

» SCOPE OF OPERATIONS FY2012-2014



Strategic Plan

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This Strategic Plan has been prepared by Gas Industry Company Limited (Gas Industry Co) to fulfil the requirements of sections 43ZQ to 43ZV of the Gas Act 1992 (the Gas Act). It sets the intended Scope of Operations for financial years 2012-2014.

A handwritten signature in black ink, appearing to read 'Jim Bolger'.

Rt Hon James B Bolger, ONZ
Chair

A handwritten signature in black ink, appearing to read 'Robin Hill'.

Robin Hill
Deputy Chair

June 2011

1. Introduction

Gas Industry Co was established in 2004 and, in December of that year, it was approved as the industry body under Part 4A of the Gas Act 1992. The Act empowers Gas Industry Co to make recommendations to the Minister of Energy on certain matters set out in the Act, having regard to the objectives of the Act and any objectives or outcomes set by Government in the Government Policy Statement on Gas Governance (GPS).

In the six years that Gas Industry Co has operated, there have been two revisions of the GPS, the most recent being in April 2008. We have submitted, and the Minister has accepted, six recommendations for gas governance arrangements (both regulatory and non-regulatory) that seek to achieve the objectives of the GPS. As well, the focus that Gas Industry Co has placed on other issues that concern gas industry participants has seen improvements in behaviour and efficiency that have been beneficial for the industry and the country. Gas Industry Co has itself a strategic goal of 'optimising the contribution of gas to New Zealand'.

With these gas governance arrangements in place, the Company has a significant market administration role. Some very significant policy issues remain to be addressed in the infrastructure (transmission and distribution) area (see below), but a primary activity will be monitoring industry compliance with the rules and regulations now in place, and improving the effectiveness of those arrangements.

The key issue for the infrastructure area is addressing the capacity constraint on Vector's North Pipeline, including both a short-term issue of apparent limited supplier choice for end users, and a longer term issue of how to avoid future constraint. Gas Industry Co will also examine contractual arrangements on distribution networks, industry

arrangements for monitoring gas quality, and possible improvements to shipper information through daily allocations.

In the market operations area, the Company has been pleased to see the rules and regulations that it set in place improve the operation of the gas market. There has been a marked increase in switching activity (from approximately 1,000 to 3,000 switches per month; an increase in the rate of switching from less than 5% to over 15%). There has also been an increase in the speed of switching. Prior to the switching registry going live, switches could take months to process; under the Rules, switches must take no longer than 23 business days, and the average switching time is about 7.5 days. The net effect is to remove barriers to switching, which facilitates competition among retailers to win and retain customers. As well, the rules that monitor and ensure accuracy of gas volume reconciliations have proved highly valuable.

These systems made it possible to identify and manage significant market breaches by one retailer, which subsequently declared itself insolvent and went into liquidation. This raised new challenges for the industry, and Gas Industry Co was asked by the Ministry of Economic Development to assist in drafting back-stop regulations to protect consumers who, with no retailer to sell to them, might have

faced the loss of gas supply. In the end, the customer base was sold to another gas retailer, and Gas Industry Co worked with the liquidator, purchasing retailer, and the Gas Registry Operator to ensure the smooth transfer of ICPs on the Gas Registry to the acquiring retailer.

Gas Industry Co looks forward to continuing to work with the industry and Government to meet challenges raised either through the operation of the existing gas governance arrangements, or those that might arise from the policy development activity. Gas Industry Co is committed to working through the co-regulatory model to improve the already significant contribution of the gas sector to New Zealand's economy.



Rt Hon James B Bolger, ONZ
CHAIR



Steve Bielby
CHIEF EXECUTIVE

June 2011

2. Operating Environment

2.1 INDUSTRY BODY

Gas Industry Co is a special-purpose company, owned by gas industry participants, which was established to fulfil the role of the industry body under the Gas Act.

The industry body develops, in consultation with industry participants and other stakeholders, recommendations for new market arrangements. The Gas Act allows the Minister of Energy and Resources (the 'Minister')¹ to suggest objectives and outcomes through the GPS, to which Gas Industry Co must have regard when making recommendations. All new market arrangements must meet the objectives and outcomes for the gas sector set out in the Gas Act and in the GPS.

2.2 INDUSTRY CONTEXT

Natural gas plays a large role in the New Zealand economy and society. It contributes to employment, is used in homes for heating and cooking, in a wide variety of business applications, by large industries for manufacturing, and has a vital place in electricity generation.

The gas industry comprises a number of segments: exploration and production; wholesale market; and retailing. These segments are connected via the high-pressure transmission systems owned by Maui Development Limited (MDL) and Vector Gas Limited (Vector), and by local distribution networks owned by Powerco, Vector, Gasnet, and Nova Gas. These distribution networks are located only in the North Island.

Changes over the last decade have seen a greater number of players in the gas industry at all levels. This has occurred mainly as a result of the reduced supply role that the Maui field has played in recent years. As Maui reserves have declined, opportunity for production from new fields has increased.

¹ 'Minister' is defined in the Gas Act as the Minister with responsibility for administration of the Gas Act. On 1 February 2011, the ministerial warrant for Gas Industry Co, including policy and implementation, was transferred to the Associate Minister of Energy and Resources. References to the 'Minister' should be read as references to the Associate Minister, unless the context indicates otherwise.

2.3 REGULATORY FRAMEWORK

Under the Gas Act, the Minister has powers to make rules, or to recommend regulations, in respect of a wide range of gas governance matters. The industry body advises the Minister on the exercise of many of these powers under the 'co-regulatory' model. The Gas Act prescribes the procedures that Gas Industry Co must follow before making a recommendation to the Minister. These include the requirement for consultation and the obligation to assess the costs and benefits associated with any recommendation.

2.4 GOVERNANCE

Gas Industry Co is owned by shareholders who are industry participants. Its Board of Directors comprises four independent directors (having no material or financial interest in an industry participant) and three non-independent directors representative of the industry (usually senior executives of industry participants). The Board meets between 8-11 times per year and provides strategic oversight of the Company.

The Board has created two subcommittees: one is a general subcommittee for urgent matters arising outside of the usual meeting schedule (comprising the Chair and Deputy Chair, and one non-independent director); the other is the Independent



Directors' Subcommittee, which has specific terms of reference for exercising decision-making powers in situations where the non-independent directors might appear to be conflicted.

The Chief Executive also has a delegation from the Board to make decisions on minor or non-controversial matters under certain approved gas governance arrangements.

2.5 RULINGS PANEL

Independence in the exercise of regulatory decision-making is further established through the functions of the Rulings Panel, appointed by the Minister to determine breaches of the gas governance rules and regulations referred to it by the independent Investigator.

The current Rulings Panel is a former High Court judge, Hon Sir John Hansen KNZM, and the independent Investigator is barrister Jason McHerron.

3. Scope of Operations

FY2012-2014

3.1 OBJECTIVES AND OUTCOMES

Gas Industry Co's scope of operations comprises those activities necessary to achieve the objectives set forth in the Gas Act, and the further outcomes sought by the GPS. These are summarised in Figure 1 on the next page.



3.2 POWERS AND FUNCTIONS

In pursuing these objectives and outcomes the Company has the following powers, responsibilities, and functions under its Constitution and the Gas Act:

- » Develop guidelines to assist industry achieve Government objectives and outcomes.
- » Use expertise and independence to facilitate improvements to industry codes to avoid regulated outcomes.
- » Recommend rules or regulations (mandatory arrangements made under delegations from Parliament).
- » Fulfil roles set out for the industry body in approved gas governance arrangements.
- » Assist industry participants to understand and comply with their obligations under approved gas governance arrangements.
- » Provide advice to the Minister on industry performance and in response to specific requests from the Minister.

FIGURE 1» DIAGRAM OF GAS ACT AND GPS OBJECTIVES

3.3 SCOPE OF INTENDED OPERATIONS OVER THE NEXT THREE YEARS

The Gas Act and GPS collectively identify a number of strategic priority areas:

- » Improving consumer outcomes;
- » Ensuring efficiencies in the retail market;
- » Enhancing infrastructure access arrangements;
- » Monitoring wholesale market trading arrangements;
- » Implementation of a critical contingency management system;
- » Advising the Minister on strategic issues affecting the gas sector; and
- » Establishing arrangements to ensure the effective operation of the co-regulatory model and the approved gas governance arrangements.

In the last six years, the Minister has accepted six recommendations from Gas Industry Co for new gas governance arrangements (regulatory and non-regulatory), and the Company has also established systems and processes to ensure the effective operation of the co-regulatory model.

During the next three years, the Company intends to complete the remaining outcomes in the GPS as well as fulfilling the various roles set out for it under approved gas governance arrangements. The Company is also required to monitor the effectiveness of the existing arrangements, which may result in further gas governance recommendations.

Following Vector's announcement in 2009 that its North Pipeline was operating at the limit of its physical deliverability, there has been mounting concern about the short- and long-term effects of this constraint. Large end-users, in and around Auckland region, claim that they no longer receive the number of competitive bids for gas supply they previously enjoyed. They are also concerned that no proposals to overcome the constraint are being actively discussed, and that this will restrict regional growth opportunities. A Gas Transmission Investment Project is being developed to meet the expectations of industry participants and Government, that commercial and regulatory arrangements must permit gas to make an optimal contribution to the New Zealand economy. Although the Company's pipeline access work has begun to deal with a number of these issues, we believe that a more comprehensive and co-ordinated approach is warranted.

The Company will continue to meet its co-regulatory accountabilities such as producing this Strategic Plan and its Annual Report for presentation to the House, convening an AGM for shareholders, providing quarterly reports to the Minister, and developing an annual recommendation for new levy regulations.

After considering submissions from the industry on its proposed work programme and levy, and having discussed strategic priorities with the Minister, Gas Industry Co has developed a specific plan of activities for FY2012², which is set out in Sections 4 and 5 of this plan.

Activity in subsequent years will depend on:

- » The progress and outcomes of the FY2012 work programme;
- » The level of resources secured by the Company (through the levy process); and
- » The capacity of industry participants to engage in and contribute to Gas Industry Co activities.

² The period from 1 July 2011 to 30 June 2012.

3.4 ESTABLISHING PRIORITIES FOR FY2012

In April 2008, the Government issued a new GPS with a list of outcomes for Gas Industry Co to pursue and report on. These outcomes amounted to a statement of work priorities for the Company and have formed a key input to its work programme since then. Although some work still remains to be completed, mainly in relation to the Infrastructure Access workstream, Gas Industry Co has now completed most of the outcomes required in the April 2008 GPS. With that in mind, the Company's Board, after consultation with industry, has considered its strategic priorities for FY2012 and, in general, the work expected to be undertaken includes:

- » Assessing the best means of ensuring that existing end-users supplied from a constrained transmission pipeline will continue to have an effective choice of supplier;
- » Reviewing the commercial and regulatory arrangements governing the use of, and investment in, transmission pipeline capacity (including availability of supply/ demand information, arrangements for allocating and pricing capacity), and assessment of new investment proposals;
- » Further investigating arrangements for monitoring the quality of gas and identifying any possible areas for improvement;

- » Carrying out a comprehensive update to the Gas (Downstream Reconciliation) Rules (the 'Reconciliation Rules');
- » Reviewing the Gas (Switching Arrangements) Rules, including against the revised rules for switching in the electricity sector, and considering whether there is a need for better alignment to address the needs of dual-fuel retailers;
- » Following recommendations from the Rulings Panel, Gas Industry Co expects to consult on changes to the Gas Governance (Compliance) Regulations;
- » Fulfilling the various roles set out for the Company under approved gas governance arrangements, and helping industry participants to comply with the new arrangements;
- » Providing advice on sector issues such as demand forecasting, and disclosure rules for access to private pipelines; and
- » Continuing to analyse and report on the performance of the gas industry.



4. Wholesale Work Plan

FY2012

4.1 INTRODUCTION

The Wholesale workstream comprises arrangements relating to the sale and purchase of wholesale gas and its transmission through high-pressure networks. It includes critical contingency management, administration of information disclosure with respect to gas processing facilities, access to transmission pipelines, and wholesale trading. The principal objective is:

REMOVING BARRIERS TO ACCESS AND ENSURING SECURITY OF SUPPLY

4.2 KEY ACTIVITIES

ACCESS TO GAS PROCESSING FACILITIES			
RATIONALE	OBJECTIVES & OUTCOMES	ONGOING ACTIVITY	DELIVERABLE
Statutory Role	Gas industry participants and new entrants are able to access third-party gas processing facilities under reasonable terms and conditions.	<ul style="list-style-type: none"> » Collect, monitor, and publish disclosed information. » Ensure all disclosures are kept up to date. » In the event of non-disclosure, assist in any enforcement actions. » Document any access issues that are brought to the attention of Gas Industry Co. » Report to the Minister one year prior to expiry of regulations in 2014. 	Completion of statutory role defined under Gas (Processing Facilities Information Disclosure) Rules 2008.

TRANSMISSION PIPELINE BALANCING			
RATIONALE	OBJECTIVES & OUTCOMES	ONGOING ACTIVITY	DELIVERABLE
GPS Task	Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions.	<p>Balancing Assess balancing market developments.</p>	Provide advice to Minister on balancing market developments by February 2012.

INTERCONNECTION			
RATIONALE	OBJECTIVES & OUTCOMES	ONGOING ACTIVITY	DELIVERABLE
GPS Task	Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions.	<p>Open Access Monitor two new interconnection arrangements on each transmission pipeline.</p>	Advise Minister of any new interconnection issues by 2013.
		<p>Private Pipelines Investigate the extent, if any, of issues relating to access to private pipelines.</p>	Provide advice to Minister by June 2012.

DISTRIBUTION			
RATIONALE	OBJECTIVES & OUTCOMES	ONGOING ACTIVITY	DELIVERABLE
GPS Task	<p>Gas industry participants and new entrants are able to access distribution pipelines on reasonable terms and conditions.</p> <p>Consistent standards and protocols apply to the operations relating to access for all distribution pipelines.</p>	<ul style="list-style-type: none"> » Monitor and report on progress on updating of network services agreements. » Develop and publish distribution contract benchmarks. » Encourage publication of network services agreements. 	Monitor and report to Minister annually on status of distribution arrangements.
INDUSTRY FACILITATION			
RATIONALE	OBJECTIVES & OUTCOMES	ONGOING ACTIVITY	DELIVERABLE
GPS task	Facilitating nexus between industry and Government.	Facilitating, influencing and communicating with industry to optimise the contribution of gas to New Zealand.	
Contractual Role (Memorandum of Understanding (MOUs) with Vector & MDL)	Multilateral terms of access need a process to ensure ongoing relevance and efficiency.	Processing MPOC change requests and VTC change request appeals in accordance with the relevant MOU.	Progress all rule changes according to MOUs.
TRANSMISSION PIPELINE CAPACITY			
RATIONALE	OBJECTIVES & OUTCOMES	ONGOING ACTIVITY	DELIVERABLE
Statutory Role	<ul style="list-style-type: none"> » Barriers to competition are minimised. » Incentives for investment in gas transmission are maintained or enhanced. » Risks relating to transport arrangements are properly and efficiently managed. 	Address by regulatory or non-regulatory options any lessening of competition due to transmission constraints.	Decision taken on any necessary governance arrangements.
GPS Task	The full costs of transporting gas are signalled to consumers.	<p>Implement a Gas Transmission Investment Project to meet transmission objectives for the longer-term, including:</p> <ul style="list-style-type: none"> » Improving the quality and availability of pipeline security standards and supply/demand information. » Promoting changes to commercial and regulatory arrangements so the objectives can be met. 	Decisions taken to address any commercial and regulatory barriers to investment.

GAS QUALITY			
RATIONALE	OBJECTIVES & OUTCOMES	ONGOING ACTIVITY	DELIVERABLE
GPS Task	The quality of gas services, as far as possible, reflects customers' preferences (where those services include a trade-off between quality and price).	Continue work on review of industry arrangements for managing gas quality. Consider options for improving these arrangements.	Report findings to Minister by June 2012.

CRITICAL CONTINGENCY MANAGEMENT			
RATIONALE	OBJECTIVES & OUTCOMES	ONGOING ACTIVITY	DELIVERABLE
Statutory Role	Sound arrangements for the management of gas critical contingencies.	<p>This is covered by:</p> <ul style="list-style-type: none"> » Undertaking statutory roles as required by Regulations. » Managing Critical Contingency Operator via service provider agreement. » Review effectiveness of Regulations after any events / exercises. » Operation of critical contingency pool following an event. 	<ul style="list-style-type: none"> » All roles defined under the Gas Governance (Critical Contingency Management) Regulations 2008 are performed. » Annual exercise held by June 2012 (if no incident).

4.3 RISKS IN ACHIEVING OBJECTIVES

The achievement of delivery milestones can be affected by, among other things, consultation feedback, the emergence of new issues in the gas sector, the availability of industry and Company resources, and parallel actions by other regulatory agencies.

5. Retail Work Plan

FY2012

5.1 INTRODUCTION

The Retail workstream comprises activity relating to the supply of gas through distribution networks to end-users, incorporating transportation and energy components of supply. It includes arrangements for customer switching, the reconciliation and allocation of gas quantities between retailers, metering arrangements, customer information, governance of supply contracts, and consumer complaints resolution. The principal objective is:

IMPROVING MARKET EFFICIENCY AND CONSUMER OUTCOMES

5.2 KEY ACTIVITIES

SWITCHING & REGISTRY			
RATIONALE	OBJECTIVES & OUTCOMES	ONGOING ACTIVITY	DELIVERABLE
Statutory Role	Effective and efficient customer switching arrangements that minimise barriers to customer switching.	<p>Oversight of Switching Rules including:</p> <ul style="list-style-type: none"> » Managing the Registry Operator under the service provider agreement, including performance review. » Providing the interface between the Registry Operator and participants, and dealing with issues surrounding the operation of the Gas (Switching Arrangements) Rules 2008. » Performing the role of Market Administrator. » Monitoring and assessing the performance of the Switching Rules. » Developing a register of issues that may require rule changes at a later date. 	All roles defined under the Gas (Switching Arrangements) Rules 2008 are performed.

DOWNSTREAM RECONCILIATION			
RATIONALE	OBJECTIVES & OUTCOMES	ONGOING ACTIVITY	DELIVERABLE
Statutory Role	Accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities.	<p>Oversight of Reconciliation Rules including:</p> <ul style="list-style-type: none"> » Managing the Allocation Agent under the service provider agreement, including performance review. » Providing the interface between the Allocation Agent and participants, and dealing with issues around the operation of the Gas (Downstream Reconciliation) Rules 2008. » Performing the role of Market Administrator. » Monitoring and assessing performance of the Reconciliation Rules. » Developing a register of issues that may require rule changes. 	All roles defined under the Gas (Downstream Reconciliation) Rules 2008 are performed.

RULE CHANGES

RATIONALE	OBJECTIVES & OUTCOMES	ONGOING ACTIVITY	DELIVERABLE
GPS Task	Gas governance arrangements approved by the Minister are monitored by Gas Industry Co for ongoing relevance and effectiveness.	<ul style="list-style-type: none"> » Maintain rule change registers. » Review feedback from industry on options paper with respect to Reconciliation Rules review. Include Daily Allocations as an option for consideration. » Consult on statement(s) of proposal for changes to Reconciliation Rules. 	Release Statement of Proposal by June 2012.

COMPLIANCE

RATIONALE	OBJECTIVES & OUTCOMES	ONGOING ACTIVITY	DELIVERABLE
Statutory Role	Gas governance arrangements are supported by appropriate compliance and dispute resolution processes.	<p>Oversight of Compliance Regulations including:</p> <ul style="list-style-type: none"> » Performing the function of the Market Administrator. » Assisting and enabling the Investigator and Rulings Panel to process alleged breaches. » Amending and reviewing the compliance regime, as required, to support new gas governance arrangements. » Reporting quarterly to the Board on compliance activities. » Consult on changes to the Gas Governance (Compliance) Regulations 2008. 	All roles defined under the Gas Governance (Compliance) Regulations 2008 are performed.

PERFORMANCE MEASURES

RATIONALE	OBJECTIVES & OUTCOMES	ONGOING ACTIVITY	DELIVERABLE
GPS Task	Gas governance arrangements are monitored by Gas Industry Co for ongoing relevance and effectiveness.	Determine and publish information on each gas governance arrangement that has been implemented.	<ul style="list-style-type: none"> » Quarterly reports posted on Gas Industry Co website. » Six-monthly reports made to Minister.

CONSUMER ISSUES			
RATIONALE	OBJECTIVES & OUTCOMES	ONGOING ACTIVITY	DELIVERABLE
GPS Task	All small gas consumers have access to a complaints resolution system.	<ul style="list-style-type: none"> » Oversight of approved complaints scheme (EGCC)³ has now passed to Ministry of Consumer Affairs. » Gas Industry Co liaises with EGCC and other relevant regulators to remain aware of consumer complaint issues. 	Meet with EGCC at least quarterly.

RETAIL CONTRACTS			
RATIONALE	OBJECTIVES & OUTCOMES	ONGOING ACTIVITY	DELIVERABLE
GPS Task	Contractual arrangements between gas retailers and small consumers adequately protect the long-term interests of small consumers.	<ul style="list-style-type: none"> » Ongoing implementation of retail contracts oversight scheme. » Annual assessment of alignment of industry contracts with retail contract benchmarks. 	<ul style="list-style-type: none"> » Assessment to commence in July 2011. » Report to Minister by end of September 2011.

5.3 RISKS IN ACHIEVING OBJECTIVES

The achievement of delivery milestones can be affected by, among other things, consultation feedback, the emergence of new issues in the gas sector, the availability of industry and Company resources, and parallel actions by other regulatory agencies.

³ EGCC: Electricity & Gas Complaints Commission.

6. Other Information

6.1 GAS INDUSTRY CO FUNDING AND LEVY

Gas Industry Co has three sources of funding to meet the costs expected to be incurred in FY2012 for delivering effective co-regulation and fulfilling its statutory and GPS obligations.

They are:

- » A levy on industry participants pursuant to the Gas Act;
- » Market fees imposed pursuant to various rules or regulations made under the Gas Act; and
- » An annual shareholder fee.

LEVY FUNDING

Section 43ZZB of the Gas Act enables Gas Industry Co to recommend to the Minister that industry participants be required to pay a levy to cover the costs of it exercising its functions as the industry body. The levy covers the costs of the Company's policy work and market administration (excluding external service providers and some consultants).

MARKET FEES

Section 43S of the Gas Act enables gas governance regulations or rules to be made that provide for the funding by industry participants of the operation of those regulations or rules. The Gas (Switching Arrangements) Rules 2008, the Gas (Downstream Reconciliation) Rules 2008, the Gas Governance (Critical Contingency Management) Regulations 2008, and the Gas Governance (Compliance) Regulations 2008 contain market fee provisions. These fees are used to recover costs of external service providers and consultants, as contemplated by the relevant regulations.

ANNUAL FEES

Gas Industry Co's constitution requires all shareholders to pay an annual fee to Gas Industry Co, if one is set by the Board. Currently, that fee is \$10,000 per shareholder per annum. The Board has resolved that these fees will be set aside to establish cash reserves.

6.2 REPORTING REQUIREMENTS

In addition to the requirements of the Gas Act, specific consultation, planning, and reporting requirements for Gas Industry Co are contained in the GPS.

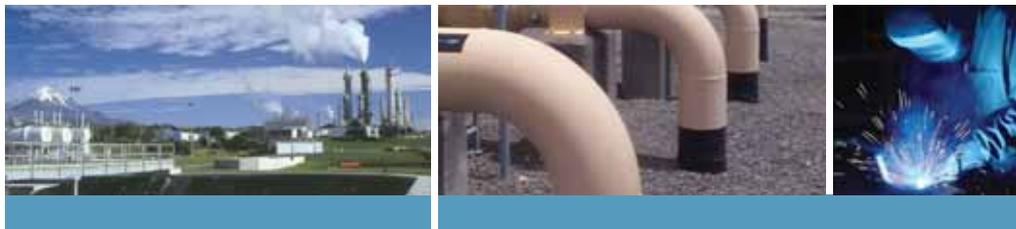
Gas Industry Co provides the Minister with ad hoc reports as agreed and a quarterly report, which includes progress against the GPS along with updates on published consultation papers and completed rule changes.

Gas Industry Co prepares an Annual Report in accordance with section 43ZW of the Gas Act. The financial performance is audited by KPMG. The Minister tables the report in Parliament and it is also published and distributed by Gas Industry Co.

Outside of this Strategic Plan, there are no specific matters on which Gas Industry Co expects to make a decision that would require it to consult with or notify the Minister. The Chair of the Board and the Chief Executive meet with the Minister on a regular basis, and Gas Industry Co provides the Minister with briefings and advice as requested or as necessary.



7. Financial Statements



In accordance with section 43ZR of the Gas Act, Gas Industry Co's forecast financial statements are set out as follows. These statements have been prepared using information consistent with that used for the calculation of the FY2012 Gas Industry Co levy. Further detail about the assumptions, revenue calculations and workstream expenses used to calculate the FY2012 levy can be found in the December 2010 Levy Consultation Paper on Gas Industry Co's website, www.gasindustry.co.nz.

The FY2011 forecast was approved by Gas Industry Co's Board in February 2011 and includes actual results for the period June 2010 to January 2011, and an up-to-date forecast for the period February to June 2011.

We acknowledge responsibility for the forecast financial statements contained in this report and for the judgments used in their preparation.

We certify that the information contained in this report is, except where noted, consistent with the budget estimates contained in Gas Industry Co's FY2011 Levy Recommendation that has been made to the Associate Minister of Energy and Resources under section 43ZZB of the Gas Act.

Rt Hon James B Bolger, ONZ
Chair

Robin Hill
Deputy Chair

June 2011

FORECAST STATEMENT OF COMPREHENSIVE INCOME

	BUDGET 2011/2012 \$	FORECAST 2010/2011 \$	BUDGET 2010/2011 \$	ACTUAL 2009/2010 \$
<i>Income</i>				
Operating Income				
Wholesale levy revenue	2,493,814	2,851,421	2,668,000	2,862,998
Retail levy revenue	1,468,800	1,662,742	1,632,000	1,649,662
Market fee revenue	1,764,372	1,843,390	2,155,400	3,004,820
Annual fees	80,000	80,000	80,000	80,000
Refunded market fees	–	(200,255)	–	(257,556)
Total Operating Income	5,806,986	6,237,298	6,535,400	7,339,924
Interest income	27,645	45,480	27,645	43,277
TOTAL INCOME	5,834,631	6,282,778	6,563,045	7,383,201
<i>Expenditure</i>				
Operating expenditure				
Depreciation & amortisation	435,420	437,101	428,430	423,294
Operating lease expenses	314,640	312,157	324,476	317,349
Fees paid to audit firm – financial statement audit	13,850	13,000	10,000	9,900
Fees paid to audit firm – other services	–	–	–	–
Accounting and taxation advice	–	–	–	–
Directors' fees	262,460	262,460	262,460	244,860
General expenses	444,920	486,328	414,320	472,364
Bad debt	–	91,191	–	–
Recruitment expenses	90,000	5,600	120,000	60,337
Technical, economic, and legal advice	655,000	902,410	1,834,000	1,249,234
Service provider fees	1,764,372	1,676,545	1,683,400	1,429,993
Kiwisaver contributions	45,600	39,043	45,600	42,370
Foreign exchange loss	–	1,435	–	1,797
Employee benefit expense	2,061,079	2,021,059	1,906,830	2,037,206
Total Operating expenditure	6,087,341	6,248,329	7,029,516	6,288,704
Finance costs	2,959	2,631	–	2,352
TOTAL EXPENDITURE	6,090,300	6,250,960	7,029,516	6,291,056
PROFIT/ (LOSS) BEFORE TAX	(255,669)	31,818	(466,471)	1,092,145
Income tax expense	8,293	13,644	8,294	12,983
PROFIT/(LOSS) FOR THE YEAR	(263,962)	18,174	(474,765)	1,079,162
Other comprehensive income	–	(1,501,829)	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(263,962)	(1,483,655)	(474,765)	1,079,162

FORECAST STATEMENT OF CHANGES IN EQUITY						
	INDUSTRY RESERVES \$	RETAINED EARNINGS \$	TOTAL EQUITY \$	INDUSTRY RESERVES \$	RETAINED EARNINGS \$	TOTAL EQUITY \$
	BUDGET FY2012			FORECAST FY2011		
Opening Balance	1,601,893	350,000	1,951,893	3,165,548	270,000	3,435,548
Total comprehensive income for the year						
Profit/ (loss) for the year	-	(263,962)	(263,962)	-	(1,483,655)	(1,483,655)
Other comprehensive income	-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	(263,962)	(263,962)	-	(1,483,655)	(1,483,655)
Transfer between equity reserves						
Industry Advances Reserve transfers	19,837	(19,837)	-	(1,199,856)	1,199,856	-
Industry Asset Amortisation Reserve transfers	(363,799)	363,799	-	(363,799)	363,799	-
CLOSING BALANCE	1,257,931	430,000	1,687,931	1,601,893	350,000	1,951,893

	INDUSTRY RESERVES \$	RETAINED EARNINGS \$	INDUSTRY AMORTISATION RESERVE \$	TOTAL \$
Opening Balance	1,574,072	270,000	1,591,476	3,435,548
Transfer for the period – FY2011	(1,199,856)	80,000	(363,799)	(1,483,655)
FORECAST BALANCE JUNE 2011	374,216	350,000	1,227,677	1,951,893
Opening Balance	374,216	350,000	1,227,677	1,951,893
Transfer for the period - FY2012	19,837	80,000	(363,799)	(263,962)
FORECAST BALANCE JUNE 2012	394,053	430,000	863,878	1,687,931

FORECAST STATEMENT OF FINANCIAL POSITION

	BUDGET 2011/2012 \$	FORECAST 2010/2011 \$	BUDGET 2010/2011 \$	ACTUAL 2009/2010 \$
ASSETS				
Current assets				
Cash and cash equivalents	1,211,658	1,040,701	2,189,884	2,259,887
Trade and other receivables	69,723	67,028	58,111	186,872
Prepayments	39,723	42,491	31,890	38,275
Income tax receivable	15,384	26,804	26,804	611
Total current assets	1,336,488	1,177,024	2,306,689	2,485,645
Non-current assets				
Property, plant and equipment	201,015	272,636	177,356	171,172
Intangible Assets	863,878	1,227,660	1,227,661	1,667,677
Total non-current assets	1,064,893	1,500,296	1,405,017	1,838,849
TOTAL ASSETS	2,401,381	2,677,320	3,711,706	4,324,494
LIABILITIES				
Current liabilities				
Trade and other payables	382,286	368,057	465,465	649,697
Asset restoration provision	27,980	25,018	25,017	22,386
Employee entitlements	303,176	332,344	297,362	216,855
Redeemable shares	8	8	8	8
Total current liabilities	713,450	725,427	787,852	888,946
TOTAL LIABILITIES	713,450	725,427	787,852	888,946
EQUITY				
Industry Reserves	1,257,931	1,601,893	2,573,254	3,165,548
Retained Earnings	430,000	350,000	350,600	270,000
TOTAL EQUITY	1,687,931	1,951,893	2,923,854	3,435,548

FORECAST STATEMENT OF CASH FLOWS				
	BUDGET 2011/2012 \$	FORECAST 2010/2011 \$	BUDGET 2010/2011 \$	ACTUAL 2009/2010 \$
OPERATING ACTIVITIES				
Cash was provided from				
Levy revenue	3,962,614	4,177,228	4,300,000	4,538,106
Market fee revenue	1,764,372	2,251,566	2,155,400	2,910,876
Annual fees	80,000	80,000	80,000	80,000
Interest received	27,645	37,415	27,645	43,277
Net GST	-	15,764	-	(5,535)
Refunded Levy	-	(1,930,205)	-	-
	5,834,631	4,631,768	6,563,045	7,566,724
Cash was applied to				
Payment to suppliers	(3,294,535)	(3,424,402)	(4,564,197)	(3,666,619)
Payment to employees	(2,106,679)	(2,056,181)	(2,094,430)	(2,081,894)
Payments to directors	(262,460)	(262,460)	(262,460)	(275,468)
Income taxes paid	-	-	-	(12,025)
	(5,663,674)	(5,743,043)	(6,921,087)	(6,036,006)
Net cash inflows from operating activities	170,957	(1,111,275)	(358,042)	1,530,718
INVESTING ACTIVITIES				
Cash was applied to				
Purchase of property, plant and equipment	-	(107,911)	-	(17,278)
Purchase of intangible assets	-	-	-	-
Net cash outflows from investing activities	-	(107,911)	-	(17,278)
Net increase/ (decrease) in cash and cash equivalents	170,957	(1,219,186)	(358,042)	1,513,440
Opening cash and cash equivalents	1,040,701	2,259,887	2,547,926	746,447
CLOSING CASH AND CASH EQUIVALENTS	1,211,658	1,040,701	2,189,884	2,259,887

STATEMENT OF ACCOUNTING POLICIES

The following accounting policies apply to these financial statements:

Reporting Entity: Gas Industry Co is a company incorporated under the Companies Act 1993 that was approved as the co-regulator of the gas industry by Order in Council on 22 December 2004. These prospective financial statements have been prepared in accordance with section 43ZR of the Gas Act 1992 and the Financial Reporting Act 1993.

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

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

- » **Revenue:** Revenue is derived from Gas Industry Co's levies and market fees 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:** With the exception of its interest income, Gas Industry Co's revenue is not regarded as gross income in terms of section CB 1 of the Income Tax Act 2007.
- » **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.
- » **Accounts Receivable:** These are carried at estimated realisable value after providing for debts where collection is doubtful.
- » **Employee Entitlements:** Employee entitlements to salaries and wages, annual 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	4–10 years
Leasehold Improvements	Term of lease
Industry Assets	Term of service provider contract

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. Investments can include securities not falling within the definition of cash.
- » Financing activities are those activities that result in changes in the size and composition of the capital structure of Gas Industry Co. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- » Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.

STATEMENT OF SIGNIFICANT UNDERLYING ASSUMPTIONS

The following assumptions have been made in the development of the forecast financial statements. These assumptions were adopted on 24 February 2011:

- » These forecast financial statements comply with New Zealand 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 forecast financial statements have been presented for the purpose of providing financial information that underlies the work programme as set out in the FY2012-2014 Strategic Plan. This financial information may not be appropriate for other purposes.
- » It is not intended that these financial forecasts will be re-issued.
- » Actual financial results achieved for the period covered are likely to vary from the information presented and the variations may be material.
- » There is limited ability to alter Gas Industry Co's revenue other than through the annual levy review process.
- » Section 43S of the Act enables Gas Industry Co to collect from industry participants fees relating to the implementation of gas market rules and regulations.
- » An annual levy of \$3,962,614 is assumed to be effective from 1 July 2011 and is paid monthly. Any monthly levy not payable due to the date on which the levy regulations come into force will be paid on the 20th of the month following the levy regulations coming into force.
- » The wholesale levy revenue is budgeted to be \$2,493,814 for FY2012, based on an estimate of 150PJ of gas being purchased from producers at a levy rate of 1.66 cents/GJ. If the actual wholesale gas volumes are different from the estimate, there may be a material difference in the wholesale levy revenue.
- » The retail levy revenue is budgeted to be \$1,468,800 for FY2012, based on an estimate of 255,000 ICPs at a levy rate of \$5.76/ICP per annum. Information from the Switching Registry has independently confirmed that there are approximately 300,000 ICPs. Of these, 260,000 have the status of Active Contracted, indicating a customer at the ICP has a contract with the retailer. The retail levy is payable on these ICPs. Gas Industry Co therefore assumes an ICP count of 255,000 for the purposes of the levy calculation. If the actual number of ICPs differs from the estimate, there may be a material difference in the retail levy revenue.

- » The FY2012 levy calculation is based on a work programme consistent with the Government Policy Statement on Gas Governance (GPS) released in April 2008. If, during the plan period, the current GPS is amended, there may be an impact on our operating costs, resulting in the possible over- or under-recovery of levy revenue in FY2012. Any variances that do occur will be either refunded to levy payers at the end of the financial year or managed through adjustments to future levy rates, as specified under section 43ZZC(3) of the Act.

The following assumptions have been made in the development of the forecast financial statements. These assumptions were adopted on 24 February 2011:

- » Gas Industry Co's constitution allows for the Board to set an annual fee for shareholders for the financial year. The FY2012 Budget assumes the annual fee paid by each shareholder will remain at \$10,000 per annum payable by eight Gas Industry Co shareholders.
- » The forecast equity for the year ending 30 June 2012 is approximately \$1,687,931. Of this, \$394,053 is classified as Industry Advances Reserve and will be either refunded to levy payers at the end of the financial year or managed through adjustments to future levy rates, as specified under section 43ZZC(3) of the Act. An amount of \$863,878 represents the Industry Asset Amortisation Reserve. The remainder (\$430,000) is set aside to be held as cash reserves.
- » Gas Industry Co's budget is based on a best estimate of the costs to deliver the work programme prepared for calculation of the FY2012 levy. Budgets are set significantly in advance of consultation on proposed new policy initiatives. Accordingly, actual expenditure may vary from budgeted expenditure as policy design is revised to reflect changes that may be required as a result of submissions received and further analysis.

8. Directory

GAS INDUSTRY COMPANY LIMITED

Level 8, The Todd Building, 95 Customhouse Quay
P O Box 10 646, WELLINGTON

T: +64 4 472 1800

F: +64 4 472 1801

E: info@gasindustry.co.nz

W: www.gasindustry.co.nz

GAS INDUSTRY COMPANY DIRECTORS AS AT JUNE 2011

Right Honourable James (Jim) Bolger, ONZ
CHAIR, INDEPENDENT DIRECTOR

Robin Hill B COMM FCA, DEPUTY CHAIR, INDEPENDENT DIRECTOR

Keith Davis PGDipBus, INDEPENDENT DIRECTOR

Andrew Brown LLB, INDEPENDENT DIRECTOR

Albert Brantley BSc PGeol FAuSIMM

Ron M. Kelly D Phil (Oxon)

Dennis Barnes Bsc (Hons) MBA PGDipMktg

GAS INDUSTRY COMPANY MANAGEMENT

Steve Bielby LLB (Hons) BA LLM (Lond), CHIEF EXECUTIVE

Ian Dempster BE (Hons) M.Com (Hons), GENERAL MANAGER – OPERATIONS

Greig Hinds BA LLB (Auck), Post Grad Cert in Commerce (Lincoln),
PRINCIPAL LEGAL COUNSEL

AUDITOR

KPMG, Wellington

BANKER

Westpac Banking Corporation Limited

GAS INDUSTRY COMPANY SHAREHOLDERS AS AT MARCH 2011

Contact Energy Limited

Genesis Power Limited

Greymouth Gas New Zealand Limited

Mighty River Power Limited

OMV New Zealand Limited

Powerco Limited

Shell (Petroleum Mining) Limited

Vector Limited

