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## STRATEGIC PLAN

SCOPE OF OPERATIONS 2013-15





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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 ('Gas Act'). It sets the intended scope of operations for the financial years 2013-2015.

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

Rt Hon James B Bolger, ONZ

CHAIR

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

Robin Hill

DEPUTY CHAIR

JUNE 2012

## 01.

## FOREWORD

Gas Industry Co was established in 2004 to fulfil the role of the 'industry body' under Part 4 of the Gas Act, and is now in its eighth year of operations.

In 2011, following a substantial review of how to best fulfil that role, Gas Industry Co established a broad strategy of 'optimising the contribution of gas to New Zealand'. The core objectives of that strategy are for Gas Industry Co to:

- » deliver effectively on its accountabilities as the industry body.
- » facilitate efficient use of, and timely investment in, gas infrastructure.
- » build efficient, competitive, and confident gas markets.
- » build and communicate the New Zealand gas story.

As we look to the FY2013-2015 planning phase, we have subjected that strategy to further testing in the light of the near-to medium-term opportunities and challenges for Gas Industry Co and the industry. It continues to stand up strongly as an appropriate strategic framework for addressing the tasks and issues that lie ahead.

Gas Industry Co's work to date, including the introduction of new gas governance arrangements, has brought improved efficiencies and processes to the operation of the gas market, infrastructure access, and consumer benefits. These arrangements have done much to make Government policy objectives and outcomes a reality in the gas sector. There are three cornerstones to our work with a strong focus on:

- » priority industry issues, especially the Gas Transmission Investment Programme (GTIP) to address transmission capacity congestion, and a separate programme to improve critical contingency management processes following a serious Maui pipeline outage in October 2011.

- » completing current committed workstreams.
- » maintaining core industry systems, including customer switching and downstream reconciliation arrangements, monitoring their continuing effectiveness, and recommending improvements where required.

A key element of Gas Industry Co's activity in the period is to work with industry stakeholders in progressing the GTIP to a successful conclusion. Solid groundwork was laid during FY2012 for this major undertaking, which will address long-term transmission access and pricing arrangements and improve the economic allocation of transmission capacity, particularly on Vector's North Pipeline. Gas Industry Co is pleased to have a very high level of support and commitment from industry stakeholders, both in the long-term work programme and in the high degree of acceptance of voluntary commitments – the Bridge Commitments – to address perceived competition issues for large end users in the short-term.

We are conscious of the need for planning flexibility and the ability to respond positively to unforeseen issues or extraordinary events affecting the industry. The GTIP was born from a request from major end users and other industry stakeholders for a focussed, Gas Industry Co-led project to address transmission capacity issues. This was clearly a new matter commanding high priority attention and was readily adopted by Gas Industry Co as an unplanned, additional workstream during FY2012.

Similarly in the wake of the major five-day outage of the Maui pipeline, we are undertaking a review of the effectiveness of the critical contingency management regulations, and considering whether any other arrangement should be in place to address a major disruption to gas supply. New Zealand's gas infrastructure has been remarkably reliable over the past 40 years. However, while the Maui pipeline failure was a rare event and the critical

contingency management processes proved to be generally effective, it is important that lessons are captured and that any identified improvements are made ahead of any significant future event.

The principles of ready access to infrastructure and efficient, competitive markets are critical to the continuing high performance of this sector. It is vital that existing and new gas is delivered into the market in an efficient and timely manner. At the same time, the welfare of the industry rests on industry participants who can make confident investment decisions, and consumers who can be similarly confident in their energy choices.

Gas Industry Co's activities in relation to these principles make up the second cornerstone of the work set out in this Strategic Plan. We are confident that our workstreams relating to pipeline interconnection, transmission system balancing and capacity arrangements, gas quality, wholesale trading enhancements, distribution contract principles, retail gas contract benchmarks, and retailer insolvency arrangements will bring further market improvements and strengthen participant confidence.

We also believe strongly that transparency through quality information availability is fundamental to policy development integrity, efficient and competitive markets, and informed decision-making by participants. In addition to compiling a comprehensive report on the current state and performance of the gas industry (what we have termed the 'New Zealand Gas Story'), we have embarked on a consultation process to broaden our information gathering capability. This latter project, which we expect to reach fruition in FY2013, is designed to better ensure the supply of information from industry participants to settle particular issues and to aid the timely development of robust market solutions.

Our work programme seeks to balance our obligations to deliver on our Gas Act and Government Policy Statement objectives and our wider strategic aspirations with value for money in terms of the impost placed on industry participants through levy funding. Through our unique co-regulatory model, we are committed to working closely with industry, Government, other regulatory agencies, and stakeholders in all aspects of our strategies to enhance arrangements within the gas industry and the contribution it makes to this country.



Rt Hon James B Bolger, ONZ  
CHAIR

JUNE 2012



Steve Bielby  
CHIEF EXECUTIVE

# 02.

## OPERATING ENVIRONMENT

This document sets out the scope of operations for Gas Industry Co over a three-year period. In order to understand how this scope is determined, it is useful to set out the elements of the Company's operating environment: industry, legislative and policy framework, and strategy.

### 2.1 Industry context

Natural gas makes a substantial contribution to New Zealand's economy and quality of life. It is a vital input to some of the country's largest industries, including dairy, steel, and petrochemicals (methanol and urea); as well as for over 250,000 commercial and residential consumers.

It has a wide range of applications, from cooking and heating in homes, to providing energy for a variety of businesses and community amenities. Through thermal power plants, it has an important role in supporting electricity supply security.

Over the past decade, as production from the formerly predominant Maui field has declined, the New Zealand gas market has transitioned to sourcing gas from multiple new fields. This has significantly changed the market's dynamics, with a marked increase in the number of participants at all levels, and greater complexity in arrangements for transporting gas and selling it at the wholesale and retail levels.

The gas industry comprises a number of interdependent segments: exploration and production, processing, and wholesale and retail markets. These segments are connected via the high pressure gas transmission systems owned by Maui Development Limited and Vector, and by local distribution networks owned by Vector, Powerco, Gasnet and Nova.

Natural gas is available only in the North Island.

### 2.2 Legislative and policy framework

The Gas Act empowers Gas Industry Co to make recommendations to the Minister<sup>1</sup> on certain matters set out in the Gas Act, having regard to the objectives of the Gas Act and the objectives and outcomes of the Government Policy Statement on Gas Governance ('GPS')<sup>2</sup>.

The Gas Act specifies the principal objective of the industry body in recommending regulations is to ensure that gas is delivered to existing and new customers in a safe, efficient and reliable manner. The GPS requires the industry body to take account of fairness and environmental sustainability in all of its recommendations for industry governance arrangements.

Other key objectives specified by the Gas Act for the industry body are:

- » the facilitation and promotion of the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements;
- » barriers to competition are minimised;
- » incentives for investment in gas processing facilities, transmission, and distribution are maintained or enhanced; and
- » delivered gas costs and prices are subject to sustained downward pressure.

<sup>1</sup> 'Minister' is defined in the Gas Act as the Minister with responsibility for administration of the Gas Act. As at the date of this Strategic Plan, the ministerial warrant for Gas Industry Co was held by the Minister of Energy and Resources. References to 'Minister' should be read as references to the Minister of Energy and Resources, unless the context indicates otherwise.

<sup>2</sup> The current GPS is dated April 2008.

The Minister has statutory 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 and must follow prescribed procedures – including the requirement for consultation with industry participants and other stakeholders and the obligation to assess the costs and benefits associated with any recommendation – before making a recommendation. When developing advice on governance arrangements, Gas Industry Co must consider all reasonably practicable options (that is, non-regulatory options that achieve the same outcome as any proposed regulatory solution should be assessed).

Gas Industry Co monitors the effectiveness of governance arrangements already in place through a set of industry performance measures, which are published on its website.

Gas Industry Co's regulatory oversight encompasses the natural gas wholesale and retail markets, processing facilities, and the transmission and distribution sectors of the industry (see *figure 1, Gas Industry Structure*). It generally does not include the upstream exploration and production sector, which is principally governed by the Ministry of Economic Development ('MED') through the Crown Minerals Act.

### 2.3 Gas Industry Co strategic direction

Consistent with the above legislative and policy framework, the Board of Gas Industry Co has set a corporate strategic direction for the Company that reflects the unique co-regulatory model for the industry and establishes goals that will enable it to fulfil its important role as the industry body and co-regulator.



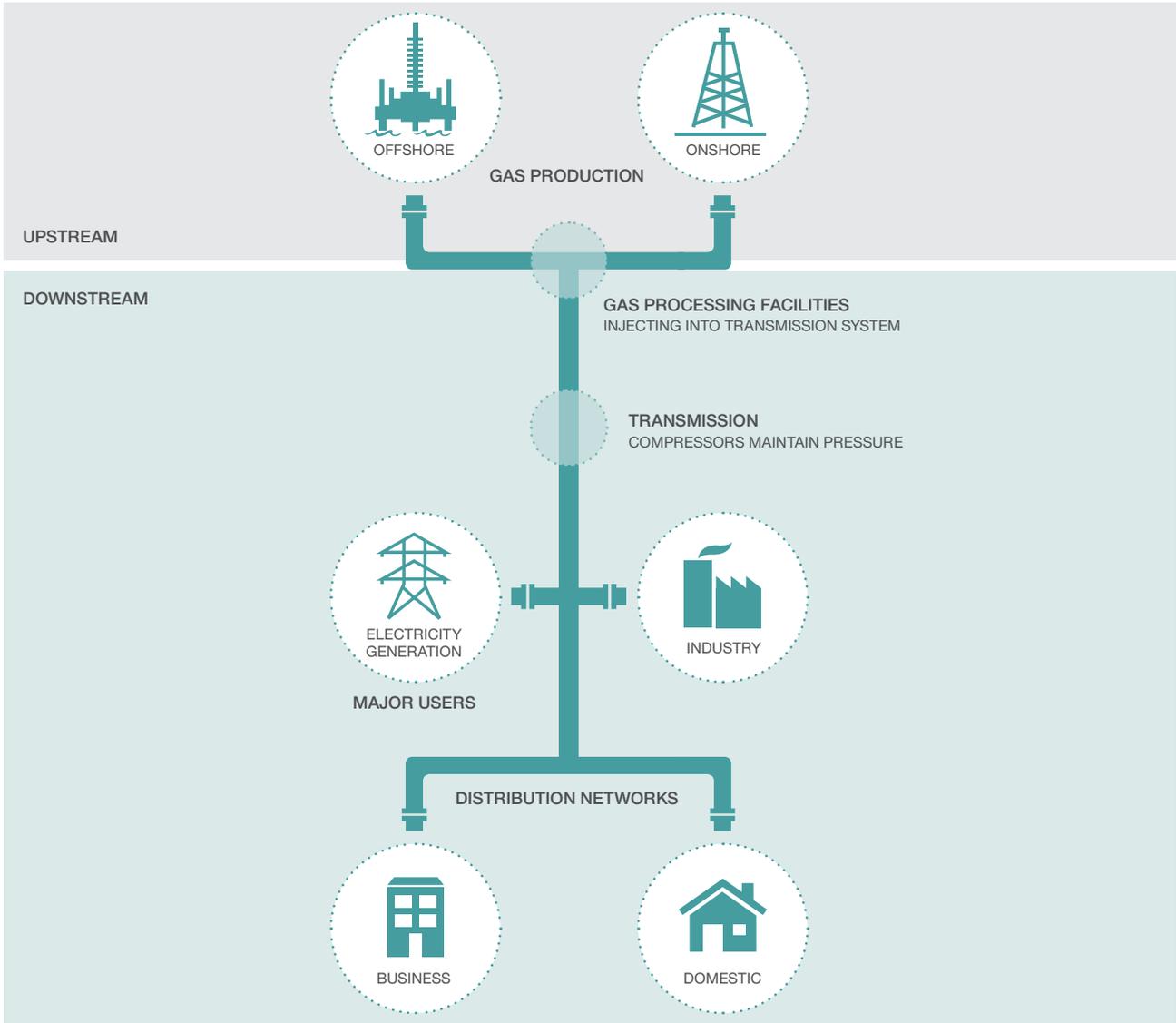
#### Strategic Goal: Optimise the Contribution of Gas to New Zealand

Gas has made a key contribution to New Zealand since the development of the industry from the 1960s. There is an important role for gas going forward, particularly in terms of providing electricity supply security and supporting the New Zealand economy, all consistent with environmental sustainability goals. However, there is a range of possible scenarios as to future supply and demand. The challenge, in line with Government energy policy, is how New Zealand can make the most of its gas resources, for the benefit of all New Zealanders.

#### Purpose: Provide leadership for the Gas Industry and the New Zealand Gas Story

The gas industry is dependent on a range of players, from upstream explorers and producers through to customers; on competitive markets; and ongoing investment at all stages. Gas Industry Co, with its statutory role as the industry body, is well-positioned to understand and analyse issues facing the gas industry from all of these viewpoints. Gas Industry Co will be a leader in making the next phase in the New Zealand Gas Story a success.

FIGURE 1 - GAS INDUSTRY STRUCTURE





### Objectives:

- » build efficient, competitive, and confident gas markets;
- » facilitate efficient use of, and timely investment in, gas infrastructure;
- » deliver effectively on Gas Industry Co's accountabilities as the gas industry body; and
- » build and communicate the New Zealand Gas Story (includes review of industry performance).

### 2.4 Gas Industry Co governance

Gas Industry Co is owned by industry participant shareholders<sup>3</sup> and is incorporated as a company under the Companies Act 1993. Strategic oversight of the Company is provided by a Board of seven Directors, all elected by the shareholders. Four Directors are independent (having no material or financial interest in an industry participant), and three are non-independent representatives of the industry (usually senior executives of industry participants). The Board normally meets on up to 10 scheduled occasions each year and will hold unscheduled meetings from time to time to consider matters requiring immediate attention.

The Board has one standing committee, the Independent Directors' Committee, comprising the four independent Directors. The Committee is able to address matters where the non-independent Directors have potential or actual conflicts of interest.



<sup>3</sup> See Directory at Page 28.

# 03.

## WORK PROGRAMME

The work programme set out in this section provides an outline of Gas Industry Co's proposed scope of operations for the three-year period covering the financial years 2013 to 2015.

The work programme has been developed having regard to the objectives and outcomes that have been set for Gas Industry Co within the Gas Act and GPS, as well as the need to meet various statutory accountabilities, such as monitoring and administering existing governance arrangements or reporting requirements under the Gas Act and Companies Act. The multi-year scope of the Plan recognises that policy development requires comprehensive consultation and that the results of consultation provide the opportunity for continuous improvements in policy thinking. Any governance arrangements arising from a workstream may take the form of regulations, or a non-regulatory, market-based solution.

Projects are grouped below by strategic goals that arise from the strategic framework discussed in section 2.

### 3.1 Objective: Build efficient, competitive, and confident gas markets

#### Gas quality

Gas Industry Co has developed this workstream in response to industry concerns about the responsibility and liability for gas quality in New Zealand. Some participants believe responsibilities are unclear, or not well aligned with liabilities. Gas Industry Co's role in this matter focusses on issues identification and solution facilitation, as there is no regulatory mandate for this workstream.

Gas Industry Co will report to the Minister on this issue in June 2012. By that time we expect to have greater clarity on what will be addressed by a retailers' Information Exchange Protocol (IEP) and to be in a position to identify any gaps. In FY2013, we will assess and address any remaining gas quality issues.

#### FORECAST ACTIVITIES FY2013–FY2015

- » facilitate industry-led solutions to address the immediate concerns arising from Gas Industry Co's gas quality review (seeking assistance from the MED and Energy Safety (ES), where necessary).
- » once immediate concerns are addressed, consider whether further work is required to ensure that industry arrangements provide for gas quality in a manner that facilitates the safe, efficient, and reliable delivery of gas; and provide for risks relating to security of supply to be properly and efficiently managed by those parties best able to manage such risks.
- » consult on any substantive issues that arise, and if necessary implement further measures to address the above aims.

#### Retail rule changes

FY2013 will see the completion of the process Gas Industry Co has begun to amend the Gas (Downstream Reconciliation) Rules 2008. In particular, either a new process for performing the initial allocation will be introduced or a decision made to pursue a 'D+1' methodology<sup>4</sup>. The second of these has implications for the balancing workstream and would be expected to equip shippers with the tools they need to self-balance by better matching their upstream and downstream positions.

<sup>4</sup> D+1 refers to reconciling gas delivery volumes the day after delivery (D+1). This would assist transmission shippers (retailers) manage their daily balance positions. It also has the potential to improve the accuracy of monthly gas volume reconciliations and reduce the amount of unaccounted-for gas (UFG).



Gas Industry Co is also progressing amendments to the Gas (Switching Arrangements) Rules 2008 and the Gas Governance (Compliance) Regulations 2008 in FY2012, and plans to address any remaining issues in FY2013.

#### FORECAST ACTIVITIES FY2013–FY2015

- » convene and work with an implementation group to address transition issues in downstream reconciliation rule changes.
- » finalise downstream reconciliation rule amendments, and provide recommendation to the Minister.
- » remaining switching and/or compliance work, including, if necessary, convening and working with a switching changes implementation group.

#### Arrangements to address retailer insolvency

Following a Ministerial request, this workstream was formed to consider the market issues created when a gas retailer becomes insolvent and to determine whether permanent regulations are required to manage any future instances of insolvency. Significant interest was expressed in this area through the submissions to the retrospective consultation on the regulations made under urgency in 2010 to address the E-Gas insolvency. Gas Industry Co will have consulted on an issues and options paper in the second half of FY2012. Work in FY2013 will concentrate on the development of a Statement of Proposal, if the earlier work determines that a regulatory solution is needed. Conversely, if the conclusion is that standing regulation is not required, then the workstream will focus on non-regulated approaches with a fall-back to urgent regulation if required in specific circumstances.



The Electricity Authority is also undertaking work relating to retailer insolvency and Gas Industry Co will keep abreast of those developments. Nevertheless, given the structural differences in the two markets it cannot be assumed that the same solution will apply to both gas and electricity.

#### FORECAST ACTIVITIES FY2013–FY2015

- » dependent on analysis of feedback received in FY2012, may range from a regulated option to a market-based solution.

#### Distribution principles

Gas Industry Co has recommended to the Minister that gas distributors' contracts be assessed annually against a common set of distribution principles. The assessment would measure progress made by distributors in reflecting the distribution principles in their own Use of System Agreements ('UoSA') with retailers. In FY2013, Gas Industry Co plans to develop, consult on, and implement a methodology by which adherence to the distribution principles can be evaluated.

#### FORECAST ACTIVITIES FY2013–FY2015

- » design evaluation process and consult.
- » evaluate UoSA against principles and report (given the enduring nature of distribution contracts it is not expected that an annual evaluation will be required).



### Retail contracts oversight scheme

In 2010, Gas Industry Co established a series of benchmarks consistent with satisfactory customer expectations and outcomes. Expected position as at end of FY2012: review of benchmarks following transitional assessment; consult with retailers on any amendments; meet with the retailers to discuss next annual assessment.

#### FORECAST ACTIVITIES FY2013-FY2015

- » undertake annual assessments of retailer contracts in July each year.
- » publication of individual assessments.
- » work with retailers to promote compliance with the benchmarks.

### 3.2 Objective: Facilitate efficient use of, and timely investment in infrastructure

#### Gas Transmission Investment Programme

The GTIP arose from industry concerns over the long-term outlook for gas transmission capacity availability in the Auckland region. The GTIP encompasses a number of interlinked projects relating to the efficient use of, and timely investment in, infrastructure.

#### BRIDGE COMMITMENTS

The Bridge Commitments are a package of seven measures that Vector and gas shippers have agreed to undertake to address the short-term issues large end users on the constrained North Pipeline are facing. Gas Industry Co will continue to monitor the effectiveness of these commitments in enhancing retail competition on the North Pipeline.

#### FORECAST ACTIVITIES FY2013-FY2015

- » monitor tenders.
- » monitor capacity trading activity.
- » operate the capacity trading bulletin board (Gas Transmission Exchange, GTX).

#### INFORMATION PROJECTS

As part of the GTIP work, Gas Industry Co is commissioning a gas supply and demand model that will be used to examine possible gas supply and demand scenarios. The model will be used to assess the likely need for, and timing of, additional investment in transmission capacity or its alternatives. The model is expected to be completed in FY2012.

#### FORECAST ACTIVITIES FY2013-FY2015

- » develop gas supply/demand outlook scenarios and test these with stakeholders.
- » use model to assist with testing investment options for transmission or non-transmission alternatives.

#### MARKET PROJECTS

The work on transmission access and pricing that commenced in FY2012 is expected to develop a preferred approach for allocating transmission access and determining an efficient price for the transmission services. The preferred approach will be further refined and developed in FY2013: if it is a non-regulatory solution, it is likely a change to the Vector Transmission Code (VTC) will be needed; if a regulatory solution is preferred, it will need to be developed into a Statement of Proposal in FY2013.



#### FORECAST ACTIVITIES FY2013-FY2015

- » if regulatory solution is preferred, prepare and consult on a Statement of Proposal.
- » if non-regulatory, facilitate VTC change request process.
- » implement solution(s).

#### REGULATORY PROJECTS

The supply/demand model will provide a clearer view of the conditions under which incremental transmission capacity could be required. The next question relates to efficiency and feasibility of such investment(s). There are two broad aspects to be considered: the first being the scope and scale of capital investment and the possible vehicles, and the second being consideration of any effects that Part 4 of the Commerce Act may have on the feasibility of such investments.

#### FORECAST ACTIVITIES FY2013-FY2015

- » investigate options for implementing new transmission capacity where that is efficient.
- » work closely with Commerce Commission and other stakeholders.
- » test efficient investment options in the regulatory context.

#### PANEL OF EXPERT ADVISERS AND PANEL OF STRATEGIC ADVISERS

The Panel of Expert Advisers (PEA) is an industry group providing advice to Gas Industry Co on how best to ensure that existing transmission capacity is used as efficiently as possible and to identify opportunities for efficient future investment in gas transmission capacity or its alternatives.

The Panel of Strategic Advisers (PSA) provides advice on specific matters referred to it by Gas Industry Co as the programme sponsor. This would likely be in situations where the PEA has provided advice that indicates a split view (either in a preferred option or implementation methodology).

#### FORECAST ACTIVITIES FY2013-FY2015

- » provide secretariat services to the PEA, including preparing meeting papers and arranging meetings as required.
- » engage external advisers as required.

#### INFORMATION GATHERING PROJECT

The objective of this workstream is to develop a process that will empower Gas Industry Co to ensure the supply of certain information from industry participants to settle particular issues in the gas industry to aid the timely development of market solutions. Gas Industry Co expects that the preferred option will combine the formalisation of a protocol for seeking information, with the development of regulations that enable Gas Industry Co to specify and require information from industry participants in relation to a limited set of issues. Work in FY2013 will focus on the recommendation to the Minister and implementing an information gathering process, the details of which will depend on the option chosen to address the objective of this project.

#### FORECAST ACTIVITIES FY2013-FY2015

- » develop and implement information request protocol.
- » recommendation to the Minister if regulatory option pursued.
- » implement information gathering process.
- » work with Parliamentary Counsel Office to finalise regulations (if a regulatory approach is pursued).
- » information regulations in place (if a regulatory approach is pursued).



### Transmission pipeline balancing

Balancing has proven to be a challenge due to the different operating arrangements on each of the Vector and MDL pipelines and the lack of a unified approach to balancing. The industry requested an opportunity to solve the balancing issues and has been working on this since late 2009.

Expected position at the end of FY2013: FY2012 Maui Pipeline Operating Code (MPOC) change request determined and if approved, implemented; review status of balancing issues; report progress to Minister. Through FY2013 it is intended that Gas Industry Co will take a facilitative role to maximise the prospects for an industry-led solution to be put in place, as well as determining appeals in relation to any associated changes to the VTC. At some point in the Strategic Plan period it may be necessary to reconsider whether this matter is best solved by way of changes to the industry codes or by a regulated solution.

#### FORECAST ACTIVITIES FY2013-FY2015

- » facilitate industry-led initiatives; participate in appeals in relation to any VTC changes and process any MPOC change requests.
- » consider the need for any regulated solutions if industry-led initiatives inadequate. If such action needed, likely to be subsumed by, or at least delayed until, outcomes of GTIP access and pricing work.

### Interconnection

Gas Industry Co guidelines set out the Company's expectations for transmission system owners' policies and procedures for connecting to their pipelines. As agreed with the Minister, as interconnections occur, Gas Industry Co assesses new transmission interconnection processes against these guidelines, with a view to determining whether interconnection policies present undue barriers to entry.

#### FORECAST ACTIVITIES FY2013-FY2015

- » new interconnections reviewed following commissioning.

### Code changes and appeals

Under memoranda of understanding with MDL and Vector, Gas Industry Co processes MPOC change requests and VTC change request appeals.

#### FORECAST ACTIVITIES FY2013-FY2015

- » process MPOC change requests and VTC appeals as required.

### 3.3 Objective: Deliver effectively on Gas Industry Co's accountabilities as industry body

#### Access to gas processing facilities

The Gas (Processing Facilities Information Disclosure) Rules 2008 gather information on gas processing facilities with a view to settling the issue of whether access to such facilities should be regulated. Under these Rules, Gas Industry Co receives and publishes information on the capability of, and availability of capacity at, gas processing facilities. It also monitors responses to requests for third party access to gas processing facilities.



Prior to the expiry of the Rules in 2014, Gas Industry Co will consult with gas processing facility owners and the wider industry on experience with the Rules and whether further regulation or other action is required. It is not an option to extend the existing rules, which were put in place to assess whether there are any issues indicating that access regulation is needed. They will be revoked in 2014.

#### FORECAST ACTIVITIES FOR FY2013-FY2015

- » receive and publish returns from processing facility owners.
- » receive reports from access-seekers (if any).
- » survey facility owners and others on expiration of Rules.
- » provide a recommendation to the Minister in respect of any further need for regulation.

#### Downstream Reconciliation

The purpose of the Gas (Downstream Reconciliation) Rules 2008 is to establish a set of uniform processes that will enable the fair, efficient, and reliable allocation and reconciliation of downstream gas quantities. Under these Rules, Gas Industry Co has ongoing obligations to oversee the operation of the Allocation Agent and other Rule provisions. Gas Industry Co also monitors allocation results in order to identify, at an early stage, any issues so that they can be addressed in a timely fashion. This work complements that of a number of industry participants who also undertake monitoring and, from time to time, identify issues to Gas Industry Co or the Allocation Agent.



These Rules have been instrumental in reducing the level of UFG (at the final allocation stage) through the efforts of industry participants, the increased transparency of the processes for reconciliation, the application of the global methodology, compliance activities, and issues identified and resolved through performance and event audits undertaken to date. Collectively, this represents an ongoing stream of cost savings to the industry in excess of \$2.5 million per annum.

Gas Industry Co is in the process of reviewing and amending the Downstream Reconciliation Rules, and part of the ongoing activity will be to monitor the effectiveness of any changes.

#### FORECAST ACTIVITIES FY2013-FY2015

- » monitor Allocation Agent.
- » assess ongoing performance of the Rules.
- » monitor allocation results.
- » commission performance and event audits as required.



## Compliance

The Gas Governance (Compliance) Regulations 2008 are an overarching set of regulations that provide for monitoring and enforcement of the other gas governance rules and regulations. The compliance arrangements are designed as a low-cost means of settling rules breaches that raise material issues. Where parties are unable to settle breaches, the matters will be heard by a one-person Rulings Panel, a quasi-judicial body. The Rulings Panel can issue fines, make orders for compensation, and make orders directing compliance and/or suspending or terminating participants.

Compliance activity in relation to a set of rules is highest when the rules are first introduced and tends to fall as participants adjust to the new arrangements. Breach statistics reported in Gas Industry Co's quarterly performance reports<sup>5</sup> demonstrate that teething troubles with new rules/regulations are short-lived and compliance activity typically sits at a fairly low level.

### FORECAST ACTIVITIES FY2013-FY2015

- » perform the Market Administrator role.
- » assist Investigator and Rulings Panel, as requested.
- » monitor Regulations for effectiveness.

## Switching

The Gas (Switching Arrangements) Rules 2008 have the purpose of enabling 'consumers to choose, and alternate, efficiently and satisfactorily between competing retailers'. The Switching Rules provide for a centralised gas registry that stores key parameters about every customer installation, facilitates the switching process, and monitors switching timeframes from initiation through to completion.

### FORECAST ACTIVITIES FY2013-FY2015

- » monitor gas registry service provider.
- » assess ongoing performance of the Rules.
- » monitor switching statistics.
- » make determinations under the Rules as required.

## Critical contingency management

The purpose of the Gas Governance (Critical Contingency Management) Regulations 2008 is to 'achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply'. These Regulations provide for the appointment of a Critical Contingency Operator (CCO), which is responsible for determining, managing, and terminating critical contingencies, as well as associated activities, such as training and running exercises.

### FORECAST ACTIVITIES FOR FY2013-FY2015

- » monitor the CCO under the Service Provider Agreement.
- » appoint/monitor service providers as required.
- » monitor exercises and events as required.
- » administer contingency pool as required.
- » carry out any remaining work from the review following the October 2011 Maui Pipeline outage.

<sup>5</sup> These reports can be found on the Gas Industry Co website: <http://gasindustry.co.nz/work-programme/performance-measures/performance-measures-quarterly-reports>



### Strategic Plan and Annual Report

The Gas Act requires that the industry body provide its Annual Report to the Minister within three months of the end of the financial year. The Minister then tables it in the House of Representatives. Similarly, the Strategic Plan is provided to the Minister for comment prior to it being finalised and published. The Strategic Plan is developed in close consultation with industry participants and other stakeholders.

#### FORECAST ACTIVITIES FY2013–FY2015

- » prepare/publish Strategic Plan to meet statutory timeframes.
- » prepare/publish Annual Report, provide to the Minister for tabling in the House.

### New Zealand Gas Story

Gas Industry Co is required by the Gas Act to report on the present state and performance of the gas industry. As reflected in the corporate strategy, there is a role for Gas Industry Co to take a wide view of the industry and to promote to stakeholders, Government, and the public an understanding of the benefits of gas and the challenges faced by the gas industry.



Work is accordingly progressing on a State and Performance of the Gas Industry Review (which Gas Industry Co refers to as the 'New Zealand Gas Story') in the expectation that it will be largely written by 30 June 2012. Apart from fulfilling the statutory reporting requirement, this work is intended to inform analysis and debate on industry issues, and therefore help to define the role of gas in the future. The New Zealand Gas Story is intended to be a living document that will be regularly updated so that its statistics and its views on the gas industry remain current.

#### FORECAST ACTIVITIES FY2013–FY2015

- » publication and release of the Review in FY2013, depending on the timing of any material developments in the meantime, including the supply/demand study and outcomes of the GTIP.
- » receiving and responding to industry feedback.
- » regularly updating statistics and changes occurring in the industry.

The table at right sets out the estimated direct costs for each workstream and corporate expenses for the year ended 30 June 2013. Some workstream costs are divided between the Wholesale and Retail categories.

Note: Activities shown with zero cost will be undertaken using only internal resources.

WORKSTREAM	\$
<b>Wholesale</b>	
Critical Contingency Management	483,000
Critical Contingency Management Review	30,000
Gas Processing	25,000
Compliance	39,000
Transmission Balancing	-
Gas Quality	50,000
Interconnection	45,000
Industry Facilitation	45,000
Gas Transmission Investment Programme	490,000
Statutory Accountability	12,000
NZ Gas Story	13,750
Information Gathering	-
Rule Changes	-
<b>TOTAL WHOLESAL</b>	<b>1,232,750</b>
<b>Retail</b>	
Switching	292,025
Reconciliation	723,900
Compliance	156,000
Distribution Contracts	25,000
Rule Changes	75,000
Consumer Issues	40,000
Insolvent Retailers	50,000
Bridge Commitments	50,000
Statutory Accountability	12,000
Direct Use of Gas Report	-
Small Consumer Proposition	-
Information Gathering	-
NZ Gas Story	13,750
<b>TOTAL RETAIL</b>	<b>1,437,675</b>
<b>Other Expenses</b>	
Board	282,460
Corporate Consultancy	110,000
Salaries	2,205,930
Overheads	1,088,492
<b>TOTAL OTHER EXPENSES</b>	<b>3,686,882</b>
<b>TOTAL EXPENSES</b>	<b>6,357,307</b>

# 04.

## OTHER INFORMATION

### 4.1 Gas Industry Co funding and levy

Gas Industry Co has three sources of funding to meet the costs expected to be incurred in FY2013 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.
- » an annual shareholder fee.

#### Levy Funding

Section 43ZZB of the Gas Act enables Gas Industry Co to recommend to the Minister that industry participants be required to pay a levy to cover the costs of 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 some 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.

### 4.2 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 a Quarterly Report, which includes industry performance measures and progress being made by Gas Industry Co against the Strategic Plan, along with updates on published consultation papers and completed rule changes. Ad hoc reports are provided to the Minister on particular subjects as agreed.

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

There are no specific matters, outside those detailed in this Strategic Plan, 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 with the Minister on a regular basis, and Gas Industry Co provides the Minister with briefings and advice as requested or as necessary.



### 4.3 Compliance

Gas governance arrangements already in place are underpinned by the Gas Governance (Compliance) Regulations 2008 under which alleged breaches of the rules and regulations are determined and settled efficiently. Gas Industry Co administers the Compliance Regulations, and performs the role of Market Administrator (an initial breach processing and determination function).

Material and complex breaches are referred to an independent Investigator to consider and seek settlement. Any settlement requires approval from the independent Rulings Panel, appointed by the Minister. Where no settlement is reached between parties to a breach, the Rulings Panel is empowered to determine those breaches and impose sanctions allowed for by the Gas Act (including compensation to other parties, or fines of up to \$20,000 per breach).

The current Rulings Panel is former High Court judge, Hon Sir John Hansen KNZM. Barristers Jason McHerron and Jacque Kean have performed the role of the independent Investigator.



# 05.

## 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 FY2013 Gas Industry Co levy. Further detail about the assumptions, revenue calculations and workstream expenses used to calculate the FY2013 levy can be found in the December 2011 Levy Statement of Proposal on Gas Industry Co's website, [www.gasindustry.co.nz](http://www.gasindustry.co.nz).

The FY2012 forecast was approved by Gas Industry Co's Board in March 2012 and includes actual results for the period June 2011 to February 2012, and an up-to-date forecast for the period March to June 2012.

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 FY2013 Levy Recommendation that has been made to the Minister of Energy and Resources under section 43ZZB of the Gas Act.



Rt Hon James B Bolger, ONZ

CHAIR



Robin Hill

DEPUTY CHAIR

MARCH 2012

## FORECAST STATEMENT OF FINANCIAL PERFORMANCE

	BUDGET FY2013	FORECAST FY2012	ACTUAL FY2011
	\$	\$	\$
<b>Revenue</b>			
Wholesale Levy	2,691,253	2,483,204	2,807,446
Retail Levy	1,608,325	1,480,450	1,663,395
Levy Revenue Subtotal	4,299,578	3,963,654	4,470,841
Market Fees	1,693,925	1,686,731	1,420,648
Annual Fees	80,000	80,000	80,000
Interest Income	13,822	32,177	53,029
Subtotal Other Revenue	1,787,747	1,798,908	1,553,677
<b>TOTAL REVENUE</b>	<b>6,087,325</b>	<b>5,762,562</b>	<b>6,024,518</b>
Refunded Levy Income	-	-	(1,501,829)
<b>NET INCOME</b>	<b>6,087,325</b>	<b>5,762,562</b>	<b>4,522,689</b>
<b>Expenses</b>			
Depreciation & amortisation	435,420	421,058	433,229
Operating lease expenses	271,440	269,664	311,691
Fees paid to audit firm – financial statements audit	13,850	13,850	13,800
Fees paid to audit firm – other services	-	-	-
Accounting and taxation advice	-	-	-
Director's fees	262,460	262,460	262,460
General expenses	415,900	464,842	482,952
Bad debts	-	-	74,527
Recruitment expenses	40,000	-	81,700
Technical, economic and legal advice	1,098,482	1,267,157	652,323
Service provider fees	1,564,925	1,360,630	1,645,033
Kiwisaver contributions	45,600	39,301	39,756
Foreign exchange loss	-	442	1,923
Employee benefit expense	2,205,930	2,154,646	1,999,514
<b>TOTAL EXPENSES</b>	<b>6,354,007</b>	<b>6,254,050</b>	<b>5,998,908</b>
Finance costs	3,300	2,975	2,631
<b>TOTAL EXPENDITURE</b>	<b>6,357,307</b>	<b>6,257,025</b>	<b>6,001,539</b>
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>(269,982)</b>	<b>(494,463)</b>	<b>(1,478,850)</b>
Income Tax Expense	8,293	9,010	14,848
<b>PROFIT/(LOSS) FOR THE YEAR</b>	<b>(278,275)</b>	<b>(503,473)</b>	<b>(1,493,698)</b>



## FORECAST STATEMENT OF MOVEMENTS IN EQUITY

	INDUSTRY RESERVES \$	RETAINED EARNINGS \$	TOTAL \$	INDUSTRY RESERVES \$	RETAINED EARNINGS \$	TOTAL \$
	BUDGET FY2013			FORECAST FY2012		
Opening Balance	1,008,377	430,000	1,438,377	1,591,850	350,000	1,941,850
Net surplus/(deficit) for the year	-	(278,275)	(278,275)	-	(503,473)	(503,473)
Industry Advances Reserves transfers	5,529	(5,529)	-	(219,669)	219,669	-
Industry Asset Amortisation Reserves transfers	(363,804)	363,804	-	(363,804)	363,804	-
<b>FORECAST BALANCE</b>	<b>650,102</b>	<b>510,000</b>	<b>1,160,102</b>	<b>1,008,377</b>	<b>430,000</b>	<b>1,438,377</b>

## FORECAST STATEMENT OF FINANCIAL POSITION

	BUDGET FY2013 \$	FORECAST FY2012 \$	ACTUAL FY2011 \$
<b>Current assets</b>			
Cash and cash equivalents	952,426	795,781	1,238,985
Trade and other receivables	100,481	83,336	157,595
Prepayments	38,834	47,491	47,234
Income tax receivable	3,870	9,009	872
<b>TOTAL CURRENT ASSETS</b>	<b>1,095,611</b>	<b>935,617</b>	<b>1,444,686</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	192,015	281,098	135,017
Intangible assets	500,042	863,847	1,239,052
<b>TOTAL NON-CURRENT ASSETS</b>	<b>692,057</b>	<b>1,144,945</b>	<b>1,374,069</b>
<b>TOTAL ASSETS</b>	<b>1,787,668</b>	<b>2,080,562</b>	<b>2,818,755</b>
<b>Current liabilities</b>			
Trade and other payables	372,786	385,151	643,100
Asset restoration provision	31,256	27,968	25,017
Employee entitlements	223,516	229,058	208,780
Redeemable shares	8	8	8
<b>TOTAL CURRENT LIABILITIES</b>	<b>627,566</b>	<b>642,185</b>	<b>876,905</b>
<b>TOTAL LIABILITIES</b>	<b>627,566</b>	<b>642,185</b>	<b>876,905</b>
<b>NET ASSETS</b>	<b>1,160,102</b>	<b>1,438,377</b>	<b>1,941,850</b>
<b>Represented by</b>			
Industry Reserves	650,102	1,008,377	1,591,850
Retained Earnings	510,000	430,000	350,000
<b>TOTAL SHAREHOLDERS' FUNDS</b>	<b>1,160,102</b>	<b>1,438,377</b>	<b>1,941,850</b>



## FORECAST STATEMENT OF CASH FLOWS

	BUDGET FY2013 \$	FORECAST FY2012 \$	ACTUAL FY2011 \$
Cash flows from operating activities			
<b>Cash was provided from</b>			
Levy revenue	4,299,578	3,881,794	4,454,855
Market fee revenue	1,693,925	1,686,731	1,412,153
Annual fees	80,000	80,000	80,000
Interest received	13,822	32,177	53,029
<b>SUB-TOTAL</b>	<b>6,087,325</b>	<b>5,680,702</b>	<b>6,000,037</b>
<b>Cash was applied to</b>			
Payment to suppliers	(3,416,190)	(3,604,112)	(3,173,384)
Payment to employees	(2,252,030)	(2,164,300)	(2,105,513)
Payment to directors	(262,460)	(262,460)	(253,238)
Refund of levy to industry participants	-	-	(1,441,338)
Taxes paid	-	(1,417)	(15,720)
Net GST	-	8,383	(21,093)
<b>SUB-TOTAL</b>	<b>(5,930,680)</b>	<b>(6,023,906)</b>	<b>(7,010,286)</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>156,645</b>	<b>(343,204)</b>	<b>(1,010,249)</b>
Cash flows from investing activities			
<b>Cash was applied to</b>			
Purchase of property, plant and equipment	-	(100,000)	(10,653)
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>-</b>	<b>(100,000)</b>	<b>(10,653)</b>
<b>NET CASH FLOWS</b>	<b>156,645</b>	<b>(443,204)</b>	<b>(1,020,902)</b>
Opening cash balance	795,781	1,238,985	2,259,887
<b>CLOSING CASH BALANCE</b>	<b>952,426</b>	<b>795,781</b>	<b>1,238,985</b>



## 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.

	BUDGET FY2013 \$	FORECAST FY2012 \$
<b>Operating lease commitments</b>		
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	649,542	918,318
Later than five years but not later than 10 years	-	-
<b>TOTAL OPERATING LEASE COMMITMENTS</b>	<b>1,187,094</b>	<b>1,455,870</b>
<b>Equipment lease commitments</b>		
Not later than one year	43,211	43,842
Later than one year but not later than two years	10,330	43,211
Later than two years but not later than five years	-	10,330
Later than five years but not later than 10 years	-	-
<b>TOTAL EQUIPMENT COMMITMENTS</b>	<b>53,541</b>	<b>97,383</b>
<b>Service provider commitments</b>		
Not later than one year	330,272	920,408
Later than one year but not later than two years	-	330,272
Later than two years but not later than five years	-	-
Later than five years but not later than 10 years	-	-
<b>TOTAL EQUIPMENT COMMITMENTS</b>	<b>330,272</b>	<b>1,250,680</b>



## 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 2012:

- » 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 2013-2015 Strategic Plan. This financial information may not be appropriate for other purposes.
- » It is not intended that these financial forecasts will be re-issued.
- » Actual financial results achieved for the period covered are likely to vary from the information presented and the variations may be material.
- » There is limited ability to alter Gas Industry Co's revenue other than through the annual levy review process.
- » Section 43S of the Act enables Gas Industry Co to collect from industry participants fees relating to the implementation of gas market rules and regulations.
- » An annual levy of \$4,299,578 is assumed to be effective from 1 July 2012 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 \$2,691,253 for FY2013 and will be collected on a monthly basis from the relevant levy payers based on each industry participant's proportionate share of purchased gas volumes.
- » The retail levy revenue is budgeted to be \$1,608,325 for FY2013, based on an estimate of 258,000 ICPs at a levy rate of \$6.23/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 258,000 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 FY2013 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 FY2013. Any variances that do occur will be either refunded to levy payers at the end of the financial year or managed through adjustments to future levy rates, as specified under section 43ZZC(3) of the Act.
- » Gas Industry Co's Constitution allows for the Board to set an annual fee for shareholders for the financial year. The FY2013 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 2013 is \$1,160,102. Of this, \$150,048 is classified as Industry Advances Reserve and will be either refunded to levy payers at the end of the financial year or managed through adjustments to future levy rates, as specified under section 43ZZC(3) of the Act. An amount of \$500,054 represents the Industry Asset Amortisation Reserve. The remainder, \$510,000, 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 FY2013 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.

## 06.

## DIRECTORY

## GAS INDUSTRY COMPANY LIMITED

Level 8, The Todd Building

95 Customhouse Quay

P O Box 10 646

Wellington

Telephone: +64 4 472 1800

Facsimile: +64 4 472 1801

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

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

## BOARD OF DIRECTORS

Rt Hon James (Jim) Bolger, ONZ

Chair, Independent Director

Robin Hill

B Comm FCA, Deputy Chair, Independent Director

Keith Davis

PGDipBus, Independent Director

Andrew Brown

LLB, Independent Director

Dennis Barnes

BSc (Hons) MBA PGDipMktg

Albert Brantley

BSc P.Geol F.AuSimm

Andrew Knight (appointed 6 June 2012)

BMS (Hons), CA

Ron Kelly (resigned 24 May 2012)

PhD

## EXECUTIVE TEAM

Steve Bielby

LLB (Hons) BA LLM (London), Chief Executive

Ian Dempster

BE (Hons) M.Com (Hons), General Manager Operations

Greig Hinds

BA LLB PGCert Commerce (Lincoln), Principal Legal Counsel

## AUDITORS

KPMG, Wellington

## BANKERS

Westpac Banking Corporation Limited

## SHAREHOLDERS

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



