

STATEMENT OF INTENT 2016-2018

GAS INDUSTRY CO
STATEMENT OF INTENT
2016-2018



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STATEMENT OF INTENT 2016-2018

Gas Industry Company Limited (Gas Industry Co) was established in 2004 as the 'industry body' under Part 4A of the Gas Act 1992 (Gas Act). The Company's role is to:

- » develop arrangements, including regulations where appropriate, which improve:
 - the operation of gas markets;
 - access to infrastructure; and
 - consumer outcomes;
- » develop these arrangements with the principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, fair and environmentally sustainable manner; and
- » oversee compliance with, and review such arrangements.

Gas Industry Co is required to have regard to the Government's policy objectives for the gas sector, and to report on the achievement of those objectives and on the state of the New Zealand gas industry.

Gas Industry Co's corporate strategy is to 'optimise the contribution of gas to New Zealand'.

This Statement of Intent has been prepared by Gas Industry Co to meet the requirements of sections 43ZQ to 43ZV of the Gas Act. It sets the intended scope and objectives of Gas Industry Co's operations for the financial years ended 30 June 2016 to 2018 (inclusive), and provides information about the Company and its operating environment. The Work Programme described in this Statement of Intent is designed to meet the governance objectives set out in section 43ZN of the Gas Act, with regard also to the objectives and outcomes of the April 2008 Government Policy Statement on Gas Governance (GPS), as well as the wider strategic objectives of the Company.



Rt Hon James B. Bolger, ONZ
CHAIR



Robin Hill
DEPUTY CHAIR

GAS INDUSTRY CO'S ACTIVITIES FOR THE THREE-YEAR PERIOD FY2016-18 ADDRESS THE OBJECTIVES AND OUTCOMES FOR THE DOWNSTREAM GAS SECTOR AS SET OUT IN THE GAS ACT AND GPS, AND ARE DESIGNED TO FULFIL THE COMPANY'S STATUTORY ROLE AS THE INDUSTRY BODY.

The essence of our statutory mandate (including as expanded upon by the GPS) is the objective of developing governance arrangements which ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner¹.

The core of this Statement of Intent is the Company's Work Programme, which has been subject to rigorous consultation with stakeholders and is broadly supported by them. It focuses on the Work Programme for FY2016, the first year in the three-year planning period, with an indication of future activity in the remaining period.

Priority projects are driven by a matrix of statutory and policy requirements, maintaining the momentum on existing and committed projects, and attending to new work that is seen as a priority by Gas Industry Co and industry stakeholders. Work Programme activity is framed by the Company's Corporate Strategy of '*optimising the contribution of gas to New Zealand*', including by providing leadership for the gas industry and the New Zealand gas story.

Projected costs in FY2016 have been held below those of FY2015, continuing the trend of flat to dropping total operating costs for Gas Industry Co over the past three years.

Gas Industry Co's Corporate Strategy enables the Company to take a broad view of the gas supply and consumption chain.

Through it, we can also deliver on our mandate by ensuring good information is available about the gas industry. This comes in multiple forms, including an end-to-end narration of *The New Zealand Gas Story* publication, identifying potential opportunities and challenges that lie over the horizon, and facilitating stakeholder discussions about the future role of this important contributor to New Zealand's energy and economic wellbeing.

Our Corporate Strategy has applied since 2011, and remains appropriate because key underlying elements of the gas industry in New Zealand remain constant: the New Zealand gas industry is isolated from global natural gas trading, the reserves/production ratio is stable at around 12 years, gas is still available only in the North Island, and the regulatory environment is relatively unchanged.

Some change is happening, however: we are seeing ongoing development of a healthy, competitive retail market with increased customer numbers and new-entrant retailers. At the same time, changing demand patterns have seen petrochemical manufacture become the predominant gas consumer, especially with Methanex's return to full methanol production, while gas utilisation for electricity generation has taken on more of a peaking rather than baseload role, as new renewable generation comes on stream. While reserves have increased and the block offers regime continues to show the strength of the upstream sector, more recent challenges are exemplified by the dropping international oil price and limited

success in recent exploration efforts.

Given the many variables that may shape the future of the downstream industry, and consequently the governance arrangements that may be required, the supply and demand scenario reports commissioned by Gas Industry Co continue to represent a key tool for participants' strategic thinking and planning.

We continue to look ahead to longer-term developments, including what may emerge from the search for new oil and gas resources. Given the long lead times, however, any major new field development is many years away and the industry has seen nothing new, either upstream or downstream, that translates into an immediate need for inclusion in our Work Programme.

From a governance perspective, a mix of formal rules, regulations and voluntary industry governance arrangements have been developed to match the increased diversity and complexity that has occurred within the industry during the past 10 years. In 2014, Gas Industry Co marked the 10th anniversary of its establishment as the industry body, and is able to reflect on the successful transition to a well-functioning and well-governed industry that is today serving over 266,000 New Zealand homes and businesses.

This Statement of Intent accordingly reflects that the platform of regulated and non-regulated governance arrangements is largely in place to meet the requirements of the Gas Act, the GPS and the industry more broadly. Many key policy objectives and outcomes have now been achieved and provide a robust foundation for the ongoing operation of the downstream gas sector. Other important issues - including

¹ Gas Act: s43ZN(a); GPS: para 9

transmission capacity allocation, transmission balancing, retailer insolvency arrangements, downstream reconciliation methodologies and gas quality – remain with us and feature strongly among our priority work activities.

Gas Industry Co remains committed to delivering value in both its operational workstreams and in organisational arrangements. There is consequently a strong focus at Board and Management level on prioritising workstreams to ensure available funds are used wisely and efficiently.

In this, we record our appreciation to industry stakeholders for their valuable thoughts and substantial input to the Work Programme development during the consultation process that began with the annual Co-Regulatory Forum in November 2014 and included a suite of submissions which are again broadly supportive of the Company's proposals for FY2016.

The ongoing success of the co-regulatory model continues to be built on the considerable contributions of the Company's shareholders and other industry participants.



Rt Hon James B. Bolger, ONZ
CHAIR



Steve Bielby
CHIEF EXECUTIVE

WORK PROGRAMME PRIORITIES

Figure 1 sets out the main elements of Gas Industry Co's Work Programme for FY2016, and indicatively for the following two financial years. The Work Programme structure is designed to fulfil our statutory role through efficient governance arrangements, progressing new or committed/ongoing projects that are important to industry and other stakeholders, and facilitating forward-looking discussion on future strategic issues.

EFFICIENT GOVERNANCE ARRANGEMENTS

- » administer existing rules and regulations, notably:
 - Gas (Switching Arrangements) Rules 2008 (Switching Rules)
 - Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules)
 - Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations)
 - Gas Governance (Compliance Regulations) 2008 (Compliance Regulations)
- » administer non-regulated governance arrangements, including:
 - Retail Gas Contracts Oversight Scheme
 - Gas Distribution Contracts Oversight Scheme
- » review governance arrangements to ensure they remain fit for purpose and recommend changes where improvements can be made efficiently;
- » monitor the performance of industry participants and encourage, or enforce, compliance; and
- » monitor and report on metrics arising from these regulatory processes to enhance transparency and foster a well-informed market.

NEW OR COMMITTED/ONGOING PROJECTS

There are a number of projects to which Gas Industry Co was committed prior to the FY2016 Work Programme and beyond. These are regarded as important by stakeholders and Gas Industry Co, or have been requested by the Minister, and are being undertaken to resolve priority issues within the downstream industry:

- » a programme to ensure gas transmission capacity is used effectively and that a pathway exists for efficient transmission system investment to occur if and when needed in the future;
- » working with industry participants on improved transmission pipeline balancing arrangements;
- » finalising arrangements for the efficient management of issues arising from a gas retailer insolvency;
- » further improving downstream reconciliation processes; and
- » in conjunction with industry participants, developing a Gas Quality Requirements and Procedures document to enhance stakeholders' understanding of gas quality management and the availability of quality-related information.

WORK PROGRAMME PRIORITIES (CONTINUED)

FUTURE STRATEGIC ISSUES

As part of its Corporate Strategy to provide leadership for the gas industry and the New Zealand gas story, Gas Industry Co generates ideas and information that encourage stakeholder discussion on the future shape and role of the gas industry in New Zealand.

This work builds on past reports commissioned by Gas Industry Co which look at consumer energy options, opportunities and challenges of commercialising a large new gas find, supply and demand, and the potential for demand management as a tool for managing transmission pipeline congestion. The Work Programme provides for an ongoing future focus, involving updating and expanding on these studies.

FIGURE 1 – Work Programme Priorities

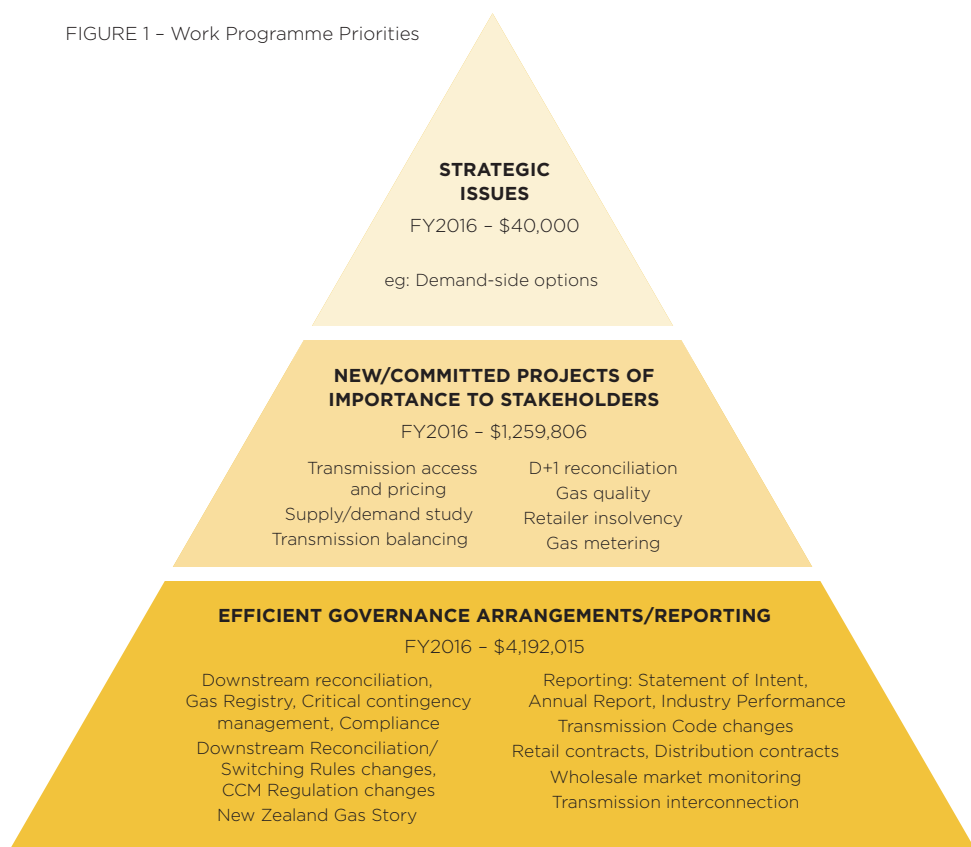
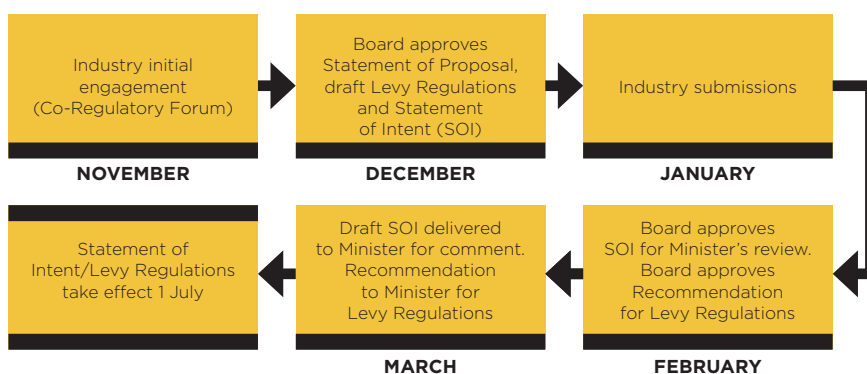


FIGURE 2 – Statement of Intent and Levy-Setting Process



CONSULTATION PROCESS

Consultation with industry stakeholders on Gas Industry Co's intended Work Programme and budget requirements commences with a Co-Regulatory Forum, normally held in November of the year preceding the financial year for which they are to apply. The process leads to the development of a Statement of Intent for the period ahead, and a recommendation to the Minister for levy funding through regulations (Levy Recommendation) for the first financial year in the prospective three-year period covered by the Statement of Intent.

The Statement of Intent and Levy Recommendation provide the basis for equipping Gas Industry Co to deliver robust outcomes for gas consumers and the wider industry, and to otherwise fulfil its mandate as the industry body. They are presented together to the Minister in March each year.

These two documents are developed after consulting with stakeholders on strategic priorities. The Work Programme and budget addressing those priorities are detailed in a Statement of Proposal, normally issued in December of the year preceding the financial year to which they are to apply. Submissions on the Statement of Proposal are taken into account prior to the Board finalising the Levy Recommendation to the Minister.

Submitters generally supported the Work Programme and budget proposed in the *Statement of Proposal on FY2016 Statement of Intent and Levy*².

Figure 2 sets out the consultation and approval processes leading to the annual promulgation of Levy Regulations.

² Available with submissions and Gas Industry Co responses on the website: www.gasindustry.co.nz

GAS INDUSTRY CO'S WORK PROGRAMME IS DIRECTLY INFLUENCED BY THE INDUSTRY STRUCTURE, THE LEGISLATIVE AND POLICY FRAMEWORK, AND ITS OWN CORPORATE STRATEGY. TOGETHER THESE FORM THE COMPANY'S OPERATING ENVIRONMENT.

2.1/ INDUSTRY CONTEXT

Natural gas makes a substantial contribution to New Zealand's economy and quality of life. It is a vital input for some of the country's largest industries, including dairy, steel, forestry and petrochemicals; and it provides energy to approximately 266,000 industrial, commercial and residential consumers.

Natural gas has a wide range of applications, from cooking and heating in homes, to providing energy for a variety of businesses and community amenities, as well as process heat for large industries. 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 smaller 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 and local distribution networks.

Natural gas is available only in the North Island. Gas in the form of LPG (liquefied petroleum gas) is available in the North and South Islands in bulk and in bottles. In parts of the South Island LPG is also supplied through small reticulated LPG networks.

2.2/ LEGISLATIVE AND POLICY FRAMEWORK

Since 2004, the gas industry downstream of the exploration and production sector has been governed by a unique co-regulatory model. As the industry body, Gas Industry Co facilitates the nexus between Government and industry to deliver improved governance arrangements for participants and consumers in gas markets.

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 3, Gas Industry Structure). It does not include the upstream exploration and production sector, where the Ministry of Business, Innovation and Employment (MBIE) has regulatory and policy oversight through the Crown Minerals Act. Gas Industry Co's jurisdiction also covers aspects of the LPG market. We continue to monitor those, but there are no gas governance arrangements in place in relation to LPG and at this time we do not see a need for a dedicated LPG workstream.

The Gas Act empowers Gas Industry Co to make recommendations to the Minister³ on certain matters set out in the Gas Act, having regard to the objectives for the industry body in the Gas Act and the objectives and outcomes of the GPS.

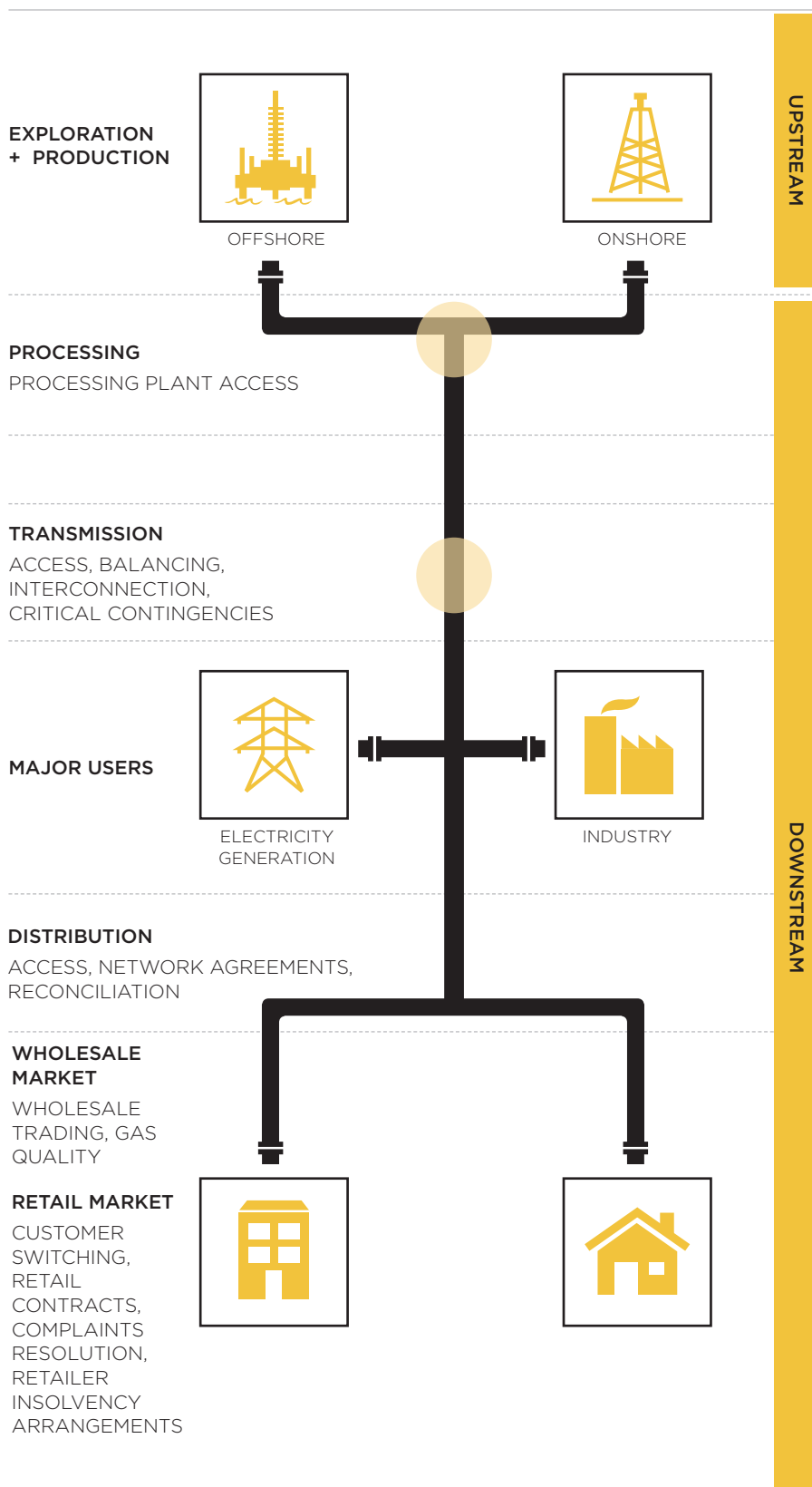
The Gas Act specifies the principal objective of the industry body in recommending regulations, which is to ensure that gas is delivered to existing and new customers in a safe, efficient and reliable manner. The GPS adds to that principal objective consideration of fairness and environmental sustainability, and makes that an objective for the whole industry.

Other objectives specified by the Gas Act for the industry body include:

- » 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;
- » delivered gas costs and prices are subject to sustained downward pressure; and
- » risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties.

³ 'Minister' is defined in the Gas Act as the Minister with responsibility for administration of the Gas Act. As at the date of this Statement of Intent, the ministerial warrant for Gas Industry Co was held by the Minister of Energy and Resources. References to 'Minister' should read as references to the Minister of Energy and Resources, unless the context indicates otherwise.

FIGURE 3 - Gas Industry Structure



One aspect of the principal statutory objective is that formal gas governance arrangements ensure that ‘gas is delivered to existing and new customers in a *safe*⁴... manner’. Gas Industry Co does not have powers and functions directed to safety per se, but it is required to ensure that gas governance arrangements it proposes are ‘consistent with the Government’s gas safety regime’. It does this by, where appropriate, scrutinising potential safety implications of proposed gas governance arrangements. The Government’s gas safety regime is principally administered by WorkSafe New Zealand, and incorporates safety of gas appliances, standards for gas pipelines, and the occupational licensing system for gasfitters⁵.

Additional objectives for Gas Industry Co are set out in the GPS and include:

- » energy and other resources used to deliver gas to consumers are used efficiently;
- » competition is facilitated in upstream and downstream gas markets by minimising barriers to access to essential infrastructure to the long-term benefit of end-users;
- » the full costs of producing and transporting gas are signalled to consumers;
- » the quality of gas services, where those services include a trade-off between quality and price, as far as possible, reflect end-users’ preferences; and

⁴ Emphasis added.

⁵ A more detailed description of the gas safety regime and Gas Industry Co’s relationships with these other agencies can be found in Gas Industry Co’s comprehensive review of the industry: *The New Zealand Gas Story* on the Company’s website www.gasindustry.co.nz

» the gas sector contributes to the Government's climate change objectives as set out in the New Zealand Energy Strategy, or any other document the Minister may specify from time to time, by minimising gas losses and promoting demand-side management and energy efficiency.

The Minister has statutory powers to make rules, or to recommend regulations, in respect of a wide range of gas governance matters. Under the co-regulatory model, the industry body advises the Minister on the exercise of many of these powers and must follow prescribed procedures before making a recommendation. The procedures include requirements for consultation with affected stakeholders, and an obligation to assess the costs and benefits associated with any recommendation. When developing advice on governance arrangements, Gas Industry Co must consider all reasonably practicable options, including non-regulated options that achieve the same outcome.

Existing arrangements are monitored for their ongoing effectiveness and relevance, and refined as necessary, and the Company's Work Programme incorporates projects to progress important outstanding issues to an appropriate conclusion. Industry performance measures, including consumer switching rates, transmission balancing volumes, downstream gas allocation and reconciliation volumes and retail market shares are published on Gas Industry Co's website.

THROUGH A RANGE OF REGULATED AND NON-REGULATED MECHANISMS IN THE PAST 10 YEARS, THE GAS INDUSTRY HAS ADDRESSED MANY OF THE OBJECTIVES AND OUTCOMES SET OUT IN THE GPS, AND IS PROACTIVELY ADDRESSING OUTSTANDING MATTERS

Contractual arrangements between gas retailers and small consumers adequately protect the long-term interests of small consumers.	Retail Gas Contracts Oversight Scheme
Effective and efficient customer switching arrangements that minimise barriers to customer switching.	Gas (Switching Arrangements) Rules 2008
Accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities.	Gas (Downstream Reconciliation) Rules 2008
Gas industry participants and new entrants are able to access transmission pipelines on reasonable terms and conditions.	Active workstreams: » Gas Transmission Investment Programme » Balancing » Interconnection
Sound arrangements for the management of critical gas contingencies.	Gas Governance (Critical Contingency Management) Regulations 2008
Efficient arrangements for the short-term trading of gas.	Industry-led wholesale market platform established in 2013
All small consumers have effective access to a complaints resolution scheme.	Electricity and Gas Complaints Commissioner Scheme established 2010
Gas governance arrangements are supported by appropriate compliance and dispute resolution processes.	Gas Governance (Compliance Regulations) 2008
Good information is publicly available on the performance and present state of the gas sector.	<i>The New Zealand Gas Story</i> includes current information on the performance and present state of the industry. Other reports and studies commissioned to provide information on specific themes and subjects

See table on Page 16 for more detail on how Gas Industry Co's Corporate Strategy and Work Programme align with Government policy objectives.

2.3/ GAS INDUSTRY CO CORPORATE STRATEGY

Consistent with the legislative and policy framework described above, Gas Industry Co's Board has set a Corporate Strategy that assists in the delivery of its statutory role. As in recent years, supporting objectives frame the Work Programme set out for FY2016, and, indicatively, the following two years.

STRATEGIC GOAL: OPTIMISE THE CONTRIBUTION OF GAS TO NEW ZEALAND

Gas has made a key contribution to New Zealand since the development of the natural gas industry from the 1960s. There is an important future 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 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

Of its nature, the gas industry is complex and ever-changing. It is dependent on a range of players from upstream explorers and producers through to consumers, and on competitive markets and ongoing investment at all stages. Gas Industry Co will be a leader, building on its statutory role as the industry body, in making the next phase of the New Zealand gas story a success.

OBJECTIVES:

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

2.4/ GAS INDUSTRY CO GOVERNANCE

Gas Industry Co is owned by industry participant shareholders and is incorporated as a company under the Companies Act 1993. Strategic oversight of the Company is provided by the Board of seven Directors, all elected by the shareholders. Four Directors, including the Chairman, are independent (having no material or financial interest in an industry participant), and three are industry-associated Directors (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 industry-associated Directors have potential or actual conflicts of interest.

3/ WORK PROGRAMME FY2016 AND INDICATIVE ACTIVITIES FY2017-18

THIS SECTION OUTLINES THE SCOPE OF GAS INDUSTRY CO'S OPERATIONS FOR THE FINANCIAL YEARS ENDED 30 JUNE 2016 TO 2018 INCLUSIVE.

The FY2016 Work Programme has been developed having regard to the Gas Act and GPS objectives and outcomes for the gas industry, Gas Industry Co's statutory accountabilities under existing governance arrangements, and reporting requirements under the Gas Act and Companies Act. The multi-year scope of the Statement of Intent, with a focus on the first year of the three-year period and indicative activity in the subsequent years, reflects the requirement for Gas Industry Co's funding to be approved by regulation each year, as well as the changing nature of the industry and the Company's co-regulatory role. Further, it recognises that policy development requires comprehensive consultation which provides the opportunity for continuous improvements in policy thinking, and consequently the Work Programme, year-on-year.

Section 43N of the Gas Act expressly requires that, before making a recommendation to the Minister for a gas governance regulation, the Company must try to identify all reasonably practicable options for achieving the same objectives, and to ensure that the objective of the regulation is unlikely to be satisfactorily achieved by other reasonably practicable means. The Work Programme is substantially in the form consulted on with stakeholders, and which was largely supported in submissions. The submissions themselves, and the Company's Analysis of Submissions can be found on Gas Industry Co's website www.gasindustry.co.nz.

3.1/ DELIVER EFFECTIVELY ON GAS INDUSTRY CO'S ACCOUNTABILITIES AS THE GAS INDUSTRY BODY

DOWNSTREAM RECONCILIATION

The Reconciliation Rules establish a set of uniform processes that enable the fair, efficient, and reliable allocation and reconciliation of downstream gas quantities. Under these Rules, Gas Industry Co has an ongoing obligation to oversee the operation of the Allocation Agent and other Rule provisions. Gas Industry Co also monitors allocation results so as to identify, at an early stage, any issues and ensure these are addressed in an appropriate and timely fashion. This work complements that of a number of industry participants who also undertake monitoring for their own purposes and, from time to time, bring issues to the attention of Gas Industry Co or the Allocation Agent.

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

FORECAST ACTIVITIES FY2016-18

The obligations under the Reconciliation Rules require that Gas Industry Co address the following matters each year:

- » Monitor the Allocation Agent.
- » Assess the ongoing performance of the Rules.
- » Monitor allocation results.
- » Commission performance and event audits as required.
- » Make determinations under the Rules as required.

SWITCHING

The Switching Rules enable consumers to choose, and alternate efficiently and satisfactorily between competing retailers. The Switching Rules provide for a centralised database, the Gas Registry, which stores key technical parameters about every customer installation and facilitates and monitors each customer switch from initiation through to completion.

Introduction of the Switching Rules tripled the rate of switching and annual rates of customer switching have trended upwards during the past five years.

FORECAST ACTIVITIES FY2016-18

The obligations under the Switching Rules require that Gas Industry Co address the following matters each year:

- » Monitor the Registry Operator.
- » Assess the ongoing performance of the Rules.
- » Monitor and report on switching statistics.
- » Make determinations under the Rules as required.

CRITICAL CONTINGENCY MANAGEMENT

The purpose of the CCM Regulations 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) and that role is responsible for determining, managing, and terminating critical contingencies, as well as associated activities such as stakeholder training and running exercises.

The CCM Regulations have been activated three times since they came into full effect in 2010. One of those was a five-day outage in October 2011 due to a break in the Maui pipeline.

The CCM Regulations were reviewed following the 2011 critical contingency event and found to be soundly-based and fit for purpose. It also found that many end-users that had been granted priority access to gas did not meet the criterion of providing essential services. To address this, the system of providing designations for priority access to gas has been amended and the responsibility for granting designations moved to Gas Industry Co. FY2015 saw considerable activity within Gas Industry Co in fulfilling this role, but this activity is expected to revert to a lower level from FY2016.

FORECAST ACTIVITIES FY2016-18

The obligations under the CCM Regulations require that Gas Industry Co address the following matters each year:

- » Monitor the CCO.
- » Assess the ongoing performance of the CCM Regulations.
- » Appoint/monitor experts as required.
- » Monitor exercises and events as required.
- » Administer the contingency pool as required.
- » Process applications for designations for critical care, essential services, critical processing, and electricity supply as required.

COMPLIANCE

The Compliance Regulations 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 an efficient, low-cost means of determining or, where appropriate, settling rules breaches that raise material issues. Where parties are unable to settle breaches, the last resort is a hearing before 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.

Introducing regulated arrangements has typically been associated with an increased level of compliance activity as participants adjust to those new arrangements. Breach statistics reported by Gas Industry Co demonstrate that 'teething troubles' with new rules and regulations are generally short-lived, and the level of enforcement activity

is typically low. This reflects the efforts made by industry participants to ensure their business processes are compliant, as well as liaison with participants by Gas Industry Co staff to ensure there is a good understanding of regulatory requirements.

FORECAST ACTIVITIES FY2016-18

- » Perform the Market Administrator role.
- » Assess the ongoing performance of the Compliance Regulations.
- » Assist the Investigator and Rulings Panel as required.
- » Monitor compliance trends for indications of regulatory inefficiency.

STATEMENT OF INTENT, ANNUAL REPORT AND OTHER REPORTING

The Gas Act requires the Statement of Intent to be published before the start of each financial year. It must be provided to the Minister for comment prior to publication. Gas Industry Co must 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).

Other reporting includes a GPS requirement for Gas Industry Co to report to the Minister each quarter on progress made towards meeting the Government's objectives and outcomes for the gas industry and any Ministerial requests relating to the gas industry that may arise from time to time. Quarterly Reports also incorporate industry performance measures, comprising statistical information on gas consumer switching between retailers, retail market concentration, downstream gas allocation and reconciliation (including UFG trends), transmission balancing, and critical contingency management. Switching reports are also produced monthly.

In addition, to further fulfil Gas Industry Co's obligation to ensure good information is available on the performance and present state of the gas industry, the Company periodically commissions subject-specific reports by external experts. In recent years reports have been produced on Consumer Energy Options (which considered the competitive position of gas in the wider energy supply market) and assessments of commercialisation and utilisation options for a future major gas find. Other reports on future gas supply and demand scenarios, and opportunities for demand-side management as a tool in managing periods of transmission pipeline capacity congestion, which were commissioned specifically to inform the work of Gas Industry Co's Gas Transmission Investment Programme (GTIP), have also added to the information pool for wider industry stakeholders.

FORECAST ACTIVITIES FY2016-18

- » Prepare and publish the Statement of Intent.
- » Prepare and publish the Annual Report.
- » Prepare and publish Quarterly Reports to the Minister, including quarterly industry performance measures.
- » Prepare and publish monthly switching reports.

3.2/ BUILD AND COMMUNICATE THE NEW ZEALAND GAS STORY

Gas Industry Co is required by the Gas Act to report on the performance and present state of the gas industry. As reflected in the Company's corporate strategy, an objective for Gas Industry Co is to take a leadership role in building and communicating the wider New Zealand gas story through analysis and debate.

Gas Industry Co first published a comprehensive report, *The New Zealand Gas Story - The State and Performance of the New Zealand Gas Industry*, in FY2013. It is updated at least annually to provide industry stakeholders and the public generally with current and topical information about the gas sector. Apart from fulfilling the statutory reporting requirement, this work is intended to help stakeholders to better understand the industry and to assist industry participants to make informed investment and energy use decisions. In addition to *The New Zealand Gas Story* publication, Gas Industry Co communicates the New Zealand gas story through such other channels as its website, the Company's Annual and Quarterly Reports, and presentations to various stakeholder groups.

At the annual Co-Regulatory Forum in 2014, industry stakeholders discussed opportunities to further develop *The New Zealand Gas Story*, including through increased discussion of future supply and demand scenarios, utilisation opportunities and challenges arising from a substantial new find, and to expand the report's scope to include LPG.

ACTIVITIES FY2016-18

- » Maintain currency of *The New Zealand Gas Story* as new information comes to hand.
- » Continue New Zealand gas story seminars for interested stakeholders.

3.3/ FACILITATE EFFICIENT USE OF, AND INVESTMENT IN, GAS INFRASTRUCTURE

TRANSMISSION ACCESS AND PRICING

The objective of the GTIP is to ensure that transmission pipeline access arrangements transparently provide for the efficient utilisation of physical capacity and effectively signal any need for efficient investment in additional capacity.

Gas Industry Co continues to support the work of the Gas Industry Transmission Access Working Group (GITAWG), an industry group that is looking at ways to improve transmission arrangements through Code changes and other means. However, Gas Industry Co recognises it must also be prepared to step in should an alternative solution ultimately become necessary. Consequently, Gas Industry Co is undertaking a counterfactual design process looking at a range of options, from specific products that may improve or augment existing transmission products to regulation of the transmission Codes. Preferred options for counterfactual design are scheduled to be determined by the end of FY2015.

FORECAST ACTIVITIES FY2016-18

- » In 2016, develop a detailed design of preferred counterfactual option(s) and maintain a watching brief on the progress of the GITAWG.

Activities in the second and third years covered by this Statement of Intent depend largely on the progress and scope of the work undertaken by the GITAWG. In the event that the preferred option of efficient changes to the transmission regime are achieved by the GITAWG, it is expected that Gas Industry Co may have little more to do in this area. However, pending such an outcome, Gas Industry Co will continue work on the counterfactual design. In 2017-18 that work will include consideration of both refinement and implementation of the preferred option from the counterfactual design process, which may include regulation.

SUPPLY/DEMAND MODEL

As part of the GTIP work, Gas Industry Co commissioned *Gas Supply and Demand Scenarios 2012-2027* (Concept Consulting), the first dedicated study of future gas supply and demand. This was first published in 2012 and an update, *Long Term Gas Supply and Demand Scenarios Report* (Concept Consulting, 2014) was published in FY2015. The report includes a toolset for stakeholders to model their own scenarios. Stakeholders' response to these studies has been positive and Gas Industry Co intends to update the model and report biannually.

FORECAST ACTIVITIES FY2016-18

- » Review and update supply/demand model biannually.

TRANSMISSION PIPELINE BALANCING

Solutions for improved transmission pipeline balancing arrangements have been difficult to 'land' since 2009. Gas Industry Co initially pursued a regulated outcome, but suspended this approach when industry participants requested an opportunity to find an industry-led solution through changes to the Maui and Vector transmission Codes, without the need for regulatory intervention.

In recent years, including FY2015, Gas Industry Co has approved a number of requests to change the Maui Pipeline Operating Code (MPOC) to facilitate balancing-related changes, but these have not been implemented. Activity in FY2016-18 will be influenced by the outcome of work currently being conducted by an industry group, and separately, by Gas Industry Co. If an appropriate industry-led solution does not emerge for any reason, Gas Industry Co will proceed with a counterfactual design, which may involve a regulated outcome.

FORECAST ACTIVITIES FY2016-18

- » In 2016, review the efficiency of balancing arrangements and address any identified shortcomings.

If efficient balancing arrangements have not been introduced by the industry-led process it will be necessary for Gas Industry Co to consider practicable options. This work may extend into FY2017-18 and will be informed by earlier work in this area. Depending on progress in transmission access and pricing, Gas Industry Co may consider the efficiency of combining these two workstreams into an overall transmission governance workstream.

TRANSMISSION CODE CHANGES

Gas Industry Co continues to have roles in relation to changes to the Vector Transmission Code (VTC) and the MPOC.

In relation to the VTC, a new 'collaborative' code change process was introduced in April 2015. Gas Industry Co's review of the new process was supportive, and sees it move to having the opportunity to participate in the development of future VTC change proposals rather than being the independent appellate body.

In relation to the MPOC, Gas Industry Co processes and makes recommendations on all MPOC change requests on an 'as required' basis. As at the date of this Statement of Intent, that process is itself the subject of an MPOC change request.

FORECAST ACTIVITIES FY2016-18

- » Process MPOC change requests as required.
- » Participate in VTC change requests as required.

INTERCONNECTION

Gas Industry Co has an established set of Interconnection Guidelines that set out expectations with regard to transmission system owners' policies and procedures for connecting to their pipelines. Following a request from the Minister in 2011 to review the next two interconnections on each of the Maui and Vector pipelines, as interconnections occur, Gas Industry Co assesses new transmission interconnections against these Guidelines, with a view to determining whether interconnection processes present undue barriers to entry. During FY2014, two physical interconnections were reviewed and

the Interconnection Guidelines were considered fit for purpose. Gas Industry Co also commissioned a review of the interconnections for the two wholesale market providers and did not identify any specific issues.

In its 2014 report to the Minister, Gas Industry Co advised that it would continue to maintain a watching brief on future transmission interconnections. Specifically, Gas Industry Co proposes to:

- » talk with future interconnecting parties to learn whether any difficulties were encountered; and
- » assess whether there are any remaining policy issues arising from future interconnections that need to be addressed.

This work is demand-driven and is conducted as new interconnections occur. Gas Industry Co will also discuss with each pipeline owner specific suggestions for improvements to its documentation, and how they can best satisfy interconnecting parties that the terms and conditions of interconnection are reasonable. If Gas Industry Co becomes aware of any interconnection-related issues it will consider amendments to the Interconnection Guidelines if necessary.

FORECAST ACTIVITIES FY2016-18

- » Maintain a watching brief on new interconnections.
- » Address any concerns regarding reasonable access.
- » Amend the Interconnection Guidelines if needed.

3.4/ PROMOTE EFFICIENT, COMPETITIVE, AND CONFIDENT GAS MARKETS

RETAIL CONTRACTS OVERSIGHT SCHEME

In 2010, Gas Industry Co established the Retail Contracts Oversight Scheme (Retail Scheme), comprising a series of benchmarks consistent with Government objectives for satisfactory customer expectations and outcomes. Reviews of retailers' published contracts with small consumers are undertaken by an independent external assessor. During the first three years of the Retail Scheme's operation, the alignment of retailers' contracts with the benchmarks has improved from 'Moderate' to 'Substantial'. As a result, the Retail Scheme was reviewed and subsequent changes have included a move from annual to three-yearly full reviews of retail contracts (with provision for one-off reviews of new or amended contracts). The next full review is scheduled for FY2016.

FORECAST ACTIVITIES FY2016-18

- » Review all gas retailer contracts in calendar 2015.
- » Review changed contracts following publication.
- » Publish compliance levels for individual retailers.

GAS DISTRIBUTION CONTRACTS OVERSIGHT SCHEME

In 2012, Gas Industry Co established the Gas Distribution Contracts Oversight Scheme (Distribution Scheme), under which gas distributors' contracts with gas retailers are assessed against a set of contract principles. Over recent years, distributors have developed new agreements in consultation

with their customers. The second assessment under the Scheme in FY2014 found that the contracts offered by distributors exhibited 'Substantial' alignment with the distribution principles. During FY2016 Gas Industry Co will assess progress made in transitioning the arrangements to the new agreements.

FORECAST ACTIVITIES FY2016-18

- » Assess progress with executing new distribution contracts consistent with the principles.
- » If substantial progress has not been made by the fourth quarter of FY2016, meet with stakeholders and consider whether further facilitation is required.
- » Consider any changes or other actions required in respect to the Distribution Scheme, and report.

RETAILER INSOLVENCY

Initiated at the request of the Minister following the voluntary liquidation of a gas retailer, E-Gas, in 2010, this workstream assessed the market issues created when a gas retailer becomes insolvent and considered whether standing regulations were needed to manage any future instance of insolvency. The Minister has subsequently accepted a recommendation by Gas Industry Co that permanent regulations are not required, but that drafting instructions should be prepared for regulations that could be tailored and recommended to the Minister for implementation under urgency in the rare circumstances they were needed.

In FY2015, the Minister approved Gas Industry Co's recommendation for minor changes to the Switching Rules and Reconciliation Rules as part of the framework for

addressing any future gas retailer insolvency. The framework also includes the preparation of drafting instructions. Gas Industry Co's final Decision Paper in May 2015 sets out how any future retailer insolvencies will be managed.

FORECAST ACTIVITIES FY2016-18

- » Implement the new arrangements as required in the event of a retailer insolvency.

GAS QUALITY

This workstream was originally developed in response to large end-user and other industry concerns about the responsibility and liability for gas quality in New Zealand. Some industry participants believed responsibilities are unclear, or not well aligned with liabilities.

While Gas Industry Co does not have direct involvement in gas quality matters, the Company has worked with industry participants in the development of a Requirements and Procedures document to assist stakeholders' understanding of gas quality-related legislation, how gas quality is managed throughout the production and delivery chain, and the availability of gas quality-related information. This document is expected to be finalised and published in FY2015.

Work in FY2016 will focus on assessing and documenting any remaining gas quality issues, and to work with industry on the best means of addressing them.

FORECAST ACTIVITIES FY2016-18

- » Assess and document any remaining gas quality issues.
- » Undertake any work required as a result of the above review.
- » Update the Requirements and Procedures document as required.

GAS METERING

This new workstream arises from industry stakeholder discussions at the annual Co-Regulatory Forum in recent years and is undertaken in the context of the GPS outcome of providing an efficient market for metering services. A Requirements and Procedures document on gas measurement is expected to be completed in FY2015 as a first step.

FORECAST ACTIVITIES FY2016-18

- » Seed paper to consider issues associated with introduction of new metering technology.
- » Consider any other issues, such as contract benchmarks.

REGULATION AND RULE CHANGES

Gas Industry Co is required by the GPS to monitor gas governance arrangements for ongoing relevance and effectiveness. In recent years, this monitoring has led to reviews of, and changes to, the CCM Regulations, Reconciliation Rules, Switching Rules and Compliance Regulations. It is a continuing process and further changes to the Reconciliation Rules and Switching Rules initiated during FY2015 are generally well advanced.

Gas Industry Co's work on amending the Gas Registry is nearing completion and recommended changes to the Switching Rules to enhance Registry operations and customer switching arrangements have been approved by the Minister.

Progress with other proposed changes relating to initial allocation methodologies are more complex and these are expected to extend into FY2016. The proposed changes are aimed at providing Shippers with tools to better manage their daily positions throughout the consumption month.

FORECAST ACTIVITIES FY2016-18

- » In FY2016 refine, trial and evaluate a day after delivery ('D+1') allocation methodology for downstream reconciliation. Amend and implement as determined by this evaluation, including any further recommendation to amend the Reconciliation Rules.
- » Commission baseline audits under the amended Switching Rules.
- » In FY2017-18, monitor the performance of approved gas governance arrangements and address any issues identified.

WHOLESALE MARKET

The emsTradePoint wholesale gas market (eTp) has been in operation for more than a year and in that time has grown in both membership and volume. The eTp has the potential to make a significant contribution to a GPS outcome for 'efficient arrangements for the short-term trading of gas'.

Gas Industry Co will continue to monitor activity and developments in the wholesale spot market, but sees this as a relatively low-level activity in the absence of any specific concerns raised by market participants. Gas Industry Co also has a role within the eTp's Operational Working Group.

FORECAST ACTIVITIES FY2016-18

- » Monitor activity and developments.

GAS INDUSTRY CO FUNDING

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

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

LEVY FUNDING

Section 43ZZB of the Gas Act enables Gas Industry Co to recommend to the Minister that industry participants be required to pay a levy to cover the costs of 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. Any excess levy recovered in a financial year is generally refunded to industry participants in the following year.

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 Switching Rules, Reconciliation Rules, CCM Regulations, and the Compliance Regulations 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. The fee is set by the Board and is \$5,000 per shareholder per annum. The Board has resolved that these fees will be set aside to establish cash reserves.

ADDITIONAL REPORTING

In addition to the reporting described in 'Statement of Intent, Annual Report and Other Reporting' (above), Gas Industry Co provides the Minister with briefings and advice as requested, or as necessary. There are no specific matters, outside those detailed in this Statement of Intent, on which Gas Industry Co expects to make a decision that would require it to consult or notify the Minister.

SERVICE PROVIDERS

The following entities and individuals provide specified services to Gas Industry Co:

GOVERNANCE ARRANGEMENT	ROLE	SERVICE PROVIDER
Switching Rules	Registry Operator	Jade Software Corporation
Reconciliation Rules	Allocation Agent	Energy Market Services (EMS)
CCM Regulations	Critical Contingency Operator	Core Group
Compliance Regulations	Rulings Panel	Hon Sir John Hansen, KNZM (retired High Court Judge)
	Independent Investigator	Jason McHerron, Barrister
Retail Gas Contracts Scheme	Independent Assessor	Elwood Law
Distribution Contracts Scheme		

5/ STRATEGIC ALIGNMENT WITH GOVERNMENT POLICY OBJECTIVES AND OUTCOMES

Gas Industry Co's Strategic Objectives— delivering effectively on the Company's accountabilities as the industry body; building and communicating the New Zealand gas story; facilitating efficient use of, and investment in, gas infrastructure; and promoting efficient, competitive, and confident gas markets – stretch across all of the Company's objectives and are aligned with the objectives and outcomes contained in the Gas Act and GPS.

The Company's diverse workstreams all help the Company move toward meeting those objectives and outcomes.

GAS ACT (AND GAS INDUSTRY CO CONSTITUTION) OBJECTIVES	GPS OBJECTIVES	GPS OUTCOMES	PROGRESS AND PROPOSED FURTHER WORK
Ensure that gas is delivered in a safe, efficient, reliable, and environmentally sustainable manner	<ul style="list-style-type: none"> » The full costs of producing and transporting gas are signalled to consumers and the quality of gas services, where those services include a trade-off between quality and price, reflect consumers' preferences as far as possible » The gas sector contributes to achieving the Government's climate change objectives ... by minimising gas losses and promoting demand-side management and energy efficiency » Energy and other resources used to deliver gas to consumers are used efficiently 	<ul style="list-style-type: none"> » Providing small consumers with an effective complaints process » Ensure contracts adequately protect the long-term interests of small consumers 	<ul style="list-style-type: none"> » Government created the EGCC to provide this service » The Retail Contracts Oversight Scheme provides assurance that standard contracts protect small consumers' long-term interests
Facilitate and promote the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements		<ul style="list-style-type: none"> » Provide efficient arrangements for short-term gas trading » Enable accurate, efficient, and timely arrangements for the allocation and reconciliation of upstream gas quantities 	<ul style="list-style-type: none"> » emsTradepoint market » Monitor market and performance against outcomes

GAS ACT (AND GAS INDUSTRY CO CONSTITUTION) OBJECTIVES	GPS OBJECTIVES	GPS OUTCOMES	PROGRESS AND PROPOSED FURTHER WORK
Minimise barriers to competition in the gas industry	» Competition is facilitated in upstream and downstream gas markets by minimising barriers to access to essential infrastructure to the long-term benefit of end-users	<ul style="list-style-type: none"> » Enable accurate, efficient, and timely arrangements for the allocation and reconciliation of downstream gas quantities » Minimise barriers to customer switching » Ensure gas governance arrangements are supported by appropriate compliance and dispute resolution processes 	<ul style="list-style-type: none"> » Enacted the Gas (Downstream Reconciliation) Rules 2008; ongoing administration through the Allocation Agent » Enacted the Gas (Switching Arrangements) Rules 2008 » Enacted the Gas Governance (Compliance) Regulations 2008; ongoing administration through Market Administrator, Independent Investigator, and Rulings Panel » Continuing work on GTIP
Maintain or enhance incentives for investment in gas processing facilities, transmission, and distribution		» Provide an efficient market structure for the provision of gas metering, pipeline, and energy services	» Addressed in multiple workstreams, including switching, downstream reconciliation, and GTIP
Subject delivered gas costs to sustained downward pressure	» The full costs of producing and transporting gas are signalled to consumers and the quality of gas services, where those services include a trade-off between quality and price, reflect consumers' preferences as far as possible	<ul style="list-style-type: none"> » Minimise barriers to customer switching » Provide efficient arrangements for short-term gas trading 	<ul style="list-style-type: none"> » Enacted the Gas (Switching Arrangements) Rules 2008 » emsTradeport gas trading market created in 2013
Have all parties properly and efficiently manage risks relating to security of supply, including transport arrangements		» Produce sound arrangements for the management of critical gas contingencies	» Enacted the Gas Governance (Critical Contingency Management) Regulations 2008; continuing to address this through the CCM designation process
Maintain consistency with the Government's gas safety regime		<ul style="list-style-type: none"> » Produce sound arrangements for the management of critical gas contingencies » Provide public information on the performance and state of the gas sector 	<ul style="list-style-type: none"> » Enacted the Gas Governance (Critical Contingency Management) Regulations 2008; continuing to address this through the CCM designation process » The Company publishes <i>The New Zealand Gas Story</i> annually in addition to information available through Company Quarterly and Annual Reports and other publications

6/ 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 FY2016 Gas Industry Co levy. Further detail about the assumptions, revenue calculations and workstream expenses used to calculate the FY2016 levy can be found in the *Statement of Proposal on FY2016 Strategy, Work Programme & Levy*, issued in December 2015 (available on Gas Industry Co's website, www.gasindustry.co.nz).

The FY2015 forecast was approved by Gas Industry Co's Board in March 2015 and includes actual results for the period July 2014 to February 2015, and an up-to-date forecast for the period March to June 2015.

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 in this report is, except where noted, consistent with the budget estimates contained in Gas Industry Co's FY2016 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

FORECAST STATEMENT OF FINANCIAL PERFORMANCE

	BUDGET FY2016 \$	FORECAST FY2015 \$	ACTUAL FY2014 \$
REVENUE			
Wholesale Levy	2,069,356	2,433,393	2,944,682
Retail Levy	1,847,465	1,457,313	1,559,016
LEVY REVENUE SUBTOTAL	3,916,821	3,890,706	4,503,698
Market Fees	1,575,000	1,264,178	1,462,660
Annual Fees	55,000	55,000	55,000
Refunded Levies	-	(562,621)	(509,253)
Interest Income	35,000	60,219	44,246
SUBTOTAL OTHER REVENUE	1,665,000	816,776	1,052,653
TOTAL REVENUE	5,581,821	4,707,482	5,556,351
EXPENSES			
Depreciation & Amortisation	38,915	185,083	411,362
Operating lease expenses	270,000	269,184	311,987
Fees paid to audit firm - financial statement audit	15,225	14,543	14,543
Fees paid to audit firm - other services	-	-	-
Directors' fees	282,460	265,460	271,460
General expenses	325,300	340,080	348,671
Recruitment expenses	10,000	-	14,917
Technical, economic, and legal advice	737,500	702,531	998,973
Service provider fees	1,575,000	1,264,179	1,318,227
Kiwisaver contributions	52,654	48,295	52,517
Foreign exchange loss	-	25	(382)
Employee benefit expense	2,180,166	1,990,191	2,149,553
TOTAL EXPENSES	5,487,220	5,079,571	5,891,828
Finance costs	4,601	4,077	3,500
TOTAL EXPENDITURE	5,491,821	5,083,648	5,895,328
PROFIT / (LOSS) BEFORE TAX	90,000	(376,166)	(338,977)
Income tax expense	9,800	16,861	12,389
PROFIT / (LOSS) FOR THE YEAR	80,200	(393,027)	(351,366)

FORECAST STATEMENT OF MOVEMENT IN EQUITY

	INDUSTRY RESERVES \$	RETAINED EARNINGS \$	TOTAL \$	INDUSTRY RESERVES \$	RETAINED EARNINGS \$	TOTAL \$
	BUDGET FY2016			FORECAST FY2015		
OPENING BALANCE	250,814	595,000	845,814	698,841	540,000	1,238,841
Net surplus/(deficit) for the year		80,200	80,200		(393,027)	(393,027)
Industry Advances Reserves transfer	25,200	(25,200)	-	(311,807)	311,807	-
Industry Asset Amortisation Reserves transfer	-	-	-	(136,220)	136,220	-
FORECAST CLOSING BALANCE	276,014	650,000	926,014	250,814	595,000	845,814

FORECAST STATEMENT OF FINANCIAL POSITION

	BUDGET FY2016 \$	FORECAST FY2015 \$	ACTUAL FY2014 \$
CURRENT ASSETS			
Cash and cash equivalents	1,429,274	1,404,659	2,139,021
Trade and other receivables	71,957	75,843	44,166
Prepayments	48,352	45,685	65,256
Income tax receivable	9,800	16,861	-
TOTAL CURRENT ASSETS	1,559,383	1,543,048	2,248,443
NON-CURRENT ASSETS			
Property, plant & equipment	70,054	70,053	97,692
Intangible assets	14,900	16,059	150,007
TOTAL NON-CURRENT ASSETS	84,954	86,112	247,699
TOTAL ASSETS	1,644,337	1,629,160	2,496,142
CURRENT LIABILITIES			
Trade and other payables	430,978	496,233	982,206
Asset restoration provision	43,609	39,008	34,728
Employee entitlements	243,725	248,094	240,356
Redeemable Shares	11	11	11
TOTAL CURRENT LIABILITIES	718,323	783,346	1,257,301
TOTAL LIABILITIES	718,323	783,346	1,257,301
NET ASSETS	926,014	845,814	1,238,841
REPRESENTED BY			
Industry Reserves	276,014	250,814	698,841
Retained Earnings	650,000	595,000	540,000
TOTAL SHAREHOLDERS' FUNDS	926,014	845,814	1,238,841

FORECAST STATEMENT OF CASH FLOWS

	BUDGET FY2016 \$	FORECAST FY2015 \$	ACTUAL FY2014 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Levy revenue	3,916,821	3,911,843	4,456,347
Market fee revenue	1,575,000	997,187	1,590,897
Annual fees	55,000	55,000	55,000
Interest received	35,000	60,219	44,246
	5,581,821	5,024,249	6,146,490
CASH WAS APPLIED TO			
Payments to suppliers	(3,017,426)	(2,795,178)	(2,869,016)
Payments to employees	(2,233,320)	(2,063,484)	(2,206,893)
Payments to directors	(282,460)	(262,460)	(262,460)
Refund of levy to industry participants	-	(563,237)	(509,253)
Taxes paid	-	(12,381)	(12,389)
Net GST	-	(19,046)	(5,027)
	(5,533,206)	(5,715,786)	(5,865,038)
NET CASH INFLOWS FROM OPERATING ACTIVITIES	48,615	(691,537)	281,452
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(24,000)	(22,564)	(11,482)
Purchase of intangible assets	-	(20,261)	(2,589)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(24,000)	(42,825)	(14,071)
NET CASH FLOWS	24,615	(734,362)	267,381
Opening cash balance	1,404,659	2,139,021	1,871,640
CLOSING CASH BALANCE	1,429,274	1,404,659	2,139,021

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 2017 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 FY2016 \$	FORECAST FY2015 \$
OPERATING LEASE COMMITMENTS		
Within one year	268,776	268,776
Later than one year but not later than five years	111,990	380,766
Later than five years	-	-
TOTAL OPERATING LEASE COMMITMENTS	380,766	649,542
EQUIPMENT LEASE COMMITMENTS		
Within one year	34,347	34,347
Later than one year but not later than five years	2,862	37,209
Later than five years	-	-
TOTAL EQUIPMENT LEASE COMMITMENTS	37,209	71,556
SERVICE PROVIDER COMMITMENTS		
Within one year	933,792	1,132,813
Later than one year but not later than five years	1,435,588	2,369,380
Later than five years	-	-
TOTAL SERVICE PROVIDER COMMITMENTS	2,369,380	3,502,193

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

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 by circulated resolution of the Board of Directors in March 2015:
- » 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 2016-2018 Statement of Intent. 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 Gas Act enables Gas Industry Co to collect from industry participants fees relating to the implementation of gas market rules and regulations.
- » An annual levy of \$3,916,821 is assumed to be effective from 1 July 2015 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 \$2,069,356 for FY2016 and will be collected on a monthly basis from the relevant levy payers at a rate of 1.12c/GJ, based on each industry participant's proportionate share of purchased gas volumes.
- » The retail levy revenue is budgeted to be \$1,847,465 for FY2016, based on an estimate of 265,000 ICPs at a levy rate of \$6.97/ICP per annum. Information from the Gas Registry has independently confirmed that there are approximately 329,000 ICPs. Of these, approximately 266,734 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 265,000 for the purposes of the levy calculation. If the actual number of ICPs substantially differs from the estimate, there may be a material difference in the retail levy revenue.
- » The FY2016 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 FY2016. 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 Gas Act.
- » Gas Industry Co's Constitution allows for the Board to set an annual fee for shareholders for the financial year. The FY2016 Budget assumes the annual fee paid by each shareholder will remain at \$5,000 per annum payable by 11 Gas Industry Co shareholders.
- » The forecast equity for the year ending 30 June 2016 is approximately \$926,014. Of this, \$276,014 is classified as Industry Advances Reserve and will be either returned to levy payers after the end of the financial year or retained for application to work programmes in the subsequent year(s), as per Board policy. The remainder, \$650,000, 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 FY2016 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. This also applies to the administration of gas governance rules and regulations (funded through market fees).

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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

Nigel Barbour, B Comm LLB

Dennis Barnes, BSC (Hons) MBA
PGDipMktg

Andrew Knight, BMS (Hons) CA

EXECUTIVE

Steve Bielby, LLB (Hons) LLM (London)
CHIEF EXECUTIVE

Ian Dempster, BE (Hons) M Comm (Hons)
GENERAL MANAGER OPERATIONS

Glenda MacBain, DipOrgPsych, DipBM
CORPORATE SERVICES MANAGER

AUDITORS

KPMG, Wellington

BANKERS

Westpac Banking Corporation
Limited

SHAREHOLDERS

Contact Energy Limited

Genesis Energy Limited

Greymouth Gas Limited

Methanex New Zealand Limited

Mighty River Power Limited

New Zealand Oil & Gas Limited

Nova Energy Limited

OMV New Zealand Limited

Powerco Limited

Shell (Petroleum Mining) Limited

Vector Limited
