



STRATEGIC PLAN

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extraction

production

Rt Hon James Bolger ONZ Chair

Robin Hill Deputy Chair

29 June 2006

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

The Gas Industry Company Limited is a special purpose company owned by gas industry participants, which was formed to fulfil the role of the industry body under the Gas Act 1992.

The Gas Act requires the industry body to develop, in conjunction with industry participants and other stakeholders, new arrangements which meet the Government's policy objectives and outcomes for the gas sector. These policy objectives and outcomes are set out in the Gas Act and in the October 2004 Government Policy Statement on Gas Governance.

The principal objective is to ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable, and environmentally sustainable manner.



d i s t r i b u t i o n

c o n s u m e r

01

FOREWORD



Rt Hon James Bolger, ONZ
Chairman

Globally, the energy sector is undergoing a period of significant transition, as energy demand reaches new highs and continues to grow. Much of the developing world has only just started to use oil, gas and electricity, and the 'prosperous' countries are using more energy than ever before. In stark contrast to demand, energy supply from traditional sources is at a mature state. Many industry experts believe that oil and gas supplies have peaked and are now in decline. The likely outcome is that prices will rise. Another issue facing many countries around the world is supply security, as many of the future sources of oil and gas are located in countries that are less politically stable than the traditional supply sources.



Christine Southey
Chief Executive

New Zealand also faces issues relating to supply and demand. With the progressive depletion of the Maui field there is general agreement that currently identified resources in New Zealand will be unable to fully meet demand from around 2010-2012. The nation, therefore, needs to transition as quickly as possible from a market dominated by one central field, to a market comprising many smaller fields and, potentially, also imported gas. Policy settings need to reflect the changing market circumstances to encourage new sources of supply and the development of the wholesale and retail markets and to ensure there are no barriers to access to key infrastructure.

Fortunately, New Zealand has relatively under-explored resources and many good prospects. Furthermore, the Government has implemented policies that are intended to facilitate petroleum exploration.

The principal mechanism for implementing the Government's exploration policies is the Minerals Programme for Petroleum, which is administered by the Ministry of Economic Development's Crown Minerals Group.

Key initiatives to increase exploration activity include:

- acquiring seismic and other technical data critical to attracting competitive bids for exploration permits;
- improved IT systems to make data readily and freely available to explorers;
- more frequent competitive tenders for permits in frontier petroleum basins;
- royalty and taxation changes designed to encourage petroleum exploration; and
- targeted marketing to bring larger international exploration companies to New Zealand.

However, finding gas is only part of the equation that needs to be solved. Of equal importance is ensuring that parties are able to get their gas to market and to sell it to consumers at prices which are efficient, fair and competitive.

The Government's expectations of the gas industry are set out in the October 2004 Government Policy Statement on Gas Governance (GPS). As the approved industry body under the Gas Act 1992 (the Act), the Gas Industry Company Limited (Gas Industry Co) is responsible for developing and implementing arrangements which contribute to achieving the objectives and outcomes identified in the GPS. These include the tasks specifically set out in the GPS and related matters which have been identified by industry participants as essential to achieve the desired goals for the sector.

This Strategic Plan describes what the Gas Industry Co intends to accomplish specifically in the 2006/07 financial year and more broadly over the coming three financial year period.

The Gas Industry Co has identified six areas which it considers are the key strategic priorities for the industry in this period. Informal discussions with the industry stakeholders have confirmed these priorities. They are:

- The effective operation of the co-regulatory model;
- The improvement of consumer arrangements;
- Improvements to the retail market;
- The development of wholesale market trading arrangements;
- The review of infrastructure access arrangements; and
- The development of sound emergency management systems.

STRATEGIC PRIORITIES 2007-09

| | |
|---|---|
| Effective operation of the co-regulatory model | <p>The Gas Industry Co considers that to be successful, co-regulation of the gas industry requires a strong partnership between the industry and Government, working together to achieve the objectives and outcomes set out in the GPS.</p> <p>To ensure its policy recommendations will deliver the desired outcomes, the Gas Industry Co is committed to:</p> <ul style="list-style-type: none">• clear problem definition and identification of best fit solutions based on the best available information;• meaningful consultation with all parties likely to be substantially affected by the policy;• detailed development work on preferred options, including cost / benefit analysis;• focus on long term objectives and outcomes;• open and transparent decision-making with clear recommendations to the Minister; and• high standards of accountability to all its stakeholders (including consumers, industry and government) |
| Improvements to consumer arrangements | <p>There are approximately 230,000 residential gas consumers in the market, who account for 5% of total gas use.</p> <p>To improve outcomes for consumers in certain aspects of their supply arrangements the Government has asked the gas industry to consider a number of matters.</p> <p>The Gas Industry Co is keen to explore solutions which are appropriate for the New Zealand gas market. The Company has already overseen the successful inclusion of gas consumer complaints into the existing electricity consumer complaints scheme (i.e. the Electricity and Gas Complaints Commissioner Scheme). It is now turning its attention to reviewing model contracts between retailers and consumers, and in particular, whether the scheme could provide a forum for model domestic contracts. The Gas Industry Co will make its recommendations to the Minister on this matter early in the period covered by this Strategic Plan.</p> <p>The Gas Industry Co is also looking at addressing consumer concerns in relation to:</p> <ul style="list-style-type: none">• the transparency of pricing and billing information;• the level of fixed tariffs for low users; and• meter removal charges. <p>The purpose of this work is to make a recommendation to the Minister to address these concerns and advise the Minister whether regulations or other arrangements are needed in these areas.</p> |

| | |
|--|---|
| <p>Improvements to the retail market</p> | <p>In the retail and distribution sector, there are a number of opportunities to improve the overall efficiency of the market.</p> <p>Essential to the development of a competitive retail market is an efficient process to allow customers to switch from one retailer to another. The existing switching process is partially manual, partially automated. It can be slow and a number of the processes are inefficient. This creates frustrations and costs for industry participants and consumers involved in the process. Industry co-operation has meant that the Gas Industry Co is well advanced on the design of improved switching arrangements.</p> <p>There is also a need to develop gas reconciliation arrangements to ensure accurate and timely information is available to industry participants to enable them to track the quantities of gas they trade and transport. The goal of this work is to ensure that participants pay for the gas they take and do not pay for the gas they do not take.</p> <p>During the period covered by this plan, the Gas Industry Co will undertake a review of distribution and metering arrangements to ensure that the market is operating efficiently and delivering the desired outcomes for consumers.</p> |
| <p>Development of wholesale market trading arrangements</p> | <p>The GPS invites the Gas Industry Co to develop efficient wholesale gas market trading arrangements. There are a number of issues which the Gas Industry Co is examining that need to be addressed as part of the design of a wholesale gas market. These include:</p> <ul style="list-style-type: none"> • achieving a practical market design that reflects the small number of participants and the extent to which gas is sold on long term bilateral contracts; • designing market arrangements that recognise the physical characteristics of the pipeline network and the current concentration of production in the Taranaki region; • providing an alternative means of supplying balancing gas; • developing a consistent set of integrated arrangements for reconciliation of trades; • ensuring pipeline capacity trading arrangements do not impede gas trading; and • ensuring that the design has the flexibility to accommodate different sources of gas. <p>The Gas Industry Co has issued a consultation paper on the proposed high-level market design for new arrangements for short term trading of wholesale gas. Following a review of submissions the Company will progress the development of new market arrangements.</p> |

Review of infrastructure access arrangements

Access to infrastructure is an important issue for the development of New Zealand's gas market.

In respect of transmission pipelines, New Zealand does not have a consistent access regime across its two major transmission systems – the Maui pipeline and the Vector/NGC pipelines.

To assist the Gas Industry Co form a view on what actions are necessary, if any, to achieve the Government's policy outcomes in respect of access to transmission systems, the Company has commenced an issues review.

In addition to its examination of pipeline access, the Gas Industry Co is undertaking a review of access arrangements for gas processing facilities.

Development of sound emergency management systems

A key issue for the Gas Industry Co is the need to develop and implement a sound emergency management arrangement for the industry. We currently have a situation in New Zealand where:

- the outage and contingency plan, the National Gas Outage Contingency Plan (NGOCP), is a voluntary arrangement; and
- that plan is no longer supported by all industry members.

The Gas Industry Co has been asked by industry participants to review the existing arrangements and make recommendations to transition them to a more robust footing, taking into account the new commercial environment.

The industry requires an outage contingency arrangement that will be effective in the event of an emergency, but in a manner that does not provide inappropriate incentives or unnecessary distortions. If parties are faced with the costs of outages and contingencies they will be more likely to make appropriate provision wherever possible.

In conclusion

The Gas Industry Co considers that these six areas represent the strategic priorities for the Company over the next three years. The Company has developed nine specific work streams which will assist it to address these strategic priorities. Those work streams, together with the key milestones and deliverables, are described in this Strategic Plan which covers the period July 2006 to June 2009.

The Gas Industry Co's approach in all its policy initiatives is to work with the industry to develop a set of principled but pragmatic arrangements, which deliver the outcomes required by the GPS and the Act and, where appropriate, by industry. The Board and Chief Executive welcome the challenge of co-regulation and look forward to working with both Government and industry to deliver the GPS expectations while meeting the needs of consumers and industry participants.



Chairman



Chief Executive

29 June 2006

02

GAS INDUSTRY CO

The Gas Industry Co is a special purpose company, which was formed to act as the co-regulatory partner to the New Zealand Government. Its role is to oversee the development of the gas industry and, in particular:

- to establish arrangements, including rules and regulations where appropriate, for:
 - the operation of gas markets;
 - access to key infrastructure;
 - improvements to consumer arrangements; and
- to administer, monitor compliance with, and enforce such arrangements.

2.1

LEGISLATIVE AUTHORITY

The Act provides for the establishment of an industry body, which has standing to recommend industry arrangements, including regulations and rules where appropriate, to the Minister on a range of matters. The Gas Industry Co was incorporated in July 2004 and approved as the industry body under the Act by Order in Council on 22 December 2004.

The Minister has set the objectives and outcomes for the Gas Industry Co, and the gas industry, by issuing a GPS. The GPS was published in the Gazette and presented to the House of Representatives in October 2004. The GPS sets out the specific outcomes that the Government expects the Gas Industry Co to develop.

2.2

CO-REGULATION

The development of the co-regulatory model for the gas industry stems from the Government's desire for industry involvement in developing new policy settings for the industry. At the heart of the co-regulatory governance model is the Gas Industry Co's Board appointed by industry shareholders which comprises a mix of industry and independent directors and has an independent Chair. The Act requires the Board to have a majority of independent directors.

The Gas Industry Co's board is: Rt. Hon James Bolger, ONZ (Chair, Independent Director); Robin Hill (Deputy Chair, Independent Director); Mark Verbiest (Independent Director); Mark Franklin; Ajit Bansal; and Murray Jackson. ¹

¹ There is currently a vacancy for an independent director, which is a result of Denis Clifford's resignation from the Board in April 2006

The Gas Industry Co has a small team of experienced staff to advise it on the policy work described in this plan and also relies on external advisers and working groups to support its core team.

The Gas Industry Co has a tailor made constitution, which states that the purpose of the Company is to perform the function and duties, and exercise the powers, of the industry body under Part 4A of the Act. The constitution has been designed to ensure that the Company complies with the requirements for approval as an industry body under the Act, and continues to do so over time.

The combination of the Act, the GPS and the constitution of the Gas Industry Co provide the framework within which the Gas Industry Co is required to operate in developing gas market arrangements. They set out a clear role that involves leadership for the gas sector in developing pan-industry arrangements in areas where a common approach to certain issues is more efficient.

To achieve the Government’s objectives and outcomes, the Gas Industry Co has the following powers:

| POWER | DESCRIPTION |
|--|---|
| <p>Recommend Governance Regulations & Rules</p> | <ul style="list-style-type: none"> • The Gas Industry Co’s primary role is to recommend to the Minister gas governance regulations and rules in relation to pan-industry arrangements. • In certain areas, including wholesale markets and infrastructure access, regulations and rules cannot be made by the Government except in accordance with a recommendation of the Gas Industry Co. |
| <p>Industry Arrangements</p> | <p>The Gas Industry Co can develop pan-industry arrangements, subject to the terms of its constitution and to any necessary approvals required by the Commerce Act, to meet the objectives in the GPS. Before recommending a regulatory approach it is required to consider all other practicable options such as industry codes or multilateral agreements.</p> |
| <p>Reports to the Minister</p> | <p>Section 43ZL(2)(f) of the Act requires the Gas Industry Co to report regularly to the Minister on:</p> <ul style="list-style-type: none"> • the performance and present state of the New Zealand gas industry; and • the Gas Industry Co’s performance and achievement of the GPS objectives; and • any other matters the Gas Industry Co thinks fit or the Minister requests in writing, |

The Gas Industry Co will assess its progress on achieving the GPS objectives and outcomes by the performance measures and delivery of the milestones set out in this Strategic Plan. The Gas Industry Co will report quarterly to the Minister and will also regularly update the industry on progress, through quarterly reports and the Gas Industry Co’s Annual Report.

03

PRINCIPAL OBJECTIVES AND STRATEGIC PRIORITIES

3.1

GOVERNMENT'S EXPECTATIONS

The Government's principal objective for the gas sector is to ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable, and environmentally sustainable manner.

Consistent with this overall objective, the Government is seeking the following specific outcomes:

- 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;
- energy and other resources are used efficiently;
- barriers to competition in the gas industry are minimised to the long-term benefit of end-users;
- incentives for investment in gas processing facilities, transmission and distribution, energy efficiency and demand-side management are maintained or enhanced;
- the full costs of producing and transporting gas are signalled to consumers;
- delivered gas costs and prices are subject to sustained downward pressure;
- the quality of gas services and in particular trade-offs between quality and price, as far as possible, reflect customers' preferences;
- risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties;
- consistency with the Government's gas safety regime is maintained; and
- the gas sector contributes to achieving the Government's climate change objectives by minimising gas losses and promoting demand-side management and energy efficiency.

3.2

STRATEGIC PRIORITIES

The key strategic priorities for the Gas Industry Co in the period covered by this Strategic Plan are:

- The effective operation of the co-regulatory model;
- Improvements to consumer arrangements;
- Improvements to the retail market;
- The development of wholesale market trading arrangements;
- The review of infrastructure access arrangements; and
- The development of sound emergency management systems.

The Gas Industry Co has developed a comprehensive work programme to achieve its objectives, outcomes and strategic priorities over the next year. The work programme has been developed from the functions set out for the industry body in the Act, and the objectives and outcomes set out in the GPS. The Company's detailed work programme is available on the company's website: www.gasindustry.co.nz.

Over time, the Gas Industry Co's views on the priorities of various issues will evolve. The Company will engage closely with the industry and gas consumers on developing such priorities.

04

PERFORMANCE TARGETS AND MEASURES FOR 2006 - 2007

4.1

The Act requires the Gas Industry Co to set out in its Strategic Plan the main financial and non-financial measures and standards by which the future performance of the industry body may be judged.

FOCUS ON OUTCOMES

A key performance objective for the Gas Industry Co is to develop and implement policies which meet the Government's objectives and produce efficient and cost-effective outcomes.

In the narrowest sense, the performance of the Gas Industry Co can be examined by reviewing the internal efficiency and cost-effectiveness of the Company's regulatory processes. However, regulatory process efficiency cannot be looked at in isolation – it is just one aspect to be considered in assessing overall performance.

The timely delivery of the tasks requested by the GPS is a key performance measure for the Gas Industry Co and the Company has identified key milestones for each of its work streams. However, caution should be taken in relation to measuring the performance of policy initiatives solely on output timeliness milestones – a decision made on insufficient analysis, but delivered within the appropriate timeframe, can be more detrimental to the industry than a decision based on quality analysis, which was delivered after the agreed milestone.

The Gas Industry Co acknowledges that focusing on the desired outcome of a policy initiative is a more meaningful performance measure than merely focusing on output measures such as the delivery of reports and recommendations. To enable this to be done, the Gas Industry Co has identified the desired outcome for each of its work streams.

In addition, the Gas Industry Co recognises that it can be difficult to measure the effect of a policy initiative without a point of comparison and in isolation from other industry events. Accordingly, during the year which is the subject of this plan, the Gas Industry Co will undertake a review of the performance of the gas sector. This is a requirement of the Gas Act and the constitution and will also provide a 'baseline' for the measurement of industry outcomes over the medium to long term.

4.2

WORK STREAMS

This section sets out the key activities and milestones for the 2006/07 year for each of the Gas Industry Co's nine work streams, together with the desired outcome for each work stream. In addition, a comprehensive comparison of the GPS tasks and the Gas Industry Co's milestones is included in Appendix 1. The following diagram sets out the Gas Industry Co's nine work streams and shows how these relate to the Company's strategic priority areas.

| STRATEGIC PRIORITIES | WORK STREAMS |
|---|---|
| Effective operation of the co-regulatory model | <ul style="list-style-type: none"> • Corporate accountability |
| Improvements to consumer arrangements | <ul style="list-style-type: none"> • Consumer issues • Distribution contracts • Switching and registry |
| Improvements to the retail market | <ul style="list-style-type: none"> • Distribution contracts • Switching and registry • Reconciliation |
| Development of wholesale market trading arrangements | <ul style="list-style-type: none"> • Wholesale market • Reconciliation |
| Review of infrastructure access arrangements | <ul style="list-style-type: none"> • Open access review • Access to gas processing facilities • Distribution contracts |
| The development of sound emergency management systems | <ul style="list-style-type: none"> • Gas Outage Contingency Plan |

4.3

CORPORATE ACCOUNTABILITY

The Gas Industry Co has a number of statutory and constitutional obligations in relation to corporate accountability matters. The primary activities under this work stream are the preparation of the Company's Strategic Plan, Annual Report, quarterly performance reports to the Minister and levy recommendation.

There is also a statutory requirement for the Company to report on the performance of the gas industry. To enable this to be done, the Gas Industry Co will undertake a review of the baseline performance of the industry, which is expected to be completed by September 2006.

The Gas Industry Co is committed to operating in an open and inclusive manner and communicating proactively with stakeholders through use of its website, newsletters, consultation documents and workshops.

The activities listed below summarise the Gas Industry Co's key corporate accountability activities.

| WORK STREAM | ACTIVITY | MILESTONE |
|--------------------------|---|--|
| Corporate accountability | Prepare Quarterly Reports. | Provide Quarterly Reports to the Minister within 60 days of the end of each quarter. |
| | Undertake Baseline Performance Review. | Complete Baseline Performance Review by September 2006 |
| | Prepare 2005/06 Annual Report | 2005/06 Annual Report to Minister by September 2006. |
| | Prepare 2008 – 2010 Strategic Plan. | 2008 – 2010 Strategic Plan to Minister by June 2007. |
| | Develop and consult on 2007/08 Levy. | Recommendation on 2007/08 Levy to Minister by March 2007. |
| | Effective operation of the co-regulatory model. | |

4.4

SWITCHING AND REGISTRY

Effective customer switching arrangements enable customers to switch between retailers. The accuracy and timeliness of this process is an important factor for the competitiveness of the retail market, as an ineffective switching process creates disincentives for retailers to compete for new consumers and for customers to change retailers.

The Gas Industry Co is charged with developing arrangements for the standardisation and upgrading of protocols relating to customer switching, so that barriers to customer switching are minimised.

Based on the conclusions of the Switching and Registry Working Group and feedback from industry stakeholder submissions, the Gas Industry Co has concluded that the efficiency of the existing switching arrangements could be improved through the development of a central registry system provided this can be implemented in a cost effective way. The Gas Industry Co is also considering whether a tailor-made compliance regime is necessary to support a central registry.

The activities listed below summarise the Gas Industry Co's steps towards delivering the Government's expectations on the efficiency of retail gas market switching arrangements.

| WORK STREAM | ACTIVITY | MILESTONE |
|------------------------|--|---|
| Switching and registry | Develop registry and compliance arrangements. | Issue proposal on switching registry arrangements for consultation by September 2006. |
| | Prepare recommendations on new arrangements. | Recommendation on registry arrangements to Minister by December 2006. |
| | Implement central registry and associated compliance regime (if required). | Registry system to 'go live' by June 2007. |
| | Timely and accurate switching of customers between retailers and distributors. | |

4.5

RECONCILIATION

Open access to transport systems, such as the distribution networks operated by Powerco, Vector and GasNet, require a process for users of the transport system who share receipt points to determine which party is responsible for gas at the receipt point and how the quantities of gas attributable to each party are to be apportioned and charged for. This process is referred to as the allocation and reconciliation process.

An important function of the allocation and reconciliation process is the efficient and equitable allocation of unaccounted for gas through the gas network. Therefore, the accuracy and timeliness of this process is an important part of the efficient operation of transmission and distribution networks. In addition, the wholesale and retail markets rely on the accuracy of the allocation and reconciliation process for information about market transactions.

The GPS includes two deliverables for the Gas Industry Co which relate to allocation and reconciliation arrangements:

- *“The development of protocols and standards applying to wholesale gas trading, including quality standards, balancing and reconciliation”*; and
- *“The establishment of gas flow measurement arrangements to enable effective control and management of gas”*.

In addition, the Gas Industry Co has received a recommendation from the Switching and Registry Working Group and has been requested by Contact Energy and Genesis Energy to review existing reconciliation arrangements.

The activities listed below summarise the Gas Industry Co’s steps towards delivering the Government’s expectations on the efficiency of allocation and reconciliation arrangements.

| WORK STREAM | ACTIVITY | MILESTONE |
|----------------|--|---|
| Reconciliation | Implement short-term reconciliation fixes. | Revised Gas Transfer Code and Reconciliation Code operational by September 2006. |
| | Develop proposal on long-term reconciliation arrangements. | Issue consultation document on proposed reconciliation arrangements by December 2006. |
| | Prepare recommendation on reconciliation arrangements. | Recommendation on efficient arrangements to the Minister by June 2007. |
| | Timely and accurate allocation and reconciliation process. | |

4.6

CONSUMER ISSUES

The Government is committed to ensuring that gas is delivered to customers in a fair manner. This concept includes ideas about price and service delivery.

The GPS invites the Gas Industry Co to make recommendations for:

- *“The development of efficient and effective arrangements for the proper handling of consumer complaints”;*
and
- *“The development of model contract terms and conditions between consumers and retailers”.*

In April 2005, gas was added to the electricity complaints scheme creating the Electricity and Gas Complaints Commission. It is anticipated that land owners / occupier disputes will be added to this scheme by 1 July 2006.

In relation to the development of model contract arrangements, the Gas Industry Co made its recommendation to the Minister in June 2006.

In addition, the Minister of Energy has requested the Gas Industry Co to address consumer concerns in relation to:

- The transparency of pricing and billing information;
- The level of fixed tariffs for low users; and
- Meter removal charges.

The activities listed below summarise the Gas Industry Co’s steps towards delivering the Government’s expectations on consumer outcomes.

| WORK STREAM | ACTIVITY | MILESTONE |
|-----------------|--|--|
| Consumer issues | Develop consumer issues report. | Issue paper on consumer issues for discussion with stakeholders by July 2006. |
| | Prepare consumer issues recommendations report. | Consumer issues report to the Minister by September 2006. Hold consumer issues forum by June 2007 |
| | Gas is delivered to existing and new customers in a safe, efficient, fair, reliable, and environmentally sustainable manner. | |

4.7

DISTRIBUTION CONTRACTS

An important consideration for the efficiency of the retail and distribution sector is the interface between retailers and distributors. In most cases, retailers do not have a choice about which distributor they use. This creates the potential for parties to use market power to impose inefficient terms and conditions or prices on retailers, which may be passed on to consumers.

In respect of distribution arrangements, the level of competition in the retail market will be influenced by how easy it is for retailers to enter contracts with distributors and the reasonableness of conditions in the contract.

The activities listed below summarise the Gas Industry Co's steps towards delivering the Government's expectations on the efficiency of distribution arrangements.

| WORK STREAM AREA | ACTIVITY | MILESTONE |
|------------------------|---|---|
| Distribution contracts | Complete review and develop proposal on distribution arrangements. | Publish issues report by September 2006 Issue proposal on distribution contract arrangements for consultation by March 2007. |
| | Prepare recommendation on distribution contracts. | Recommendation on distribution contracts to the Minister by June 2007. |
| | Gas market participants can access distribution pipelines on reasonable terms and conditions. | |

4.8

OPEN ACCESS REVIEW

Open access has been offered on NGC's pipelines for over 10 years and on the Maui pipeline from last year, following an extensive access code development process. These two access regimes have much in common, but also significant differences. There are also some transmission pipelines owned by others which do not offer open access.

Section 5 of the GPS includes among the specific outcomes being sought: "...access to essential infrastructure...", and that "Incentives for investment in... transmission... are maintained or enhanced...", and that "Risks relating to... transport arrangements, are properly managed by all parties...". Also, in the context of industry-led solutions, the GPS provides that where appropriate the Gas Industry Co will develop arrangements for... "The establishment of an open access regime across transmission pipelines so that gas market participants can access transmission pipelines on reasonable terms and conditions."

To assist the Gas Industry Co form a view on what actions are necessary, if any, to achieve the Government's policy outcomes, the Company is consulting with relevant stakeholders. These include shippers, interconnected parties and parties seeking interconnection, major end users, the pipeline owners and their service providers. This will lead into the activities listed in the table below.

| WORK STREAM | ACTIVITY | MILESTONE |
|--------------------|---|--|
| Open access review | Undertake high-level issues review. | Issue discussion paper on transmission pipeline access review by September 2006. |
| | Report findings of issues review. | Report to the Minister on the outcomes of the issues review by December 2006. |
| | Prepare proposal on access to transmission pipelines. | Issue consultation document on proposed recommendation by March 2007. |
| | Prepare preliminary recommendation on open access review. | Preliminary recommendation by March 2007. |
| | Gas market participants can access transmission pipelines on reasonable terms and conditions. | |

4.9

WHOLESALE MARKET

The decline of the Maui gas field and the development of a more fragmented range of gas producers and fields have contributed to a need for the development of more sophisticated arrangements for the trading of gas.

This is reflected in some key GPS objectives, which call on the Gas Industry Co to consider the development of protocols and standards for wholesale gas trading, balancing mechanisms and reconciliation, and the development of a secondary market for the trading of excess and shortfall gas.

The activities listed below summarise the Gas Industry Co's steps towards delivering the Government's expectations on the development of wholesale market arrangements.

| WORK STREAM | ACTIVITY | MILESTONE |
|------------------|---|--|
| Wholesale market | Develop detailed wholesale market trading arrangements, including any changes to gas specification. | Issue discussion paper on wholesale market arrangements by September 2006. |
| | Revise arrangements to take account of industry feedback. | Issue discussion paper on revised wholesale market arrangements by December 2006. Report on outcome of consultation to Minister by December 2006. |
| | Development of trading platform and detailed arrangements. | Issue proposal on platform design and detailed arrangements for consultation by March 2007. |
| | Prepare recommendation on wholesale market. | Recommendation on wholesale market arrangements to the Minister by June 2007. |
| | Efficient wholesale market arrangements. | |

4.10

ACCESS TO GAS PROCESSING FACILITIES

Raw gas is sourced from gas, oil or condensate wells and is typically a mixture of various hydrocarbons, water vapour and other compounds. Gas processing facilities form a vital part of the production chain, removing impurities and processing raw gas into the form required.

The GPS invites the Gas Industry Co to develop protocols that set reasonable terms and conditions for access to gas processing facilities.

The activities listed below summarise the Gas Industry Co's steps towards delivering the Government's expectations on reasonable access to gas processing facilities.

| WORK STREAM | ACTIVITY | MILESTONE |
|-------------------------------------|--|---|
| Access to gas processing facilities | Develop proposed access arrangements for gas processing facilities. | Issue proposal on access arrangements for gas processing facilities for consultation by September 2006. |
| | Prepare recommendation on access to processing facilities. | Recommendation on access rules or protocols for processing facilities (if required) to the Minister by December 2006. Implementation of preferred option (if required) by June 2007. |
| | Gas market participants can access processing facilities on reasonable terms and conditions. | |

4.11

GAS OUTAGE CONTINGENCY PLAN

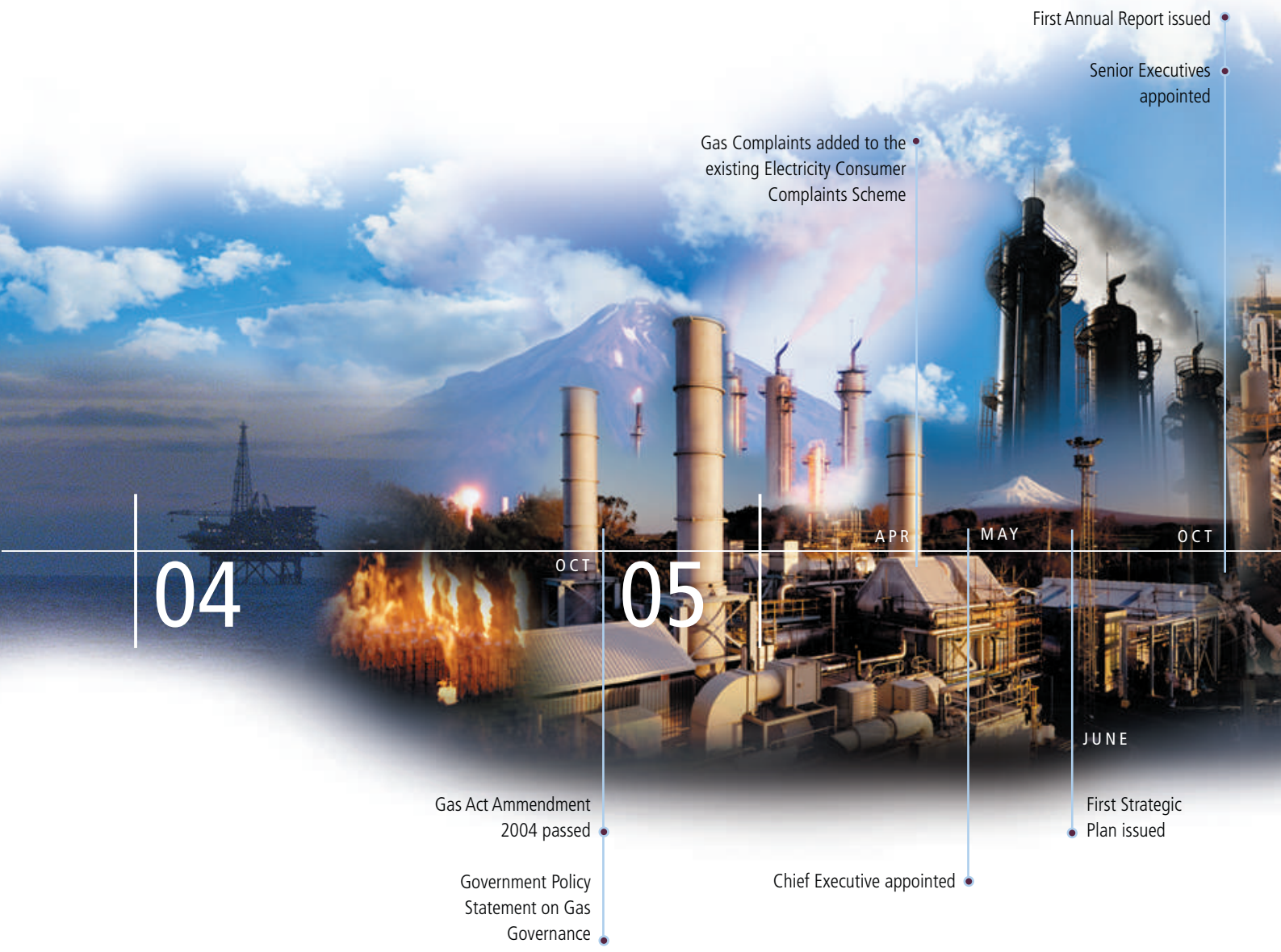
The National Gas Outage Contingency Plan (NGOCP) is a voluntary industry-based arrangement, which outlines the actions industry participants are to take in the event of a major gas outage event.

The Gas Industry Co has been requested by industry participants, to review the NGOCP. Specifically, the Company is reviewing the commercial issues involved in changing the existing voluntary contingency plan to make it more consistent with open access and the changing gas market. This was initiated at the industry's request, but is consistent with the Company's principal objective.

The activities listed below summarise the Gas Industry Co's steps towards developing appropriate gas outage contingency arrangements.

| WORK STREAM AREA | ACTIVITY | MILESTONE |
|-----------------------------|---|---|
| Gas outage contingency plan | Develop contingency plan proposal. | Issue proposal on gas outage contingency plan for consultation by September 2006. |
| | Develop recommendation on contingency arrangements. | Recommendation on contingency arrangements to the Minister by March 2007. |
| | Sound emergency management arrangements. | |

KEY STRATEGIC PLAN MILESTONES



• COMPLETED

Issued consultation paper on concept design for wholesale gas market

In principle decision that the development of a central registry should be pursued

Recommendation on registry arrangements to Minister
Report to Minister on outcomes of the transmission pipeline access review.
Recommendation on access rules or protocols for processing facilities (if required) to the Minister

Landowner disputes added to EGCC

JULY

Recommendation on efficient allocation and reconciliation arrangements to the Minister
Registry System to 'go live'
Recommendation on distribution contracts to the Minister
Preliminary recommendation on transmission pipeline access to the Minister
Recommendation on wholesale market arrangements to the Minister
Implementation of arrangements for access to processing facilities

06

APR

SEPT

DEC

MAR

JUNE

MAY

JUNE

07

Recommendation on Model Contract arrangements to Minister

Complete baseline performance review of gas industry
Consumer issues report to Minister

Recommendation on contingency arrangements to the Minister

Consumer issues forum held

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

05

FINANCIAL STATEMENTS

5.1

FORECAST STATEMENT OF FINANCIAL PERFORMANCE

| | Forecast 2005/06 \$000 | Budget 2006/07 \$000 |
|--------------------------|---------------------------|-------------------------|
| Revenue | | |
| Levy | 3,853 | 3,780 |
| Shareholders annual fees | 100 | 100 |
| Interest | 50 | 19 |
| Other | 175 | - |
| Total revenue | 4,178 | 3,899 |
| Expenses | | |
| Audit fees | 8 | 8 |
| Board | 267 | 250 |
| Depreciation | 50 | 72 |
| General Expenses | 353 | 205 |
| Occupancy | 88 | 97 |
| Personnel | 943 | 1,446 |
| Working groups | 1,567 | 1,628 |
| Total Expenses | 3,276 | 3,706 |
| Surplus | 902 | 193 |

5.2

FORECAST STATEMENT OF MOVEMENT IN EQUITY

| | Forecast 2005/06 \$000 | Budget 2006/07 \$000 |
|----------------------------------|---------------------------|-------------------------|
| Shareholders' equity | | |
| Opening balance | (1,095) | (193) |
| Surplus | 902 | 193 |
| Capital Contributions | - | - |
| Closing balance | (193) | - |
| Shareholders' loans | | |
| Opening balance | 1,600 | 800 |
| Contributions | - | - |
| Repayments | 800 | 800 |
| Closing balance | 800 | - |
| Total shareholders' funds | 607 | - |

5.3

FORECAST STATEMENT OF FINANCIAL POSITION

| | Forecast 2005/06 \$000 | Budget 2006/07 \$000 |
|----------------------------------|---------------------------|-------------------------|
| Current assets | | |
| Bank | 576 | - |
| Debtors | - | 29 |
| Other | - | - |
| Total current assets | 576 | 29 |
| Fixed assets | 204 | 192 |
| Total assets | 780 | 221 |
| Current liabilities | | |
| Payables and accruals | 173 | 221 |
| Total current liabilities | 173 | 221 |
| Shareholders' loans | 800 | - |
| Total liabilities | 973 | 221 |
| Net assets | (193) | - |
| Represented by | | |
| Share capital | - | - |
| Retained earnings (losses) | (193) | - |
| Total shareholders' funds | (193) | - |

5.4 FORECAST CASH FLOW STATEMENT

| | Forecast 2005/06 \$000 | Budget 2006/07 \$000 |
|---|---------------------------|-------------------------|
| Cash flows from operating activities | | |
| Levy income and annual fees | 3,833 | 3,794 |
| Other income | 215 | 119 |
| Operating expenses | (3,123) | (3,657) |
| Net cash flows from operating activities | 925 | 256 |
| Cash flows from investing activities | | |
| Capital purchases | (233) | (32) |
| Net cash flows from investing activities | (233) | (32) |
| Cash flows from financing activities | | |
| Shareholder loans | (400) | (800) |
| Net cash flows from financing activities | (400) | (800) |
| Net cash flows | 292 | (576) |
| Opening cash balance | 284 | 576 |
| Closing cash balance | 576 | - |

5.5

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 commenced 1 July 2005 and expires 30 May 2009 at an annual rental of approximately \$82,680.

Other operating lease commitments are for office equipment.

The Gas Industry Co has various service provider commitments for the operation of the company.

| | Actual 2005 \$ | Forecast 2006 \$ |
|--|-------------------|---------------------|
| Operating lease commitments | | |
| Not later than one year | 82,680 | 83,484 |
| Later than one year but not later than two years | 82,680 | 83,484 |
| Later than two years but not later than five years | 165,360 | 83,484 |
| Later than five years but not later than ten years | - | - |
| Total operating lease commitments | 330,720 | 250,452 |
| Service provider contract commitments | | |
| Not later than one year | - | 13,904 |
| Later than one year but not later than two years | - | - |
| Later than two years but not later than five years | - | - |
| Later than five years but not later than ten years | - | - |
| Total service provider commitments | - | 13,904 |

5.6

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 1992 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 recognized when earned and is reported in the financial period to which it relates.
- **Taxation:** The Gas Industry Co levy revenue is not regarded as gross income, in terms of section CB 1 of the Income Tax Act 2004.
- **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:** 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. 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 the Group. 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.

5.7

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 assumptions were adopted on 1 June 2006:

- 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 forecast financial statements have been presented for the purpose of providing financial information that underlies the work programme as set out in the 2007 - 2009 Strategic Plan. This financial information may not be appropriate for other purposes.
- Actual results are included in the 2005/2006 forecast financial statements. The period of actual results is for the half year ended December 2005.
- It is not intended that these financial forecasts will be re-issued.
- The annual levy of \$3.8 million plus GST is assumed to be effective from 1 July 2006 and is paid monthly. Any monthly levy not payable because of 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 levy revenue is based on estimated gas volumes and ICP numbers.
- The annual fee paid by shareholders will remain at \$10,000 per annum. There are a total of ten Gas Industry Co shareholders.
- Repayment of shareholder loans is made as intended (the loans are to be repaid over two years resulting in repayment in full by June 2007).

- Expenses for working groups include the cost of:
 - Payments to 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 Gas Industry Co's budget is based on a best estimate of the costs to operate the company, recognising that it has limited 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.

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APPENDIX - DELIVERING ON THE GPS

The following table outlines the GPS objectives, strategic plan milestones from the 2006/08 Strategic Plan and performance targets and measures from this plan.

| POLICY GOALS & GPS | WORK STREAM | 2006/08 STRATEGIC PLAN MILESTONES | 2007/09 STRATEGIC PLAN MILESTONES |
|---|--------------------------------------|---|---|
| <p>The standardisation and upgrading of protocols relating to customer switching, so that barriers to customer switching are minimised.</p> | <p>Switching and Registry</p> | <ul style="list-style-type: none"> • Complete industry consultation on scope and functionality of appropriate registry for gas customer switching by 31 August 2005 • Recommend preferred registry solution by 20 October 2005 • Complete rules and establish registry function by 1 February 2006 • Review registry arrangements by 1 February 2007 | <p>Recommendation on registry solution and rules (if required) to Minister by 31 December 2006</p> <p>Registry system to 'go live' by 30 June 2007. The registry will improve customer switching services and promote competition in the retail market.</p> |
| <p>The establishment of gas flow measurement arrangements to enable effective control and management of gas.</p> <p>Allocation and reconciliation review was requested by industry participants and working groups.</p> | <p>Reconciliation</p> | <ul style="list-style-type: none"> • Complete review of gas flow measurement arrangements and issues relating to gas flow inhibiting competition arrangements by 31 December 2005. | <p>Recommendations on efficient allocation and reconciliation arrangements to Minister by 30 June 2007</p> |
| <p>The development of model contract terms and conditions between consumers and retailers.</p> <p>The development of efficient and effective arrangements for the proper handling of consumer complaints.</p> | <p>Consumer issues</p> | <ul style="list-style-type: none"> • Research retail contract issues and design guidelines and model contracts by 31 August 2005 • Recommendations on model contract arrangements to the Minister by 30 June 2006 • Consult on proposed arrangements by 1 November 2005 • Landowner disputes added to EGCC by 30 April 2006 • Review uptake and effectiveness of proposed new arrangements by 1 November 2006 • Recommendation to Minister on incorporation of land owner / occupier disputes to EGCC scheme by December 2005 • Implementation of scheme by April 2006 | <p>Consumer issues report to the Minister by September 2006 (if required)</p> |
| <p>The establishment of consistent standards and protocols across distribution pipelines so that gas market participants can access distribution pipelines on reasonable terms and conditions.</p> | <p>Distribution Contracts</p> | <ul style="list-style-type: none"> • Research distribution contract issues and design guidelines and model contracts by 31 October 2005 • Consult on proposed arrangements by 1 March 2006 • Review uptake and effectiveness of proposed new arrangements by 1 March 2007 | <p>Recommendations on distribution contracts to Minister by 30 June 2007</p> |

| POLICY GOALS & GPS | WORK STREAM | 2006/08 STRATEGIC PLAN MILESTONES | 2007/09 STRATEGIC PLAN MILESTONES |
|--|---|--|--|
| <p>The establishment of an open access regime across transmission pipelines so that gas market participants can access transmission pipelines on reasonable terms and conditions.</p> | <p>Open Access Review</p> | <ul style="list-style-type: none"> • Complete review of issues with respect to pipeline access and analysis of impact on market efficiency by 31 December 2005 | <p>Preliminary recommendation on transmission pipeline access to the Minister by 30 June 2007</p> |
| <p>The development of protocols and standards applying to wholesale gas trading, including quality standards, balancing and reconciliation.</p> <p>The development of a secondary market for the trading of excess and shortfall quantities of gas.</p> <p>The development of capacity trading arrangements.</p> | <p>Wholesale Market Development</p> | <ul style="list-style-type: none"> • Completion of initial scoping report on matters associated with balancing and reconciliation, current and potential future wholesale trading, and current and potential future capacity trading arrangements by 20 November 2005 | <p>Recommendations on wholesale market trading rules (if required) to Minister by 30 June 2007</p> |
| <p>Protocols that set reasonable terms and conditions for access to gas processing facilities.</p> | <p>Access to Processing Facilities</p> | <ul style="list-style-type: none"> • Milestones were inadvertently omitted from the Strategic Plan for this work stream. | <p>Recommendation on access rules or protocols for processing facilities (if required) to Minister by 31 December 2006</p> <p>Implementation of preferred option (if required) by 30 June 2007</p> |
| <p>A review of the existing voluntary National Gas Outage Contingency Plan was requested by industry participants.</p> <p>The principal objective in the Gas Act places strong importance on ensuring suitable arrangements for gas safety.</p> | <p>Gas Outage Contingency Plan</p> | <ul style="list-style-type: none"> • Complete report on issues in relation to security of supply and gas outage contingency plans by 30 September 2005 | <p>Recommendation on contingency arrangements to Minister by 31 March 2007</p> |
| <p>Review of gas specification issues relating to market efficiency.</p> <p><i>The development of protocols and standards applying to wholesale gas trading, including quality standards, balancing and reconciliation.</i></p> | <p>Quality Standards</p> | <ul style="list-style-type: none"> • Issues report completed by 30 September 2005 • Consult on proposed arrangements and options and analyse submission by 31 December 2005 • Final report on issues completed by 28 February 2006 | <p>Recommendation on gas specification to Minister by 30 September 2006</p> |

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Mark Verbiest, LLB, Independent Director

Mark Franklin, BE (Electrical)

Ajit Bansal, PhD, BSc (Hons), DipM

Murray E Jackson, MBA, BEc, FTSE, FIEAust

EXECUTIVES

Christine Southey, Chief Executive

Helen Brown, Senior Adviser Finance

Ian Dempster, Senior Adviser Wholesale Markets

Ian Wilson, Senior Adviser Pipelines

Nicki Lau-Young, Senior Adviser Legal

Paul Mitchell, Senior Adviser Retail & Distribution

Mark Soper, Adviser Strategy and Corporate

Auditors: Grant Thornton, Wellington

Bankers: Westpac Banking Corporation Limited

SHAREHOLDERS

Contact Energy Limited

Powerco Limited

Genesis Power Limited

Swift Energy New Zealand Limited

Mighty River Power Limited

Shell (Petroleum Mining) Company Limited

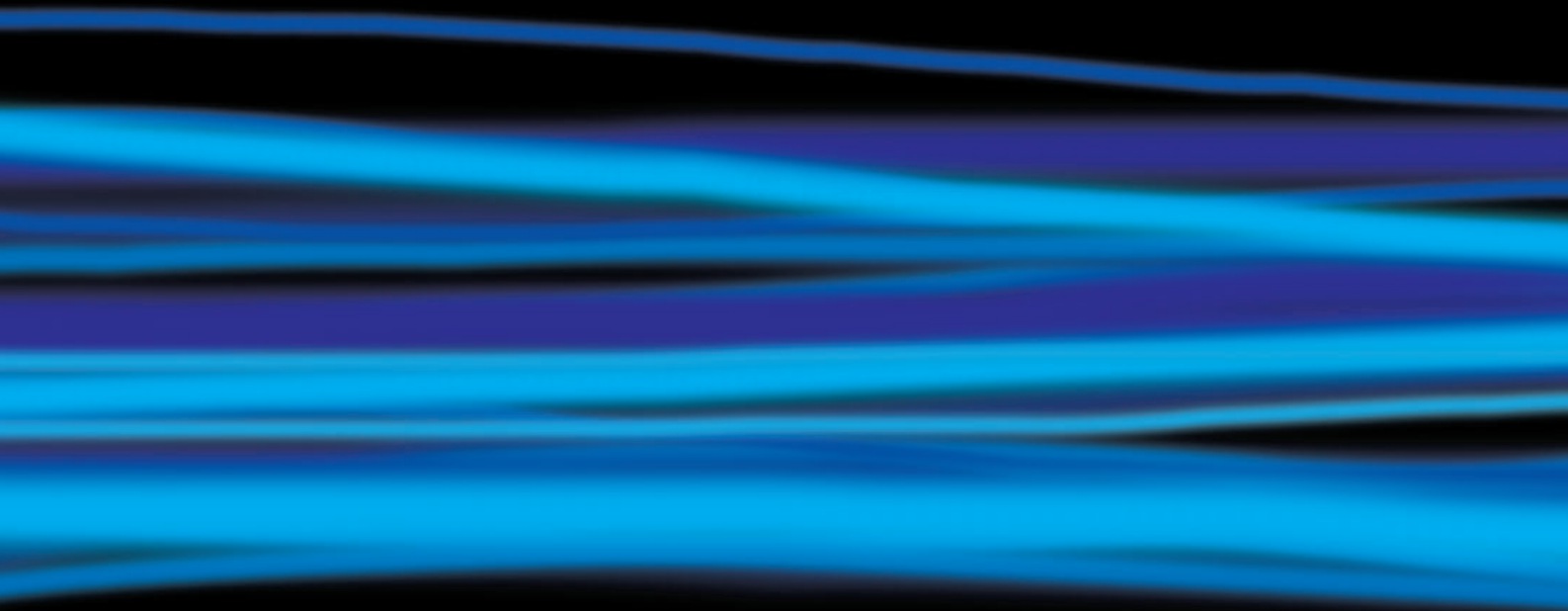
NGC Holdings Limited

Vector Limited

OMV New Zealand Limited

Wanganui Gas Limited





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