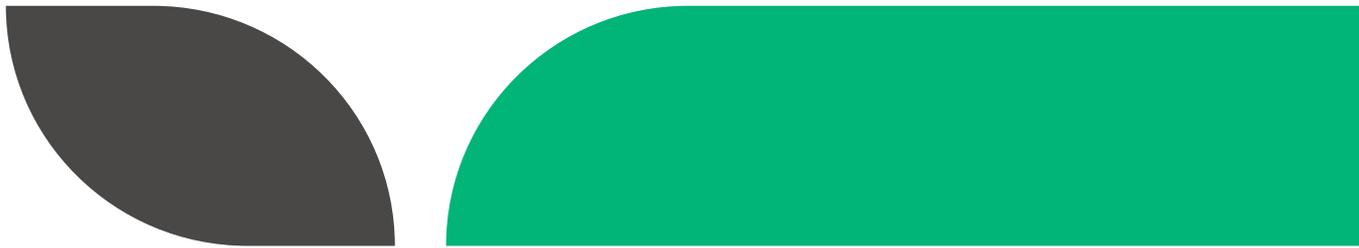


Annual Report

2020/2021



Gas Industry Co.





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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
 - » 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.
- 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).



What we do is grouped into three classes of activities. These activities make up our work programme:

1

Gas governance

The Gas Act and GPS guide us in these activities where we have statutory roles as well as oversight of the industry processes or regulations with the intention of ensuring appropriate activities are being undertaken. Examples of our Gas Governance roles include the determination of breaches or undertaking compliance audits. Our Gas Governance roles are normally designed to provide security of supply, build consumer trust, or oversight of competition and markets.

2

Facilitating industry systems and processes

Gas Industry Co has regulatory defined roles and has undertaken activities where requested by industry to deliver independent or centralised services. Examples of the facilitation role includes a wide set of activities including management of the D+1 model, the gas registry, or reconciliation processes, through to hosting the website for upstream disclosures.

3

Trusted advisor to government and industry

The trusted advisor role reflects the activities we undertake to inform about the gas industry. This role has become more pronounced as the wider energy sector and Government entities have sought to develop their understanding of the changing energy future. Examples include the supply and demand studies, engagement with government agencies such as MBIE or the Climate Commission, and discussions with industry regarding government processes. It is important to note here that our role is limited to informing, we are not an advocate or lobbyist for industry.

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:

- D+1 (gas allocations to retailers at shared networks, the day after gas has flowed).
- Industry notifications are posted to the Gas Industry notifications page in accordance with the Upstream Gas Outage Information Disclosure Code.
- 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.

The ongoing effectiveness of the regulatory 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.



Gas Industry Co's strategy

Recently Gas Industry Co updated its strategy, including its core theme of “facilitating the role of gas in New Zealand’s energy future”.

Our core theme recognises that:

- Gas Industry Co's roles are broader than only providing governance;
- Gas has a role in New Zealand's energy future;
- Gas Industry Co has a role in supporting the energy transition;
- Gas includes gases of increasing importance in our energy ecosystem (hydrogen/biogas); and
- Gas Industry Co's regulatory roles are designed to either provide greater security of supply or oversight of competition and markets.

Structure

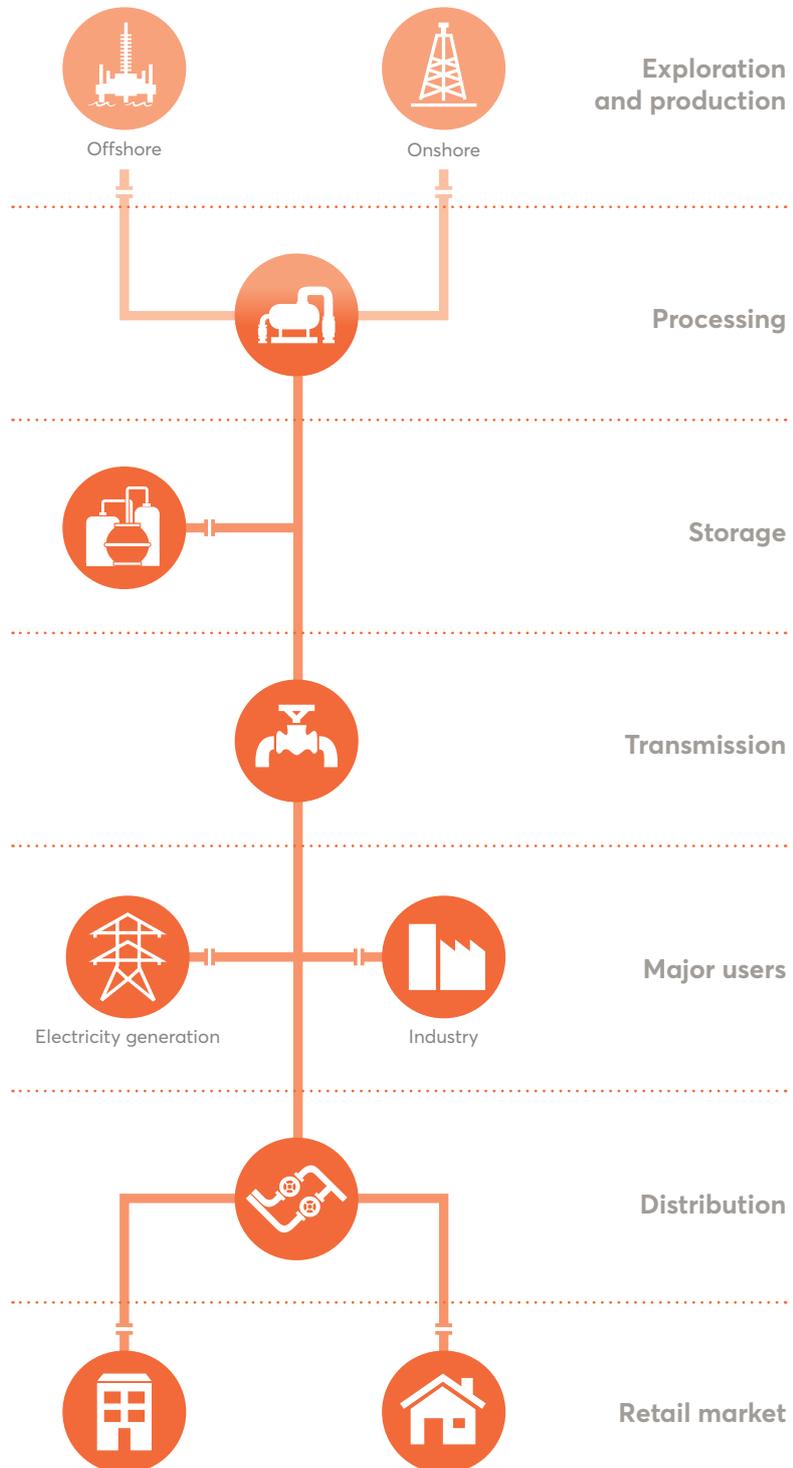
The New Zealand gas industry can be divided into two main sectors.

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).





Our work programme seeks to improve consumer outcomes and make available information about gas.

Are gas market, commercial and regulatory settings fit for purpose?

Page 18 shows a newly added work stream that looks to answer this question. Our gas market settings investigation is looking into whether current market, commercial and regulatory settings that provide for gas availability and flexibility are fit for purpose in supporting New Zealand's transition to a future with 100% renewable electricity from 2030 and a net zero carbon economy by 2050.

What's happening with hydrogen and biogas in New Zealand?

Page 24 shows the work that Gas Industry Co and others we are working alongside, are doing in the hydrogen and biogas space, including research into the potential for hydrogen to be blended with natural gas and distributed via the gas network, a draft regulatory placemat to assist with our own understanding and initiate conversations with the other affected regulatory agencies.

Is the gas market delivering efficient, fair and equitable prices to consumers?

Page 18 shows the work we did reviewing the electricity price review recommendations and assessing whether the gas market was also delivering efficient, fair, and equitable prices to customers, given the similarities and links between the gas and electricity markets.



Chair's foreword

The Board of Gas Industry Co is pleased to present this year's annual report.

The gas market experienced considerable pressure over the past twelve months. Long-term changes will continue to stress parts of our industry. Managing transition will be the dominant theme of our work at Gas Industry Co and across the industry for many years to come. Deft management will be needed.

While gas governance and facilitating markets that work for consumers has long been our core focus, we are also gaining a wider role as a trusted advisor providing more information about industry conditions. I expect to see a focus on the tools needed to ensure we have enough gas when it is required, while also yielding to renewables as they become more available, affordable and practical.

Some of the pressure facing the industry is long-term and well understood. We are in a transition to a low carbon energy future. There will be less gas used. It has been clear for a long time that change is coming. We all need to prepare. The transition is arriving faster than some may have expected and the pace of change will increase, not slow.

At the same time, we also had pressure in this past year from a combination of one-off events. The largest gas field declined sooner and more sharply than expected, some investment in fields had been deferred due to COVID-19 measures, and the autumn weather conditions demanded more electricity generation from gas. We had less supply and more demand.

We worked closely with gas suppliers and customers to help them resolve difficult contracting conditions as the market tightened. It's part of our job as co-regulators to facilitate efficient and practical outcomes and minimise disruption.

Stable, reliable and cost-effective supply for consumers will become more complex as renewables replace ever more of the energy previously provided by gas. Early this year, the Minister of Energy and Resources asked Gas Industry Co to report on whether gas market settings are fit to

provide security of supply and adequate transparency for industry. The Board was grateful for the confidence placed in Gas Industry Co to undertake this investigation. It was a major piece of work for us, alongside our existing, planned work programme. I would like to thank the industry for its constructive engagement.

When Gas Industry Co consults on our work programme for next year, I expect to see a growing workload.

Continuing investment to develop existing gas fields is occurring and will continue to be required to meet expected demand. It's likely that confidence to invest in development, as well as new technologies, will grow as de-carbonisation policies bed in and clarity emerges about the timetable for emissions reductions.

Without sufficient investment, the steady supply of gas will decline faster than desirable, putting at risk security of the energy system. Sustained constraints on supply or steep price increases would quickly put at risk social support that a fair and just transition requires.

It is crucial that New Zealanders retain confidence in a fair and just transition.



Without sufficient investment, the steady supply of gas will decline faster than desirable, putting at risk security of the energy system.



In the end, what matters is that consumers and businesses have access to secure and affordable energy while we de-carbonise.

The Intergovernmental Panel on Climate Change warned this year that climate change is widespread, rapid and intensifying. Scientists are observing changes in the Earth's climate in every region and across the whole climate system. However, strong and sustained reductions in CO₂ emissions would limit climate change. The New Zealand gas industry has made progress, however more is required and the industry must continue to facilitate the change.

Gas Industry Co will help by doing more on the gases of the future. Biogas and hydrogen are emerging solutions for some gas users. Green gas certification was an important area of our activity this year. We were pleased to work alongside other agencies to advance a trustworthy scheme that supports the evolution of green gas industries.

In future, we will see more work on re-purposing existing infrastructure. We are unlikely to see a single one-for-one replacement of natural gas. Instead, different gases and other forms of energy will play different roles. In the end, what matters is that consumers and businesses have access to secure and affordable energy while we de-carbonise.

Acknowledgements

I would like to acknowledge our staff and management for their work through what has been a busy year.

I am impressed by the trust our team is winning from the wider energy sector and from collegial regulators.

My fellow directors continue to provide expert guidance and high standards of governance.

During the past year we farewelled Gabriel Selischi, who returned to Vienna as he takes on more career responsibility at OMV. Nigel Barbour resigned when he left

his post as Powerco's CEO and moved to the Christchurch lines company. The industry is indebted to both Nigel and Gabriel for their valuable contributions.

In their place we welcomed two new directors. Paul Goodeve is Chief Executive of Firstgas and has had a hands-on role in thinking about the future of infrastructure. Babu Bahirathan is Chief Executive of Nova Energy. Both Paul and Babu are experienced industry leaders. The Board has skills from organisations involved in upstream, distribution infrastructure, and generation and retail. Combined with the expertise of independent directors, they bring valuable perspective as the industry enters a daunting time of transition.

On behalf of the Board, I am pleased to present this annual report. It summarises the work Gas Industry Co has been doing.

As this report goes to print, New Zealand continues to battle the extraordinary COVID-19 pandemic. The effort to keep us safe is a dominant theme for all industries, and ours is no exception. We know that the year ahead will continue to be shaped by the social and economic response.

In these unusual times, I am pleased at our progress. Gas Industry Co continues to facilitate better outcomes for industry, customers and our community. I wish everyone well, and safety, as we continue our work.

A handwritten signature in blue ink, reading "Jim Bolger".

Rt Hon Jim Bolger ONZ
Chair

An aerial photograph of a city, likely Auckland, New Zealand, showing a dense urban landscape with numerous high-rise buildings and a harbor area with a stadium and port facilities. The image is overlaid with a semi-transparent orange filter and a decorative pattern of white, overlapping, semi-circular arcs that resemble waves or a stylized grid. The text 'Chief Executive's review' is prominently displayed in white in the lower right quadrant.

Chief Executive's review

This annual report summarises a busy programme of work over the past year for Gas Industry Co.

Three dominant trends affected our work:

- The pace of transition to renewables accelerated, bringing forward discussion about the timing of change and where the impacts will be felt.
- Rapidly increasing interest in new gases, hydrogen and biofuels, escalated the need for regulatory issues to be resolved early.
- Steep price increases and reducing supply coincided with increased short-term demand, causing pressure for customers coming off contract. Some customers were unable to secure all the gas they require.

Themes of change and balancing tight supply are likely to dominate the gas sector for the next decade.

We can start with gas supply. In 2020/2021, short term demand increased as gas was called on to provide cover for electricity during an exceptionally dry start to the year. Peaking stations that are built to operate less than 50% of the time have been producing continuously.

Cover for intermittent electricity demand occurred at the same time that gas production was constrained.

The Pohokura field had a decline in production which would have had a major impact under normal circumstances because it is the largest single energy source in New Zealand. The consequences of reduced supply were felt widely in the gas sector.

The steepness of Pohokura's decline was not expected. It's in the nature of reservoirs that performance is uncertain. The operator was diligent and helpful in making a full and early disclosure.

In addition, work on development of gas fields paused in 2020, when COVID-19 caused all non-essential industrial activity to pause. Less new gas was available than might have been expected.

96% of gas is supplied under long term contracts at pre-determined prices. This provides the demand certainty to underwrite investment in production.

Constrained gas supply, alongside a period of low hydro inflows, was not included in the risk management of some energy sector participants, and therefore sufficient firm dry year cover was not available on call. This created a tension for industrial customers who had contracts expiring and were seeking multi-year supply, and electricity generators seeking short term supply.

High electricity prices meant electricity generators could pay prices for gas that industrial customers could not match. As a result, some industrial customers have struggled to source gas and some customers have purchased gas at high prices.

Investment is occurring and starting to lift supply at some fields, however investment requires multi-year planning and there will not be an immediate respite from supply constraints.

Depending on hydro inflows, we do expect the gas market to return to a more balanced position in late 2022.

To single out one large, energy-using export business, Methanex plays a crucial role. Its long-term gas contracts help to underwrite ongoing development of existing gas fields. Along with Genesis, Methanex deserves recognition for reaching agreement during the year to forego gas that it had a contractual right to use in its own business.



Themes of change and balancing tight supply are likely to dominate the gas sector for the next decade.

Intermittency, and so demand for flexible gas, is likely to grow as the electricity system approaches 100% renewable over the 2020s. However, that demand for flexibility is increasing when the capability to provide it is potentially declining.

The issues around security of supply and transparency were the focus of a major investigation during the year after the Minister of Energy and Resources requested Gas Industry Co to investigate current market, commercial and regulatory settings.

The investigation featured consultation with gas and electricity industry producers, pipeline owners, gas shippers, electricity generators, major and medium-sized industrial gas users, industry bodies, and regulators.

We commissioned supporting analysis about the gas supply and demand outlook, and the commercial and investment framework to meet gas demand over the next 15 years. We also looked at how gas storage or alternatives could support or complement natural gas supply during the transition period.

A commercial solution is preferable and achievable. Clarity for gas customers about future supply and prices is best achieved through increasing use of longer-term contracts.

We are currently finalising this work and developing a set of tools and options to address the issues. The end result will be a more robust and stable transition, with more confidence for investment. Gas Industry Co's statutory focus is on consumer outcomes, the operation of gas markets, and access to infrastructure. Our planned work programme is set out each year in our Statement of Intent. I would like to acknowledge the work of our small team of staff throughout the year to deliver the work programme successfully. While their work is reported more fully elsewhere in this Report, I am pleased to summarise our progress.

Information disclosure

Work on the level of information disclosure began in 2019. The following year, we concluded that gas production and storage facility outage information disclosure should be a priority. A draft statement of proposal was released in December 2020 focusing on whether the current upstream disclosure code is a suitable, permanent solution or whether regulatory arrangements were required.

After feedback from the industry, we started work on a final statement of proposal. It recommends that regulated information disclosure arrangements for gas production and storage facility outages should be developed.

Electricity price review

Another workstream arose from the government's electricity price review. Gas Industry Co monitors governance arrangements in related industries. We assess whether changes influence existing gas governance arrangements, and whether changes are required in response. Gas Industry Co considered it prudent to review whether the 32 recommendations made by the electricity price review should be matched by the gas market, given the similarities and links between the gas and electricity. After consultation we published final recommendations in March.

D+1

For the last six years, Gas Industry Co has operated the pilot "D+1" model. It provides retailers and shippers with an estimate of their customers' consumption at each gas network the day after gas has flowed following industry feedback. The pilot will be replaced with a production-quality system and amendments may be made to reconciliation rules to incorporate daily allocations.

Hydrogen and biogas

In September 2019, the New Zealand Government published a green paper that lays out a vision for hydrogen in New Zealand. The paper discusses the potential for hydrogen to be blended with natural gas and distributed over the gas network.

Gas Industry Co engaged PwC to provide us with advice on international examples of renewable gas certification and considerations for the implementation of a New Zealand scheme. We are now working with industry, and other affected regulatory agencies to understand regulations, standards or industry processes that may be required to support an effective and reputable certification industry.



Gas Industry Co seeks to ensure that gas is delivered to the sector's customers in a safe, efficient, reliable, fair, and environmentally sustainable way.

Critical contingency management

CCM regulations exist to achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply.

Gas Industry Co released a draft Statement of Proposal in mid-2020 presenting options to amend the Regulations.

One proposal has been progressed to a recommendation to Ministers for a change to CCM regulations to align with amendments to the Gas Act and avoid any regulatory gap. A further recommendation on proposed amendments relating to the other aspects of CCM regulations is expected after we complete our consultation and assessment process.

Financials

Our financial results this year reflect the combination of lower gas production, which reduced revenue, as well as unbudgeted workload, which increased operating expenditure.

As a result, GIC has recorded a deficit of \$729,879 compared to the prior year surplus of \$713,561.

Looking forward, gas production is currently below prior years and increasing workloads are likely to push expenditure higher than estimated in the FY2022 Statement of Intent, when the investment in the D+1 systems is included. Our current forecast for FY2022 is for a deficit, and a larger reduction in cash reserves when the expenditure for the D+1 investment is included.

Looking ahead

Gas Industry Co provides impartial advice, facilitates gas markets and delivers trustworthy gas governance. The work programme over the past year supported these activities.

As we look ahead, we will have much more to do to advance work currently underway and address required new workstreams. We will get stuck in to work that arises from our gas markets settings investigation. There is much more to complete as the energy transition gathers pace and demands both industry and regulatory responses.

Gas Industry Co seeks to ensure that gas is delivered to the sector's customers in a safe, efficient, reliable, fair, and environmentally sustainable way. I am grateful for the strategic direction of our Board and the contribution of our team towards these goals.

The support of our stakeholders has been welcome, from within the industry, from customers transacting with the sector, and through the input and cooperation of colleagues with regulatory responsibilities.

I look forward to continuing our work.

Ngā mihi nui

A handwritten signature in orange ink, appearing to read 'a) - 2 - 3'.

Andrew Knight
Chief Executive



Work programme achievements against Statement of Intent

Gas market settings investigation

In December 2020 the Minister of Energy and Resources asked Gas Industry Co to investigate whether current market, commercial and regulatory settings that provide for gas availability and flexibility are fit for purpose in supporting New Zealand's transition to a future with 100% renewable electricity from 2030 and a net zero carbon economy by 2050.

Gas Industry Co has consulted with gas and electricity industry producers, pipeline owners, gas shippers, electricity generators, major and medium-sized industrial gas users, industry bodies, and regulators, through visits and conversations and a consultation paper that was released in May 2021.

We have also commissioned supporting analysis about the gas supply and demand outlook, the commercial and investment framework to meet gas demand over the next 15 years, how gas storage could support or complement natural gas supply to provide availability and flexibility during the transition period, and whether LNG could also play a role.

We are currently working on the final report to the Minister and expect it to be completed in late August 2021.

Critical contingency management

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.

There were no critical contingencies during the financial year.

Regulations review

In 2020 Gas Industry Co began a review of the CCM regulations. A draft Statement of Proposal was released mid-2020 which presented an array of options to amend the CCM regulations. Submissions on the proposals were largely supportive of the proposed changes. However, on a few of the options, views were mixed.

One proposal has been progressed and a recommendation has been made to the Minister of Energy and Resources. This proposal is being progressed ahead of the other proposed changes to align with the amendments to the Gas Act and avoid any possible regulatory gap.

We anticipate a further recommendation on proposed amendments to the CCM regulations relating to the other aspects of our consultation following the completion of our consultation and assessment process.

Annual industry exercise

The CCO conducted its annual industry exercise (Exercise Waru) on 5 May 2021. The exercise provided an opportunity for parties (the CCO, TSO and retailers) to practice their response to a critical contingency event in a safe environment and subsequently enhance their knowledge and competency for dealing with an actual event. After the exercise the CCO published a report which made a number of recommendations, some of which were for Gas Industry Co. GIC will be engaging with the CCO and industry to address these recommendations.

Electricity price review

Gas Industry Co monitors governance arrangements in related industries to assess whether any changes may influence existing gas governance arrangements, and if any changes to those arrangements are required in response.

The government's electricity price review made 32 recommendations about whether the electricity market delivers efficient, fair, and equitable prices to customers. Gas Industry Co considered it prudent to review whether those recommendations should apply to the gas market, given the similarities and links between the gas and electricity markets.

In November 2020 Gas Industry Co established a workstream to investigate the application to the gas market of electricity price review recommendations. We consulted on these recommendations and published final recommendations on 8 March 2021.

Gas Industry Co has developed, and is consulting on, new gas market guidelines for:

- dealing with vulnerable gas consumers;
- raising gas consumer awareness of the Utilities Disputes and Powerswitch services; and
- managing saves and win-backs in the gas market.



Gas Industry Co has consulted with gas and electricity industry producers, pipeline owners, gas shippers, electricity generators, major and medium-sized industrial gas users, industry bodies, and regulators, through visits and conversations and a consultation paper that was released in May 2021.

Advanced gas metering

Genesis Energy is working with Vector Metering on the rollout of advanced gas metering to Genesis natural gas customers.

In response to this rollout, we restarted our work programme into the gas market implications of advanced metering. We have commenced our work with an issues identification process that has included discussions with Genesis, Vector Metering and other market participants. We are now in the process of developing a consultation paper that assesses the issues that we have identified during our discussions.

The issue assessment phase of the work programme is scheduled for completion in the second half of 2021.

Retail gas contracts oversight scheme

In 2010, Gas Industry Co established a retail gas contracts oversight scheme. This was designed to assess retailers' contracts with residential and small commercial/industrial consumers, against a series of benchmarks and reasonable consumer expectations. Reviews are undertaken by an independent assessor.

The most recent full review occurred 2018. There was 'substantial' compliance with the scheme.

The next review of retail gas contracts is scheduled to occur in 2021. However, we are currently considering whether the electricity price review workstream has implications for the retail gas contracts oversight scheme. This may involve deferral of the next review of gas retail contracts, with a new date being set after the Electricity Price Review workstream is complete.

Gas distribution contracts oversight scheme

In 2012, Gas Industry Co established the gas distribution contracts oversight scheme. This is an industry-agreed scheme which assesses contracts between gas distributors and gas retailers against a set of principles.

Gas Industry Co appointed an independent assessor in FY2014 who found that contracts offered by distributors exhibited 'substantial' alignment with the set of principles agreed upon.

Communications with distributors in FY2020 indicated that there had been no material changes to distribution contracts. Gas Industry Co informed distributors and retailers that it would follow up on progress in mid-2021.

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 2021 (the most recent interim data as at the time of publication), UFG was about 430,000 GJ, which represented about 1.3 per cent of allocated gas consumption (using interim and final allocation data).

While UFG levels remain very low by international standards, we have noticed an uptick over the last 18 months. Gas Industry Co has begun an investigation to identify the specific causes. UFG typically arises from retailer estimation errors and metering or energy conversion inaccuracies. Due to the odourisation of gas in downstream networks, UFG is rarely a result of gas leaks.

See Figure 1 on page 21.

D+1

For the last six years, Gas Industry Co has operated the pilot D+1 model which provides retailers/shippers with an estimate of their customers' consumption at each gas network the day after gas has flowed. We are now proceeding with a project to replace the pilot model with a more robust and formalised set of D+1 arrangements.

The first phase of the project was to transition daily operation and hosting of the pilot model to EMS, a subsidiary of Transpower.

The next phases of the project are to replace the pilot model with a production-quality system and consider amendments to the reconciliation rules to incorporate daily allocations. This work will be supported by the Daily Allocation Working Group.

Customer switching

The purpose of the switching rules is to establish a set of gas switching and registry arrangements that will enable consumers to choose, and alternate, efficiently and satisfactorily between competing retailers.

Switching in FY2021 largely continued the trend of previous years, with a relatively high level of activity in the retail market. In the past 12 months (July 2020 – June 2021), switching activity has been elevated. There was an average of 4,122 switches completed per month, which translates to an annual churn rate of about 17 per cent.

See Figures 2 and 3 on page 21.

Wholesale market

The emsTradepoint wholesale market (eTp) has been in operation since 2013 and has increased in both membership and volume over that time.

Gas Industry Co set out and continues to 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.

Gas transmission access code, transmission pipeline balancing and transmission pipeline interconnection

In March 2021, Firstgas announced that they had decided to permanently discontinue any further work on the Gas Transmission Access Code (GTAC) due to changes to the operating and policy environment and challenges in implementing software to support the GTAC.

Therefore, the priorities Gas Industry Co set out in the previous SOI for work programmes related to GTAC, such as transmission pipeline balancing and pipeline interconnection, did not eventuate.

Firstgas will continue to operate under the two transmission codes, the Maui Pipeline Operating Code (MPOC) and the Vector Transmission Code (VTC).

Figure 1. Rolling 12 month UFG using final and interim data

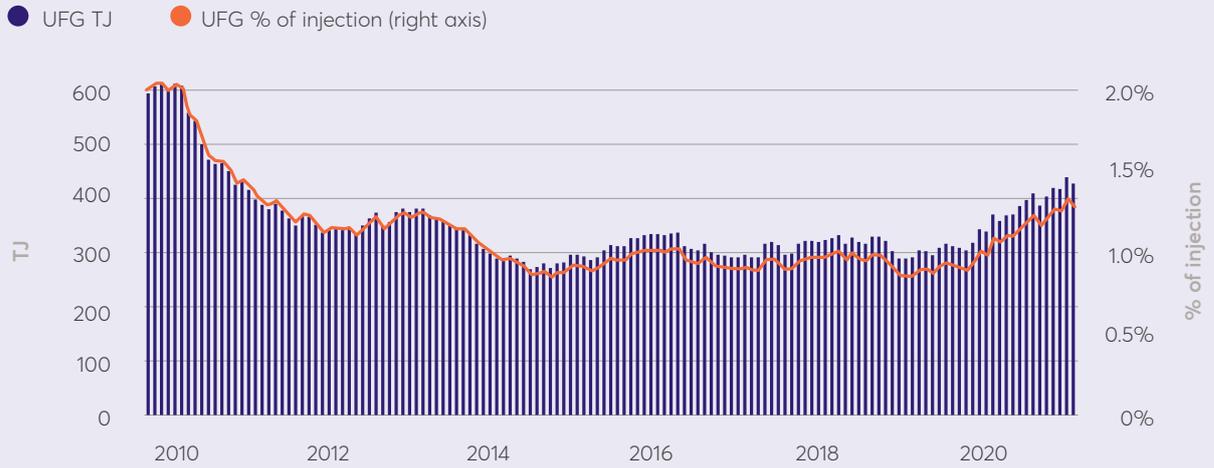


Figure 2. Switches per month

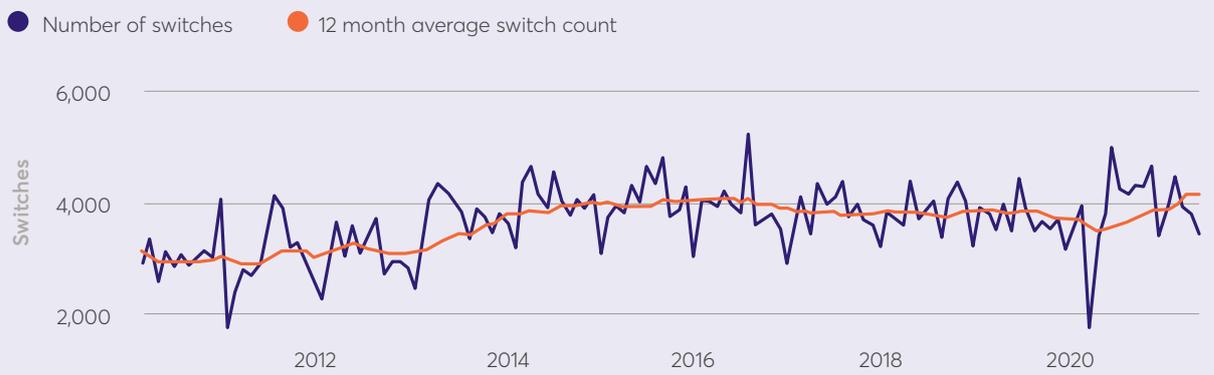
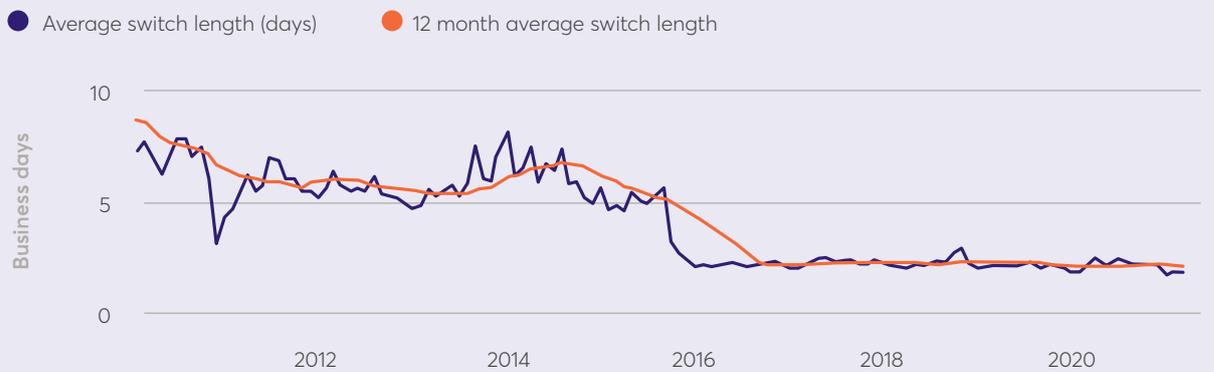


Figure 3. Switch length



Transmission code changes

Gas Industry Co has a role in processing Maui Pipeline Operating Code (MPOC) change requests on an 'as required' basis. Firstgas has indicated that it intends to work with shippers and other stakeholder to identify and implement improvements to the MPOC and the Vector Transmission Code (VTC).

There were no changes to the MPOC in the financial year. Gas Industry Co continues to 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.

Gas transmission security and reliability

The introduction of information disclosure requirements in 2012, as an element of a price-quality regime administered by the Commerce Commission under the Commerce Act 1986, greatly improved the transparency of pipeline security and reliability (S&R). In particular, the owners of open access transmission pipelines were required to publish their asset management plans (AMPs). However, stakeholders found the disclosed information difficult to understand, and concerns about transmission pipeline S&R remained. This prompted Gas Industry Co to review the factors influencing S&R and assess their adequacy.

Gas Industry Co's findings were published in the 2016 Security and Reliability Issues Paper, and in 2017, in a Security and Reliability Update Paper after ownership of the transmission system passed from Vector and MDL to Firstgas. This update considered whether the change in ownership had resolved any of the issues highlighted in the Issues paper, and how areas where the previous owners had different approaches had been aligned by the new owner. We have been working with Firstgas to respond to the eight outstanding items highlighted in this 2017 update paper. Once this review has been carried out by Firstgas, GIC will report back and follow-up on any further outstanding items.

Given the safety, financial, and reputational importance of S&R, Gas Industry Co will continue to maintain a watching brief and monitor AMPs and report on any significant matters as required.

Gas supply efficiency review

A question was raised by the industry at our 2020 Co-regulatory Forum as to whether there is benefit in understanding if any efficiency gains could be made in the end-to-end process of supplying gas, that would result in a reduction of emissions.

In this regard, Gas Industry Co set out to work with the industry during FY2020/2021 to gain an understanding as to whether a gas supply efficiency review would be beneficial. After consideration, we decided this work was being undertaken by the companies as a part of their own cost and emissions management and as such an industry wide review was not progressed.

Compliance and enforcement

The compliance regulations provide for monitoring and enforcement of the other gas governance rules and regulations. The compliance arrangements are designed as an efficient, low-cost means of determining or, where appropriate, settling rules/regulations breaches that raise material issues.

Overall, the industry has a high compliance rate and breach allegations from the past twelve months were minor and again predominantly associated with the reconciliation rules and switching rules.

The following charts record the number of breaches of the reconciliation rules and switching rules reported by the allocation agent, registry operator and industry participants as part of regular monthly reporting. In addition to these breaches, the market administrator also receives a number of breaches of the rules arising from participant audits that are undertaken on a three-yearly cycle. Audit breaches are reported and recorded differently to other breaches and are not included in the charts.

No breaches of the Gas Governance (Critical Contingency Management) Regulations 2008 have been reported since 2016.

The decline in the number of breaches of the reconciliation rules from financial year 2019 to financial year 2020 is due to a change in reporting of breaches of a particular rule.

See Figures 4 and 5 on page 23.

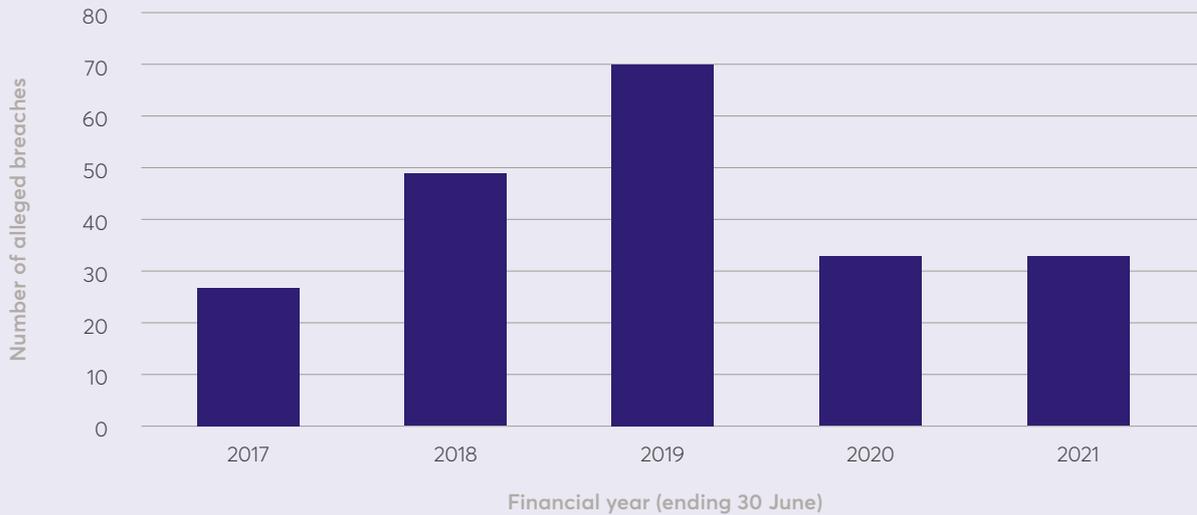
Figure 4. Alleged breaches of reconciliation rules

● Total alleged breaches



Figure 5. Alleged breaches of switching rules

● Total alleged breaches



Information disclosure

Gas Industry Co commenced a workstream in FY2019 to assess the level of information disclosure in the industry and investigate options to address any issues found.

The initial phase of the workstream focussed on understanding the possible problems with information transparency in the gas sector. We meet with energy sector stakeholders and held a workshop to discuss issues. Following these discussions, we released a discussion paper to further understand the range of information issues in the sector. Following this investigation phase we released a problem assessment paper, receiving submissions in late FY2020. From this problem assessment process, we concluded that work on gas production and storage facility outage information disclosure should be prioritised, with the next stage being the development of a statement of proposal.

We said that during FY2021 we would continue the statement of proposal process and on its completion begin the work required to deliver its proposed solutions. A draft statement of proposal was released in December 2020, with submissions due in March 2021. The focus of this proposal was whether the current Upstream Disclosure Code (developed by major gas producers and Firstgas) is a suitable, permanent solution or whether regulatory arrangements are required.

Following these submissions, we have started work on a final statement of proposal. The recommendation of this paper is that regulated information disclosure arrangements for gas production and storage facility outages should be developed.

We also said we would work with MBIE and the Electricity Authority on aligned work streams. Over the last two years, we have worked with the Authority on its wholesale market information disclosure project, which reviewed thermal fuel disclosure requirements in the wholesale electricity sector.

Hydrogen and biogas

In September 2019, the New Zealand Government published a green paper that lays out its vision for hydrogen in New Zealand. The paper discusses the potential for hydrogen to be blended with natural gas and distributed via the gas network. Following this document, a number of industry reports have been published relating to the viability of both hydrogen and biogas industries in New Zealand.

We said we would monitor the progress of any work undertaken by the industry that investigates the potential use of hydrogen in both transmission and distribution pipelines, and review arrangements in other international jurisdictions and if required, update any rules and regulations needed to support the inclusion of hydrogen.

We are continuing work with industry and regulatory agencies to create a common understanding of the regulatory roles and responsibilities, and potential gaps, relating to hydrogen and biogas. As a first step, we produced a draft regulatory placemat to assist with our own understanding and initiate conversations with the other affected regulatory agencies.

Further to this, Certified Energy have committed to the launch of a system for certification of renewable gas in New Zealand. The intent is to enable consumers to purchase certificates from renewable gas generators and to make claims based on these certificates.

In 2020, we engaged PwC to provide us with advice on international examples of renewable gas certification and considerations for the implementation of a New Zealand scheme. We are now working with Certified Energy, industry, and other affected regulatory agencies to understand what regulations, standards or industry processes may be required to support an effective and reputable certification industry.



In FY2021 Gas Industry Co released multiple commissioned reports that investigate the role of gas in a 100% renewable future and gas supply and demand projections.

Sector Coordinating Entity Role – COVID-19 Pandemic

This was a newly introduced workstream that was not anticipated in the previous Statement of Intent.

The COVID-19 pandemic that struck during 2020 highlighted the importance of natural gas for maintaining security of energy supply. This issue became important when considering repairs, maintenance and safe and efficient use of key assets and infrastructure. Gas Industry Co acted as the sector co-ordinating entity for the gas industry to:

- collate industry information on any risks to the New Zealand gas industry arising from the COVID-19 outbreak to inform MBIE's weekly reporting to Cabinet,
- provide MBIE with daily updates in relation to any emergent issues in the New Zealand gas industry,
- collate information from industry participants in relation to any key workers they require to be brought in from overseas to progress critical projects relating to the provision of essential services.

Provide gas market information and analysis that enables the industry to make informed decisions

Gas Industry Co has a role in providing information to support stakeholders in making better informed decisions, and we continue to see an important role in providing information on the state and performance of the gas sector.

In FY2021 Gas Industry Co released multiple commissioned reports that investigate the role of gas in a 100% renewable future and gas supply and demand projections.

The *Concept Consulting Gas demand and supply projections – 2021 to 2035*, was commissioned as supporting analysis for the Gas Market Settings Investigation and was published in May 2021 after multiple requests from industry.

Gas Industry Co has previously commissioned reports focussing on gas supply and demand over the long term and on particular aspects of the industry. Further occasional reports will be published, and existing reports updated, where they can be of value to the industry.

Statement of Intent and Annual Report

The Gas Act requires that the industry body provide its Annual Report to the Minister of Energy and Resources within three months of the end of the financial year (the Minister then tables it in the House of Representatives). Similarly, annual Statements of Intent (SOI) are required to be submitted to the Minister for comment prior to being finalised and published.

The final Gas Industry Co Statement of Intent 2022–2024 was delivered to the Minister on 1 July 2021, published on our website along with the 2022 levy regulations, and gazetted.

Other reporting

Gas Industry Co is required by the Gas Act to report on the present state and performance of the gas industry. It does this through publications including Switching Statistics and Quarterly Reports.

A series of white, overlapping, semi-circular wavy lines that create a pattern resembling ocean waves, positioned in the upper half of the page.

Work programme achievements against GPS objectives and outcomes

Work programme achievements against GPS objectives and outcomes

Gas Industry Co's strategic objectives – facilitate gas governance and markets that deliver gas in a safe, efficient, fair, reliable, and environmentally sustainable manner, act as a trusted adviser to government and industry and facilitate the industry through the energy transition – are aligned with the objectives and outcomes contained in the Gas Act and GPS. The Company's diverse workstreams help the Company move toward meeting those objectives and outcomes.

We have found it helpful to group the Gas Act and GPS objectives and outcomes under five categories – efficiency, reliability, safety, environment and fairness.

GIC work programme	Gas Act, GPS objectives and outcomes alignment				
	Efficiency	Reliability	Safety	Environment	Fairness
Gas market settings investigation	✓	✓	●	✓	✓
Critical contingency management	✓	✓	✓	✓	✓
Electricity price review	✓	●	●	●	✓
Advanced gas metering	✓	●	●	●	●
Retail gas contracts oversight scheme	✓	●	●	●	✓
Gas distribution contracts oversight scheme	✓	●	●	●	✓
Downstream reconciliation	✓	●	●	●	✓
Switching and registry	✓	●	●	●	✓
Compliance and enforcement	✓	✓	✓	✓	✓
Other reporting	✓	✓	●	●	✓
Implement a formal D+1 system	✓	●	●	●	✓
Information disclosure	✓	✓	●	●	✓
Gas transmission pipeline access	✓	✓	✓	●	✓
Monitor and support the potential use of hydrogen and biogas in transmission and distribution pipelines	✓	✓	✓	✓	✓
Green gas certification scheme for biogas and hydrogen	✓	●	●	✓	✓
Sector Coordinating Entity Role – COVID-19 Pandemic	✓	✓	✓	✓	✓
Provide gas market information and analysis that enables the industry to make informed decisions	✓	✓	●	●	✓



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, 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 levies and fees being 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 (see **Figure 6 on page 30**), although wholesale levy revenue was down in 2021 due to decreased gas production. Revenue 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.

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.

Effective co-regulation

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 7 below**, actual expenditure increased in 2021 and we expect this to continue in 2021/22.

In the year ended 30 June 2021, operating expenses were \$5,189,718, against the Statement of Intent budgeted expenses of \$4,886,182. This largely reflects the cost of unbudgeted workstreams, particularly the gas market settings investigation initiated by the Minister in December 2020.

Gas Industry Co's equity reserve as at 30 June 2021 has two components – the industry advances reserve of \$87,628, and retained earnings of \$782,000.

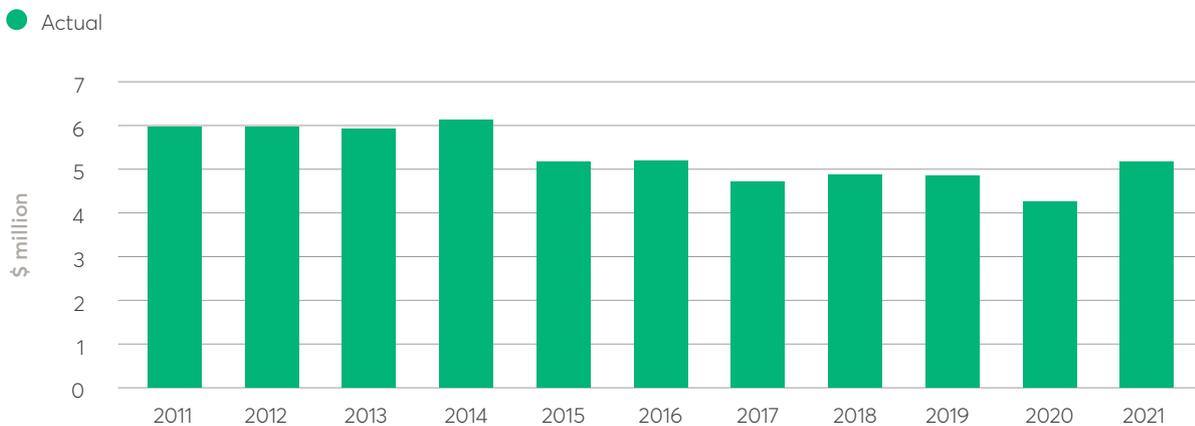
The industry advances reserve comprises the over-recovery of levy revenue. The Board's practice has been to return such over-recoveries, subject to retaining adequate capital reserves, as soon as practicable after the annual accounts have been received by shareholders at the Company's Annual Meeting. In December 2020, surplus levies from FY2020 totalling \$243,296, were returned to industry participants.

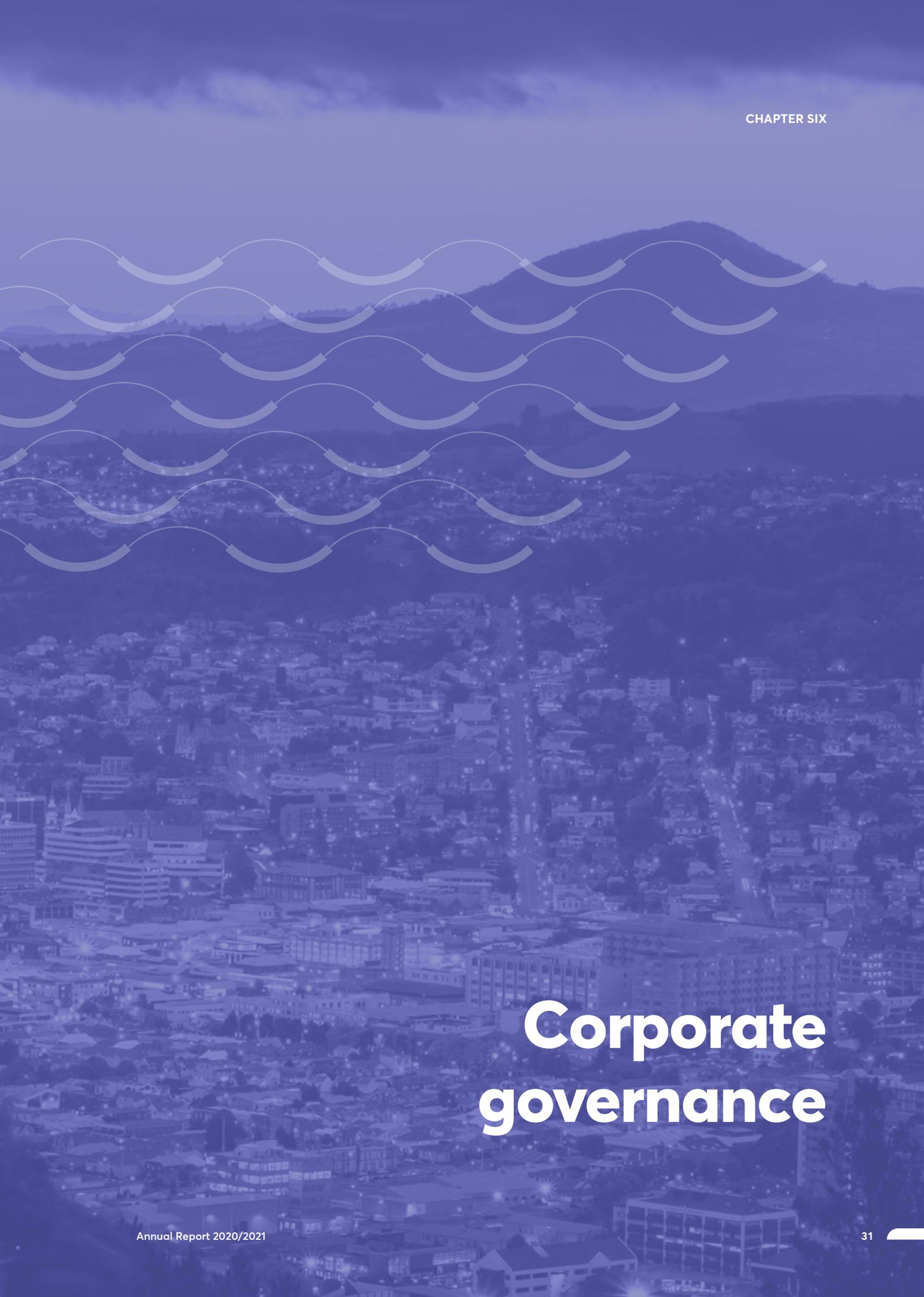
Retained earnings are the accumulation of the shareholders' annual fees and are set aside as a reserve against future contingencies. They do not impact on the levy calculation.

Figure 6. Revenue



Figure 7. Operating expenses





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 2021.

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.

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



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.

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
- Chair, Kāpiti Council Community Assessment Panel
- 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



Corporate governance

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 Kāinga Ora.

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 Māngai Pāho/Māori broadcasting funding agency and Waikato Means Business.

Interests register

No interests relevant to Gas Industry Co



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



Paul Goodeve

Industry-Associated Director

Appointed 21 June 2021

Paul is the CEO of the Firstgas Group, being appointed in 2016 following the purchase of Vector gas assets and the Maui pipeline from Maui Partners. The Firstgas Group has subsequently purchased New Zealand's largest LPG retailer, Rockgas, and New Zealand's only gas storage facility, Ahuroa.

Paul is a Chartered Accountant, Barrister and Solicitor of the High Court of New Zealand and a member of the Institute of Directors. Paul is currently Director of Liquigas.

Interests register

- Chief Executive Officer, Firstgas Group
- Director, Liquigas



Babu Bahirathan

Industry-Associated Director

Appointed 12 March 2021

Babu is Vice President Downstream Energy and Chief Executive Officer Nova Energy. Babu graduated from the University of Canterbury with a Bachelor of Engineering, Electrical and Electronics with first class honours. He has since completed study towards a Masters in Finance from Massey University.

After graduating, Babu joined Transpower NZ as Assistant Development Engineer. He went on to spend nine years there in a wide range of roles including planning, development, design, operations and new investments. Babu was Technical Manager on various development projects and his last role with Transpower was as Team Leader in the Pricing Group, responsible for designing and implementing pricing methodology for transmission cost recovery.

In 1999 Babu joined Todd Energy as a Business Analyst just as Todd entered the retail electricity market. He has played a major role in developing and managing Todd's electricity business from its infancy. Babu held the position of Group Manager Electricity from 2006 until 2011 when he moved into his current role. He is responsible for the Todd Corporation's wholesale and retail gas and electricity businesses.

Interests register

- Vice President Downstream Energy, Todd Corporation
- Chief Executive Officer, Nova Energy
- Director of various other Todd Corporation subsidiaries



Other Directors who served during the year

Nigel Barbour, BCom, LLB

Industry-Associated Director

Appointed 21 November 2013, resigned 18 June 2021

Interests register

- Chief Executive Officer, Powerco Limited
- Member, New Zealand Electricity Networks Association

Stuart Dickson

Appointed 22 May 2014, resigned 18 June 2021

Interests register

- Alternate for Mr Barbour
- Officer, Powerco Limited
- Chair, Gas Association of New Zealand

Gabriel Selischi

Industry-Associated Director

Appointed 16 November 2016, resigned 29 January 2021

Interests register

- Director, OMV New Zealand Limited
- Director, OMV GSB Limited
- Director, Maui Development Limited
- Director, Petroleum Infrastructure Limited
- Director of the following Australian companies:
OMV Barrow Pty Ltd; OMV Beagle Pty Ltd;
OMV Petroleum Pty Ltd
- Non-executive Director, Sapura OMV JV

Patrick Teagle

Appointed 23 February 2017, resigned 29 January 2021

Interests register

- Alternate for Mr Selischi
- Head of Commercial and Legal, OMV

Alternate Directors

Catherine Thompson

Appointed 3 June 2014

Interests register

- Alternate for Mr Fuge
- Officer, Contact Energy Limited
- Director, Contact Energy Trustee Company Limited
- Director, Simply Energy Limited
- Director, Western Energy Resources Limited
- Board Member, Electricity Retailers Association Incorporated

Charles Teichert

Appointed 13 April 2021

Interests register

- Alternate for Mr Bahirathan
- Officer, Nova Energy Limited

Attendance

The Board met on nine occasions during the year ended 30 June 2021. At other times, matters that required the Board's attention were addressed by circular resolutions.

Directors	Meetings attended
J Bolger	9
R Hill	9
A Brown	9
P McLean	8
N Barbour	9
M Fuge	6
B Bahirathan	3
G Selischi	2

Alternate Directors	Meetings attended
C Thompson	3
C Teichert	1
P Teagle	2

Directors' remuneration

Directors' remuneration is authorised by ordinary resolution of shareholders and is paid to the independent directors only.

The current maximum level of directors' fees, being \$275,000, was authorised by shareholders in 2004. Annual fee payments of \$93,500 for the Chair, \$63,360 for the Deputy Chair, and \$52,800 for the other two independent directors were set by the Board in June 2007. Directors' remuneration payments in respect of the year ended 30 June 2021 were:

Directors	\$
J Bolger (Chair)	93,500
R Hill (Deputy Chair)	63,360
A Brown	52,800
P McLean	52,800
N Barbour	–
G Selischi	–
M Fuge	–
B Bahirathan	–
P Goodeve	–

Indemnification of directors

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

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

Annual meeting

The Company's Annual Meeting was held on 26 November 2020.

Mr Nigel Barbour and Mr Gabriel Selischi both retired at the meeting in accordance with the director rotation provisions of the Company's constitution. Being eligible they were both re-elected as industry-associated Directors.

Ms Parekawhia McLean and Mr Mike Fuge, both appointed to fill casual vacancies since the previous Annual Meeting, retired at the meeting in accordance with the Company's Constitution. Being eligible they were both re-elected – Ms McLean as an Independent Director, and Mr Fuge as an industry-associated Director.

In his address to the meeting, the Company's Chair, the Rt. Hon. Jim Bolger, noted Gas Industry Co is changing its priorities in response to New Zealand's long-term demand and supply outlook. The energy transition will raise difficult social and economic issues. As a nation we will need to be proactive in responding. As an industry, the gas sector needs to play our part in balancing affordability, security, and sustainability.

Gas Industry Co's role is to assist our shareholders, to transition in an orderly way. In recognition, its strategic focus is on three areas:

- Gas governance;
- Managing industry systems and processes; and
- Being a trusted adviser.

The Chair noted that the Company continues to be very grateful to its shareholders for their ongoing support and engagement and looks forward to another productive year ahead.

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 five 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.



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 2021	
\$100,001–\$110,000	2
\$110,001–\$120,000	1
\$140,001–150,000	1
\$150,001–160,000	1
\$160,001–170,000	1
\$420,001–430,000	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.



Financial statements

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 2021.

The Board of Directors of the Company authorised the financial statements presented on pages 44 to 54 for issue on 17 August 2021.

For and on behalf of the Board.



Rt Hon James B Bolger, ONZ

Chair

17 August 2021



Robin G Hill

Deputy Chair

17 August 2021



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 44 to 54:

- present fairly in all material respects the company's financial position as at 30 June 2021 and its financial performance and cash flows for the year ended on that date; and
- 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 2021;
- » 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 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('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.

Other information

The Directors, on behalf of the company, are responsible for the other information included in the entity's Annual Report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 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

17 August 2021

Gas Industry Company Limited

Statement of Comprehensive Revenue and Expenditure

For the year ended 30 June 2021

	Notes	Actual 2021 (\$)	Actual 2020 (\$)
Revenue from exchange transactions			
Operating income	4	4,685,540	5,110,339
Interest income		24,437	37,740
		4,709,977	5,148,079
Refunded levy income	4	(243,296)	(155,928)
Net income		4,466,681	4,992,151
Expenditure			
Operating expenditure	5	5,189,718	4,268,023
		5,189,718	4,268,023
Surplus/(deficit) before tax		(723,037)	724,128
Income tax expense	6	6,842	10,567
Surplus/(deficit) for the year		(729,879)	713,561
Other comprehensive revenue and expenditure		–	–
Total comprehensive revenue and expenditure for the year		(729,879)	713,561

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 2021

	Industry Reserves (\$)	Retained Earnings (\$)	Total Equity (\$)
<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
<i>Balance at 1 July 2020</i>	843,507	756,000	1,599,507
Total comprehensive revenue and expenditure for the year			
Surplus/(deficit) for the year	–	(729,879)	(729,879)
Other comprehensive revenue and expenditure	–	–	–
Total comprehensive revenue and expenditure for the year	–	(729,879)	(729,879)
Transfer between equity reserves			
Industry advances reserve transfers	(755,879)	755,879	–
Balance at 30 June 2021	87,628	782,000	869,628

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

Gas Industry Company Limited

Statement of Financial Position

As at 30 June 2021

	Notes	Actual 2021 (\$)	Actual 2020 (\$)
ASSETS			
Current assets			
Cash and cash equivalents	7	1,740,491	2,119,358
Trade and other receivables	8	40	10
Prepayments		119,976	108,088
Income tax receivable	6	–	–
Total current assets		1,860,507	2,227,456
Non-current assets			
Property, plant and equipment		79,298	62,948
Intangible assets		3,464	6,638
Total non-current assets		82,762	69,586
Total assets		1,943,269	2,297,042
LIABILITIES			
Current liabilities			
Trade and other payables	9	845,259	471,341
Employee entitlements		228,369	226,181
Redeemable shares	11	13	13
Total current liabilities		1,073,641	697,535
Total liabilities		1,073,641	697,535
Net assets		869,628	1,599,507
EQUITY			
Industry reserves	12	87,628	843,507
Retained earnings	12	782,000	756,000
Total equity		869,628	1,599,507

These financial statements were authorised for issue by the signatories below on 17 August 2021.

On behalf of the Board

 Chair

 Deputy Chair

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 2021

	Actual 2021 (\$)	Actual 2020 (\$)
Operating activities		
<i>Cash was provided from</i>		
Levy revenue	3,362,605	3,817,318
Market fee revenue	1,389,264	1,272,501
Annual fees	26,000	26,000
Interest received	24,437	37,740
Net GST	–	–
	4,802,306	5,153,559
<i>Cash was applied to</i>		
Payments to suppliers	(2,973,503)	(2,276,663)
Payments to employees	(1,736,453)	(1,756,867)
Payments to directors	(262,460)	(232,236)
Refund of levy to industry participants	(243,296)	(187,206)
Taxes paid	(6,842)	(10,567)
Net GST	(11,860)	(3,042)
	(5,234,414)	(4,466,581)
Net cash inflows from operating activities	(432,108)	686,978
Investing activities		
<i>Cash was applied to</i>		
Purchase of property, plant and equipment	53,241	8,506
Purchase of intangible assets	–	–
Term deposit	–	–
Net cash outflows from investing activities	53,241	8,506
Net increase/(decrease) in cash and cash equivalents	(378,867)	695,484
Opening cash and cash equivalents	2,119,358	1,423,874
Closing cash and cash equivalents	1,740,491	2,119,358

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 2021.

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 17 August 2021.

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 certain 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 four and six years.

"Industry assets" relate to the databases created and established for the downstream reconciliation and switching and registry rules.

(d) Trade creditors and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of 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 2021 (\$)	Actual 2020 (\$)
Wholesale levy revenue	1,839,773	2,040,055
Retail levy revenue	1,522,462	1,776,954
Market fee revenue	1,297,305	1,267,330
Annual fees	26,000	26,000
Total operating income	4,685,540	5,110,339
Refunded levy income	(243,296)	(155,928)

5. Operating expenditure	Actual 2021 (\$)	Actual 2020 (\$)
Depreciation and amortisation	41,414	28,390
Operating lease expenses	264,850	275,940
Fees paid to audit firm – financial statement audit	20,000	20,000
Fees paid to audit firm – other services	–	–
Bad debts	–	6
Directors' fees	262,460	266,860
General expenses	361,818	330,785
Recruitment expenses	19,543	93,847
Technical, economic, and legal advice	1,212,544	226,994
Service provider fees	1,266,272	1,216,127
Kiwisaver contributions	48,403	49,102
Employee benefit expense	1,692,414	1,759,972
Total operating expenditure	5,189,718	4,268,023

6. Income tax	Actual 2021 (\$)	Actual 2020 (\$)
(a) Income tax expense		
Current year income tax expense	6,842	10,567
Deferred tax movement	–	–
Total income tax expense	6,842	10,567
(b) Reconciliation of current year income tax expense		
Surplus/(deficit) for the year	(723,037)	724,128
Income tax expense at 28 per cent	(202,450)	203,035
Permanent differences	209,292	(192,468)
Timing differences	–	–
Current year income tax expense	6,842	10,567
(c) Income tax receivable		
Opening balance	–	–
Tax refunds received	–	–
Current year income tax expense	(6,842)	(10,567)
Income tax paid	6,842	10,567
Closing balance	–	–

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

7. Cash and cash equivalents

	Actual 2021 (\$)	Actual 2020 (\$)
Bank account	996	1,114
Interest bearing account	1,739,495	2,118,244
Total	1,740,491	2,119,358

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 2021 (\$)	Actual 2020 (\$)
Levy debtors	40	10
Total	40	10

9. Trade and other payables

	Actual 2021 (\$)	Actual 2020 (\$)
Accounts payable	454,099	216,034
Accrued expenses	390,378	226,727
Levy debtors	–	–
GST payable	782	28,580
Total	845,259	471,341

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 2021 (\$)	Actual 2020 (\$)
Salaries and other short-term employee benefits	869,652	865,167

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

The above includes remuneration of \$262,460 (30 June 2020 \$266,860) paid and payable to the independent Directors for the year.

11. Redeemable shares

	Actual 2021 (\$)	Actual 2020 (\$)
Redeemable shares – value in dollars	13	13
Redeemable shares – number	13	13

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 2021 (\$)	Actual 2020 (\$)
Industry advances reserve	87,628	843,507
Retained earnings	782,000	756,000
Total equity reserves	869,628	1,599,507
(a) Industry advances reserve		
Opening balance	843,507	155,946
Transfer from/(to) retained earnings	(755,879)	687,561
Closing balance	87,628	843,507

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.

(b) Retained earnings

	Actual 2021 (\$)	Actual 2020 (\$)
Opening balance	756,000	730,000
Surplus/(deficit) for the year	(729,879)	713,561
Transfer from/(to) Industry advances reserve	755,879	(687,561)
Closing balance	782,000	756,000

13. Contingencies

As at 30 June 2021, the Company has no contingent liabilities (2020: nil). There is an arrangement with Westpac New Zealand Limited whereby Gas Industry Company Limited has a business card facility (limit \$100,000) and a payroll letter of credit facility (limit \$180,000).

14. Commitments

(a) Capital commitments

The Company has no material capital commitments (2020: nil).

(b) Operating lease commitments

	Actual 2021 (\$)	Actual 2020 (\$)
<i>Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:</i>		
Within one year	251,330	251,330
Later than one year but not later than five years	356,051	607,381
Later than five years	–	–
Total	607,381	858,711

(c) Service provider commitments

<i>Service provider agreements for the downstream reconciliation, switching and registry and critical contingency management rules payable as follows:</i>		
Within one year	1,075,524	761,424
Later than one year but not later than five years	1,343,808	1,161,080
Later than five years	–	–
Total	2,419,332	1,922,504

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.

Gas Industry Company Limited

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Auditors

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Bankers

Westpac New Zealand Limited



Gas Industry Co.