



**GAS** INDUSTRY  
COMPANY LIMITED

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Strategic Plan 06 | 08

The Gas Industry Company Limited is a newly established entity, owned by New Zealand gas industry participants and established to fulfil the role of the industry body under the Gas Act 1992.

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The Gas Act states that the principal objective of the Gas Industry Company Limited, in recommending gas governance regulations, is to ensure that gas is delivered to existing and new customers in a safe, efficient and reliable manner.



## Our Purpose

To fulfil the role of the industry body under the Gas Act 1992; and

To work with the gas industry to develop outcomes that meet the Government's policy objectives as stated in the Government's Policy Statement on Gas Governance.

## Our Approach

Gas Industry Co is committed to:

Wherever possible, developing industry-led solutions to issues facing the gas industry in New Zealand;

Being consultative with industry participants and consumers;

Adopting principled but pragmatic approaches to meeting its objectives;

Being professional and independent, with transparent processes;

Acting with integrity, responsibility and respect; and

Achieving high standards of excellence.

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## Chairman's Foreword

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**Introduction** It is with pleasure that the Board presents the first Strategic Plan for the Gas Industry Company Limited (Gas Industry Co). The Gas Industry Co has a pivotal role in the future development of the gas industry in New Zealand. Gas is an energy source that is critical to the New Zealand economy as it currently provides approximately 30% of New Zealand's total primary energy.

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The gas sector is currently undergoing a significant transition as supply moves from a dominant field, Maui, to a number of smaller fields. In parallel with this supply transition there needs to be a transition to a new set of market institutions, contractual and regulatory arrangements. These include arrangements for access to key infrastructure and to support the development of the wholesale and retail markets.

The gas sector has been given a unique opportunity to make an active contribution to its own regulatory environment through the approval of the Gas Industry Co as the co-regulatory body, to regulate the industry in co-operation with the Government. The Gas Industry Co is able to make recommendations to the Minister of Energy on a range of matters affecting governance of the gas sector including rules and regulations on the wholesaling, retailing, processing, transmission and distribution of gas.

It is important to note that the Gas Industry Co was created by the gas industry to fulfil the role of the "industry body" as defined in the Gas Act. Both the Government and the gas industry seek the development of **industry-led solutions** to the Government's required outcomes. The Government's

Policy Statement on Gas Governance (GPS), released in October 2004 states this point. It is the Gas Industry Co's strong desire to promote industry-based cooperative arrangements and/or market-based contractual solutions. Where this is not possible, the Gas Industry Co will recommend rules and regulations to the Minister.

### Strategic Plan

While this plan covers the financial years ending 30 June 2006 to 2008, the Gas Industry Co is in an establishment phase at the time of the preparation of this report. Over time, the detailed work plan is likely to change as a result of the work being undertaken by the various working groups recently established and new matters that come to the attention of the Gas Industry Co.

The Gas Industry Co has a strong desire to keep all stakeholders fully informed and involved in its processes. Our general work plan involves the utilisation of working groups along with industry briefing opportunities. The Gas Industry Co is committed to full and open consultation.

We encourage readers to view this Strategic Plan as a living document that should be read in conjunction with the

quarterly reports that we propose to make to the industry. It should be noted that we will publish a Strategic Plan on an annual basis. Naturally, our second Strategic Plan will contain considerably more certainty as to the work programme and other matters as the Gas Industry Co will then have had approximately 18 months to establish itself and deliver its initial work programme.

During the first seven months that the Gas Industry Co has been in existence it has set about establishing itself as a stand-alone entity and developing its work programme to address the requirements of the GPS. The work programme set out in this strategic plan outlines what the Gas Industry Co plans to accomplish over the next three financial years and how it intends to undertake that work. We will be liaising with the industry over the next year to understand the issues that the industry has, as well as the matters that the GPS requires the Gas Industry Co to address.

### Corporate Development

The Board are delighted that we have been able to recruit an exceptionally talented Chief Executive to lead the Gas Industry Co through its development. Christine Southey brings with her a wealth of experience in the energy sector and in leading the establishment of new entities, including her recent experience as a Commissioner for the Electricity Commission.

This document sets out the key tasks to be undertaken in the development of the Gas Industry Co. The company will also be publishing its Annual Report in August and regular Quarterly Updates on the company's website to provide more information on the development of the company.

### Concluding Remarks

The Gas Industry Co has the challenging task of meeting the dual expectations of the gas industry and Government by delivering a set of arrangements and structures that will allow the development of the wholesale and retail gas markets.

There is a preference by industry and Government to use industry based co-operative arrangements and market solutions as much as possible. The commercial incentives on the various gas market participants will make this a challenging process, but should lead to market structures that are well founded. The Board considers that succeeding in this environment requires consultation and consensus building.

The Gas Industry Co represents an exciting development in the regulatory environment in New Zealand and an important development in an industry that has a very significant impact on the New Zealand economy. The Board and Chief Executive of the Gas Industry Co look forward to the challenges ahead and working with both industry and Government to find solutions to the outcomes required under the GPS and, where appropriate, by industry.

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**Rt. Hon. Jim Bolger, ONZ**

*Chairman*

29 June 2005



## Introduction

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**Legislative Background** The Gas Industry Co is a company incorporated under the Companies Act 1993. It was established by the New Zealand gas industry to be the industry body under the Gas Act 1992.

The changes to the Gas Act made in late 2004 that enabled the establishment of an industry body were as a result of a comprehensive review of the gas sector undertaken by the Government during 2001 and 2002. The objective of that review was to ensure the gas sector could meet the Government's overall energy policy objective, which is to ensure that energy is delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner. Specifically in relation to gas, the Government's objective is:

To ensure that gas is delivered to existing and new customers in an efficient, fair, reliable and environmentally sustainable manner.

In its Policy Statement released in March 2003<sup>1</sup>, the Government invited the gas industry to establish a governance structure and work programme to deliver on the expectations set by the Government in that statement. The Policy Statement stated that the Government favoured industry-led solutions where possible, but that it was prepared to use regulatory solutions where necessary. This arrangement was consistent with a regime based on self regulation.

The Gas Industry Steering Group (GISG)<sup>2</sup> was formed to respond to the Policy Statement. Following consideration of the requirements and the proposed self regulatory governance structure, that group advised the Government that the industry would require some form of regulatory backing to achieve the Government's objectives and outcomes. The Government agreed with the GISG's position and changes to the Gas Act were enacted to give effect to a co-regulatory model of governance.

To provide for a co-regulatory model of governance the Government published a new policy statement in October 2004 entitled the Government Policy Statement on Gas Governance (GPS). The GPS sets out the specific outcomes that the Government expects the Gas Industry Co and/or the gas industry to develop. The Gas Act provides for the Government to create an Energy Commission if the industry body does not achieve the Government's required objectives.

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<sup>1</sup> *Government Policy Statement: Development of New Zealand's Gas Industry, March 2003*

<sup>2</sup> *A group comprising gas industry participants and consumer representatives, refer [www.gisg.org.nz](http://www.gisg.org.nz)*

## Co-Regulation

The development of a "co-regulatory" model for the gas industry stems from the Government's desire for industry-led solutions but it also recognises the inherent difficulty in creating rules to govern the industry that are enduring and mandatory for all industry participants.

The Gas Industry Co considers that, to be successful, co-regulation of the gas industry requires a partnership between the industry and the Government.

The current regime operates under the threat of direct regulation if the industry is unable to develop its own solutions. The benefits of industry-led solutions are numerous, including:

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- *industry arrangements are developed using the expertise already existing within the industry, which is likely to result in more efficient outcomes; and*
  - *industry arrangements can be developed and changed more quickly and at less cost than if developed by a Government regulator.*
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The co-regulatory regime addresses some of the potential issues that can occur with self-regulation. The Gas Act contains several measures designed to avoid the potential downsides to a self regulated environment including regular reporting requirements on the Gas Industry Co to both the Minister and the industry and the ability of the Minister to ultimately appoint an Energy Commission. Further checks and balances were included in the criteria for approval as a co-regulatory body. These requirements are outlined in the following section.

## The Industry Body

The Gas Act requires that any body to be approved as the industry body needs to:

- *be broadly inclusive of industry participants (membership is not compulsory);*
- *have a board with a majority of independent members, including an independent chair;*
- *be capable of delivering outcomes that meet the Government's objectives for the gas industry;*
- *have governing rules with objectives consistent with the objectives set out in section 43ZN of the Gas Act relating to developing recommendations on the wholesaling, processing, transmission, distribution and retailing of gas;*
- *allow all industry participants, except service providers appointed under any gas governance regulation, to become members of the industry body; and*
- *have rules requiring it to regularly report to the Minister on the performance and state of the gas industry, the body's performance and achievement of its objectives and other relevant matters.*

The Gas Industry Co was approved as the industry body by Order in Council on 22 December 2004.

## Basis for preparing this Strategic Plan

This Strategic Plan is prepared under the requirements of sections 43ZQ to 43ZV of the Gas Act.

The October 2004 GPS has been instrumental in the development of this Strategic Plan and the strategic priorities for the period covered by the Plan.

The Gas Industry Co intends to fully consult with the gas industry to understand what other outcomes are sought. As a consequence, the work programme may change. However, delivery of the outcomes required by the GPS will be a priority.

## Purpose and structure of this Strategic Plan

This Strategic Plan sets out the Gas Industry Co's intentions regarding strategy, operations, capability and performance over the next three years and prioritises the work to meet the policy objectives in the 2005/06 financial year.

In developing this Strategic Plan, the Gas Industry Co Board has had regard to the objectives of the industry body as set out in the Gas Act, the outcomes required by the GPS and the strategic priorities set out in the GPS. The work programme outlined in this plan is based on the GPS required outcomes and priorities.

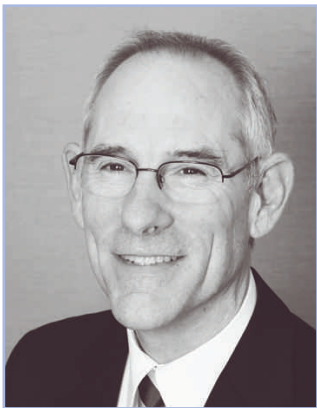
The Gas Industry Co will assess its progress on achieving the objectives, outcomes and strategic priorities, as set out in the GPS, by the outputs, performance measures and delivery milestones as set out in this Strategic Plan. The Gas Industry Co will report quarterly to the Minister, as required by the Gas Act, and will also regularly update the industry on progress, through quarterly reports and the Gas Industry Co's annual report.



# Gas Industry Company

**Gas Industry Co Board** The Gas Industry Co has a board comprising seven non-executive directors, four of whom (including the Chairman) are independent of the gas industry.

			
<p><b>RT HON JAMES B BOLGER</b></p>	<p><b>ROBIN G HILL</b></p>	<p><b>DENIS K CLIFFORD</b></p>	<p><b>MARK J VERBIEST</b></p>
<p>ONZ, Chairman and Independent Director</p>	<p>Deputy Chairman, and Independent Director B Comm, FCA Fellow of ICANZ</p>	<p>Independent Director BA, LLB (Hons)</p>	<p>Independent Director LLB</p>
<p>Jim has had a distinguished career in politics, which includes being Prime Minister of New Zealand from October 1990 to December 1997, holding ministerial positions for 16 years and leading the National Party for 12 years. He was New Zealand's Ambassador to the United States of America from June 1998 to January 2002.</p> <p>Jim is currently chairman of several organisations in addition to the Gas Industry Co, including New Zealand Post and its subsidiary Kiwibank, Express Couriers Limited, the Advisory Board of the World Agricultural Forum and the Ian Axford Fellowships in Public Policy. He is also a Trustee of the Rutherford Trust, President of the NZ/US Council and a Patron of the Institute of Rural Health.</p>	<p>Robin has an extensive background in financial and business management. He was Chairman and Chief Executive of PricewaterhouseCoopers New Zealand from 1992 to 2003. He was also a member of the firm's Global Board from 1992 to 1995 and the Executive Advisory Group from 1999 to 2000.</p> <p>Robin has provided a wide range of advisory services to a number of large corporates, including several energy companies.</p>	<p>Denis has significant experience in the areas of commercial law (particularly banking, company and securities) and public law. He is also chair of the Electricity Commission's Transmission Advisory Group.</p> <p>Prior to working as an independent barrister, Denis was a Senior Partner at Buddle Findlay and held the positions of Senior Banking and Commercial Partner, 1990 to 2001, Managing Partner, 1991 to 1993, and Board Member, 1990 to 2001. Since commencing practice as an independent barrister, Denis has undertaken work on a range of commercial and public law matters.</p>	<p>Mark has extensive experience of regulatory structures and competition law, as well as previous involvement in the energy sector. Mark is Group General Counsel for Telecom Corporation of New Zealand and is a member of the Telecom Senior Executive Committee.</p> <p>Prior to joining Telecom in 2000, he was a senior partner at Simpson Grierson specialising in corporate, securities, competition and energy-related law.</p>



STEPHEN P BARRETT

BSc - Electrical Engineering  
BA -Mathematics

Stephen is the Chief Executive of Contact Energy and has a broad background in gas wholesaling and retailing and electrical power generation. Stephen worked for Edison International (Contact Energy's former majority owner) from 1972 to 2004, holding various management positions in the utility, Southern California Edison, and the independent power company, Edison Mission Energy.

Prior to taking up his current role with Contact Energy, Stephen was EME's Regional Vice President, responsible for Business Development in the Asia Pacific Region.



MARK X FRANKLIN

Bachelor of Electrical Engineering

Mark is the Chief Executive Officer of Vector Limited and is a Director of NGC. He has experience in the energy and technology sectors in New Zealand, Australia and Japan.

Mark has held a number of leadership roles including Chief Executive of Orion Energy in the Hunter Valley, NSW, and Asia Pacific General Manager of IBM Global Services Australia for utilities.

Mark also spent ten years with the Electricity Commission of NSW and three years with Pacific Power Australia. He was also previously general manager of WELNet, a subsidiary of the WEL Energy Group.



DONALD L MORGAN \*

BA

Don is Chairman and Chief Executive Officer of Swift Energy New Zealand and Chairman of the Petroleum Exploration and Production Association of New Zealand.

Prior to working at Swift Energy, he was involved in construction projects in the Republic of Panama, including a Crude Oil Trans-Shipments Terminal, as Country General Manager. Don has also been involved in numerous petrochemical construction projects in the US. He also worked for 8 years at the Texas Pipeline Company, a subsidiary of Texaco Inc, as Project Manager, North Texas.



*\*At the time of preparation of this Strategic Plan, Donald Morgan had indicated to the board that he will retire as a Director following the June board meeting, to take up the position of President, Swift Energy International, based in the United States. The board has decided it is not practicable to appoint a replacement Director before the Company's Annual General Meeting in September.*

*Mr Morgan was originally appointed by the board to fill the casual vacancy created by Phil James' resignation following the takeover of NGC Holdings by Vector.*



### Gas Industry Co Executive

The Gas Industry Co's Chief Executive, Christine Southey, was appointed in May 2005. Ms Southey was most recently a Commissioner on the Electricity Commission from 2003 to immediately prior to joining the Gas Industry Co.

Christine has an extensive background in the energy sector. She was formerly a partner in a national law firm, the Legal Services Director at Contact Energy during its establishment phase, General Counsel and Company Secretary for Genesis Power during its establishment and a consultant to the energy sector between 1999 and 2003. Christine was also a Director of Solid Energy from 1999 to 2004.

An early priority for the new Chief Executive will be establishing Gas Industry Co as a stand alone entity and recruiting a core team of internal advisers to oversee the work necessary to achieve the milestones set out in the work programme.

### Gas Industry Co Advisory Groups

An important part of the Gas Industry Co structure is its working groups. The Gas Industry Co has appointed a number of industry and consumer representatives to its three working groups that it has created to address specific outcomes required by the GPS. The working groups are:

<b>Wholesale Markets</b>	<b>Chair</b>	<i>Chris Graham</i>
<b>Switching and Registry</b>	<b>Chair</b>	<i>Bill Heaps</i>
<b>Model Contracts</b>	<b>Chair</b>	<i>Bill Heaps</i>

The Wholesale Markets Working Group will also consider the transmission and distribution objectives set out in the GPS, once the interim open access arrangements for the Maui pipeline have been finalised.

The working groups were established following nominations from industry participants and consumer representatives. The Gas Industry Co's approach to the establishment of the working groups was to have as broad a representation from industry and consumer stakeholders on the working groups as possible, within the constraints of having an effective group.

The terms of reference for the working groups, their work programme, work papers, minutes of their meetings and other background information are available at the Gas Industry Co's website at:

<http://www.gasindustry.co.nz>

The intended outcomes of the working group are also summarised in the Gas Industry Co's work programme outlined later in this Plan.



## Objectives and Strategic Goals

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**Objectives of Gas Industry Co** The principal objective of the Gas Industry Co, in recommending gas governance regulations, is to ensure that gas is delivered to existing and new customers in a safe, efficient and reliable manner.

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The other objectives of the Gas Industry Co, in recommending gas governance regulations, are:

- *the facilitation and promotion of the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements*
  - *that barriers to competition in the gas industry are minimised*
  - *that incentives for investment in gas processing facilities, transmission and distribution are maintained or enhanced*
  - *that delivered gas costs and prices are subjected to sustained downward pressure*
  - *that risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties*
  - *that consistency with the Government's gas safety regime is maintained.*
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### Strategic Goals

The principal strategic goal of the Gas Industry Co is to develop industry based solutions to address the issues in the industry that impact on the delivery of gas to existing and new customers in a safe, efficient and reliable manner.

Influencing the Gas Industry Co's principal strategic goal are the following goals:

- *that processing facilities are able to be accessed efficiently, while still preserving incentives for investment*
- *that efficient and non-discriminatory arrangements for pipeline access are developed that provide sufficient certainty to enable efficient investment in exploration and commercialisation of gas*

- *that arrangements for balancing of gas in pipelines are undertaken at least cost and are consistent with a competitive wholesale market*
  - *that pipeline capacity rights which are secured through long-term contracts can be efficiently traded*
  - *that standardised trading arrangements are developed to facilitate an efficient market which makes gas a more flexible fuel option*
  - *that national outage arrangements are developed that are consistent with the commercial rights secured in the wholesale market, and with customer contracts*
  - *that agreements providing for standardised, non-discriminatory use of distribution networks are developed to facilitate retail competition*
  - *that effective and efficient reconciliation and balancing arrangements are developed at the retail level*
  - *that efficient customer registry and switching arrangements are created*
  - *that an effective customer complaints arrangement is created*
  - *that model customer contracts are developed which are fair, equitable and efficient in relation to the relationship between customers and retailers.*
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Over time, the Gas Industry Co's views on the priorities of various issues will evolve. The Gas Industry Co will engage closely with the industry and gas consumers to develop its views.



# Gas Industry Co Work Programme

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**Introduction** The Gas Industry Co has developed a work programme based around the priorities set in the GPS. The initial priorities set in the GPS are short-term in nature, but this Strategic Plan is to cover the period until June 2008. The work programme for the period after the delivery of the current GPS priorities will be developed in conjunction with the industry and the Government, in accordance with the development work programme set out in this Plan.

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## Work Programme to be Undertaken Through Working Groups

The Gas Industry Co has established three working groups currently: Wholesale Markets, Model Contracts and Switching and Registry. The specific GPS targets for 2005 which have been allocated to those working groups are set out below.

The terms of reference for the Gas Industry Co's working groups are published on the Gas Industry Co's website at: <http://www.gasindustry.co.nz>

Where appropriate, arrangements developed to address the initial priority issues will seek to utilise contractual solutions by the industry. However, where necessary, the Gas Industry Co will recommend regulations or rules to the Minister.

## Wholesale Markets

The Wholesale Markets Working Group is chaired by Chris Graham, an experienced consultant to the energy industry

and formerly a member of the establishment team for the Electricity Commission and a Senior Executive with both NGC Holdings and the Transpower Establishment Board. The members of the working groups are:

Chris Graham	Independent Chair
Terrence Currie	Independent
James Flexman	Carter Holt Harvey
Liz Kelly	Contact Energy
Syd Hunt	MultiGas/E-Gas
Duncan Jarad	Mighty River Power
Roger Johnston	Genesis Power
Brian McLaughlin	Powerco
Rodney Deppe	Todd Energy
Paul Hodgson	NGC Holdings
Murray Jackson	Shell Oil New Zealand

In establishing its Wholesale Markets Working Group, the Gas Industry Co has combined the issues relating to transmission and distribution outcomes and the wholesale markets and processing outcomes contained in the GPS for consideration by one working group. The transmission and distribution objectives of the GPS are largely dependent on the interim open access regime currently being negotiated, for the Maui transmission pipeline (independently of the Gas Industry Co). The objectives contained in the GPS are detailed below.

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*The development of protocols and standards applying to wholesale gas trading, including quality standards, balancing and reconciliation*

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The Wholesale Markets Working Group has been tasked with addressing how the specification of the gas allowed into the common grid should be determined and developing an appropriate, efficient and effective balancing and reconciliation mechanism.

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*The development of a secondary market for the trading of excess and shortfall quantities of gas*

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Many market participants have entitlements to gas reserves with varying degrees of flexibility in the delivery profiles

over time. These entitlements are mostly matched to electricity generation requirements and to wholesale and retail gas market shares, but clearly adjustments will be required over time. At present, exchanges are achieved through non-standardised bilateral agreements. The GPS invites the Gas Industry Co to explore whether there are cost effective ways of facilitating these trades. Similarly, the GPS raises the possibility that there may be cost effective ways of facilitating exchanges of contracted entitlements to transmission.

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*The establishment of protocols that set reasonable terms and conditions for access to gas processing facilities*

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The working group is to investigate the issues relating to access to gas processing facilities and the options for enhancing competition in the production and wholesale markets.

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*The establishment of an open access regime across transmission pipelines*

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Competitive wholesaling requires that producers and their downstream customers have non-discriminatory access to the transmission system.



*Wholesale Markets Working Group*



The GPS required the delivery of open access regimes across transmission pipelines by 31 March 2005. An industry-led process was well underway for the development of an open access regime for the Maui Pipeline at the time of the Gas Industry Co's formation and the Minister advised the Gas Industry Co not to become actively involved in the initial development of the open access regimes. As a consequence, the Gas Industry Co has not had any substantive involvement in this process.

The Gas Industry Co will discuss with the Minister and the industry any future role of the Gas Industry Co in relation to these issues once the current negotiations are completed.

*The establishment of consistent standards and protocols across distribution pipelines, and the establishment of gas flow measurement arrangements to enable effective control and management of gas*

The working group will investigate the access arrangements provided by distribution networks and assess those arrangements against the GPS competition objectives. It will also consider the merits of a more standardised approach across various distribution pipelines to reduce the costs of entry for retailers and enhance retail competition.

## Retail Market Development: Model Contracts

*The development of model contract terms and conditions between consumers and retailer*

The Model Contracts Working Group is chaired by Bill Heaps, an experienced energy sector participant and consultant.

The working group comprises:

Bill Heaps	Independent Chair
David Russell	Consumers Institute
Catherine Ansley	Min of Consumer Affairs
Peter Rutledge	GreyPower
Pamela Caird	Contact Energy
Clive Bull	Vector
Gavin Chambers	E-Gas
Shaun Hayward	Mighty River Power
Trevor Starr	Genesis Power
Stephen Nicholls	Powerco
Lucy Daniels	NGC Holdings

In addition, Judi Jones, the Electricity and Gas Complaints Commissioner, sits on the working group as an observer.

The Model Contracts Working Group has been established to examine contractual issues arising between retailers and their customers and develop contract guidelines and model arrangements for domestic retail contracts.

## Retail Market Development: Switching and Registry

*The standardisation and upgrading of protocols relating to customer switching, so that barriers to customer switching are minimised*

The Switching and Registry Working Group is also chaired by Bill Heaps. The working group members are:

Bill Heaps	Independent Chair
Pat Cunniffe	Consumer representative
Carol Stigley	Consumer representative
Rod Crone	Contact Energy
Gavin Chambers	E-Gas
Nigel Bonser	Vector
John Candy	Mighty River Power
Tracey Kaio	Genesis Power
Sue Simons	Powerco
Ewan Gebbie	NGC Holdings

The Switching and Registry Working Group has been established to consider mechanisms to facilitate effective and accurate switching and other relevant processes. The working group has the benefit of accessing the work previously undertaken by the Gas Reconciliation Code Working Group in early 2003, including draft revised protocols for customer switching and registering.



*Rod Crone, Switching Registry Working Group  
& Christine Southey, Chief Executive*

## Additional Work Programmes the Gas Industry Co is Undertaking

### Retail Market Development: Consumer Complaints

*The development of efficient and effective arrangements for the proper handling of consumer complaints*

The Gas Industry Co's work in relation to consumer complaints is largely completed following its recommendation to the Minister of the Electricity and Gas Complaints Commissioner Scheme. The addition of gas to the existing electricity scheme was coordinated by a GISG working group and the Gas Industry Co recommended the new Scheme to the Minister in March 2005. The Scheme came into effect for gas complaints on 1 April 2005.

The Gas Act also requires a complaints scheme to be developed in relation to land owner and land occupier disputes. The current electricity and gas consumer complaints scheme does not provide for such disputes and a similar expanded scheme is required to be developed for the electricity industry.

A working group established by the Electricity and Gas Complaints Commission, Electricity Networks Association and Transpower has invited the Gas Industry Co to have a representative on that group. The Gas Industry Co will actively work with those bodies to reach a solution that it is able to recommend to the Minister. To that end, the Gas Industry Co has asked Clive Bull of Vector to be its representative on the working group. Mr Bull chaired the GISG's working group on the consumer complaints scheme.



*Bill Heaps, Judi Jones, Pamela Caird, Catherine Ansley,  
of the Model Contracts Working Group*



## Gas Industry Co Development

As a recently established entity, the Gas Industry Co has a work programme to develop its own capabilities and processes. Under the leadership of its Chief Executive, the Gas Industry Co intends to develop a small and efficient internal team to manage its overall work programme.

Critical to the Gas Industry Co are its working groups, which have independent chairs appointed to manage the outcomes required under each group's terms of reference. Those chairs are supported by secretariats as needed and expert technical support will be contracted to assist the groups or the Gas Industry Co in evaluating the recommendations of the working groups.

An important part of the Gas Industry Co's development is the creation of processes and procedures for addressing how the Gas Industry Co is to operate. The Gas Industry Co's stated approach is to operate with transparency and its processes and procedures will be developed with consultation where appropriate and will be promulgated on its website.

## Gas Industry Co Reporting

Regular communications with the industry (including gas consumers), Minister and officials are important to the Gas Industry Co. The Gas Act requires the Gas Industry Co to report regularly on its progress. The Gas Industry Co intends to report quarterly to both the Minister, as required by the GPS, and to the industry. The quarterly reports will include a discussion on the Gas Industry Co's progress against the GPS objectives and the work programme set out in this Strategic Plan.

The Gas Industry Co also intends to hold a seminar on the gas industry at least annually, with the first industry seminar being scheduled for October 2005.



*Switching and Registry Working Group*

# Performance Targets and Measures for 2005/06



The principal outputs of the Gas Industry Co over the 2005/06 year will be the delivery of the outcomes required by the GPS, regular reporting to the Minister and the industry and the further development of the Gas Industry Co's processes to establish it as a leading industry-owned, co-regulatory body, operating in conjunction with the Government.

The following table outlines the performance targets and measures by which the Gas Industry Co will be assessed for the 2005/06 year. The table focuses on the major items in the work programme where specific measurable performance targets can be set. Therefore, the table below does not exhaustively list all of the activities that the Gas Industry Co will undertake. Further, the work programme contains some milestones which should probably be regarded as stretch targets.

As previously referred to, the Gas Industry Co has a strong desire for arrangements (of which rules and regulations are a sub-set) to be developed through industry-led contractually based arrangements, rather than regulation. However, where necessary, the Gas Industry Co will recommend regulations

and rules to the Minister. The Gas Industry Co's working groups have been drawn from industry and consumer representatives where practicable and asked to develop proposed arrangements. All arrangements proposed by the Gas Industry Co will be consulted widely with industry participants and consumers.

A number of the activities outlined under Wholesale Markets and Transmission and Distribution Networks below are dependent on, or affected by, the outcome of interim open access negotiations for the Maui Pipeline. The Gas Industry Co is awaiting further developments in relation to that process, which is being monitored by the Ministry of Economic Development.

Activity	Performance Measure 05/06	Target
<b>Wholesale Markets: Gas Specification</b> Review gas specification issues and advise Gas Industry Co board on issues relating to market efficiency	Report to Gas Industry Co	30 September 2005
Consult on proposed arrangements and options and analyse submissions	Consultation undertaken	By 31 December 2005
Final report to Gas Industry Co	Final report submitted	By 28 February 2006

Activity	Performance Measure 05/06	Target
<b>Wholesale Markets Development</b> Review of issues and report to Gas Industry Co board on matters associated with: <ul style="list-style-type: none"> <li>• balancing and reconciliation;</li> <li>• current and potential future wholesale trading in the New Zealand gas market;</li> <li>• current and potential future capacity trading arrangements.</li> </ul>	Initial scoping report completed and presented to Gas Industry Co board	30 November 2005
<b>Wholesale Markets: Security of Supply</b> Investigate issues in relation to security of supply and gas outage contingency plans	Report to Gas Industry Co board on issues completed	By 30 September 2005
<b>Distribution Pipelines: Access</b> Review current issues with respect to pipeline access and analyse impact on market efficiency	Report to Gas Industry Co board	31 December 2005
<b>Distribution Pipelines: Gas Flow Measurement</b> Review existing gas flow measurement arrangements and issues relating to gas flow inhibiting competition	Report to Gas Industry Co board	31 December 2005
<b>Retail &amp; Consumer Arrangements: Model Contracts</b> Research retail contract issues and design guidelines and model contracts	Complete report on retail contract issues and develop guidelines and model contract arrangements	31 August 2005
Consult on proposed new arrangements and analyse submissions	Complete consultation and report on preferred arrangement	1 November 2005
Review uptake and effectiveness of proposed new arrangements	Report on retail contract arrangements	1 November 2006
Research distribution contract issues and design guidelines and model contracts	Complete report on distribution contract issues and develop guidelines and model contract arrangements	31 October 2005
Consult on proposed new arrangements and analyse submissions	Complete consultation and report on preferred arrangement	1 March 2006
Review uptake and effectiveness of proposed new arrangements	Report on distribution contract arrangements	1 March 2007

Activity	Performance Measure 05/06	Target
<b>Retail &amp; Consumer Arrangements: Switching and Registering</b> Design scope and functionality of appropriate registry for gas customer switching	Complete industry consultation on scope and functionality	31 August 2005
Appoint service provider to advise on registry solutions and evaluate proposals	Recommendations on preferred registry solution	30 October 2005
Design rules and protocols for operation of registry arrangements and implement	Completed rules and registry function established	1 February 2006
Review registry operations against defined objectives	Publish review report	1 February 2007
<b>Retail &amp; Consumer Arrangements: Consumer Complaints</b> Incorporation of land owner / land occupier of disputes in disputes scheme	Recommendation of expanded scheme to Minister for approval	December 2005
	Implementation of Scheme	April 2006
<b>Gas Industry Co Development</b> Recruitment of internal resources	Establish small internal team	September 2005
Prepare best practice procedures for regulatory body	Prepare and publish procedures	November 2005
Gas Industry Co develops comprehensive communication strategy	Comprehensive Gas Industry Co website developed	August 2005
<b>Gas Industry Co Reporting</b> Regular reporting to Minister	Quarterly Reports	July 2005 October 2005 January 2006 April 2006
Regular reporting to industry	Quarterly Reports	July 2005 October 2005 January 2006 April 2006
Liaison with industry	Hold briefing day	October 2005
	Regular meetings with CEOs and regulatory officers	

Activity	Performance Measure 05/06	Target
<b>Financial</b> Gas Industry Co operates within budget	The Gas Industry Co operates within its budget	30 June 2006
Gas Industry Co meets terms of loans from shareholders	The Gas Industry Co achieves repayment of 50% of its shareholder establishment loans	30 June 2006
The Gas Industry Co establishes 2007 levy	Levy implemented	By 30 June 2006

In addition to the specific items included in the table above, the Gas Industry Co will develop its capabilities in line with its medium-term objectives, including having sufficient capability to serve a leadership role in the industry.

In consultation with the Minister, officials and the industry, the Gas Industry Co will develop a work programme that addresses the other objectives that it has which are currently not part of the deliverables under the GPS. The work programme past the current financial year will include addressing those objectives as required, together with the implementation of the detailed rules developed by the wholesale market working group, reviewing the uptake and effect of the retail model contracts, reviewing effectiveness of customer switching protocols and publishing information on the gas industry consistent with Gas Industry Co goals.

The Gas Industry Co will develop a format for monitoring gas markets and will seek to make information available to market participants on the market, within the bounds of commercial sensitivity. This form of market surveillance will be needed to inform Gas Industry Co policy, and will also promote better informed competition in the market.

As market rules are adopted, there will be a need for enforcement processes to be put in place. We envisage that we will be able to learn significantly from the developments of the Electricity Commission in this regard.



# Financial Statements

In accordance with section 43ZR of the Gas Act, the Gas Industry Co's forecast financial statements are set out overleaf.

## Forecast Statement of Financial Performance

For the period ending 30 June (\$'000)	Forecast 2004/05 (8 months)	Budget 2005/06 (12 months)
<i>Revenue</i>		
Levy	-	3,600
Shareholders annual fees	100	150
Interest	15	-
Other	175	-
<b>Total revenue</b>	<b>290</b>	<b>3,750</b>
<i>Expenses</i>		
Audit fees	5	5
Board	150	315
Depreciation		56
Establishment	928	75
General Expenses	*	318
Occupancy	-	90
Personnel	32	1,090
Working groups	50	1,200
<b>Total Expenses</b>	<b>1,165</b>	<b>3,149</b>
<b>Surplus / (Deficit)</b>	<b>(875)</b>	<b>601</b>

\* Included in Establishment expenses for 2004/05 period

The board and executive of the Gas Industry Co will manage the company in a prudent and efficient manner, seeking to control the costs of the organisation. The board will monitor the expenditure of the company to ensure that there are strong disciplines in place to prevent unnecessary expansion of the costs of co-regulatory arrangements. The company is committed to industry based solutions to the requirements of the GPS, achieved at least cost to the industry and consumers.

## Forecast Statement of Movement in Equity

For the period ending 30 June (\$'000)	Forecast 2004/05 (8 months)	Budget 2005/06 (12 months)
<i>Shareholders' equity</i>		
<b>Opening balance</b>	-	(875)
Surplus / (deficit)	(875)	601
Capital contributions	-	-
<b>Closing balance</b>	<b>(875)</b>	<b>(274)</b>
<i>Shareholders' loans</i>		
<b>Opening balance</b>	-	1,500
Contributions	(1,500)	-
Repayments	-	(750)
<b>Closing balance</b>	<b>(1,500)</b>	<b>750</b>
<b>Total shareholders' funds</b>	<b>625</b>	<b>476</b>



## Forecast Statement of Financial Position

As at 30 June (\$'000)	Forecast 2004/05	Budget 2005/06
<i>Current assets</i>		
Bank	500	352
Debtors	175	-
Other	-	-
<b>Total current assets</b>	<b>675</b>	<b>352</b>
Fixed assets	-	193
<b>Total assets</b>	<b>675</b>	<b>545</b>
<i>Current liabilities</i>		
Payables	50	50
GST payable	-	19
Other	-	-
<b>Total current liabilities</b>	<b>50</b>	<b>69</b>
<i>Non current liabilities</i>	-	-
<b>Total liabilities</b>	<b>50</b>	<b>69</b>
<b>Net assets</b>	<b>625</b>	<b>476</b>
<i>Represented by</i>		
Share capital	-	-
Shareholders' loans	1,500	750
Retained earnings (losses)	(875)	(274)
<b>Total shareholders' funds</b>	<b>625</b>	<b>476</b>

The Gas Industry Co has been funded to 30 June 2005 primarily from loans provided by its shareholders. Limited recourse loans totalling \$1 million have been provided by NGC Holdings Limited, Contact Energy Limited, Vector Limited and Genesis Power Limited. The forecast financial position as at 30 June includes the expectation of a further \$500,000 of loans prior to that date. The Company is well advanced in discussions with Wanganui Gas Limited, Shell (Petroleum Mining) Company Limited, Powerco Limited, Mighty River Power Limited and OMV New Zealand Limited in relation to shareholder loans. Should shareholders provide loans greater than \$500,000, the Company's cash balance will increase proportionately. The loans are to be repaid over the two years following the implementation of the levy or by 31 December 2007, whichever is the earlier.

## Forecast Statement of Cash Flows

For the period ending 30 June (\$'000)	Budget 2005/06 (12 months)
<i>Cash flows from operating activities</i>	
Levy income and annual fees	3,750
Operating expenses	(3,092)
Net GST	19
Change in working capital	175
<b>Net cash flows from operating activities</b>	<b>852</b>
<i>Cash flows from investing activities</i>	
Capital purchases	(250)
<b>Net cash flows from investing activities</b>	<b>(250)</b>
<i>Cash flows from financing activities</i>	
Shareholder Loan repayments	(750)
<b>Net cash flows from financing activities</b>	<b>(750)</b>
<b>Net cash flows</b>	<b>(148)</b>
Opening cash balance	500
<b>Closing cash balance</b>	<b>352</b>

## Statement of Contingent Liabilities and Commitments

The Gas Industry Co has no known contingent liabilities or assets.

The Gas Industry Co's lease commitment in relation to its premises is being finalised at the time this Strategic Plan is written. It is expected that the lease commitment will be from 1 July 2005 to 30 May 2009 at an annual rental of approximately \$82,000.

The Gas Industry Co has no significant service provider commitments.

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## Statement of Accounting Policies

**Reporting Entity:** The Gas Industry Co is a company incorporated under the Companies Act 1993. These prospective financial statements have been prepared in accordance with section 43ZR of the Gas Act and the Financial Reporting Act 1993.

**Measurement Base:** These financial statements have been prepared on the historical cost basis.

**Particular Accounting Policies:** The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The following particular accounting policies, which materially affect the measurement of financial performance, financial position and cash flows, have been applied consistently:

- **Revenue:** Revenue is derived from the Gas Industry Co levy imposed under Subpart 2 of Part 4A of the Gas Act 1992, from annual fees charged to shareholders and from interest on deposits. Such revenue is recognised when earned and is reported in the financial period to which it relates.
- **Taxation:** The Gas Industry Co is not intending to be in a tax payable position over the forecast period either by being in a loss position or because it is operating on a cost recovery basis.
- **Goods and Services Tax (GST):** The statement of financial performance and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

- **Accounts receivable:** Accounts receivable are carried at estimated realisable value after providing against debts where collection is doubtful.
- **Employee entitlements:** Employee entitlements to salaries and wages, annual leave, long service leave and other benefits are recognised when they accrue to employees.
- **Financial Instruments:** Financial instruments carried on the statement of financial position include cash and bank balances, investments, receivables, trade creditors and borrowings. Except for those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.
- **Depreciation:** Depreciation of fixed assets is provided on a straight line basis, so as to allocate the depreciable amount of assets over their useful lives. The depreciable amount is the historical cost. The estimated useful lives are:

Category	Estimated Useful Life
IT – Hardware & Software	3 – 5 Years
Office Equipment	4 – 6 Years
Leasehold Improvements	Term of Lease

- **Statement of cash flows:** The following are the definitions of the terms used in the statement of cash flows:
  - Operating activities include all transactions and other events that are not investing or financing activities.
  - Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments.

- Financing activities are those activities that result in changes in the size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash.
- Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.

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## Statement of significant underlying assumptions followed in compiling forecast financial statements

The following assumptions have been made in the development of the forecast financial statements:

- These forecast financial statements comply with generally accepted accounting practice. The measurement base applied is historical cost.
- Accrual accounting has been used to prepare these financial statements.
- These statements have been prepared on a going-concern basis.
- The annual levy of \$3.6 million plus GST is assumed to be effective from 1 July 2005 and is paid monthly. Any monthly levy not payable due to the date on which the levy regulation comes into force will be paid on the 20th of the month following the levy regulation coming into force.
- The annual fee paid by shareholders will remain at \$10,000 per annum and an additional five shareholders will join the Gas Industry Company.

- Repayment of shareholder loans is made as intended (the loans are to be repaid over two years).
- Expenses for working groups include the cost of:
  - Payments to group Chairs and members, where the member is not in the paid employment of an industry participant;
  - Technical advice to groups;
  - Legal costs;
  - Secretariat services to the Chairs/working groups.
- The costs of the working groups will be approximately 50% retail related and 50% wholesale related.

The Gas Industry Co's budget is based on a best estimate of the costs to operate the company, recognising that it has no historical information to base its costs on and limited ability to alter the company's revenue other than the annual levy review process. The Gas Industry Co seeks to operate in a cost effective and transparent manner.



## Directory (as at 30 June 2005)

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### Gas Industry Company Limited

P O Box 10 646 Wellington

Telephone +64 4 472 8194

Facsimile +64 4 472 8195

Email [info@gasindustry.co.nz](mailto:info@gasindustry.co.nz)

Internet [www.gasindustry.co.nz](http://www.gasindustry.co.nz)

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*From August 2005 the Gas Industry Co will occupy offices at*

Level 9, State Insurance Building,  
1 Willis Street, Wellington.

*Prior to the that the offices are on  
Level 16, 113-119 The Terrace, Wellington*

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### Gas Industry Company Directors

**Right Honourable James (Jim) Bolger**, ONZ, *Chairman*

**Robin Hill**, *B Comm, FCA, Deputy Chairman, Independent Director*

**Mark Verbiest**, *LLB Independent Director*

**Denis Clifford**, *BA, LLB (Hons) Independent Director*

**Stephen Barrett**, *BSc – Electrical Engineering, BA – Mathematics*

**Mark Franklin**, *BE (Electrical)*

**Donald Morgan**, *BA*

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### Gas Industry Company Executive

**Christine Southey**, *BA (Hons), LLB, Chief Executive*

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**Legal Adviser** Richard Clarke, QC

**Secretariat** PricewaterhouseCoopers, Wellington

**Auditors** Grant Thornton, Wellington

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### Gas Industry Company Shareholders

Contact Energy Limited

Swift Energy New Zealand Limited

Shell (Petroleum Mining) Company Limited

NGC Holdings Limited

Vector Limited

Wanganui Gas Limited

OMV New Zealand Limited

Genesis Power Limited

Powerco Limited

Mighty River Power Limited

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