

GAS INDUSTRY COMPANY LIMITED

2019/2020 Annual Report



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The Gas Industry Company Limited (Gas Industry Co) was approved in 2004 as the industry body under Part 4A of the Gas Act 1992 (Gas Act).

Our role as the industry body 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 objectives are:

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

Governance arrangements overseen by Gas Industry Co

Gas Industry Co oversees various arrangements for the downstream gas industry.

Regulatory arrangements made under the Gas Act include:

- » Gas (Switching Arrangements) Rules 2008 (Switching Rules), which provide for a central registry of Installation Control Point (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.

Industry arrangements include:

- » Retail Gas Contracts Oversight Scheme.
- » Gas Distribution Contracts Oversight 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.

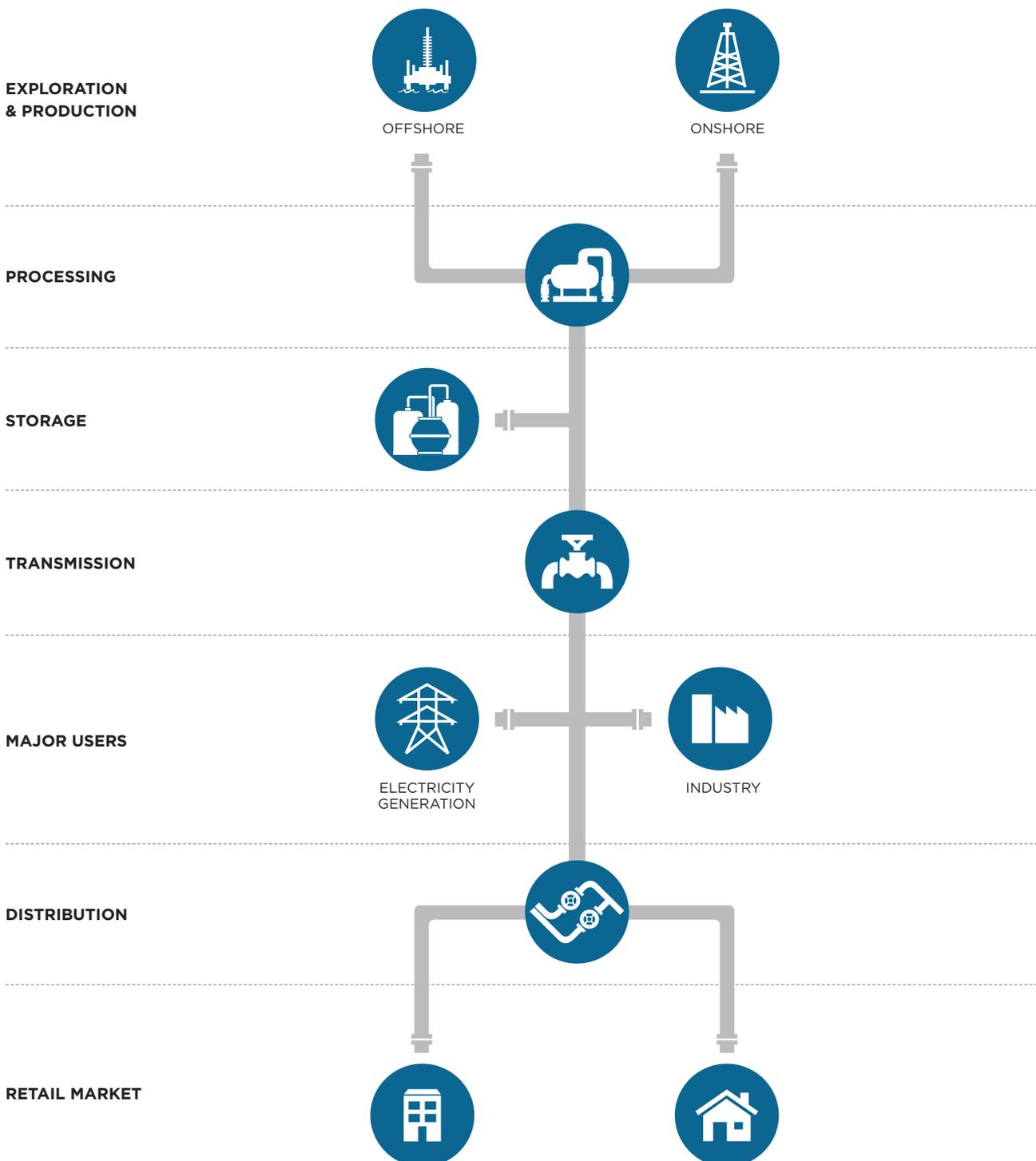
The ongoing effectiveness of these arrangements is monitored and reviewed. This is both at a high level, through a set of industry performance measures, and at a detailed level, through audits and daily monitoring. Highlights of the Performance Measures Report for the quarter ended 30 June 2020 are found on page 6.

Publications referred to in this Annual Report can be found on our website www.gasindustry.co.nz

Structure of the New Zealand gas industry

The New Zealand gas industry can be divided into two main sectors.

The upstream sector, comprising gas exploration and production as well as some aspects of gas processing, is governed primarily through the Crown Minerals Act 1991 and administered by the Ministry of Business, Innovation and Employment. The downstream sector, over which Gas Industry Co has regulatory oversight, includes some aspects of gas processing, transmission, distribution and consumers (including major users supplied from the transmission system, and retail users supplied from distribution networks).



CHAPTER 1

Chair's foreword

The gas industry is responding to a environment that is evolving rapidly. The move to renewables, changes in technology, and changing consumer preferences all have related impacts on gas producers, users, and industry regulation.

Climate change is demanding a faster transition to renewables and, in New Zealand particularly, away from thermal fuel sources. New electricity technologies, such as electric vehicles and photovoltaic solar panels, are transforming consumer preferences. Energy markets tomorrow will be different from today.

Any transition brings costs and benefits. Making a success of change requires us to be proactive in our responses to the social and economic issues that will be raised.

Gas Industry Company is a partner alongside the government and industry, working to prepare for a future that is already unfolding today. As co-regulators, we can help to secure the most efficient and practical outcomes, minimise disruption and help with the complex planning tasks ahead.

We see changes to the gas market having an impact differently in the long term compared to the near-term challenges.

Long term demand for gas is affected by changes to the wider economy. The Tiwai smelter will close. NZ Refining is reducing its operations at Marsden Point. Other major energy users will transition to renewable energy sooner rather than later.

Gas is today partially substituting for coal in some use cases, such as peak electricity supply. While the global gas market is forecast to be stable for decades, as gas generation takes over from coal to meet growing global demand, in New Zealand lower-carbon energy sources will substitute for gas.

On the supply side, lower global oil prices and changes in exploration permitting have caused upstream investment to fall below levels required to replenish gas reserves.

Overall, the long-term demand and supply outlook has started to decline. As a result, we are seeing a tightening in gas supply with an impact on prices, affecting industrial and commercial consumers.

The gas industry's stakeholders expect this outlook to be managed well, supporting the transition with a balance of stable, reliable, and cost-effective supply.

The energy transition is only one part of the social and economic changes that will occur, but Gas Industry Company's role is to facilitate regulatory settings that support the transition and the gas industry's role in making the wider energy system reliable and efficient. We are working with Government and industry stakeholders to make improvements. These are outlined in the Chief Executive's review and work programme details in this report.



One item in our work programme we have begun is a report on the role of gas in a renewables-rich future. This work will scope the options for supporting security in electricity supply. A draft report is planned for release for stakeholder consultation in early 2021.

Gas Industry Company is also stepping up on new energy technology. Work is underway on hydrogen and the potential for a 'green gas' certification system. A trusted certification scheme could provide incentives to invest in green-gas technologies such as hydrogen and biofuels if it is designed well.

After the Government released its green paper last September, Gas Industry Company has monitored potential use of hydrogen in transmission and distribution pipelines. Trials are in their early days of development, but we have been engaging with the industry about how we could support hydrogen-gas blends in pipeline networks.

Gas Industry Company has been taking a wider look at the implications of hydrogen for the industry and our own potential role, and we intend to review arrangements in other international jurisdictions.

We move into the coming year's work programme after a year made extraordinary for the industry, the country, and the world by the COVID-19 pandemic.

On behalf of the company, I would like to thank the industry for its engagement and diligence in supporting Gas Industry Company during our role as Sector Coordinating Entity. This role required us to collect and assess information as issues emerged and provide support to the Ministry of Business, Innovation and Employment (MBIE), including advice about risks to the gas industry from the pandemic. Daily updates to MBIE informed its reporting and assisted with cross-sector planning for critical infrastructure.

Gas Industry Company liaised extensively with gas industry participants and stakeholders during the pandemic. We continue to provide support to MBIE.

The gas sector has made significant steps towards returning to normal operations and I am confident it will continue to work constructively together and with the government to ensure security of supply as the pandemic response enters its new phase.

ACKNOWLEDGEMENTS

I would like to close by acknowledging the commitment of individuals who contributed to Gas Industry Company's progress this year.

First, my fellow Directors brought high standards of governance and considerable expertise to their consideration of the matters that come before us. We also mourned our former colleague, Keith Davis, who stood down from the board last November and subsequently passed on.

I would like to thank the staff of Gas Industry Company and their chief executive, Andrew Knight, for their smooth and efficient performance, the delivery of the annual work programme, and the successful outcomes.

The ongoing support of Gas Industry Company's shareholders for our strategy, work, and funding is very welcome. I am grateful that the Board enjoys that confidence and support as we progress through the new financial year.



Rt Hon James B Bolger, ONZ

CHAIR

STATEMENT OF INTENT PRIORITIES FOR 2020/2021

- » Continue work on the Information Disclosure statement of proposal process and on its completion begin work required to deliver its proposed solutions. Work will also continue with MBIE and the Electricity Authority on issues that sit across those agencies.
- » Work with the industry to gain an understanding as to whether a gas supply efficiency review would be beneficial. Work will be undertaken in FY2021 to commission such a review.
- » Continue to provide support to industry participants and wider stakeholders to aid effective implementation of the new single gas transmission access code (GTAC). Gas Industry Co will monitor the new arrangements to ensure they are performing as expected.
- » Continue the pilot project for D+1 allocations and explore the potential to develop a formal system and implement rule changes prior to GTAC go-live.
- » Encourage further improvements to the notification of gas quality excursions and procedures for managing gas quality incidents and with a view to further update the Gas Quality Requirements and Procedures document.
- » Liaise with the Electricity Authority and other government agencies to understand their response to the recommendations in the Electricity Price Review, and consider whether the recommendations should result in changes to the existing gas governance arrangements, or if new arrangements should be introduced. Make recommendations to the Minister where appropriate on the proposed changes under the empowering provisions in the Gas Act.
- » Continue to work closely with stakeholders during the roll out of advanced gas metering to ensure industry rules, protocols and systems remain fit for purpose.
- » Monitor the progress of any work undertaken by the industry that investigates the potential use of hydrogen in both transmission and distribution pipelines. Gas Industry Co also intends to review arrangements in other international jurisdictions and if required, update any rules and regulations.
- » Keep a watching brief on new and emerging technologies and address any specific requests from the Minister accordingly.
- » Monitor activity and developments in the wholesale market with a focus on the market's role as the source of volume and pricing for transmission balancing.
- » Provide support to Consumer NZ's Powerswitch to ensure the continued existence of an independent, credible source of information for consumers.
- » Review the CCM Regulations to ensure that there are no gaps or inconsistencies in how critical contingency events are managed. Consult with stakeholders and develop proposals to address other matters, such as the critical contingency price methodology.

CHAPTER 2

Chief Executive's review

As the gas industry addresses important issues for the future, Gas Industry Co's priority is focused on both the potential pathways forward, as well as our governance and facilitation roles to meet our underlying statutory responsibility – to ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner.

Like the Chairman above, I would also like to thank our stakeholders and industry participants for their valued contribution, support, and engagement, and for diligently providing us with information during our role as the Sector Coordinating Entity on COVID-related matters. The industry coming together and co-operating during these challenging times is a welcome confirmation of the strong relationship that exists between Gas Industry Co and its stakeholders. The industry and in particular those who work in front line roles, stood up to the COVID-19 uncertainty and challenges and they should be proud of their efforts to ensure customers continue to be able to enjoy using gas.

During this challenging time, Gas Industry Co has also remained focused on delivering on its key work programmes.

In May 2020, Gas Industry Co released its Analysis of Submissions and Next Steps paper in response to the October 2019 consultation paper: Information Disclosure: Problem Assessment (Problem Assessment paper). Several possible information areas or 'information elements' where we considered there could be information transparency or asymmetry issues were identified in the Problem Assessment paper.

We are progressing our work on the three main issues which were explored in the Problem Assessment paper and are currently developing a Statement of Proposal (SOP) for gas production and storage facility outage information disclosure. The SOP will review both industry-led and regulatory options for improving the level of this information. One of these options is the industry code, 'Upstream Gas Outage Information Disclosure Code 2020', which came into effect in late June. Gas Industry Co is also conducting further work on the major gas user outage and bilateral gas contract average price information elements.

I would like to acknowledge the significant engagement from upstream gas producers, gas storage owners, Flex Gas, and the Petroleum Exploration and Production Association of New Zealand (PEPANZ) who have collaborated and put in place a new information disclosure regime in respect of planned and unplanned outages of gas production and gas storage facilities.



Gas Industry Co has an obligation to ensure that good information about the gas industry is available. In that regard, we began producing a series of gas production and consumption charts that shows gas output from most major fields, as well as the consumption of gas by several large users. This information is publicly available on our website which we update three times a week.

To add to that suite of information, recently we have also expanded our information portal to include gas storage information showing the stock injections, withdrawals, and closing balance for the Ahuroa Gas Storage Facility in Taranaki.

In May 2020, we released the 'Statement of Proposal for amending the Critical Contingency Management Regulations' for consultation. The purpose of the CCM Regulations is to achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply.

The CCM Regulations underwent extensive review and were amended after the October 2011 Maui pipeline outage. Since then, the industry experienced further events and exercises which identified that aspects of the CCM Regulations could be further improved. A number of external elements also led to a need to review the CCM Regulations, including potential amendments to the penalty provisions in the Gas Act 1992 and the anticipated implementation of the GTAC. At the time of writing, the consultation had received eleven submissions. A statement of proposal will be the first step in amending the CCM Regulations. We will shortly be preparing a summary of submissions and will then determine whether we have enough information to proceed to the next step of preparing our recommendation to the Minister.

Gas Industry Co oversees various arrangements for the downstream gas industry and the ongoing effectiveness of these arrangements is monitored and reviewed through a set of industry performance measures.

The industry's performance metrics also remain strong. Market arrangements facilitate efficient consumer switching between retailers. Nearly 4,000 gas consumers switch gas supplier each month, representing an annual churn of about 16 percent of gas consumers. Gas customers can switch retailers for many reasons, but this high level of activity in the retail gas market suggests that customers find changing retailer easy and can put pressure on retailers to offer competitive terms and pricing.

The amount of time taken to complete a consumer switch has shortened significantly. Over 70 percent of customer switches are now completed within three business days of the switch being requested by the new retailer. The consumer gas market is generally competitive with over 99 percent of gas customers connected to a gas gate where seven or more retailers trade.

We have initiated forward looking work to inform the industry and government as they assess options and transition plans for energy supply. Collaboration between the industry and Government can ensure security of supply is maintained whilst the economy and societal changes are undertaken to meet our climate change objectives.

As ever, our work programme in the year ahead is designed to meet our statutory obligations as the industry body under the Gas Act, and to address Government and industry priorities. It focuses on the efficient administration of governance arrangements currently in place, progressing new or ongoing project commitments, and facilitating further forward-looking discussions by the industry on how it sees its future and anticipating associated issues. Gas Industry Co will continue to ensure consumer outcomes will take a strong role in our considerations. An increasingly overt consumer consideration is required to reflect the implicit social contract between the industry and our society.

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

Nga mihi nui,



Andrew Knight
CHIEF EXECUTIVE

UPDATES FROM THE INDUSTRY PERFORMANCE MEASURES REPORT¹

- » As a result of the COVID-19 Alert Level 4 lockdown, switching activity in April 2020 fell to the lowest level since the Switching Rules commenced in 2009. By June it had recovered to pre-lockdown levels.
- » There are 12 distinct retail brands operating in the natural gas market, owned by 10 parent companies.
- » In the past 12 months, there have been about 3,400 not withdrawn switches completed per month, which translates to an annual churn rate of 14.2 percent.
- » Over 75 percent of consumer switches are completed within three business days; 97 percent are completed within seven business days.
- » Over 99.8 percent of gas customers are connected to a gate where seven or more retailers trade, suggesting that the gas retail sector is generally 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.
- » Gas volumes traded and settled through emsTradePoint continue to climb. In the 12 months to June 2020, 9.4PJ was settled through the market at an average price of \$10/GJ.

¹ With reference to Gas Industry Co's Performance Measures Report 30 June 2020

KEY WORK PROGRAMME ACHIEVEMENTS FOR FY2020 ²		
ACTIVITY	PRIORITIES SET FOR 2019/2020	OUTCOMES FOR 2019/2020
GAS SECTOR INFORMATION DISCLOSURE	Identify whether an issue with information disclosure in the gas sector exists, and if so, whether a non-regulated solution is feasible, or regulation is required. Gas Industry Co will prepare and consult on a statement of proposal.	<p>The information disclosure workstream was established in August 2018. As part of that workstream we are considering whether current market arrangements related to information disclosure in the sector are sufficient or whether further arrangements are required.</p> <p>Gas Industry Co released the Options Paper for Information Disclosure (Options paper) for consultation in March 2019. This was followed in October 2019 by a Problem Assessment paper which reviewed several information elements identified in the Options paper process. Nineteen submissions and 11 cross-submissions were received on this paper. Gas Industry Co published a submissions analysis in May 2020, which also identified next steps in the information disclosure workstream.</p> <p>The Electricity Authority and Gas Industry Co have agreed that the thermal generators' fuel information element should be progressed by the Authority. The Authority has been working on a consultation paper on the matter, supported by Gas Industry Co. The paper went out for consultation in July.</p> <p>Upstream gas producers and Flex Gas have developed an industry-led Upstream Gas Outage Information Disclosure Code ('Upstream Gas Outage Information Disclosure Code 2020'). Parties have been posting outage notifications on the Code since June. Gas Industry Co will evaluate this Code along with other possible industry-led and regulatory options in a statement of proposal on gas production and storage facility outage information.</p> <p>We have developed the first stage of an information portal on our website. The portal currently includes gas production and major user consumption charts and monthly Ahuroa storage information.</p>
CRITICAL CONTINGENCY MANAGEMENT	<p>Review the CCM Regulations in light of the GTAC to ensure that there are no gaps or inconsistencies in how critical contingency events are managed.</p> <p>Consult with stakeholders and develop proposals to address other matters that potentially need updating, such as the critical contingency price methodology.</p>	Gas Industry Co developed a statement of proposal to amend the CCM Regulations during 2019/2020. The document proposed a number of updates that reflected an anticipated set of new transmission arrangements and potential amendments to the penalty provisions in the Gas Act 1992. The document also proposed several improvements that had been highlighted from experience with the regulations and feedback on events and exercises. This document was released for consultation in May 2020. Eleven submissions were received.
SUPPLY AND DEMAND STUDY	Develop an updated edition of the long-term gas supply and demand scenarios to assist industry strategy and investment.	Gas Industry Co commissioned Concept Consulting to produce the 2019 edition of the report which was released in September 2019. This edition included an increased emphasis on gas supply issues.

² With reference to objectives in the FY2020-22 Statement of Intent

KEY WORK PROGRAMME ACHIEVEMENTS FOR FY2020²		
ACTIVITY	PRIORITIES SET FOR 2019/2020	OUTCOMES FOR 2019/2020
GAS QUALITY	Oversee industry-led work on gas quality and consider whether further action is required arising from the Gas Quality Requirements and Procedures document at the conclusion of the GTAC.	In anticipation of the GTAC replacing the MPOC and VTC, we have updated the Gas Quality Requirements and Procedures document, including seeking and considering stakeholder comments on the updated document. The document provides an overview of the legal framework and technical standards that govern gas quality and describes how industry participants meet their obligations.
TRANSMISSION ACCESS	Provide support for industry participants and wider stakeholders during the implementation of the new single gas transmission access code.	Gas Industry Co continued to monitor First Gas's development of the IT system to support the GTAC. We have been proactive in reviewing and updating documentation in anticipation of the GTAC coming into force (for example, Gas Measurement Requirements and Procedures and guidelines on Gas Industry Co's role in GTAC change requests).
DOWNSTREAM RECONCILIATION	Continue running the D+1 pilot scheme and make any refinements to its calculations and operation that are required to improve accuracy and reliability.	The D+1 pilot has been operating successfully since December 2015. The Alert Level 4 lockdown created challenges for the estimation model due to the unpredictable shift in gas demand and lack of access to meter data. Nevertheless, improvements implemented during the year have increased the overall accuracy and reliability of the model.

CHAPTER 3

Promoting efficient, competitive and confident gas markets

Gas Industry Co develops, monitors and oversees governance arrangements designed to ensure that 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.

Information disclosure

In August 2018, Gas Industry Co established the information disclosure workstream to address potential information issues relating to information availability in the wholesale gas sector. As part of the workstream we are considering whether current market arrangements related to information disclosure in the sector are sufficient or whether further arrangements are required.

Gas Industry Co released the Options for Information Disclosure in the Wholesale Gas Sector consultation paper (Options paper) in March 2019. This paper discussed various information matters and identified several possible information areas or 'information elements' where there may be problems with information transparency and asymmetry. From the consultation process we distilled 10 distinct information elements to carry forward to a formal problem assessment phase.

These elements were the focus of the Information Disclosure: Problem Assessment consultation paper (Problem Assessment paper), released in October 2019. This paper assessed these elements against the Government's policy objectives for the gas sector. We received 19 submissions and 11 cross-submissions on the Problem Assessment paper from a wide range of parties spanning the New Zealand energy sector.

Based on the Problem Assessment process, Gas Industry Co is progressing further work in the following three areas:

- » Statement of proposal (SOP) for gas production and storage facility outage information disclosure. The SOP will review both industry-led and regulatory options for improving the level of this information that is disclosed publicly.
- » Follow-up paper on major gas user outage information. This paper will explore issues in further detail with the aim of reaching a conclusion on the matter.
- » Bilateral gas contract average price and volume information. This paper will assess whether weighted average gas prices and volumes will give a better understanding of the drivers of the wholesale gas price, and if not, what other solutions may be more suitable.

Information on thermal electricity generators' gas positions was a further information element reviewed in the Problem Assessment paper. Gas Industry Co and the Electricity Authority (the Authority) agreed that this issue should be progressed by the Authority. The Authority and Gas Industry Co have been working together closely on this issue. The Authority released a consultation paper reviewing thermal fuel information disclosure in the electricity wholesale market ('Wholesale Market Information Disclosure: Review of Thermal Fuel Information Disclosure') in July.

Upstream gas producers, gas storage owners and the Petroleum Exploration and Production Association of New Zealand (Upstream Parties) have developed an industry-led Upstream Gas Outage Information Disclosure Code. Parties have been posting outage notifications on the Code since June. Gas Industry Co will evaluate this Code along with other possible industry-led and regulatory options in the SOP.

We are continuing to develop an information portal on our website. The intention is that this will be a one-stop place for parties to access publicly available gas sector information. Information on the portal currently includes gas production and major user consumption charts and monthly Ahuroa storage information. The latter information, provided by Flex Gas, has been included following interest expressed by submitters during the Options paper process.

Downstream reconciliation

The Reconciliation Rules have improved market efficiency through a process for reconciling volumes of gas leaving the high pressure transmission system with volumes consumed by end-users, and attributing those volumes, plus any unaccounted-for-gas (UFG), to the relevant retailers. The enforceability of the Reconciliation Rules, and the transparency that they bring to the process of gas reconciliation, have contributed to greater accuracy in the process and lower UFG amounts.

In volume terms, UFG has decreased dramatically since 2009, when UFG was about 600,000 GJ per year. In the 12 months to March 2020 (the most recent interim data as at the time of publication), UFG was about 370,000 GJ, which represented about 1.1 percent of allocated gas consumption (using interim and final allocation data) (Figure 1).

Gas Industry Co has continued to run a pilot of the D+1 gas allocation process over the course of the year. D+1 provides parties with daily allocation information for the previous business day (hence 'D+1'). Shippers use D+1 allocation information, together with information on cash-outs from First Gas, to manage their respective balancing positions. First Gas uses the daily allocations as an input into its daily Balancing and Peaking Pool (BPP) process, which calculates shipper running mismatch positions and applies any cash-outs arising from imbalances under the Market-Based Balancing (MBB) arrangements. Gas gate level information is also used by First Gas to calculate transmission charges for shippers.

FIGURE 1: ANNUAL UNACCOUNTED-FOR GAS

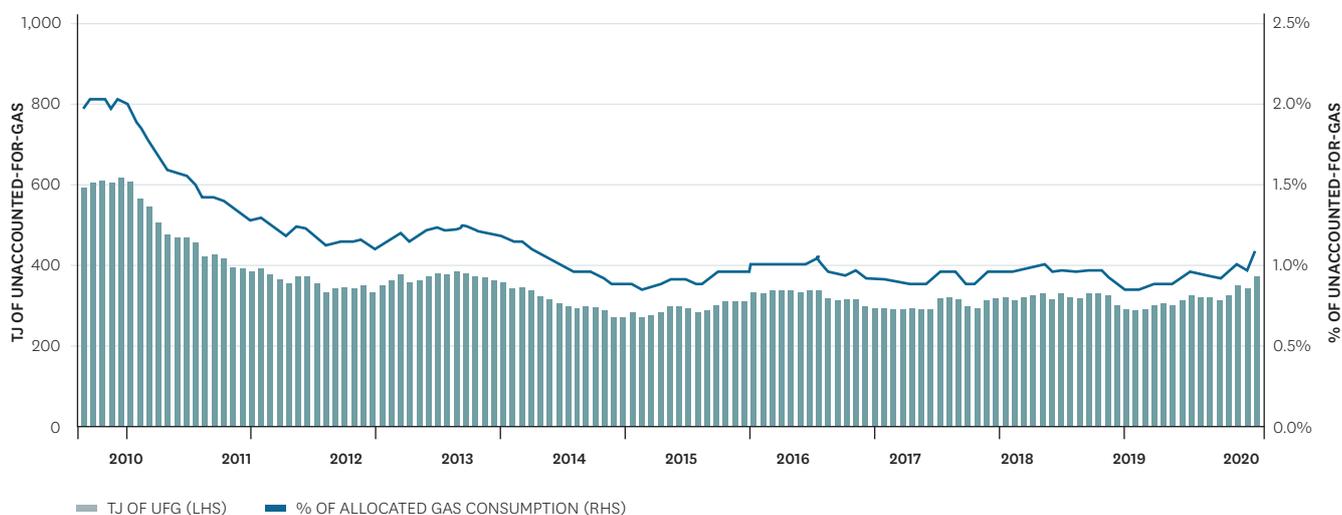
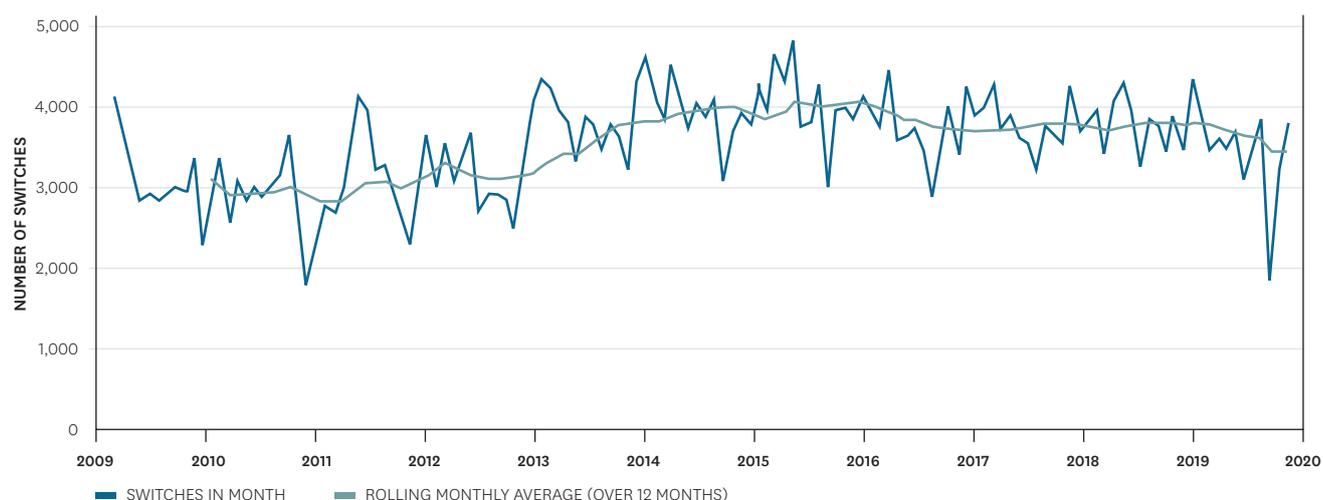


FIGURE 2: CUSTOMER SWITCHES



First Gas's development of its GTAC has affected the D+1 pilot timeline since changes to the transmission access regime will affect the need for, and shape of, daily allocation information. While the original intention was to wait until GTAC was bedded in before making a decision on codifying D+1, Gas Industry Co now intends to explore the potential to make rule changes before the GTAC goes live. In the meantime, the D+1 pilot phase will continue and Gas Industry Co will continue to refine and improve the model to ensure a smooth transition to a production model if required.

Customer switching

The Switching Rules enable customers to choose, and efficiently alternate between, competing retailers. The gas registry stores key information about every customer installation and facilitates and monitors each customer switch, from initiation through to completion. A high level of switching activity in a retail market suggests customers find changing retailers easy, which can put pressure on retailers to offer competitive terms and pricing.

Switching in FY2020 largely continued the trend of previous years, with a relatively high level of activity in the retail market (Figure 2). However, as a result of the COVID-19 Alert Level 4 lockdown, switching activity in April 2020 fell to the lowest level since the Switching Rules commenced in 2009. By June, it had recovered to its pre-lockdown levels. A total of 40,955 switches occurred during the year, averaging approximately 3,400 per month, for an annual churn rate of 14.1 percent.

Prior to the gas registry, it is estimated there were about 1,000 customer switches a month. Since 2013, switching rates have been relatively stable, with churn rates of at least 15 percent.

Prior to the gas registry, switching was a manual process that could take days or weeks. Once the gas registry went live in February 2009, average switching times dropped to about ten business days (Figure 3). In FY2020, the 12-month average switching time was 2.1 business days. Faster switching times are a benefit to consumers, as they make switching to a preferred retailer easier.

The Herfindahl-Hirschmann Index (HHI), which measures market concentration using the size and number of competing retailers, shows a significant and continuous reduction in market concentration since 2009 (Figure 4). HHI scores can range 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 HHI for the retail gas market has decreased in all regions since 2009, indicating that the market is becoming less concentrated across the North Island. Nationally, the HHI stands at 2,023, in comparison to 3,033 in February 2009 (the start of the gas registry).

Gas quality

Gas quality is important for a safe and reliable supply of gas. It concerns the composition of the gas, its odorization and the pressure it is delivered at. The legal responsibility for these matters sits primarily with gas wholesalers and retailers who contract with gas producers and transporters to ensure the quality of gas delivered to their customers.

The legal framework, technical standards and industry practices in relation to gas quality are described in a Gas Quality Requirements and Procedures document maintained by Gas Industry Co. The anticipated introduction of the GTAC, which determines the gas quality provisions in a number of related contracts, prompted us to update the document in October 2019.

FIGURE 3: SWITCH LENGTH

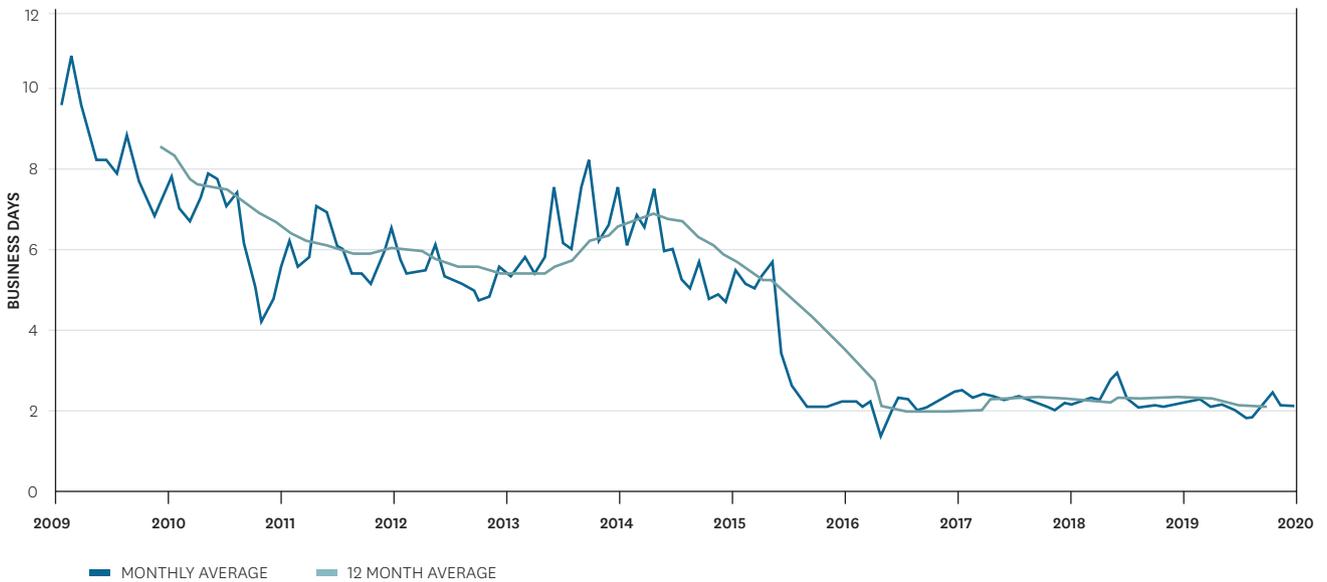
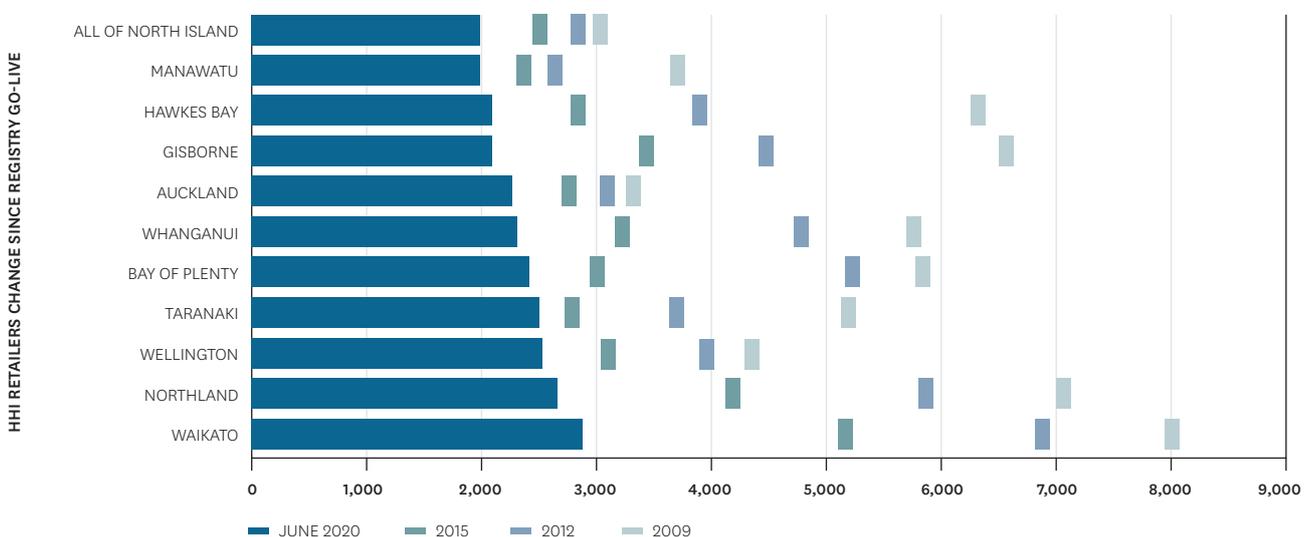


FIGURE 4: REGIONAL HHI



Contract oversight schemes

Two non-regulated contract oversight schemes are administered by Gas Industry Co: one covering retailers' standard contractual arrangements with small consumers (Retail Scheme); and one on distributors' standard contracts with retailers (Distribution Scheme).

The Retail Scheme was introduced in 2010 to contribute to the GPS outcome 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 a score of 'moderate' to 'substantial'.

In light of that improvement, significant 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.

Further reviews of retail contracts against the benchmarks and Reasonable Consumer Expectations (introduced following a review of the Scheme in 2013) were undertaken in 2015 and 2018.

The overall alignment of all published gas supply arrangements against the benchmarks in the 2018 assessment is 'Substantial'. While this is the same level of alignment as was achieved in 2012 and 2015, the 2018 result is stronger than the 2015 result with all arrangements assessed having substantial overall alignment, as illustrated by the following comparison of the arrangements assessed in the 2011 transitional assessment and the full assessments in 2012 and 2015:

OVERALL ALIGNMENT	2018	2015	2012	2011
Full	-	-	-	-
Substantial	9	9	6	3
Moderate	-	1	3	4
Low	-	-	1	3
TOTAL	9	10	10	10

Gas Industry Co acknowledges the high level of engagement by retailers in the 2018 retail assessment. We will conduct a further assessment in FY2022.

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 significantly revised their contracts and the second, and most recent, independent assessment in 2014 found their contracts exhibited Substantial alignment with the principles.

The Distribution Scheme provides that contracts would be reviewed on an exceptions basis (as contracts are revised or replaced). Gas Industry Co recently surveyed distributors to determine whether changes had been made to standard terms to justify a further assessment of those terms. Based on responses, Gas Industry Co determined that a further assessment is not required at this point in time. In FY2021 we will follow up with retailers and distributors on their progress on moving to individual agreements consistent with the standard terms.

Consumer complaints scheme

Gas consumers have an effective, free and independent service through Utilities Disputes for resolving complaints about electricity and gas providers.

Pursuant to a GPS requirement for such a service, Utilities Disputes (previously known as the Office of the Electricity and Gas Complaints Commissioner) was approved as the consumer complaints resolution scheme for the electricity and gas industries in 2010.

Utilities Disputes received a spike in enquiries during and post the COVID-19 Alert Level 4 lockdown period. This was significantly helped by providers increasing customer support as a response to COVID-19 with a range of options to reduce confusion and hardship.

In its recent Annual Report, Utilities Disputes recorded a total of 6,968 electricity and gas cases – 448 more than the 6,520 number of inquiries and complaints in 2018/19. The most common energy complaint issues were about billing, customer service, meters, disconnections, and supply.

Gas Industry Co continues to liaise closely with Utilities Disputes, the Electricity Authority and the Ministry of Business, Innovation and Employment (MBIE) on issues relevant to consumers.

Liquefied petroleum gas

In September 2018, Gas Industry Co published a paper on the review of the retail LPG market. The paper canvassed the relevant characteristics of the retail LPG market, including market shares and price competition with other fuels, and assesses whether there are barriers to LPG competition. While there are economies of scale in the provision of LPG and costs of entry, the LPG industry has evolved ways to rationalise the LPG delivery infrastructure, potentially allowing competition by retailers who would otherwise be unable to compete in the market. The paper did not identify any barriers to entry in the LPG market or other aspects of the LPG market that would warrant regulatory intervention.

Gas Industry Co is currently reviewing its role in relation to the LPG market, including working alongside MBIE to ensure that the regulatory framework is appropriate, expanding our data set in relation to LPG pipeline infrastructure, and ensuring that we have an effective engagement model so we can identify and respond to any current or potential LPG issues if required.

Wholesale market

The emsTradePoint wholesale gas market is an online platform established in 2013 that enables the anonymous trading of natural gas and provides a mechanism for price discovery for its members. It also provides a clearing and settlement service for gas trades that are made off the market. Since its inception, annual volumes of gas traded on emsTradePoint have increased more than 700 percent.

In addition to trades executed via the market there have been substantial volumes of gas traded via brokered arrangements and reported through the market. Figure 5 shows volumes of market trades, off-market trades, and total trades by month.

Figure 6 shows monthly volume-weighted average prices, as well as the minimum and maximum prices for trades during the month.

In the past 24 months, trade volumes have varied between 53 to 965 TJ per month; and at prices ranging from \$0.10 to \$38.25 per GJ. Trade volumes fell sharply in April 2020, coinciding with the COVID-19 Alert Level 4 lockdown.

FIGURE 5

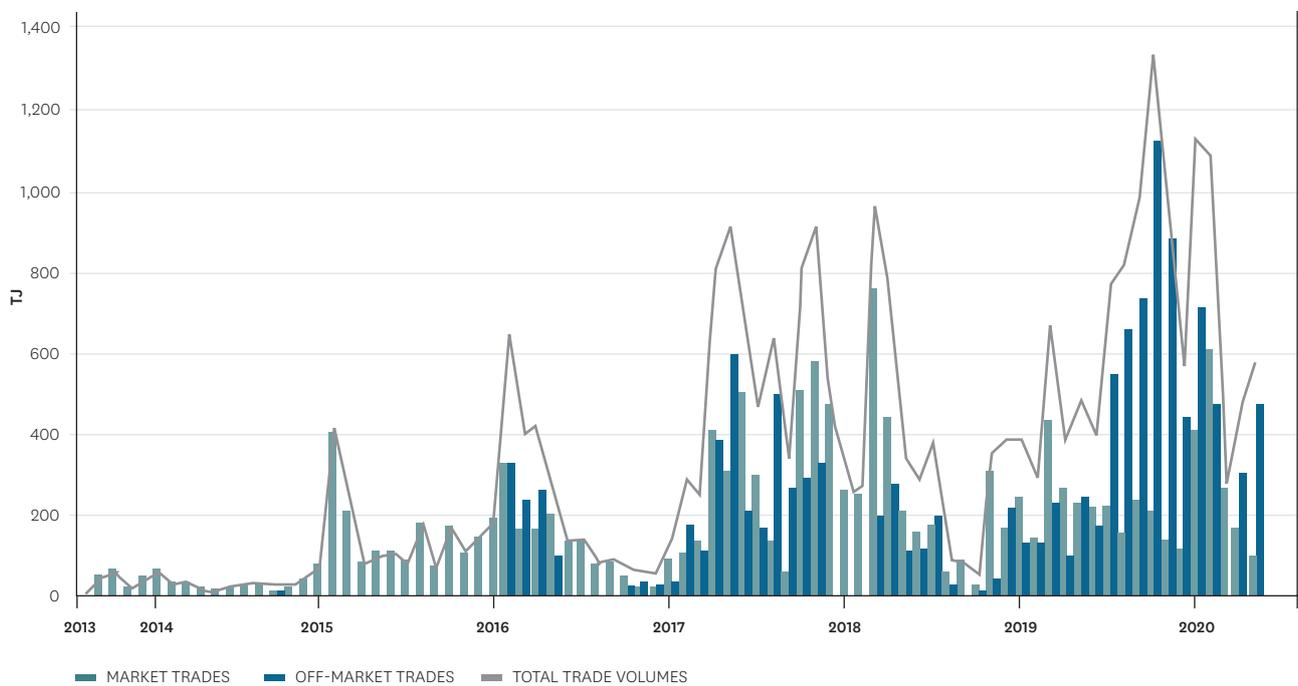
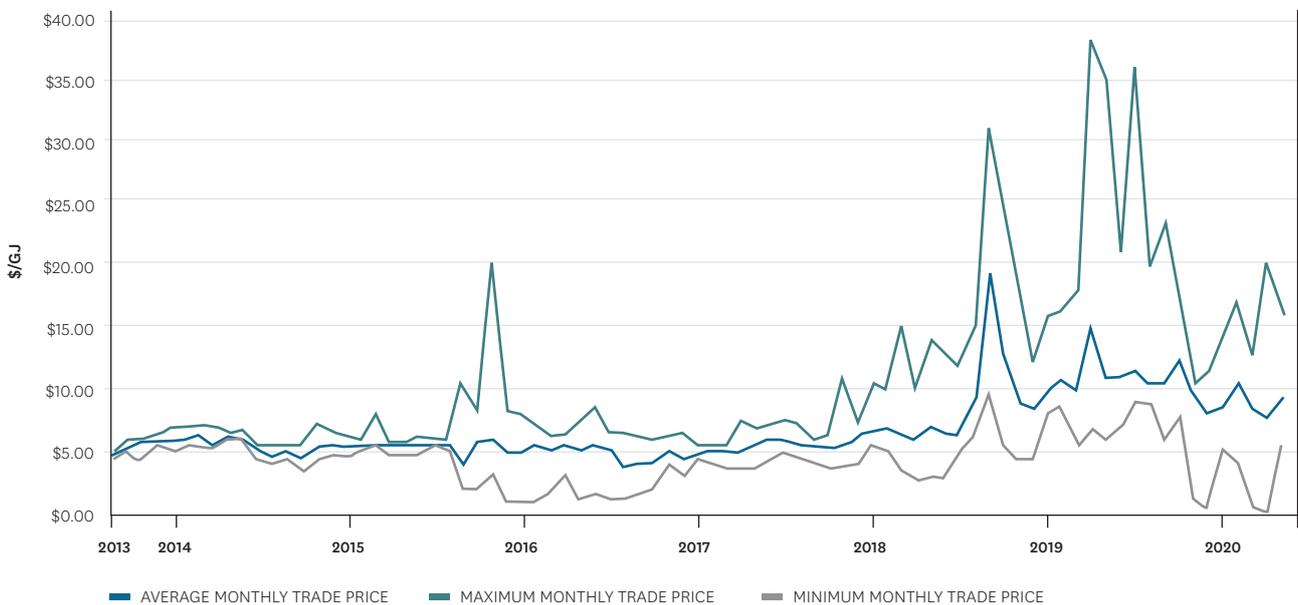


FIGURE 6



CHAPTER 4

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 encompasses transmission access, transmission pipeline balancing, transmission code changes, transmission pipeline interconnection, and gas transmission security and reliability.

Transmission access arrangements

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. Since 2016, when First Gas became owner of the open access transmission systems, it has worked to replace the two existing access regimes – the Maui Pipeline Operating Code (MPOC) and the Vector Transmission Code (VTC) – with a single new regime, the Gas Transmission Access Code (GTAC).

To allow for the introduction of the GTAC, contracts incorporating the terms of the VTC and MPOC must first be terminated. VTC contracts can be terminated at the end of a notice period, but MPOC contracts can only be terminated when certain conditions are met. One such condition requires Gas Industry Co to assess the proposed substitute arrangements, such as the GTAC, and determine that they are materially better than the current terms and conditions of access, having regard to the Gas Act and GPS objectives. That condition was satisfied in February 2019 through Gas Industry Co's Final Assessment Paper.

Since February 2019, First Gas has worked with IT contractors and stakeholders to prepare for the launch of the GTAC. The development of the supporting IT system has proven particularly challenging. First Gas has indicated that the commencement date for the GTAC will be no earlier than October 2021.

While we wait for the outcome of the development of the IT system, we have been proactive in reviewing and updating documentation in anticipation of the GTAC coming into force (for example Gas Measurement Requirements and Procedures and guidelines on Gas Industry Co's role in GTAC change requests).

CHAPTER 5

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 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 the introduction of governance arrangements. Gas Industry Co monitors and periodically reviews these arrangements to ensure their ongoing relevance and effectiveness.

Critical contingency management

There were no critical contingencies during the financial year.

Annual industry exercise

The CCO conducted its annual industry exercise, named Exercise Hohoro, on 6 May 2020. Exercise Hohoro occurred during COVID-19 Level 3 restrictions which meant most participants responded to the exercise from their homes. The exercise simulated a scenario where third-party damage by an excavator caused a significant escape of gas to the First Gas North Pipeline at Pukekawa, north of Huntly. The scenario led to the Auckland and Northland sections of the transmission system losing gas supply and demand being curtailed by affected customers in bands 0 to 4.

The exercise provided an opportunity for parties to practice their responses to a critical contingency event, thereby enhancing their knowledge and competency for responding to an actual event. The exercise tested the core critical contingency phases and information flows associated with an event, such as declaration, demand curtailment, and public information statements.

The CCO’s exercise report concludes that:

- » First Gas’s critical contingency management plan (CCMP) complies with regulation 25 and is effective in achieving the purpose of the regulations; and
- » The CCMP substantially contains the contact details required by regulation 25 and they are current (however, it was noted that further work is required to manage and maintain these contact details); and
- » The exercise provided only limited evidence that the emergency contact details maintained by retailers (as required by regulation 43) are current.

The exercise report makes a number of recommendations to ensure that required procedures during a critical contingency are able to be carried out as efficiently as possible. Recommendations are also made to improve the level of confidence that the lists of emergency contact details maintained by both the Transmission System Operator (TSO) and all retailers are current.

Gas Industry Co is currently addressing these recommendations in its review of the CCM Regulations.

CCM Regulations review

The purpose of the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations) is to achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply.

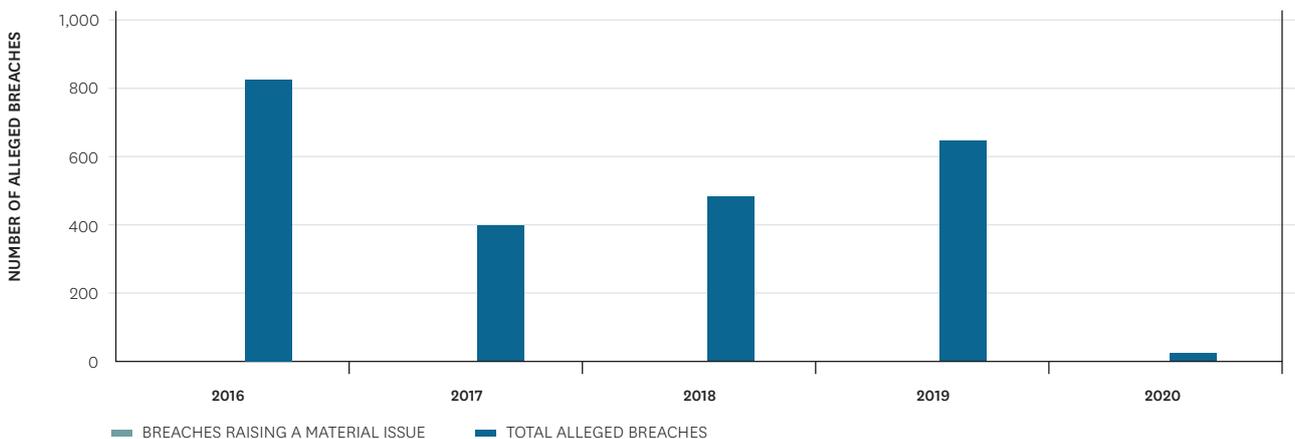
The CCM Regulations underwent extensive review and were amended after the October 2011 Maui pipeline outage. Since then, the industry has experienced further events and exercises which have identified aspects of the CCM Regulations that could be improved. There have also been external elements, including potential amendments to the penalty provisions in the Gas Act 1992 and the anticipated implementation of a single transmission access arrangement, that has led to the need to amend the CCM Regulations.

Gas Industry Co released a consultation paper ‘Statement of Proposal for amending the Critical Contingency Management Regulations’ in May 2020. The document proposed amendments intended to increase the efficiency and effectiveness of the CCM Regulations. The proposals relate to a number of elements of the CCM Regulations, including:

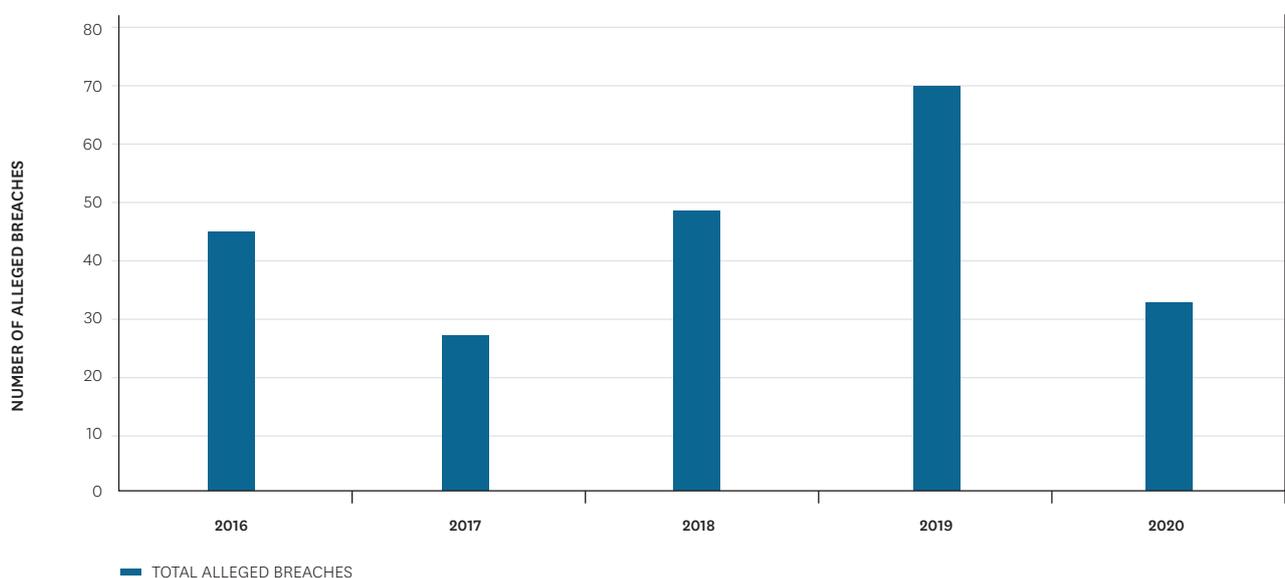
- » Critical contingency price setting methodology
- » Compliance regulations and offence provisions
- » Curtailment band definitions and curtailment instructions
- » Information provided to CCO
- » Critical contingency management plans
- » Critical care and essential services designations
- » Critical contingency threshold limits
- » Asset owner information obligations
- » Definition of publish
- » Minor amendments to clarify meanings and update drafting

A statement of proposal is the first step in amending the CCM Regulations. Gas Industry Co received 11 submissions on its consultation document and is currently preparing a summary of these before determining whether it has enough information to proceed to the next step; preparing a recommendation to the Minister.

FIGURE 7: ALLEGED BREACHES OF THE RECONCILIATION RULES



Note: Alleged breaches are recorded by the date of receipt of the breach notice.

FIGURE 8: ALLEGED BREACHES OF SWITCHING RULES

Note: Alleged breaches are recorded by the date of receipt of the breach notice

Compliance

Gas Industry Co performs the role of Market Administrator under the Compliance Regulations, which provides 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 total breaches considered by Gas Industry Co in its role as the Market Administrator during financial year 2019/20 totalled 50, compared to 722 alleged breaches referred to it in financial year 2018/19 (Figure 7). The substantial reduction in alleged breaches arises from changes to the reporting of alleged breaches of rule 37 of the Reconciliation Rules introduced in mid-2019. The Market Administrator amended its guidelines for reporting of alleged breaches of the Reconciliation Rules to no longer require mandatory reporting of alleged breaches of rule 37. Changes to industry processes means that the 'harm' that retailers associate with breaches of rule 37 no longer exists.

Switching breaches are at low levels (Figure 8). 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 or issues associated with retailers' IT systems.

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.

No matters were referred to investigation or the Rulings Panel during the 2019/20 financial year.

CHAPTER 6

Building and communicating the New Zealand gas story

Gas Industry Co is required by the GPS to ensure that good information is publicly available about the performance and present state of the gas sector.

Long Term Gas Supply and Demand Scenarios Report

The 2019 edition of the Long Term Gas Supply and Demand Scenarios report was released in September 2019. This is the fourth edition of the report commissioned by Gas Industry Co from independent expert Concept Consulting Group (Concept). The report explores gas supply and demand scenarios over the period to 2050.

The 2019 edition of the report updates forecasts of New Zealand's gas reserves over the long term. Two key factors driving the 2019 update are the changing gas supply situation (through limited exploration in recent times and changes to exploration policy), and the implications of New Zealand's response to climate change.

Gas in a renewables rich future

Gas Industry Co is commencing a study that aims to understand the role of gas in enabling a renewables rich future and supporting the secure supply of electricity over the next 10 years.

The New Zealand electricity sector is undergoing a transition of increased renewable generation and shifting load patterns driven by the economics of cheaper renewable generation and a motivation to reduce carbon emissions. The existing studies of this transition include a recurring message that gas is a vital enabler of the renewables rich world of the future by providing dry-year and intra-day peaking generation. But there is little understanding of how the gas industry will carry out this role, particularly as the demand for gas changes. Gas industry Co is interested to understand whether there may be issues with gas availability and electricity security of supply over the next 10 years.

The New Zealand Gas Story

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.

An updated edition is expected to be released in FY2021 and will be made available on Gas Industry Co's website.

Other reporting

Other regular reports produced by Gas Industry Co include quarterly reports to the Minister, quarterly performance reports, and monthly switching reports, all of which are published on our website. These documents continue to fulfil the requirements to report regularly on the present state and performance of the industry.

Earlier this year, Gas Industry Co developed an Information Portal for the industry and interested stakeholders. In January this year, we published gas production and consumption charts which shows gas output from most major fields, and the consumption of gas by several large users. We update these charts three times a week and are available on our website.

Additionally, our Information Portal has been expanded further to include information sourced from First Gas on gas storage showing stock injections, withdrawals and closing balance for the Ahuroa Gas Storage Facility.

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 and through presentations to industry and public conferences and seminars.

CHAPTER 7

Effective co-regulation

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 Government and stakeholders to develop recommendations on governance arrangements that meet the objectives of the Gas Act and the GPS.

Our oversight encompasses the gas wholesale and retail markets, processing facilities, and the transmission and distribution sectors of the industry.

Stakeholder relations

Gas Industry Co works closely with other regulatory bodies, including the Ministry of Business, Innovation and Employment, and the Commerce Commission, whose responsibilities also encompass the gas industry. We regularly maintain 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, Gas Association New Zealand, and Utilities Disputes.

The industry has been experiencing challenging and transformational times. Facilitating industry engagement and debate is an important function for the effective operation of the unique co-regulatory model. Gas Industry Co conducts annual Co-regulatory Forums to discuss the forthcoming year's work programme, upon which the levy is calculated. We continue to convene workshops to engage with the industry on particular issues arising from ongoing workstream activity.

Funding

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

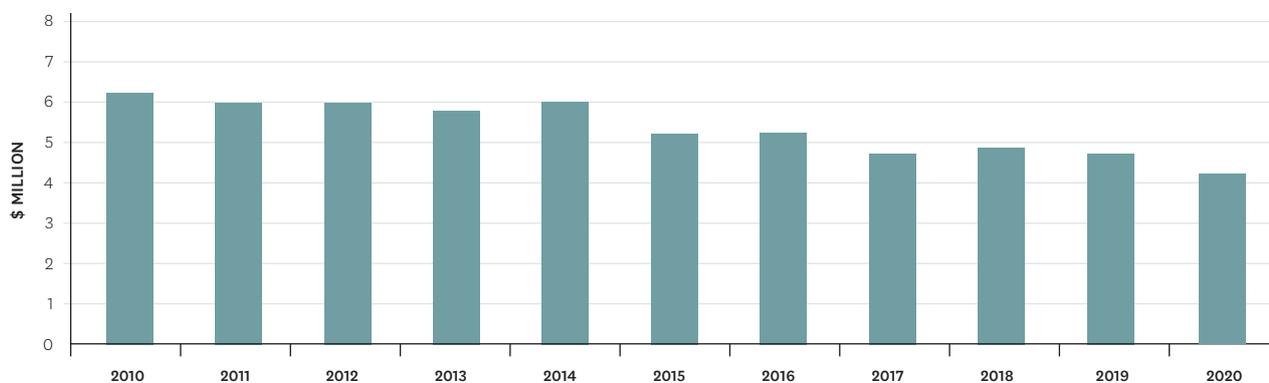
We conduct a detailed consultation programme annually between October and March to establish the strategic priorities for the upcoming financial year and, from that, to recommend levies to the Minister for regulatory approval.

Gas Industry Co's revenue has remained much the same over recent years (Figure 9). 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 Gas Industry Co's policy and market administration work.

Gas Industry Co's constitution enables the Board to charge shareholders an annual fee. At its November 2016 meeting, the Board approved reducing the annual fee for the FY2017 year and onwards to \$2,000 per shareholder per annum. Shareholders' fees are kept aside as a contingency reserve.

FIGURE 9: REVENUE



FIGURE 10: OPERATING EXPENSES

Expenditure

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 Gas Industry Co 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, our financial performance is meaningfully measured by reviewing actual expenditure. As shown in Figure 10, actual expenditure has been held at similar levels in recent years and we expect this to continue in 2020/21.

In the year ended 30 June 2020, operating expenses were \$4,268,023, against the Statement of Intent budgeted expenses of \$5,226,739. This reflects the deferral of costs in relation to some significant workstreams and the undertaking of other work without the use of 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.

Gas Industry Co's equity reserve as at 30 June 2020 has two components – the Industry Advances Reserve of \$843,507 and Retained Earnings of \$756,000.

The Industry Advances Reserve comprises the over-recovery of levy revenue. The Board's practice has been to return such over-recoveries, subject to retaining adequate capital reserves, as soon as practicable after the annual accounts have been received by shareholders at the Company's Annual Meeting. In December 2019, surplus levies from FY2019 totalling \$155,928 were 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.

CHAPTER 8

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.

Gas Industry Co's shareholders represent sectors across the gas industry – production, transmission, distribution, wholesale, retail and consumers. There were 13 shareholders as at 30 June 2020.

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

Board of Directors

The Board of Gas Industry Co meets on regularly scheduled occasions to consider operational reports and recommendations from Gas Industry Co's management. Unscheduled meetings are held from time to time to consider matters requiring immediate attention. Directors 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 that benefits from industry 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.

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.

Shareholders

Contact Energy Limited



emsTradepoint Limited



First Gas Limited



Genesis Energy Limited



Greymouth Gas
New Zealand Limited



Mercury NZ Limited



Methanex New Zealand Limited



New Zealand Oil & Gas Limited



Nova Energy Limited



OMV New Zealand Limited



Powerco Limited



Trustpower Limited



Vector Limited





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: Hollow Lands Limited

Director: Te Urewera



ROBIN G HILL, BCom

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 both KiwiRail and Housing New Zealand Corporation. He is currently a commercial advisor with Crown Infrastructure Partners Limited.

INTERESTS REGISTER

No interests relevant to Gas Industry Co



PAREKAWHIA MCLEAN, MSocSc, MPA (Wisconsin)

INDEPENDENT DIRECTOR

APPOINTED 16 DECEMBER 2019

Parekawhia has over 20 years of public policy and public sector management experience, including with the Department of Prime Minister and Cabinet. She is currently the Chair of Te Whakakitenga o Waikato – the governing body of Waikato Tainui, and a Director of Sport Waikato. Parekawhia has held numerous other governance roles, including with the National Science Resilience Challenge, Waikato Momentum Philanthropic Foundation, Mercury Energy, Te Mangai Paho/Maori broadcasting funding agency and Waikato Means Business.

INTERESTS REGISTER

No interests relevant to Gas Industry Co



NIGEL BARBOUR, BCom, LLB

INDUSTRY-ASSOCIATED DIRECTOR

APPOINTED 21 NOVEMBER 2013

Nigel Barbour is the Chief Executive of Powerco. Nigel is responsible for leading the business to deliver on all customer, financial and operation targets. He joined Powerco in October 2002 and since then has been in executive management positions. He was appointed Chief Executive in October 2011.

In addition to being a board member of Gas Industry Co, he is also Deputy Chair of the New Zealand Electricity Networks Association. Nigel has an economics and legal background.

INTERESTS REGISTER

Chief Executive Officer: Powerco Limited

Member: New Zealand Electricity Networks Association



GABRIEL SELISCHI

INDUSTRY-ASSOCIATED DIRECTOR

APPOINTED 16 NOVEMBER 2016

Gabriel Selischi studied power engineering in Romania and obtained a master degree in France. He held senior positions with Schlumberger and Gemini Consulting. He managed the transfer of mature offshore oil and gas concessions to National Oil Companies. He has acted as Change Manager for the post-merger integration of Total, Fina and Elf in Europe.

Mr Selischi joined OMV in 2007, where he served in several different roles before becoming an Executive Board member responsible for the Upstream Division of Petrom. His various international positions have taken him to several countries in the EU, Africa, and Australasia. As of April 2016, Mr Selischi was appointed Senior Vice President responsible for the Australasia organisation of OMV where he managed the acquisition and integration of the Shell assets and the creation of the SapuraOMV JV.

INTERESTS REGISTER

Director: OMV New Zealand Limited, OMV GSB Limited, Maui Development Limited, Petroleum Infrastructure Limited

Director of the following Australian companies: OMV Barrow Pty Ltd; OMV Beagle Pty Ltd; OMV Petroleum Pty Ltd

Non-executive Director: SapuraOMV JV



MIKE FUGE

INDUSTRY-ASSOCIATED DIRECTOR

APPOINTED 16 MARCH 2020

Mike Fuge has over 30 years' experience in the energy sector which has included 19 years with Shell International in upstream oil and gas production over a range of countries in Europe, Middle East and South East Asia. He is currently CEO of Contact Energy, having previously headed up Refining NZ Ltd and Pacific Hydro Ltd (based out of Melbourne).

INTERESTS REGISTER

Chief Executive Officer: Contact Energy Limited

Other Directors who served during the year:

KEITH DAVIS, PGDipBus

INDEPENDENT DIRECTOR

APPOINTED 10 JUNE 2010

RESIGNED 28 NOVEMBER 2019

INTERESTS REGISTER

No interests relevant to Gas Industry Co

DENNIS BARNES

INDUSTRY-ASSOCIATED DIRECTOR

APPOINTED 11 MAY 2011

RESIGNED 28 FEBRUARY 2020

INTERESTS REGISTER

Chief Executive Officer: Contact Energy Limited
(until 28 February 2020)

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 (from July 2019 to February 2020)
and Mr Fuge (from February 2020 to June 2020).

Officer: Contact Energy Limited

Director: Contact Aria Limited, Contact Energy Trustee
Company Limited

Board Member: Electricity Retailers Association
Incorporated

PATRICK TEAGLE

APPOINTED 23 FEBRUARY 2017

Alternate for Mr Selischi

Head of Commercial and Legal: OMV

Attendance

The Board met on seven occasions during the year ended 30 June 2020. At other times, matters that required the Board's attention were addressed by circular resolutions.

DIRECTORS	MEETINGS ATTENDED
J Bolger	7
R Hill	7
A Brown	7
K Davis	3
P McLean	4
N Barbour	7
D Barnes	1
G Selischi	5
M Fuge	3

ALTERNATE DIRECTORS	MEETINGS ATTENDED
C Thompson	3
P Teagle	1

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 the other two independent directors were set by the Board in June 2007. Directors' remuneration payments in respect of the year ended 30 June 2020 were:

DIRECTORS	\$
J Bolger (Chair)	93,500
R Hill (Deputy Chair)	63,360
A Brown	52,800
K Davis	22,000
P McLean	35,200
N Barbour	-
D Barnes	-
G Selischi	-
M Fuge	-

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 28 November 2019.

Mr Keith Davis retired as an Independent Director and did not offer himself up for re-election. Mr Andrew Brown retired at the meeting in accordance with the director rotation provisions of the Company's Constitution. Being eligible he was re-elected as an Independent Director.

In his address to the meeting, the Company's Chair, the Rt. Hon. Jim Bolger, noted the challenges faced by the New Zealand energy sector influenced by emerging climate change policies and new technologies. He assured those present that Gas Industry Co will continue to work proactively with industry participants to help address and define those challenges.

The Chair acknowledged the time and resources that industry participants willingly lend to aspects of the Company's work through their contributions in consultation processes and to working groups.

Finally, Mr Bolger thanked Gas Industry Co's shareholders and reiterated that the Company remained very grateful to them for their ongoing support for current industry arrangements.

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 and total staff of around 11 who deliver the Company's strategy and work programme.



ANDREW KNIGHT, BMS (Hons), CA

CHIEF EXECUTIVE

Andrew Knight commenced as Chief Executive in March 2018. Prior to that he was Chief Executive of New Zealand Oil & Gas for 5 years. Andrew has held a range of roles across the energy sector in New Zealand and Australia as a listed and unlisted Company Director, CEO and Executive Manager. Andrew is also a Director or Chairman of a number of Iwi organisations and a charitable trust education provider.



SUSAN DUNNE, LLB, BCA, CA

GENERAL MANAGER CORPORATE SERVICES AND COMPANY SECRETARY

Susan Dunne joined Gas Industry Co in April 2013 as Senior Legal Counsel. She was appointed Company Secretary in 2014 and General Manager Corporate Services in May 2017. As well as providing legal and company secretarial services to Gas Industry Co, Susan leads the Corporate Services team responsible for administrative support functions including finance, technology, human resources, risk and property management.

Prior to joining Gas Industry Co, Susan worked as both Legal Counsel and Tax Manager at Westpac New Zealand Limited. Susan began her career with PricewaterhouseCoopers in Wellington.

Employee remuneration and benefits

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

YEAR ENDED 30 JUNE 2020	
\$100,001-\$110,000	1
\$130,001-140,000	1
\$140,001-150,000	2
\$170,001-180,000	1
\$180,001-190,000	1
\$410,001-420,000	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:

Code of conduct and ethics

Gas Industry Co expects its people to act ethically, safely and legally at all times in conducting the Company's business, and to comply with the four principles of conduct outlined in the Code, as well as any ethical standards applying to them by virtue of their membership of a professional body.

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.

Harassment Policy

Gas Industry Co is committed to providing a work environment for its staff which is free from harassment, where staff are treated with dignity and respect. The Company has a zero tolerance for harassment and considers any form of harassment to be unacceptable. It will take all practical steps to eliminate harassment and is committed to resolving issues of harassment as early as possible.

Gifts and hospitality

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

Health and safety

The Company is committed to providing and maintaining a safe and healthy work environment for employees and visitors to its premises. Gas Industry Co's Health and Safety Policy is set by the Board and includes a goal of zero harm with a range of initiatives designed to support employee health and well-being.

Confidential information and privacy

This policy provides that employees must protect the privacy of Gas Industry Co's confidential business information, except as permitted or required by law.

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.

CHAPTER 9

Financial Statements

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DIRECTORS' REPORT

The Board of Directors have 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 2020.

The Board of Directors of the Company authorised the financial statements presented on pages 29 to 39 for issue on 20 August 2020.

For and on behalf of the Board.



Rt Hon James B Bolger, ONZ

CHAIR

20 August 2020



Robin G Hill

DEPUTY CHAIR

20 August 2020



Independent Auditor's Report

To the shareholders of Gas Industry Company Limited

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Gas Industry Company Limited (the 'company') on pages 29 to 39:

- i. present fairly in all material respects the company's financial position as at 30 June 2020 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with Public Benefit Entity Standards Reduced Disclosure Regime (Not For Profit).

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2020;
- the statements of comprehensive revenue and expenditure, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the company in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

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



Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent 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 shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.



Responsibilities of the Directors for the financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being Public Benefit Entity Standards Reduced Disclosure Regime (Not For Profit));
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/>

This description forms part of our independent auditor's report.

KPMG
Wellington

20 August 2020

Gas Industry Company Limited

Statement of Comprehensive Revenue and Expenditure
For the year ended 30 June 2020

	NOTES	ACTUAL 2020 \$	ACTUAL 2019 \$
Revenue from exchange transactions			
Operating income	4	5,110,339	5,165,900
Interest income		37,740	53,537
		5,148,079	5,219,437
Refunded levy income	4	(155,928)	(879,821)
NET INCOME		4,992,151	4,339,616
Expenditure			
Operating expenditure	5	4,268,023	4,846,765
		4,268,023	4,846,765
SURPLUS / (DEFICIT) BEFORE TAX		724,128	(507,149)
Income tax expense	6	10,567	14,990
SURPLUS / (DEFICIT) FOR THE YEAR		713,561	(522,139)
Other comprehensive revenue and expenditure		-	-
TOTAL COMPREHENSIVE REVENUE AND EXPENDITURE FOR THE YEAR		713,561	(522,139)

The accompanying notes form an integral part of these financial statements.

Gas Industry Company Limited

Statement of Changes in Equity
For the year ended 30 June 2020

	INDUSTRY RESERVES \$	RETAINED EARNINGS \$	TOTAL EQUITY \$
<i>Balance at 1 July 2018</i>	704,085	704,000	1,408,085
Total comprehensive revenue and expenditure for the year			
Surplus / (Deficit) for the year	-	(522,139)	(522,139)
Other comprehensive revenue and expenditure	-	-	-
Total comprehensive revenue and expenditure for the year	-	(522,139)	(522,139)
Transfer between equity reserves			
Industry Advances Reserve transfers	(548,139)	548,139	-
BALANCE AT 30 JUNE 2019	155,946	730,000	885,946
<i>Balance at 1 July 2019</i>	155,946	730,000	885,946
Total comprehensive revenue and expenditure for the year			
Surplus / (Deficit) for the year	-	713,561	713,561
Other comprehensive revenue and expenditure	-	-	-
Total comprehensive revenue and expenditure for the year	-	713,561	713,561
Transfer between equity reserves			
Industry Advances Reserve transfers	687,561	(687,561)	-
BALANCE AT 30 JUNE 2020	843,507	756,000	1,599,507

The accompanying notes form an integral part of these financial statements.

Gas Industry Company Limited

Statement of Financial Position
As at 30 June 2020

	NOTES	ACTUAL 2020 \$	ACTUAL 2019 \$
ASSETS			
Current assets			
Cash and cash equivalents	7	2,119,358	1,423,874
Trade and other receivables	8	10	26,648
Prepayments		108,088	49,041
Income tax receivable	6	-	-
Total current assets		2,227,456	1,499,563
Non-current assets			
Property, plant and equipment		62,948	80,406
Intangible assets		6,638	12,894
Total non-current assets		69,586	93,300
Total assets		2,297,042	1,592,863
LIABILITIES			
Current liabilities			
Trade and other payables	9	471,341	522,641
Employee entitlements		226,181	184,262
Redeemable shares	11	13	14
Total current liabilities		697,535	706,917
Total liabilities		697,535	706,917
Net Assets		1,599,507	885,946
EQUITY			
Industry reserves	12	843,507	155,946
Retained earnings	12	756,000	730,000
Total equity		1,599,507	885,946

These financial statements were authorised for issue by the signatories below on 20 August 2020

On behalf of the board

Rt Hon James B Bolger, ONZ

CHAIR

20 August 2020

Robin G Hill

DEPUTY CHAIR

20 August 2020

The accompanying notes form an integral part of these financial statements.

Gas Industry Company Limited

Statement of Cash Flows
For the year ended 30 June 2020

	ACTUAL 2020 \$	ACTUAL 2019 \$
Operating activities		
<i>Cash was provided from</i>		
Levy revenue	3,817,318	3,911,936
Market fee revenue	1,272,501	1,223,168
Annual fees	26,000	26,000
Interest received	37,740	53,538
Net GST	-	-
	5,153,559	5,214,642
<i>Cash was applied to</i>		
Payments to suppliers	(2,276,663)	(2,343,420)
Payments to employees	(1,756,867)	(2,186,994)
Payments to directors	(232,236)	(262,460)
Refund of levy to industry participants	(187,206)	(869,263)
Taxes paid	(10,567)	(14,990)
Net GST	(3,042)	(4,256)
	(4,466,581)	(5,681,383)
<i>Net cash inflows from operating activities</i>	686,978	(466,741)
Investing activities		
<i>Cash was applied to</i>		
Purchase of property, plant and equipment	8,506	-
Purchase of intangible assets	-	(11,693)
Term deposit	0	700,000
<i>Net cash outflows from investing activities</i>	8,506	688,307
Net increase/ (decrease) in cash and cash equivalents	695,484	221,566
Opening cash and cash equivalents	1,423,874	1,202,308
CLOSING CASH AND CASH EQUIVALENTS	2,119,358	1,423,874

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 the Gas Industry Company Limited (the "Company") for the year ended 30 June 2020.

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 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 20 August 2020.

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 less than \$30 million in the two preceding reporting periods and is not publically accountable. All available exemptions under Tier 2 Reduced Disclosure Requirements have been applied.

(b) Basis of measurement

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

(c) Presentation currency

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

(d) 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 is revised and in any future years affected.

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

"Industry Assets" relate to the databases created and established for the Downstream Reconciliation and Switching & 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 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 differs 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 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 for the future reduction of levy income.

4. OPERATING INCOME

	ACTUAL 2020 \$	ACTUAL 2019 \$
Wholesale levy revenue	2,040,055	2,098,988
Retail levy revenue	1,776,954	1,763,945
Market fee revenue	1,267,330	1,276,967
Annual fees	26,000	26,000
TOTAL OPERATING INCOME	5,110,339	5,165,900
Refunded levy income	(155,928)	(879,821)

5. OPERATING EXPENDITURE

	ACTUAL 2020 \$	ACTUAL 2019 \$
Depreciation & amortisation	28,390	32,571
Operating lease expenses	275,940	269,029
Fees paid to audit firm – financial statement audit	20,000	15,756
Fees paid to audit firm – other services	-	-
Bad Debts	6	-
Directors' fees	266,860	262,460
General expenses	330,785	301,405
Recruitment expenses	93,847	7,200
Technical, economic, and legal advice	226,994	537,245
Service provider fees	1,216,127	1,211,080
Kiwisaver contributions	49,102	51,075
Employee benefit expense	1,759,972	2,158,944
TOTAL OPERATING EXPENDITURE	4,268,023	4,846,765

6. INCOME TAX

	ACTUAL 2020 \$	ACTUAL 2019 \$
(a) Income tax expense		
Current year income tax expense	10,567	14,990
Deferred tax movement	-	-
TOTAL INCOME TAX EXPENSE	10,567	14,990
(b) Reconciliation of current year income tax expense		
Surplus / (Deficit) for the year	724,128	(507,149)
Income tax expense at 28 percent	203,035	(142,001)
Permanent differences	(192,468)	156,991
Timing differences	-	-
CURRENT YEAR INCOME TAX EXPENSE	10,567	14,990
(c) Income tax receivable		
Opening balance	-	-
Tax refunds received	-	-
Current year income tax expense	(10,567)	(14,990)
Income tax paid	10,567	14,990
CLOSING BALANCE	-	-

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

7. CASH AND CASH EQUIVALENTS

	ACTUAL 2020 \$	ACTUAL 2019 \$
Bank account	1,114	1,000
Interest bearing account	2,118,244	1,422,874
TOTAL	2,119,358	1,423,874

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 2020 \$	ACTUAL 2019 \$
Levy debtors	10	-
Other receivables	-	26,648
TOTAL	10	26,648

9. TRADE AND OTHER PAYABLES

	ACTUAL 2020 \$	ACTUAL 2019 \$
Accounts payable	216,034	172,503
Accrued expenses	226,727	313,002
Levy debtors	-	2,576
GST payable	28,580	34,560
TOTAL	471,341	522,641

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 Company Limited.

(b) Transactions with key management personnel

	ACTUAL 2020 \$	ACTUAL 2019 \$
Salaries and other short-term employee benefits	865,167	1,173,008

Key management personnel include the Chief Executive, the GM Corporate Services and the four Directors.

The above includes remuneration of \$266,860 (30 June 2019 \$262,460) paid and payable to the directors for the year.

11. REDEEMABLE SHARES

	ACTUAL 2020 \$	ACTUAL 2019 \$
Redeemable shares - value in dollars	13	14
Redeemable shares - number	13	14

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 2020 \$	ACTUAL 2019 \$
Industry advances reserve	843,507	155,946
Retained earnings	756,000	730,000
TOTAL EQUITY RESERVES	1,599,507	885,946

	ACTUAL 2020 \$	ACTUAL 2019 \$
(a) Industry advances reserve		
Opening balance	155,946	704,085
Transfer from/(to) retained earnings	687,561	(548,139)
CLOSING BALANCE	843,507	155,946

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

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

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

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

	ACTUAL 2020 \$	ACTUAL 2019 \$
(b) Retained earnings		
Opening balance	730,000	704,000
Surplus / (Deficit) for the year	713,561	(522,139)
Transfer from/(to) Industry advances reserve	(687,561)	548,139
CLOSING BALANCE	756,000	730,000

13. CONTINGENCIES

As at 30 June 2020, the Company has no contingent liabilities (2019: nil). There is an arrangement with Westpac New Zealand Limited whereby Gas Industry Company has a business card facility (limit \$100,00) and a payroll letter of credit facility (limit \$180,000).

14. COMMITMENTS

(a) Capital commitments

The Company has no material capital commitments (2019: \$Nil)

(b) Operating lease commitments

	ACTUAL 2020 \$	ACTUAL 2019 \$
<i>Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:</i>		
Within one year	251,330	251,910
Later than one year but not later than five years	607,381	858,711
Later than five years	-	-
TOTAL	858,711	1,110,621

(c) Service provider commitments

	ACTUAL 2020 \$	ACTUAL 2019 \$
<i>Service provider agreements for the Downstream Reconciliation, Switching and Registry and Critical Contingency Management Rules payable as follows:</i>		
Within one year	761,424	1,180,224
Later than one year but not later than five years	1,161,080	2,456,216
Later than five years	-	164,288
TOTAL	1,922,504	3,800,728

15. SUBSEQUENT EVENTS

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



GLOSSARY

ALLOCATION AGENT	Appointed pursuant to the Reconciliation Rules to reconcile volumes of gas leaving the transmission system with volumes consumed by end users and allocate those volumes to retailers. The Allocation Agent is currently Energy Market Services (EMS)
BPP	Balancing and Peaking Pool
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
D+1	The day-after delivery (D+1) allocation methodology for downstream reconciliation processes
DISTRIBUTION SCHEME	Gas Distribution Contracts Oversight Scheme
GAS ACT	Gas Act 1992
GAS REGISTRY	The customer switching platform that 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 (1,000,000,000 joules). The average residential gas consumption is 23 GJ/year
GPS	Government Policy Statement on Gas Governance (April 2008)
GTAC	Gas Transmission Access Code
ICP	Installation Control Point
LPG	Liquefied Petroleum Gas
MBB	Market-Based Balancing
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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