



STRATEGIC PLAN

SCOPE OF OPERATIONS 2011-13

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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 2011-2013.



Rt Hon James B Bolger, ONZ

CHAIR



Robin Hill

DEPUTY CHAIR

June 2010

1. INTRODUCTION

NEW ZEALAND HAS TRANSITIONED QUICKLY FROM ONE MAJOR GAS FIELD TO MULTIPLE FIELDS, AND THERE ARE STRONG POSSIBILITIES OF FURTHER GAS FINDS THAT WOULD SUPPORT THE SECURITY OF ELECTRICITY SUPPLY.

Gas is an important direct source of energy for industry and homes. Effective market arrangements are essential if all industry participants are to have confidence when planning for future investment.

The April 2008 Government Policy Statement on Gas Governance (GPS) lists the Government's desired outcomes for achieving effective market arrangements across the gas industry. The aim is to ensure a competitive gas market that delivers fair and efficient gas prices. Gas Industry Co is responsible for developing and implementing arrangements that contribute to achieving that aim. Since 2004, Gas Industry Co has focused on enhancing consumer outcomes and developing new market and infrastructure access arrangements.

This Strategic Plan assumes a continuation of present activities with a view to completing or advancing many of the current workstreams. Consumer outcomes have been improved through the approval of an industry scheme for consumer complaints resolution and the development of a set of benchmarks for retail gas supply contracts.

Implementation of the new retail market and contingency management regulations is largely complete and these will operate on a 'business as usual' basis. Work on improving access arrangements for transmission pipeline networks reached a significant milestone in 2010 with the development of a participative regulatory option to establish a unified balancing arrangement across pipeline networks. Policy work was also undertaken on interconnection arrangements and capacity services on the North transmission pipeline. Gas Industry Co will continue its activities in these important areas in FY2011.

Achievement of the objectives set out in this Strategic Plan will require ongoing effort from Gas Industry Co staff and advisers, as well as extensive input from industry and consumer stakeholders. Gas Industry Co looks forward to continuing to work with the industry and Government to meet these challenges, to ensure the success of the co-regulatory model, and to improve the already significant contribution of the gas sector to New Zealand's economy.

Rt Hon James B Bolger, ONZ

CHAIR

Christine Southey

CHIEF EXECUTIVE

2. OPERATING ENVIRONMENT

2.1 INDUSTRY BODY

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

The industry body develops, in conjunction 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, for which Gas Industry Co must have regard when making recommendations. All new market arrangements must meet the objectives and outcomes for the gas sector as 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. It contributes to employment, is used in homes for heating and cooking, by businesses for manufacturing, and has a vital place in electricity generation.

The gas industry can be characterised as 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 and Vector Gas Limited, and by the distribution networks owned by Powerco, Vector, Gasnet and Nova Gas.

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, smaller fields has increased.

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

The 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

¹ 'Minister' is defined in the Gas Act as the Minister with responsibility for administration of the Gas Act. On 5 March 2009, 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.



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 pursuant to the Gas Act to determine breaches of the gas governance regulations referred to it by the independent Investigator.

The current Rulings Panel is a former High Court Judge, Sir John Hansen KNZM, and the independent Investigator is barrister Jacquie Kean.

3. SCOPE OF OPERATIONS 2011-2013

3.1 OBJECTIVES AND OUTCOMES

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



FIGURE 1: DIAGRAM OF GAS ACT AND GPS OBJECTIVES

3.2 POWERS AND FUNCTIONS

In pursuing these objectives and outcomes, the Company has the following powers, responsibilities and functions:

- » Develop guidelines to assist the industry to 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; and
- » Provide advice to the Minister on industry performance and in response to specific requests from the Minister.

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;
- » Creating wholesale market trading arrangements;

- » Implementing 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 five years, the Minister has accepted seven recommendations from Gas Industry Co for new gas governance arrangements, 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 recommendations in the GPS, as well as fulfill 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.

The Company will continue to meet its co-regulatory accountabilities such as producing this Strategic Plan and the 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 FY2011, 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 FY2011 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.

3.4 ESTABLISHING PRIORITIES FOR FY2011

In this plan, the main FY2011 activities have been grouped according to that part of the levy by which they are funded: wholesale or retail. Each area of operation has been given a specific priority level. Tier 1 primarily comprises statutory obligations but also includes ongoing work on policy matters that most stakeholders agree are a priority issue for the sector. The remaining tiers comprise work items that do not have statutory timeframes and therefore have been afforded a lower priority to ensure the appropriate allocation of scarce industry and Company resources.

Details are categorised as follows:

WHAT	The project name or area of activity
HOW	Specific steps to be taken in achieving the outcomes sought, including performance measures
WHY	The Gas Act or GPS objective or outcome that is being addressed by the activity

4. WHOLESALE WORK PLAN FY2011

THE WHOLESALE WORKSTREAMS COMPRISE ARRANGEMENTS RELATING TO THE SALE AND PURCHASE OF WHOLESALE GAS AND ITS TRANSMISSION THROUGH HIGH-PRESSURE NETWORKS.

They include critical contingency management, administration of information disclosure with respect to gas processing facilities, access to transmission pipelines, and a wholesale trading platform.

THE PRINCIPAL OBJECTIVE IS:

REMOVING BARRIERS TO ACCESS
AND ENSURING SECURITY OF SUPPLY

Key activities are:

	WHAT	HOW	WHY
TIER ONE	Statutory role under Gas Governance (Critical Contingency Management) Regulations 2008.	Ongoing: <ul style="list-style-type: none"> » Set performance standards and review performance of CCO on behalf of the industry. » Monitor results of annual exercise. » Other statutory roles. 	Increased market confidence through the sound management of critical contingency events.
	Statutory role under Gas (Processing Facilities Information Disclosure) Rules 2008.	Ongoing: <ul style="list-style-type: none"> » Ensure all regulatory disclosures are kept up to date and in the event of non-disclosure, assist in any enforcement actions. » Collect, monitor and publish disclosed information on an annual basis and report to the Minister on access seekers (by September) each year. 	Ensure gas industry participants and new entrants have good information about spare capacity in processing facilities. Collect data to form the basis of a recommendation to the Minister as to continuance, amendment or expiry of these Rules in 2013.
	Statutory role under Gas Governance (Compliance) Regulations 2008.	Ongoing: <ul style="list-style-type: none"> » Assist and enable the Market Administrator, Investigator and Rulings Panel to process alleged breaches within statutory timeframes. 	Approved wholesale gas governance arrangements are supported by appropriate compliance and dispute resolution processes.

	WHAT	HOW	WHY
TIER ONE	Implement new arrangements for management of imbalances in transmission system.	<ul style="list-style-type: none"> » If recommendation made in FY2010 is accepted by the Minister, then consider and approve TSO Balancing Plan. » If TSOs cannot agree a plan, then develop a Balancing Plan in accordance with new regulations. » If recommendation is not successful, develop an alternative gas governance arrangement within 12 months of Minister's decision. 	To achieve efficient, unified management of aggregate imbalance in the transmission system.
TIER TWO	Other Transmission Work (including interconnection, capacity and title-tracking).	<ul style="list-style-type: none"> » If regulations for interconnection are required, develop and consult on draft regulations by December 2010. » If regulations to address capacity constraints on North pipeline are required, develop and consult on preferred options by December 2010. » Develop issues paper on upstream reconciliation (title-tracking) by June 2011. » Establish whether it would be efficient to introduce daily allocation of retail deliveries (D+1). 	<p>Gas industry participants and new entrants are able to interconnect to transmission pipelines under reasonable terms and conditions.</p> <p>Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions.</p> <p>Title-tracking arrangements are appropriate for multi-user environment including new balancing and trading arrangements.</p> <p>Allocation uncertainty exposes retailers to risk in the transmission and balancing gas markets.</p>
	Industry Facilitation (including MPOC and VTC roles).	<ul style="list-style-type: none"> » Facilitate, influence and communicate with industry to enhance debate over best-practice solutions on industry issues. » Progress rule changes within timeframes required by Maui Pipeline Operating Code and Vector Transmission Code Memoranda of Understanding. 	<p>Facilitate nexus between industry and government to avoid regulation.</p> <p>Existing multilateral terms of access need a process to evolve to ensure ongoing relevance and efficiency.</p>

	WHAT	HOW	WHY
TIER THREE	Wholesale Market Trial.	<ul style="list-style-type: none"> » Administer, monitor and evaluate trial wholesale market. » Make decision by June 2011 as to whether or not trial should continue as permanent market. 	Efficient arrangement for the short-term trading of gas.
	Other Wholesale Policy Issues.	<ul style="list-style-type: none"> » Review pipeline arrangements to ascertain whether technical responsibility for quality and contractual liabilities are efficiently aligned. » Provide policy advice to the Minister on strategic issues affecting wholesale market. » If new or amended gas governance arrangements are required by government or the industry, develop and consult on proposals. 	<p>Respond to industry feedback on FY2010 consultation regarding quality issues.</p> <p>Respond to emerging issues in the gas sector and experience from existing wholesale gas governance arrangements to ensure market needs are met.</p>

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. Any circumstances that may delay the achievement of milestones will be reported to the Associate Minister as soon as practicable.

Subject to these factors, Gas Industry Co for FY2011 intends to achieve all milestones in Tier 1 and Tier 2 (with priority being given to the statutory responsibilities in Tier 1). Other workstream activities will be progressed as resources permit. The proposed wholesale work plan budget is \$2,119,137; this amounts to 30% of the total budget of \$7,029,516.

5. RETAIL WORK PLAN FY2011

THE RETAIL WORKSTREAMS COMPRISE ACTIVITY RELATING TO THE SUPPLY OF GAS THROUGH DISTRIBUTION NETWORKS TO END-USERS, INCLUDING TRANSPORTATION AND ENERGY COMPONENTS OF SUPPLY.

They include 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

Key activities are:

	WHAT	HOW	WHY
TIER ONE	Statutory roles for the Gas (Switching Arrangement) Rules 2008.	Ongoing: » Manage the Registry Operator under its service provider agreement, including receipt of monthly performance reports and conduct an annual performance review at the financial year-end.	Effective and efficient customer switching arrangements that enhance competition.
	Statutory roles for the Gas (Downstream Reconciliation) Rules 2008.	Ongoing: » Manage the Allocation Agent under the service provider agreement, including performance review.	Accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities.
	Statutory roles for the Gas Governance (Compliance) Regulations 2008.	Ongoing: » Assist and enable the Investigator and Rulings Panel to process alleged breaches within required timeframes.	Approved retail gas governance arrangements are supported by appropriate compliance and dispute resolution processes.
TIER TWO	Retail rule changes.	» Identify ways in which the purpose of the switching and reconciliation rules may be better achieved. » If new or amended gas governance arrangements are required, develop and consult on proposals.	This activity is part of a programme of continuous improvement of the various gas governance arrangements. The Company now has more information available to assess performance of the rules.
	Distribution Contracts.	» Develop a Consultation Paper on key issues by May 2011 (although this may depend on the extent to which industry resources are diverted by parallel activity with the Commerce Commission).	Distribution arrangements facilitate competition among gas retailers.

	WHAT	HOW	WHY
TIER THREE	Consumer Issues.	<ul style="list-style-type: none"> » Undertake baseline assessments of retail gas contracts and monitor voluntary adoption of benchmarks. » Oversee industry complaints scheme until hand-over to Ministry of Consumer Affairs. 	<p>Contractual arrangements between gas retailers and small customers adequately protect the long-term interests of small consumers.</p> <p>Domestic and small business gas consumers have effective access to a complaints resolution scheme.</p>
	Performance Measures.	<ul style="list-style-type: none"> » Collect information on retail gas governance arrangements. » Publish findings on website (quarterly) and provide Minister with six-monthly consolidated reports to end-June and December. 	Ensure good information is publicly available on the gas sector to enable an assessment of industry performance.
	Other Retail Policy Issues.	<ul style="list-style-type: none"> » Provide policy advice to the Minister on strategic issues affecting the retail market. » If new or amended gas governance arrangements are required by government or the industry, develop and consult on proposals. 	Respond to emerging issues in the gas sector and experience from existing retail gas governance arrangements to ensure market needs are met.

The achievement of retail delivery milestones can be affected by the same matters noted for the wholesale workstream. As noted in that section, any circumstances that may delay the achievement of milestones will be reported to the Associate Minister as soon as practicable.

Subject to these factors, Gas Industry Co intends to achieve all retail milestones in Tier 1 and Tier 2 (with priority being given to the statutory responsibilities in Tier 1). Other workstream activities will be progressed as resources permit. The proposed retail market budget is \$2,768,247. This amounts to 39% of the total budget of \$7,029,516.

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 FY2011 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.

RETAIL LEVY AND WHOLESALE LEVY

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 Gas Industry Co 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, which 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 Quarterly Reports, which include progress against the GPS and 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 Grant Thornton. 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 or notify the Minister. The Chair of the Board and the Chief Executive meet 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 FY2011 Gas Industry Co levy. Further detail about the assumptions, revenue calculations and workstream expenses used to calculate the FY2011 levy can be found in the January 2010 Levy Discussion Paper on Gas Industry Co's website, www.gasindustry.co.nz.

The FY2010 forecast was approved by Gas Industry Co's Board in May 2010 and includes actual results for the period June 2009 to April 2010, and an up-to-date forecast for the period May to June 2010.

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 2010

FORECAST STATEMENT OF FINANCIAL PERFORMANCE

	BUDGET FY2011 (\$000)	FORECAST FY2010 (\$000)	BUDGET FY2010 (\$000)	ACTUAL FY2009 (\$000)
Revenue				
Wholesale Levy	2,667	2,838	2,422	2,649
Retail Levy	1,633	1,650	1,600	1,911
Levy Revenue Subtotal	4,300	4,488	4,022	4,560
Market Fees	2,155	2,844	3,168	2,227
Annual Fees	80	80	80	90
Interest Income	28	36	28	52
Subtotal Other Revenue	2,263	2,960	3,276	2,369
TOTAL REVENUE	6,563	7,448	7,298	6,929
Expenses				
Employment Expenses	1,952	2,044	2,171	2,468
Audit Fees	10	15	15	8
Premises	271	270	269	186
General Expenses	578	477	585	1,180
Board	262	249	325	262
Work Programme Expenses	3,529	2,920	3,586	1,310
TOTAL EXPENSES	6,602	5,975	6,951	5,414
EBITDA¹	(39)	1,473	347	1,515
Tax	8	9	8	16
Depreciation	64	58	95	69
Amortisation	364	364	437	240
NPAT²	(475)	1,042	(193)	1,191

¹ Earnings Before Interest, Tax, Depreciation and Amortisation

² Net Profit After Tax

FORECAST STATEMENT OF MOVEMENTS IN EQUITY

	INDUSTRY RESERVES	RETAINED EARNINGS	TOTAL	INDUSTRY RESERVES	RETAINED EARNINGS	TOTAL
	BUDGET FY2011 (\$000)			FORECAST FY2010 (\$000)		
Opening Balance	3,128	270	3,398	2,166	190	2,356
Net Surplus/(Deficit) for the Year	-	(475)	(475)	-	1,042	1,042
Industry Advances Reserves Transfers	(191)	191	-	1,326	(1,326)	-
Industry Asset Amortisation Reserves Transfers	(364)	364	-	(364)	364	-
FORECAST BALANCE	2,573	350	2,923	3,128	270	3,398

	INDUSTRY RESERVES (\$000)	RETAINED EARNINGS (\$000)	INDUSTRY AMORTISATION RESERVE (\$000)	TOTAL (\$000)
Opening Balance	211	190	1,955	2,356
Transfer for the period – FY 2010	1,326	80	(364)	1,042
FORECAST BALANCE JUNE 2010	1,537	270	1,591	3,398
Opening Balance	1,537	270	1,591	3,398
Transfer for the period – FY 2011	(191)	80	(364)	(475)
FORECAST BALANCE JUNE 2011	1,346	350	1,227	2,923

FORECAST STATEMENT OF FINANCIAL POSITION

	BUDGET FY2011 (\$000)	FORECAST FY2010 (\$000)	BUDGET FY2010 (\$000)	ACTUAL FY2009 (\$000)
Current Assets				
Bank	2,190	2,548	824	746
Debtors	90	79	139	98
Other	27	19	51	17
Total Current Assets	2,307	2,646	1,014	861
Non-Current Assets				
Fixed Assets	177	242	192	201
Intangible Assets	1,228	1,591	1,744	2,039
Total Non-Current Assets	1,405	1,833	1,936	2,240
TOTAL ASSETS	3,712	4,479	2,950	3,101
Current Liabilities				
Payables and Accruals	789	1,081	797	745
Total Current Liabilities	789	1,081	797	745
Total Liabilities	789	1,081	797	745
Net Assets	2,923	3,398	2,153	2,356
Represented by				
Share Capital				
Industry Reserves	2,573	3,128	1,883	2,166
Retained Earnings	350	270	270	190
TOTAL SHAREHOLDERS' FUNDS	2,923	3,398	2,153	2,356

FORECAST STATEMENT OF CASH FLOWS

	BUDGET FY2011 (\$000)	FORECAST FY2010 (\$000)	BUDGET FY2010 (\$000)	ACTUAL FY2009 (\$000)
Cash Flows From Operating Activities				
Levy Income and Annual Fees	6,535	7,731	7,260	6,889
Interest Income	28	36	38	52
Operating Expenses	(6,921)	(5,955)	(6,932)	(5,196)
Net Cash Flows From Operating Activities	(358)	1,812	366	1,745
Cash Flows From Investing Activities				
Capital Purchases		(10)	(263)	(2,345)
Net Cash Flows From Investing Activities		(10)	(263)	(2,345)
Cash Flows From Financing Activities				
Net Cash Flows From Financing Activities	-	-	-	-
Net Cash Flows	(358)	1,802	103	(600)
Opening Cash Balance	2,548	746	721	1,346
CLOSING CASH BALANCE	2,190	2,548	824	746

STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS

GAS INDUSTRY CO HAS NO KNOWN CONTINGENT LIABILITIES OR ASSETS.

Gas Industry Co's lease commitment in relation to its premises commenced on 1 December 2008 and expires on 30 November 2020 at an annual rental of approximately \$268,776.

Other operating lease commitments are for office equipment.

Gas Industry Co has various ongoing commitments for the operation of the Company.

	FORECAST FY2010	BUDGET FY2011
<i>Operating Lease Commitments</i>		
Not later than one year	268,776	268,776
Later than one year but not later than two years	268,776	268,776
Later than two years but not later than five years	806,328	806,328
Later than five years but not later than 10 years	806,328	649,542
TOTAL OPERATING LEASE COMMITMENTS	2,150,208	1,993,422
<i>Equipment Lease Commitments</i>		
Not later than one year	51,686	47,782
Later than one year but not later than two years	47,782	12,250
Later than two years but not later than five years	12,250	-
Later than five years but not later than 10 years	-	-
TOTAL EQUIPMENT COMMITMENTS	111,718	60,032
<i>Service Provider Commitments</i>		
Not later than one year	920,048	920,048
Later than one year but not later than two years	920,048	920,048
Later than two years but not later than five years	2,171,088	1,250,680
Later than five years but not later than 10 years	-	-
TOTAL EQUIPMENT COMMITMENTS	4,011,184	3,090,776

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 22 MARCH 2010:

- » 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 2011-2013 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 fees from industry participants relating to the implementation of gas market rules and regulations.
- » An annual levy of \$4,299,216 is assumed to be effective from 1 July 2010 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 \$2,666,475 for FY2011, based on an estimate of 145PJ of gas being purchased from producers at a levy rate of 1.84 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 \$1,632,741 for FY2011, based on an estimate of 255,000 ICPs at a levy rate of \$6.40/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 FY2011 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 FY2011. Any variances that do occur will be managed through adjustments to future levy rates to take into account those variances, as specified under section 43ZZC(3) of the Act.

- » Gas Industry Co's constitution allows for the Board to set an annual fee for shareholders for the financial year. The FY2011 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 2011 is approximately \$2,923,000. Of this, \$1,346,000 is classified as Industry Advances Reserve and will be used to make adjustments to the levy rate in future periods, in accordance with section 43ZZC(3) of the Act. An amount of \$1,227,000 represents the Industry Asset Amortisation Reserve. The remainder (\$350,000) 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 FY2011 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

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95 Customhouse Quay

PO Box 10 646

Wellington 6143

Telephone: +64 4 472 1800

Facsimile: +64 4 472 1801

Email: info@gasindustry.co.nz

Website: www.gasindustry.co.nz

GAS INDUSTRY COMPANY DIRECTORS AS AT JUNE 2010

Right Honourable James (Jim) Bolger, ONZ

CHAIR, INDEPENDENT DIRECTOR

Robin Hill B COMM FCA, DEPUTY CHAIR, INDEPENDENT DIRECTOR

Andrew Brown LLB, INDEPENDENT DIRECTOR

Keith Davis PGDipBus, INDEPENDENT DIRECTOR

David Baldwin BE (CHEM.) MBA

Albert Brantley BSc P.Geol F.AuSIMM

Simon Mackenzie Grad Dip BS (Dist) Dip Fin NZCE

GAS INDUSTRY COMPANY EXECUTIVE

Christine Southey LLB BA (Hons), CHIEF EXECUTIVE

Peter Davies BBS MBA (Dist) CA, GENERAL MANAGER – CORPORATE SERVICES

Ian Dempster BE (Hons) M.Com (Hons),

PRINCIPAL ADVISER – MARKET OPERATIONS

Ian Wilson BSc (Hons) BBS MNZIGE,

PRINCIPAL ADVISER – INFRASTRUCTURE ACCESS

AUDITORS

Grant Thornton, Wellington

BANKERS

Westpac New Zealand Limited

GAS INDUSTRY COMPANY SHAREHOLDERS AS AT JUNE 2010

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

