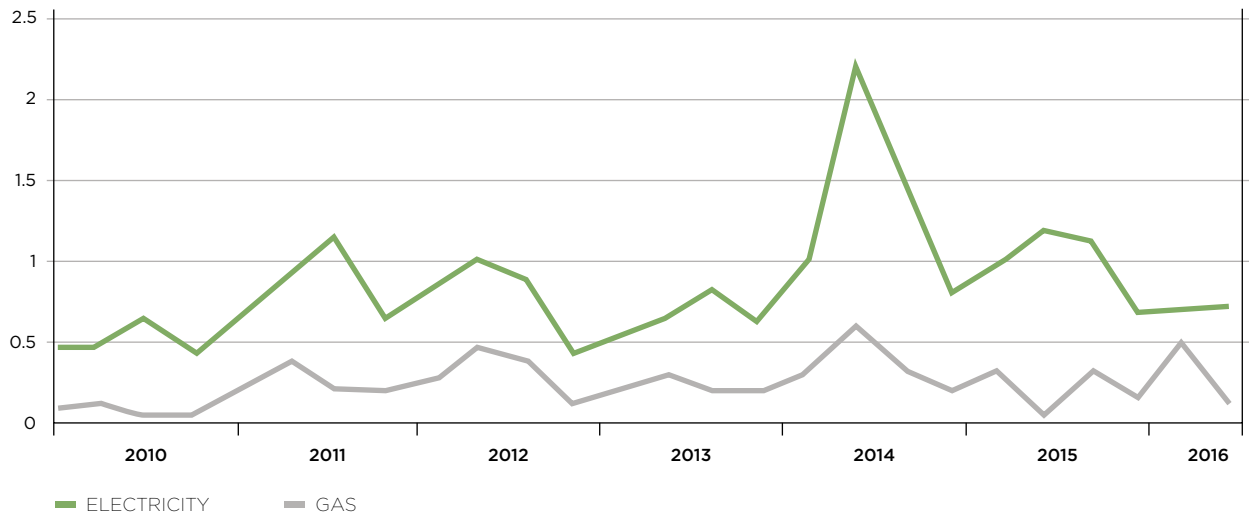
**FIGURE 8: GAS-RELATED INQUIRIES AND COMPLAINTS**



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



**FIGURE 9: ELECTRICITY AND GAS COMPLAINTS PER 10,000 ICPS**



In her narrative in the Annual Report, the Commissioner noted that the EGCC has continued the review of its processes and implemented changes. This has included setting up a six week rotation of a 'first response' team, with an awareness that time to close complaints is a concern for their members and complainants alike. Membership has continued to grow to more than 200 members, up from 82 at the end of 2014/15.

Total gas-related cases in the year ended 30 June 2016 increased slightly by 2.2 percent to 139. There were 67 gas inquiries, down from 102 in the previous year, and gas complaints increased from 63 to 72.

Dual fuel (electricity and gas) inquiries reduced from 17 to 13. However at 66, there were 12 more dual fuel complaints.

At 43.9 percent, billing was again the largest single cause of consumer issues, followed by customer service (19.6 percent), metering (9.1 percent), disconnection (5.2 percent), and supply (4.6 percent).

The gas sector continued to draw significantly fewer complaints than the electricity sector on a complaints per 10,000 ICPs basis. During 2015/16, complaints per 10,000 ICPs relating to gas averaged 0.22 per month (up on 0.20 in 2014/15), compared with an electricity sector monthly average of 0.94, which was lower than the 1.07 in the previous year.

## LPG

Gas Industry Co's jurisdiction covers consumer-facing aspects of LPG. 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 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 substantive issues that warrant regulatory intervention.



Gas is delivered throughout the North Island by 2,500km of high pressure gas transmission pipelines.

## 04 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 access, transmission pipeline balancing, transmission code changes, transmission pipeline interconnection, gas transmission security and reliability, supply/demand forecasting, and the wholesale market.

### TRANSMISSION ACCESS AND PRICING

The objective of this workstream is to ensure that transmission pipeline access arrangements transparently provide for the efficient utilisation of physical capacity and effectively signal any need for efficient investment in additional capacity.

In July 2015, Gas Industry Co published its *Analysis of Submissions on Transmission Access; Options for Improvement Paper #2*. The analysis concluded that developing a vision for converged transmission arrangements would be a valuable next step towards achieving improved gas transmission capacity access arrangements.

Since then, both the Maui and Vector transmission pipelines have been acquired by a single owner – First Gas Limited. This acquisition had occupied the previous owners, MDL and Vector, for much of the

year. However, now that First Gas has control of both pipelines, it is working with Gas Industry Co to develop and implement a single access regime. Gas Industry Co has been working with First Gas to maximise the value of previous industry efforts to 'converge' the two access codes, and to develop a process that will ensure stakeholder engagement in the development of a new replacement code. First Gas is targeting 1 October 2018 to implement that new code.

### TRANSMISSION PIPELINE BALANCING

Market-Based Balancing (MBB) was proposed by MDL in a Maui Pipeline Operating Code (MPOC) Change Request dated 10 October 2014. On 28 April 2015, Gas Industry Co issued its Final Recommendation supporting the MBB proposal, and MDL implemented MBB on 1 October 2015.

Immediately following the introduction of MBB, a significant reduction in non balancing-related trading on the emsTradePoint platform raised concerns among a number of participants. This reflected shippers being unaware of their daily balancing positions, and a flaw in the default rule applied by MDL.



The first matter is being addressed through the D+1 pilot programme, and the second matter was resolved by a change to the default rule by MDL.

Using an *Information Gathering Protocol* agreed between Gas Industry Co and market participants, Gas Industry Co has requested and received agreement to obtain a range of market data that will allow it to analyse the performance of MBB.

## TRANSMISSION CODE CHANGES

### MPOC AMENDMENT PROCESS CHANGE REQUEST (APCR)

In April 2015, Mighty River Power (MRP) proposed a change to the MPOC amendment process. In essence, the APCR proposed to replace the MPOC code change approval mechanism (where Gas Industry Co considers each proposed change and makes a recommendation on whether it should be adopted or not) with a voting-based regime, where changes would be adopted if they receive sufficient votes from MPOC parties. Broadly, the proposal aimed to align the MPOC code change processes with the code change process that had been introduced into the Vector Transmission Code (VTC) in April 2015.

In August 2015, Gas Industry Co published a Draft Recommendation which did not support the APCR, and called for submissions. Five submissions were received. Four agreed with Gas Industry Co's conclusion, and one continued to support the APCR. Gas Industry Co issued a Final Recommendation in October 2015, also not supporting the APCR.

### MPOC CHANGE OF OWNERSHIP CHANGE REQUEST (COCR)

In April 2016, Gas Industry Co received an application from MDL seeking Gas Industry Co's support of proposed amendments to the MPOC aimed at facilitating the change in ownership and operation of the Maui Pipeline.

Gas Industry Co's Draft Recommendation supported the COCR, and called for submissions. Three submissions were received, all agreeing with Gas Industry Co's conclusion, with one proposing some drafting changes. In response MDL made some changes to the COCR which Gas Industry Co considered to be minor and technical corrections, allowing it to issue a Final Recommendation supporting the COCR in May 2016. MDL sold the pipeline to First Gas in June 2016.

## TRANSMISSION PIPELINE INTERCONNECTION

Neither MDL nor Vector notified any transmission pipeline interconnections to Gas Industry Co during the year.

## GAS TRANSMISSION SECURITY AND RELIABILITY

Against a background of increasing stakeholder concerns about the accessibility of information on security and reliability (S&R) of gas transmission, Gas Industry Co published an Issues Paper in April 2016 and called for submissions. The paper:

- » introduced key gas transmission S&R concepts;
- » reviewed available security and reliability information for each transmission system, and made some observations;
- » discussed current commercial and regulatory arrangements for gas transmission that support S&R;
- » analysed what is required to achieve effective gas transmission S&R, and considered whether all of those elements are present in current New Zealand arrangements; and
- » drew some conclusions from the preceding analysis, made recommendations, and set out next steps.

In essence, the Issues Paper demonstrated that:

- » all of the arrangements were in place to provide effective S&R, including a regulatory framework defined principally by the Health and Safety at Work Act, the Commerce Act, and the Gas Act;
- » the regulatory agencies – WorkSafe NZ, the Commerce Commission and Gas Industry Co – have well-defined roles with very little overlap; and
- » pipeline owners have strong incentives – reputational, commercial and statutory – to deliver effective S&R.

However, the Issues Paper also found that:

- » arrangements that could have a bearing on S&R, such as the Commerce Commission's customised price/quality path (CPP) arrangements, and Gas Industry Co's power to recommend investment (s43F(2)(d) of the Gas Act), have never been tested;
- » arrangements for allocating capacity and balancing were under review; and
- » there is scope to improve information about how the pipelines are being managed for the long term, and the level of S&R performance and associated costs.

The eight submissions received generally supported the analysis of the Issues Paper. It was evident from the tenor of the submissions, which were mostly limited to suggestions about how First Gas could improve on the Asset Management Plans (AMPs) of the previous owners, that the Issues Paper and workshop had considerably reduced anxiety about transmission S&R.

A *Submissions Analysis Paper*, issued in July 2016, essentially restated the conclusions of the Issues Paper, with a few additions to reflect submitter suggestions.

First Gas has since discussed individual issues with submitters and held workshops on the shape of the next AMP, which it will issue in September 2016.

Gas Industry Co will continue to monitor progress.

## SUPPLY/DEMAND MODEL

Gas Industry Co initially commissioned New Zealand's first dedicated study of future gas supply and demand in 2014 as part of its Gas Transmission Investment Programme (GTIP) work. An update, including a toolset for stakeholders to model their own scenarios, was published in FY2015. The study has become a valuable information resource for stakeholders and Gas Industry Co has committed to updating the study every two years.

A third edition of *Long Term Gas Supply and Demand Scenarios* has now been commissioned. In it, Gas Industry Co's consultant, Concept Consulting Limited, will provide an analysis based on interviews with industry participants that identifies developing trends, and sets out future scenarios.

## WHOLESALE MARKET

The emsTradepoint wholesale gas market that commenced in 2013 has made a significant contribution to delivering the GPS outcome of 'efficient arrangements for the short-term trading of gas'. While Gas Industry Co is pleased with progress, it has continued to monitor activity and developments in the wholesale spot market with a particular focus on volumes and prices.

*Gas is delivered to the majority of end-users through over 17,700km of distribution networks.*

## 05 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

CCM Regulations were activated on 24 May 2016 following an outage of the Pohokura Production Station (PPS) together with smaller outages at the McKee, Kupe and Kapuni production stations. The primary causes of the critical contingency were an unplanned trip of the PPS combined with the large gas demand on the day and depleting linepack. The response by producers to the critical contingency declaration, together with the recovery of the affected production stations, meant that the system recovered without the Critical Contingency Operator (CCO) needing to curtail any consumers. The event lasted four and a half hours.

In accordance with the regulations, an Incident Report was published by the CCO on 31 May 2016. A Performance Report was published in August 2016.

Gas Industry Co appointed an industry expert to determine the Critical Contingency Price. This is the price that is applied to contingency imbalances sustained by interconnected parties and shippers during the event. The expert published its final report shortly after financial year-end.

The Incident Report and Performance Report both indicate that the CCM Regulations were generally effective in managing the 24 May critical contingency. However, feedback from industry participants at a subsequent Critical Contingency Price workshop reinforced Gas Industry Co's concern that the regulations may not necessarily result in a price that would send the appropriate signals to parties during a critical contingency event. Gas Industry Co intends to review this aspect of the regulations.

The CCO also conducted an annual exercise to test the Critical Contingency Management Plans (CCMPs) in June 2016. Although the May 2016 event meant that an exercise was not required under the regulations (an exercise needs to be instigated every 12 months unless there has been a critical contingency in that period), the CCO determined that an exercise was still necessary because consumer curtailment was not required during the event. The exercise report concluded that First Gas' CCMPs substantially comply with the regulations.

## 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.

Overall the industry has a high compliance rate and breach allegations were again predominantly associated with the Reconciliation Rules and Switching Rules.

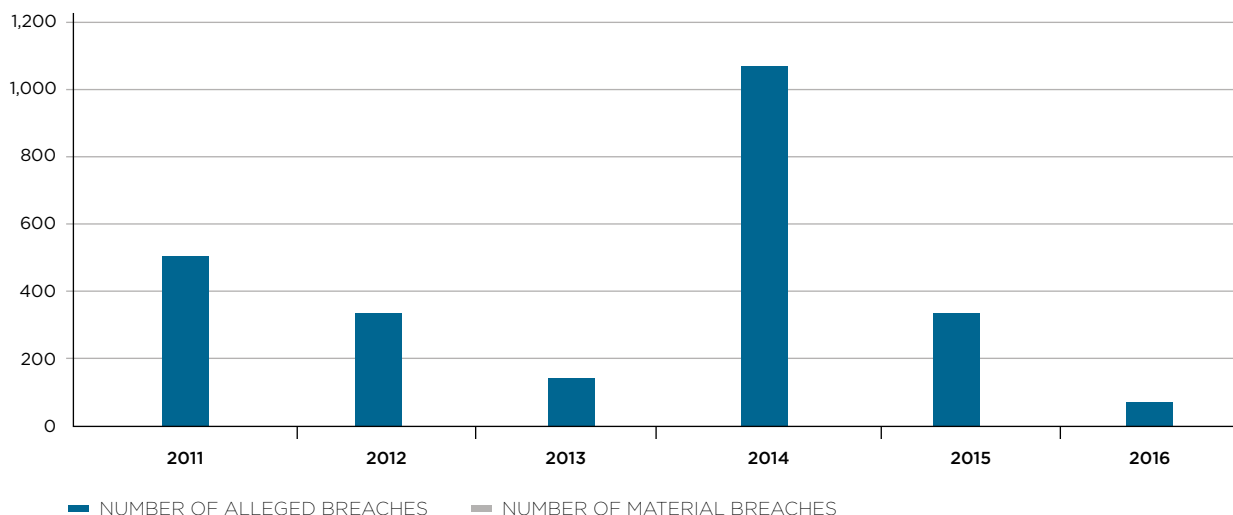
The number of breach allegations considered by Gas Industry Co in its role as the Market Administrator during 2015/16 totalled 1,192, a 49 percent decrease on the 2,356 alleged breaches referred to it in 2014/15.

Of the breach allegations considered during 2015/16, 132 breaches of the CCM Regulations and Compliance Regulations arising from non-payment of Ongoing Fees were referred to the Investigator for settlement. Those breaches stemmed from significant non-payment of wholesale levies over several years by one party, and the associated breach process is ongoing.

The decrease in breaches was expected given the change in approach to breaches of rule 37 of the Reconciliation Rules (rule 37.2 relates to the accuracy of consumption information submitted by a retailer for the initial allocation runs). Following consultation with the industry, it was decided that the difference between consumption information submitted for each allocation run would need to exceed a 200 gigajoule threshold for the Allocation Agent to allege a breach. This reduced the number of breaches that needed to be alleged by the Allocation Agent.

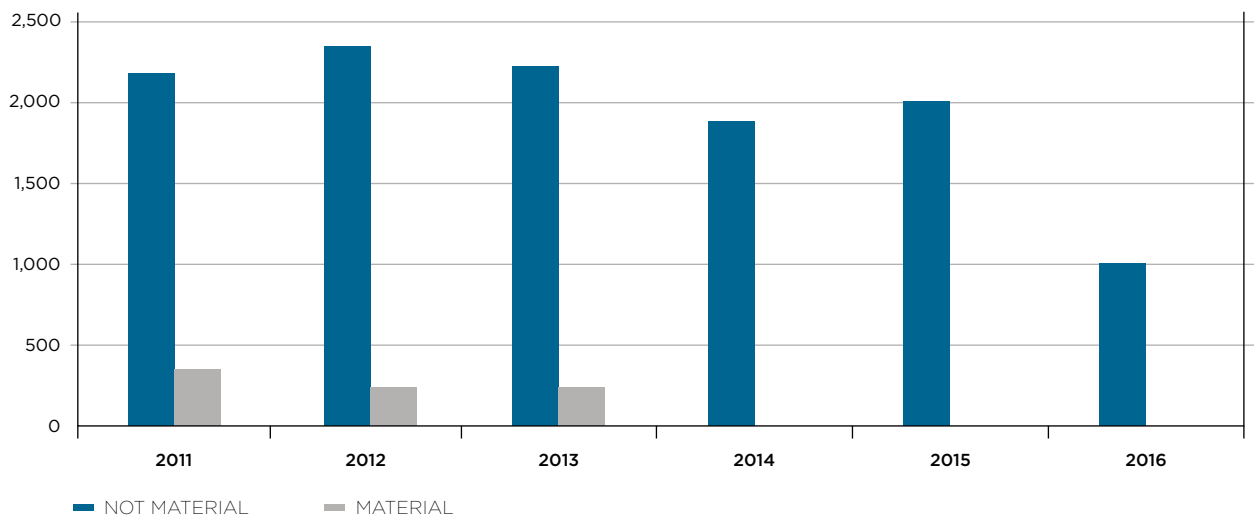
*Overall the industry has a high compliance rate, and breach allegations were again predominantly associated with the Reconciliation Rules and Switching Rules.*

**FIGURE 10: SWITCHING RULES BREACHES**



NOTES: 4 material breaches of the Switching Rules occurred in 2014  
Alleged breaches recorded by date of receipt of breach notice

**FIGURE 11: RECONCILIATION RULES BREACHES**



NOTES: Alleged breaches recorded by date of receipt of breach notice

Switching breaches are at an historic low with only 45 switching breaches received in the last financial year. Participants are now familiar with the requirements of the Switching Rules. The key risk to compliance with the Switching Rules continues to be major system change.

The number of breaches of the Reconciliation Rules is also at an historical low. However, this can be partly attributed to the change in approach to reporting breaches of rule 37 of the Reconciliation Rules referred to above. 173 of the breaches in 2015/16 were identified following an event audit for the Tauranga and Mount Maunganui gas gates commissioned by Gas Industry Co due to unusually large, and offsetting, volumes of UFG at those gas gates.

Gas Industry Co expects to conduct further audits in 2016/17 to ensure that industry participants' processes are robust and to identify any previously unreported compliance issues.

## 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 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.

The Rulings Panel approved several settlements during the first quarter of the 2015/16 financial year that resulted from routine audits of industry participants. None of the breaches gave Gas Industry Co any particular cause for concern.

The Rulings Panel was not referred any matters for determination in the 2015/16 financial year.



Increased competition has provided gas consumers with greater choice of retailer.

## 06 BUILD AND COMMUNICATE 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 (The New Zealand Gas Story)*, 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 and outcomes set out in the Gas Act and GPS.


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 2015/16, Gas Industry Co published *Consumer Energy Options in New Zealand - 2016 Update*. Prepared by Concept Consulting, this report refreshes an analysis in 2012 and provides updated and authoritative information that can be used by a range of private and public sector stakeholders in guiding consumer energy decision-making. It covers households and industrial heating, and reflects on issues for gas and LPG as carbon fuels.

Previous studies commissioned by Gas Industry Co have included:

- » *Long Term Gas Supply and Demand Scenarios*, Concept Consulting
- » *Possible Commercialisation Options for New Gas Discoveries*, Concept Consulting
- » *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





Natural gas is used in a range of community facilities including swimming pools, schools, hospitals and aged care homes.

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## 07 EFFECTIVE CO-REGULATION

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

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

Gas Industry Co is also progressing a broader corporate strategy, involving 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, 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

Gas Industry Co derives its income from wholesale and retail levies and from market fees. The Company is committed to ensuring that these levies and fees are well justified and used carefully.

Gas Industry Co conducts a detailed consultation programme between October and March annually to establish its strategic priorities for the upcoming financial year and, from that, to recommend levies to the Minister for regulatory approval.

The Company's revenue has remained much the same over recent years (Figure 12). It includes market fees, under each of the rules and regulations, to fund the administration of those 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 remains at \$5,000 per shareholder per annum. Shareholders' fees are kept aside as a contingency reserve.

## 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 beginning with the Co-regulatory Forum for stakeholders in the preceding November and concluding the following 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.

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 to actual expenditure. As shown in Figure 13, budgeted and actual expenditure has been held at similar levels in recent years and we expect this to continue in 2016/17.

In the year ended 30 June 2016, actual operating expenses were \$5,189,181, against the Statement of Intent budgeted expenses of \$5,487,220. 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 pricing during a critical contingency event. Expenses were \$5,155,841 in the previous financial year.

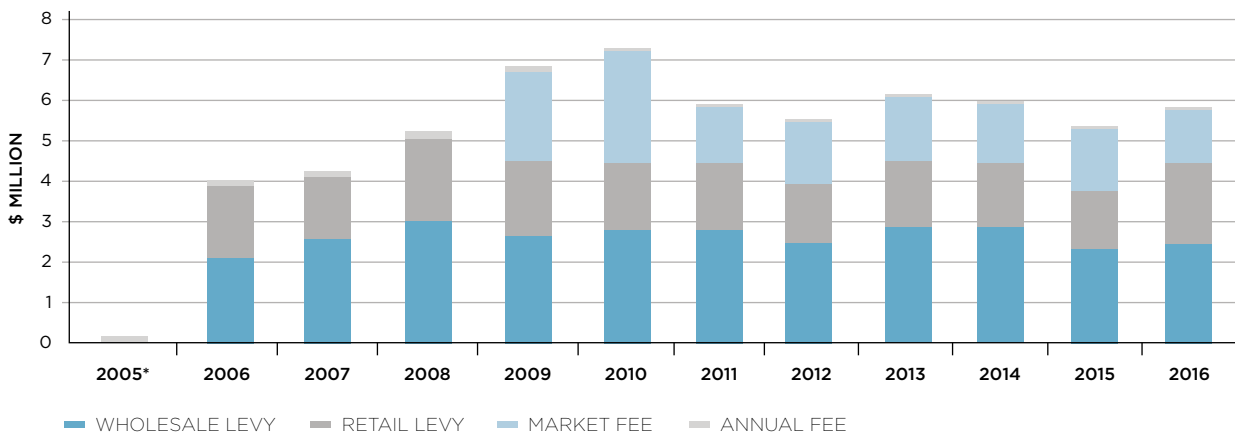
Total operating revenue of \$5,899,066 for the year ended 30 June 2016 was above the budgeted figure of \$5,581,821 and 7.6 percent above the \$5,480,340 collected in 2014/15. The higher operating revenue for FY2016 results from the collection of \$501,334 of levies that related to earlier years from one industry participant. The Board will include this amount in its consideration of any refund of surplus funds.

Gas Industry Co's equity reserve as at 30 June 2016 has two components - the Industry Advances Reserve of \$858,091 and Retained Earnings of \$650,000.

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 2015, \$220,000 of surplus FY2015 retail levies was refunded to retail levy payers, on the basis that those monies were to be diverted to fund improvements to Balancing and Peaking Pool arrangements. In March 2016, the balance of surplus levy from FY2015, \$163,568, was returned to industry participants.

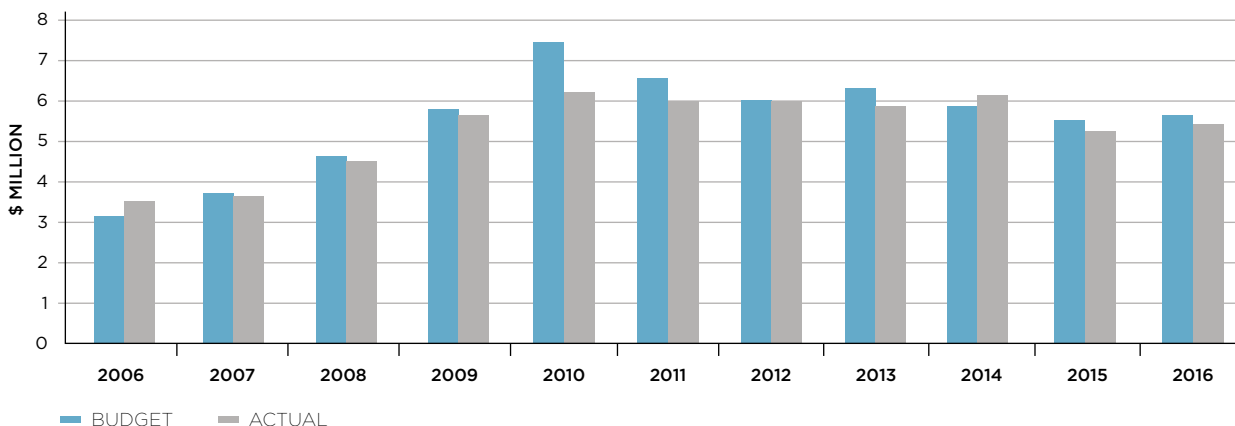
Retained Earnings are the accumulation of the shareholders' annual fees, and are set aside as a reserve against future contingencies. They do not impact on the levy calculation.

**FIGURE 12: REVENUE**



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

**FIGURE 13: OPERATING EXPENSES VS BUDGET**















*Natural gas when used directly has fewer carbon emissions than peak time electricity.*

## 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.

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.

The Company's shareholders represent sectors across the gas industry – production, transmission, distribution, wholesale, retail and consumers. There were 12 shareholders as at 30 June 2016:

CONTACT ENERGY LIMITED		METHANEX NEW ZEALAND LIMITED		OMV NEW ZEALAND LIMITED	
FIRST GAS LIMITED		MERCURY NZ LIMITED		POWERCO LIMITED	
GENESIS ENERGY LIMITED		NEW ZEALAND OIL & GAS LIMITED		SHELL NEW ZEALAND (2011) LIMITED	
GREYMOUTH GAS NEW ZEALAND LIMITED		NOVA ENERGY LIMITED		VECTOR LIMITED	

## 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 the 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 2016

**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: Mt Cook Alpine Salmon Limited

Chair: Hollow Lands Limited

Director: Te Urewera Board

Chancellor: Waikato University

**ROBIN G HILL, B Comm**

**DEPUTY CHAIR, INDEPENDENT DIRECTOR**



APPOINTED 4 NOVEMBER 2004

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

INTERESTS REGISTER

No interests relevant to Gas Industry Co

**ANDREW BROWN, LLB**

**INDEPENDENT DIRECTOR**



APPOINTED 10 JUNE 2010

Andrew Brown is a leading corporate lawyer with over 25 years' experience as a partner at Bell Gully. Since leaving Bell Gully in 2010, Mr Brown worked on his own account and as general counsel for KiwiRail. He is currently general counsel of Housing New Zealand Corporation.

INTERESTS REGISTER

No interests relevant to Gas Industry Co

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**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

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**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

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**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 (until resignation effective 11 August 2015)

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**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

Note: Andrew Knight resigned as Managing Director and Chief Executive of NZOG effective 26 August 2016.

## ALTERNATE DIRECTORS:

### STUART DICKSON

APPOINTED 22 MAY 2014

Alternate for Mr Barbour.

Officer: Powerco Limited

Chair: Gas Association of New Zealand

### CATHERINE THOMPSON

APPOINTED 3 JUNE 2014

Alternate for Mr Barnes.

Officer: Contact Energy Limited

Director: Liquegas Limited

Director: Contact Aria Limited

Director: Contact Energy Trustee Company Limited

Alternate Director: Electricity Retailers Association Incorporated

### MICHAEL WRIGHT

APPOINTED 10 JUNE 2014

Alternate for Mr Knight.

Officer: NZOG

Director/Owner: Energy Acumen Limited (currently dormant)

## 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 seven occasions during the year ended 30 June 2016.

DIRECTORS	MEETINGS ATTENDED
J Bolger	7
R Hill	6
A Brown	7
K Davis	7
N Barbour	6
D Barnes	4
A Knight	7

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

ALTERNATE DIRECTORS	MEETINGS ATTENDED
S Dickson	1
C Thompson	2
M Wright	-

## 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 2016 were:

DIRECTORS	\$
J Bolger (Chair)	93,500
R Hill (Deputy Chair)	63,360
A Brown	52,800
K Davis	52,800
N Barbour	-
D Barnes	-
A Knight	-

## 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 26 November 2015. Messrs Bolger and Davis 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 Independent Directors. No other nominations for Independent Director positions had been received by Gas Industry Co.

In his address to the meeting, the Chair discussed the impact that world-wide events had on the New Zealand gas market, and noted how certain large gas users were impacted by these events. The Chair acknowledged that the Company had dealt with some demanding issues such as market-based balancing and D+1, which led to the generation of new ideas and solutions. He commented that though a number of issues had been contested, there was a largely cooperative approach taken to resolving the issues.

On behalf of the Board, the Chair acknowledged Gas Industry Co's shareholders for the time and resources they had put in to supporting the Company, and thanked them for their continuing support.

He concluded his address by recording his view that the gas industry in New Zealand was a dynamic one, with well-developed governance arrangements supported by industry participants.

## 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 around 14 to deliver the Company's strategy and work programme.

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**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. Steve began his career as a lawyer and was a partner in a leading national law firm.

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**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.

Ian 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.

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**GLENDA MACBAIN, DipOrgPsych, DipBus, Mgmt**  
**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 2016	
\$100,001-120,000	1
\$120,001-130,000	3
\$210,001-220,000	1
\$260,001-\$270,000	1
\$460,001-\$470,000	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:

### 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. The Information Policy includes provisions for the treatment of information identified by the information provider as confidential.



## 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

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DIRECTORS' REPORT	31	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 2016.
AUDITORS REPORT	32	The Board of Directors of the Company authorised the financial statements presented on pages 33 to 44 for issue on 26 August 2016.
		On behalf of the Board:
STATEMENT OF COMPREHENSIVE REVENUE AND EXPENDITURE	33	 <b>Rt Hon James B Bolger, ONZ</b> <b>CHAIR</b> 26 August 2016
		 <b>Robin G Hill</b> <b>Deputy Chair</b> 26 August 2016
STATEMENT OF CHANGES IN EQUITY	34	
STATEMENT OF FINANCIAL POSITION	35	
STATEMENT OF CASH FLOWS	36	
NOTES TO THE FINANCIAL STATEMENTS	37	

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# AUDITOR'S REPORT

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## TO THE SHAREHOLDERS OF GAS INDUSTRY COMPANY LIMITED

We have audited the accompanying financial statements of Gas Industry Company Limited ("the company") on pages 33 to 44. The financial statements comprise the statement of financial position as at 30 June 2016, the statements of comprehensive revenue and expenses, changes in equity and cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, this report or any of the opinions we have formed.

## DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible on behalf of the company for the preparation and fair presentation of the financial statements in accordance with Tier 2 Public Benefit Entity (PBE) Reporting Standards Reduced Disclosure Regime (Not-for Profit), New Zealand equivalents to International Public Sector Accounting Standards (NZ IPSAS) and other Financial Reporting standards as appropriate for Public Benefit Entities, and for such internal control as the directors determines 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.

Our firm has also provided other assurance services to the company. The firm has no other relationship with, or interest in, the company.

## OPINION

In our opinion, the financial statements on pages 33 to 44 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 2016 and its financial performance and cash flows for the year then ended in accordance with NZ IPSAS and other Financial Reporting Standards as appropriate to Public Benefit Entities.



**26 August 2016**

**WELLINGTON**

# STATEMENT OF COMPREHENSIVE REVENUE AND EXPENDITURE

FOR THE YEAR ENDED 30 JUNE 2016

	NOTES	ACTUAL 2016 \$	BUDGET 2016 \$	ACTUAL 2015 \$
<b>REVENUE FROM EXCHANGE TRANSACTIONS</b>				
Operating income	4	5,855,523	5,546,821	5,416,656
Interest income		43,543	35,000	63,684
		5,899,066	5,581,821	5,480,340
Refunded levy income	4	(163,568)	-	(562,621)
<b>NET INCOME</b>		<b>5,735,498</b>	<b>5,581,821</b>	<b>4,917,719</b>
<b>EXPENDITURE</b>				
Operating expenditure	5	5,189,181	5,487,220	5,155,841
Finance costs		4,601	4,601	4,319
		5,193,782	5,491,821	5,160,160
<b>SURPLUS / (DEFICIT) BEFORE TAX</b>		<b>541,715</b>	<b>90,000</b>	<b>(242,441)</b>
Income tax expense	6	12,192	9,800	17,832
<b>SURPLUS / (DEFICIT) FOR THE YEAR</b>		<b>529,523</b>	<b>80,200</b>	<b>(260,273)</b>
Other comprehensive revenue and expenditure		-	-	-
<b>TOTAL COMPREHENSIVE REVENUE AND EXPENDITURE FOR THE YEAR</b>		<b>529,523</b>	<b>80,200</b>	<b>(260,273)</b>

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

	INDUSTRY RESERVES	RETAINED EARNINGS	TOTAL EQUITY	BUDGET
	\$	\$	\$	\$
BALANCE AT 1 JULY 2014	698,841	540,000	1,238,841	1,238,841
TOTAL COMPREHENSIVE REVENUE AND EXPENDITURE FOR THE YEAR				
Surplus / (Deficit) for the year	-	(260,273)	(260,273)	(393,027)
Other comprehensive revenue and expenditure	-	-	-	-
<b>TOTAL COMPREHENSIVE REVENUE AND EXPENDITURE FOR THE YEAR</b>	<b>-</b>	<b>(260,273)</b>	<b>(260,273)</b>	<b>(393,027)</b>
TRANSFER BETWEEN EQUITY RESERVES				
Industry Advances Reserve transfers	(179,053)	179,053	-	-
Industry Asset Amortisation Reserve transfers	(136,220)	136,220	-	-
<b>BALANCE AT 30 JUNE 2015</b>	<b>383,568</b>	<b>595,000</b>	<b>978,568</b>	<b>845,814</b>
BALANCE AT 1 JULY 2015	383,568	595,000	978,568	845,814
TOTAL COMPREHENSIVE REVENUE AND EXPENDITURE FOR THE YEAR				
Surplus / (Deficit) for the year	-	529,523	529,523	80,200
Other comprehensive revenue and expenditure	-	-	-	-
<b>TOTAL COMPREHENSIVE REVENUE AND EXPENDITURE FOR THE YEAR</b>	<b>-</b>	<b>529,523</b>	<b>529,523</b>	<b>80,200</b>
TRANSFER BETWEEN EQUITY RESERVES				
Industry Advances Reserve transfers	474,523	(474,523)	-	-
<b>BALANCE AT 30 JUNE 2016</b>	<b>858,091</b>	<b>650,000</b>	<b>1,508,091</b>	<b>926,014</b>

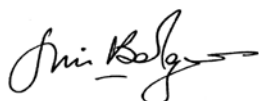
# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	NOTES	ACTUAL 2016 \$	BUDGET 2016 \$	ACTUAL 2015 \$
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	7	2,088,022	1,429,274	1,819,473
Trade and other receivables	8	400,216	71,957	22,007
Prepayments		41,234	48,352	39,591
Income tax receivable	6	-	9,800	-
<b>TOTAL CURRENT ASSETS</b>		<b>2,529,473</b>	<b>1,559,383</b>	<b>1,881,071</b>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		66,679	70,054	90,728
Intangible Assets		9,350	14,900	16,059
<b>TOTAL NON-CURRENT ASSETS</b>		<b>76,029</b>	<b>84,954</b>	<b>106,787</b>
<b>TOTAL ASSETS</b>		<b>2,605,502</b>	<b>1,644,337</b>	<b>1,987,858</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Trade and other payables	9	790,331	430,978	723,558
Asset restoration provision		43,648	43,609	39,047
Employee entitlements		263,419	243,725	246,674
Redeemable shares	11	12	11	11
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,097,410</b>	<b>718,323</b>	<b>1,009,290</b>
<b>TOTAL LIABILITIES</b>		<b>1,097,410</b>	<b>718,323</b>	<b>1,009,290</b>
<b>EQUITY</b>				
Industry Reserves	12	858,091	276,014	383,568
Retained Earnings	12	650,000	650,000	595,000
<b>TOTAL EQUITY</b>		<b>1,508,091</b>	<b>926,014</b>	<b>978,568</b>

These financial statements were authorised for issue by the signatories below on 26 August 2016.

On behalf of the board



**Rt Hon James B Bolger, ONZ**

**CHAIR**

26 August 2016



**Robin G Hill**

**Deputy Chair**

26 August 2016

The accompanying notes form an integral part of these financial statements

GAS INDUSTRY COMPANY LIMITED

# STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 30 JUNE 2016

	ACTUAL 2016 \$	BUDGET 2016 \$	ACTUAL 2015 \$
<b>OPERATING ACTIVITIES</b>			
<i>Cash was provided from</i>			
Levy revenue	4,020,302	3,916,821	3,851,099
Market fee revenue	1,712,090	1,575,000	1,364,356
Annual fees	55,000	55,000	55,000
Interest received	43,543	35,000	63,684
Net GST	7,000	-	-
	5,837,935	5,581,821	5,334,139
<i>Cash was applied to</i>			
Payments to suppliers	(3,133,544)	(3,017,426)	(2,749,537)
Payments to employees	(1,983,657)	(2,233,320)	(2,019,171)
Payments to directors	(262,460)	(282,460)	(262,460)
Refund of levy to industry participants	(163,560)	-	(544,549)
Taxes paid	(12,192)	-	(17,832)
Net GST	-	-	(15,262)
	(5,555,413)	(5,533,206)	(5,608,811)
<b>NET CASH INFLOWS FROM OPERATING ACTIVITIES</b>	<b>282,522</b>	<b>48,615</b>	<b>(274,672)</b>
<b>INVESTING ACTIVITIES</b>			
<i>Cash was applied to</i>			
Purchase of property, plant and equipment	(13,973)	(24,000)	(28,555)
Purchase of intangible assets	-	-	(16,321)
<b>NET CASH OUTFLOWS FROM INVESTING ACTIVITIES</b>	<b>(13,973)</b>	<b>(24,000)</b>	<b>(44,876)</b>
Net increase/ (decrease) in cash and cash equivalents	268,549	24,615	(319,548)
<b>OPENING CASH AND CASH EQUIVALENTS</b>	<b>1,819,473</b>	<b>1,404,659</b>	<b>2,139,021</b>
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	<b>2,088,022</b>	<b>1,429,274</b>	<b>1,819,473</b>

The accompanying notes form an integral part of these financial statements

GAS INDUSTRY COMPANY LIMITED

# NOTES TO THE FINANCIAL STATEMENTS

## 1. REPORTING ENTITY

These financial statements comprise the financial statements of Gas Industry Company Limited (the 'Company') for the year ended 30 June 2016.

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.

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 and Resources 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 2016.

## 2. BASIS OF PREPARATION

### (A) STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP'). They comply with the PBE Accounting Standards as appropriate for Tier 2 not-for-profit public benefit entities. The Company is a Tier 2 reporting entity as it has total expenditure of less than \$30 million in the two preceding reporting periods and is not publicly accountable. All available exemptions under Tier 2 Reduced Disclosure Requirements have been applied.

### (B) BASIS OF MEASUREMENT

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

### (C) PRESENTATION CURRENCY

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

### (D) BUDGET FIGURES

The budget figures are approved by the Board of Directors in line with Company's Statement of Intent. 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.

### (E) JUDGMENTS AND ESTIMATIONS

The preparation of financial statements in conformity with *PBE Accounting Standards* 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.

### (F) CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Company has adopted the *PBE Accounting Standards* as appropriate for Tier 2 not-for-profit public benefit entities. This has resulted in a reduction in disclosures, however there has been no impact on comparatives or Statement of Comprehensive Revenue and Expenditure.

Comparatives have been reclassified from that reported in the 30 June 2015 financial statements where appropriate to ensure consistency with the presentation of the current year's financial position, performance and cash flows.

## 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) INTANGIBLE ASSETS

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 Rules and Switching and Registry Rules.

## (D) 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.

## (E) 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 rate of pays.

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.

## (F) 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.

## (G) REVENUE FROM EXCHANGE TRANSACTIONS

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 Revenue and Expenditure.

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.

## (H) REVENUE FROM NON-EXCHANGE TRANSACTIONS

Non-exchange transactions are those where the Company receives value from another entity (eg: cash or other assets) without giving approximately equal value in exchange. During the year no non-exchange transactions were entered into.

## (I) INCOME TAX

Taxation expense in the Statement of Comprehensive Revenue and Expenditure 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 surplus' for the year, which differ from the surplus 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.



#### (J) 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.

#### (K) RESERVES / EQUITY POLICY

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

### 4. OPERATING INCOME

	ACTUAL 2016 \$	ACTUAL 2015 \$
Wholesale levy revenue	2,449,569	2,371,755
Retail levy revenue	1,884,654	1,457,115
Market fee revenue	1,466,300	1,532,786
Annual fees	55,000	55,000
<b>TOTAL OPERATING INCOME</b>	<b>5,855,523</b>	<b>5,416,656</b>
Refunded levy income	(163,568)	(562,621)

Pursuant to established policy, the Board resolved to return to levy payers over-recovered levy revenue from previous financial years. Wholesale levy revenue in FY2016 includes the recovery of levies from prior years in the sum of \$501,334.

### 5. OPERATING EXPENDITURE

	ACTUAL 2016 \$	ACTUAL 2015 \$
Depreciation & amortisation	44,730	185,788
Operating lease expenses	303,123	305,028
Fees paid to audit firm – financial statement audit	14,593	14,543
Fees paid to audit firm – other services	12,290	-
Accounting and taxation advice	-	-
Directors' fees	262,460	265,460
General expenses	403,844	248,301
Bad debts / (bad debts recovered)	(6,325)	(46,579)
Recruitment expenses	50,198	-
Technical, economic, and legal advice	770,399	669,746
Service provider fees	1,338,467	1,486,137
Kiwisaver contributions	44,049	46,300
Foreign exchange loss / (gain)	-	-
Employee benefit expense	1,951,353	1,981,117
<b>TOTAL OPERATING EXPENDITURE</b>	<b>5,189,181</b>	<b>5,155,841</b>

## 6. INCOME TAX

	ACTUAL 2016 \$	ACTUAL 2015 \$
(A) INCOME TAX EXPENSE		
Current year income tax expense	12,192	17,832
Deferred tax movement	-	-
<b>TOTAL INCOME TAX EXPENSE</b>	<b>12,192</b>	<b>17,832</b>
(B) RECONCILIATION OF CURRENT YEAR INCOME TAX EXPENSE		
Surplus / (Deficit) for the year	541,715	(242,441)
Income tax expense at 28 percent	151,680	(67,883)
Permanent differences	(139,488)	85,715
Timing differences	-	-
<b>CURRENT YEAR INCOME TAX EXPENSE</b>	<b>12,192</b>	<b>17,832</b>
(C) INCOME TAX RECEIVABLE		
Opening balance	-	-
Tax refunds received	-	-
Current year income tax expense	(12,192)	(17,832)
Income tax paid	12,192	17,832
<b>CLOSING BALANCE</b>	<b>-</b>	<b>-</b>

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

## 7. CASH AND CASH EQUIVALENTS

	ACTUAL 2016 \$	ACTUAL 2015 \$
Bank account	996	997
Interest bearing account	2,086,526	1,817,976
Petty cash	500	500
<b>TOTAL</b>	<b>2,088,022</b>	<b>1,819,473</b>

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 2016 \$	ACTUAL 2015 \$
Levy debtors	396,240	11,730
Other receivables	3,976	10,277
<b>TOTAL</b>	<b>400,216</b>	<b>22,007</b>

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 2016 \$	ACTUAL 2015 \$
Accounts payable	295,980	423,086
Accrued expenses	415,468	296,592
GST payable	78,883	3,880
<b>TOTAL</b>	<b>790,331</b>	<b>723,558</b>

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. 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 2016 \$	ACTUAL 2015 \$
<b>SALARIES AND OTHER SHORT-TERM EMPLOYEE BENEFITS</b>	<b>1,112,801</b>	<b>1,114,685</b>

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

The above includes remuneration of \$262,460 (30 June 2015: \$265,460) paid to the directors for the year.

## 11. REDEEMABLE SHARES

	ACTUAL 2016	ACTUAL 2015
	\$	\$
Redeemable shares - Value in dollars	12	11
Redeemable shares - Number	12	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.

## 12. RESERVES AND RETAINED EARNINGS

	ACTUAL 2016	ACTUAL 2015
	\$	\$
Industry Advances Reserve	858,091	383,568
Retained earnings	650,000	595,000
<b>TOTAL EQUITY RESERVES</b>	<b>1,508,091</b>	<b>978,568</b>

### (A) INDUSTRY ADVANCES RESERVE

	ACTUAL 2016	ACTUAL 2015
	\$	\$
Opening balance	383,568	562,621
Transfer from retained earnings	474,523	(179,053)
<b>CLOSING BALANCE</b>	<b>858,091</b>	<b>383,568</b>

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

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

Section 43ZZC(3) of the Gas Act provides that any over- or under-recoveries can be taken into account in setting the levy in subsequent financial years. However, to ensure transparency around the calculation of each year's levy, the Board has determined that, unless required for unanticipated, ongoing work programme costs, any surplus should be returned to levy payers by way of refund once the year-end accounts have been received by shareholders at the Annual 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 2016 \$	ACTUAL 2015 \$
Opening balance	-	136,220
Transfer from retained earnings	-	(136,220)
<b>CLOSING BALANCE</b>	<b>-</b>	<b>-</b>

The Industry Asset Amortisation Reserve represented capital items purchased with market fees recognised as an asset and amortised over their economic life. The amortisation was completed in the FY2015 financial year.

## (C) RETAINED EARNINGS

	ACTUAL 2016 \$	ACTUAL 2015 \$
Opening balance	595,000	540,000
Surplus / (Deficit) for the year	529,523	(260,273)
Transfer to Industry Advances Reserve	(474,523)	179,053
Transfer to Industry Asset Amortisation Reserve	-	136,220
<b>CLOSING BALANCE</b>	<b>650,000</b>	<b>595,000</b>

## 13. CONTINGENCIES

As at 30 June 2016, the Company has no contingent liabilities (2015: Nil). There is an arrangement with Westpac New Zealand Limited whereby Gas Industry Company has a business facility (limit \$100,000) and a payroll Letter of Credit facility (limit \$180,000).

## 14. COMMITMENTS

### (A) CAPITAL COMMITMENTS

The Company has no material capital commitments (2015: Nil)

### (B) OPERATING LEASE COMMITMENTS

	ACTUAL 2016 \$	ACTUAL 2015 \$
<i>Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:</i>		
Within one year	303,123	268,776
Later than one year but not later than five years	114,852	380,766
Later than five years	-	-
<b>TOTAL</b>	<b>417,975</b>	<b>649,542</b>

(C) SERVICE PROVIDER COMMITMENTS

	ACTUAL 2016	ACTUAL 2015
	\$	\$
<i>Service provider agreements for the Downstream Reconciliation Rules, Switching and Registry Rules, and Critical Contingency Management Regulations payable as follows:</i>		
Within one year	1,199,153	1,132,813
Later than one year but not later than five years	1,612,496	2,369,380
Later than five years	-	-
<b>TOTAL</b>	<b>2,811,649</b>	<b>3,502,193</b>

15. RECONCILIATION OF SURPLUS TO NET CASH INFLOWS FROM OPERATING ACTIVITIES

	ACTUAL 2016	ACTUAL 2015
	\$	\$
Surplus / (Deficit) for the year	529,523	(260,273)
<i>Non cash items</i>		
Depreciation and amortisation expense	44,730	185,788
Unwind of discount factor on restoration provision	4,601	4,319
<i>Impact of changes in working capital items</i>		
Prepayments	(1,643)	25,665
Trade and Other Payables	(7,567)	(235,879)
Employee entitlements	16,745	6,318
Trade and Other Receivables	(384,510)	32,436
GST payable	75,003	(27,603)
Income tax receivable	5,640	(5,443)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>282,522</b>	<b>(274,672)</b>

16. SUBSEQUENT EVENTS

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

## GLOSSARY

ALLOCATION AGENT	Appointed pursuant to the Reconciliation Rules to apportion downstream gas quantities and allocate daily gas quantities to retailers. The Allocation Agent is currently Energy Market Services (EMS)
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
D+1	The day-after delivery (D+1) allocation methodology for downstream reconciliation processes
DISTRIBUTION SCHEME	Gas Distribution Contracts Oversight Scheme
EGCC	Electricity and Gas Complaints Commissioner
GAS ACT	Gas Act 1992
GAS REGISTRY	The customer switching platform which facilitates customer switching between retailers and provides a database of information about consumer installations. The Gas Registry Operator is currently Jade Software Corporation (NZ) Limited
GJ	Gigajoule (10 <sup>9</sup> joules). The average residential gas consumption is 23 GJ/year
GPS	Government Policy Statement on Gas Governance (April 2008)
ICP	Installation Control Point
MBB	Market-Based Balancing
MDL	Maui Development Limited
MINISTER	The Minister of Energy and Resources (unless indicated otherwise)
MPOC	Maui Pipeline Operating Code
PEPANZ	Petroleum Exploration and Production Association of New Zealand
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
UFG	Unaccounted-for gas
VTC	Vector Transmission Code

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