

GAS INDUSTRY COMPANY LIMITED

Statement of Intent

2019 - 2021

—



CONTENTS

—

FOREWORD	3
WORK PROGRAMME PRIORITIES	4
CONSULTATION PROCESS	6
OPERATING ENVIRONMENT	7
INDUSTRY PERFORMANCE	10
WORK PROGRAMME & INDICATIVE ACTIVITIES FY2019 – 2021	14
FINANCIAL MATTERS	19
FINANCIAL STATEMENTS	19
ALIGNMENT WITH GOVERNMENT POLICY OBJECTIVES AND OUTCOMES	26
OTHER INFORMATION	28
DIRECTORY	29

STATEMENT OF INTENT FOR FINANCIAL YEARS 2019-2021

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).

This *Statement of Intent* has been prepared by Gas Industry Co to meet the requirements of section 43ZQ of the Gas Act. It sets out the intended scope and objectives of Gas Industry Co's operations for the financial year ended 30 June 2019 and the following two financial years (30 June 2020 and 30 June 2021), 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.

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 of ensuring 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 report on the achievement of those objectives and on the performance and current state of the New Zealand gas industry.



Rt Hon James B. Bolger, ONZ
CHAIR

June 2018



Robin Hill
DEPUTY CHAIR

FOREWORD

The core of Gas Industry Co's statutory obligation 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 manner.

Gas Industry Co's Strategy, Work Programme and Budget set out in this *Statement of Intent* have been prepared in consultation with the industry, and in the context of considerable ongoing change in the downstream gas sector driven mainly by three global trends.

Firstly, new electricity technologies, such as electric vehicles, solar/photovoltaic panels and embedded generation are transforming the wider energy sector. Consumer choice from increasingly competitive energy options is a corresponding driver that will affect the role of natural gas in New Zealand.

Secondly, global and country-specific initiatives in response to climate change are redefining the role of natural gas. Governments and communities are actively specifying the role for natural gas in lowering greenhouse gas emissions in line with their own energy and social circumstances. In many countries, environmental advantages of natural gas relative to other fuels are recognised in policy settings. New Zealand's unique emissions profile and already relatively high level of renewable electricity, create an equally unique challenge for our communities as we seek to further reduce greenhouse gas emissions.

Finally, low international oil and natural gas prices, together with a dramatic rebalancing of future supply sources towards North America have seen investment focus shift away from frontier exploration basins, including New Zealand.

In this context of change, Gas Industry Co is looking forward to working with the Government on the role for natural gas in New Zealand's longer-term transition to lower greenhouse gas emissions. In particular, we anticipate with interest policy developments emerging from the proposed Zero Carbon Act, and the associated establishment of the Interim Climate Change Committee, arising from the recommendations by the Parliamentary Commissioner for the Environment and based on the United Kingdom model. Importantly, for the energy sector, an expected output will be five-year 'carbon budgets' that energy and other policies will be directed to achieve.

Other climate change-related policies impacting on natural gas users and providers will include decisions on investment in the upstream sector, support for trade-exposed industries, incentives for change in other greenhouse gas emissions and policies reflecting the broader changes in society and technology.

New Zealand's transition to a lower emissions future, and the inevitable changes this represents for energy use, will need to address the contribution natural gas is making to the country's economy and consumers' quality of life. Natural gas currently contributes 22 percent of our primary energy, and provides over 280,000 New Zealand homes, businesses and local amenities - such as schools, hospitals and rest homes - with secure and affordable energy. Additionally, around 150,000 LPG consumers enjoy heating or cooking using 45kg or larger bottles and, in parts of the South Island, LPG is delivered by pipeline networks.

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

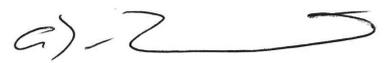
We record our appreciation to our industry stakeholders for their valuable input to the Work Programme development during the consultation process that began with the annual Co-regulatory Forum in November 2017.

The ongoing success of the co-regulatory model continues to be built on the considerable contributions of the Company's shareholders and industry participants. We look forward to embracing the challenges outlined in this *Statement of Intent* with all stakeholders.



Rt Hon James B. Bolger, ONZ
CHAIR

June 2018



Andrew Knight
CHIEF EXECUTIVE

WORK PROGRAMME PRIORITIES

This section sets out the main elements of Gas Industry Co's Work Programme for FY2019, and indicatively for the following two financial years. These elements are summarised in Table 1.

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 the industry and other stakeholders, and facilitating forward-looking discussion on future strategic issues.

EFFICIENT GOVERNANCE ARRANGEMENTS

- » administer existing rules and regulations:
 - 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 monitoring 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 compliance of industry participants and take enforcement action only where necessary; and
- » monitor and report on metrics arising from the market and regulatory processes to enhance transparency and foster a well-informed market.

PRIORITY OR COMMITTED/ONGOING PROJECTS

There are a number of projects to which Gas Industry Co was committed to or have been requested by the Minister of Energy and Resources.

These projects continue to be regarded as important by stakeholders and Gas Industry Co, and are being undertaken to resolve priority issues within the industry.

The key workstream in FY2019 will be development of the Gas Transmission Access Code (GTAC). During FY2019, Gas Industry Co expects that work will entail supporting and assisting with completing the design and implementation of a contract-based code, or will focus on preparations for recommending regulations if the GTAC process does not come to fruition.

A number of other workstreams, such as gas balancing and gas quality, and transmission interconnection, are closely associated with the GTAC development.

Other priority projects include:

- » the D+1 allocation pilot project that has been put in place to provide retailers with the information they need to manage successfully under market-based balancing; and
- » the bi-annual update of the *Long Term Gas Supply and Demand Scenarios* report.

FUTURE STRATEGIC ISSUES

As part of our requirements to report on the performance and current state of the New Zealand gas industry, as well as our strategic objective to communicate the role of gas in meeting the country's energy needs, Gas Industry Co develops discussion and papers on the future role of gas in New Zealand.

Past reports commissioned by Gas Industry Co have focussed on consumer energy options, options for gas commercialisation, and the potential for demand management as a tool for managing transmission pipeline congestion. The Work Programme provides an ongoing focus on identifying and advancing such strategic issues.

TABLE 1: WORK PROGRAMME OBJECTIVES AND ACTIVITIES

STRATEGIC OBJECTIVE 1	STRATEGIC OBJECTIVE 2	STRATEGIC OBJECTIVE 3	STRATEGIC OBJECTIVE 4
<p><i>Promote efficient, competitive and confident gas markets</i></p>	<p><i>Facilitate efficient use of, and investment in, gas infrastructure</i></p>	<p><i>Deliver effectively on Gas Industry Co's accountabilities as the industry body</i></p>	<p><i>Develop and communicate the role of gas in meeting New Zealand's energy needs</i></p>
<p>COMPRISING:</p> <ul style="list-style-type: none"> » Retail Gas Contracts Oversight Scheme » Gas Distribution Contracts Oversight Scheme » Retailer insolvency » Gas quality » Regulation and rule changes » Gas measurement » Supply/demand study 	<p>COMPRISING:</p> <ul style="list-style-type: none"> » Transmission access » Wholesale market » Transmission pipeline balancing » Transmission code changes » Transmission pipeline interconnection » Transmission security and reliability 	<p>COMPRISING:</p> <ul style="list-style-type: none"> » Downstream reconciliation » Switching and registry » Critical contingency management » Compliance and enforcement » <i>Statement of Intent and Annual Report</i> 	<p>COMPRISING:</p> <ul style="list-style-type: none"> » <i>New Zealand Gas Story</i> » Supply/demand reports » Other reporting

CONSULTATION PROCESS

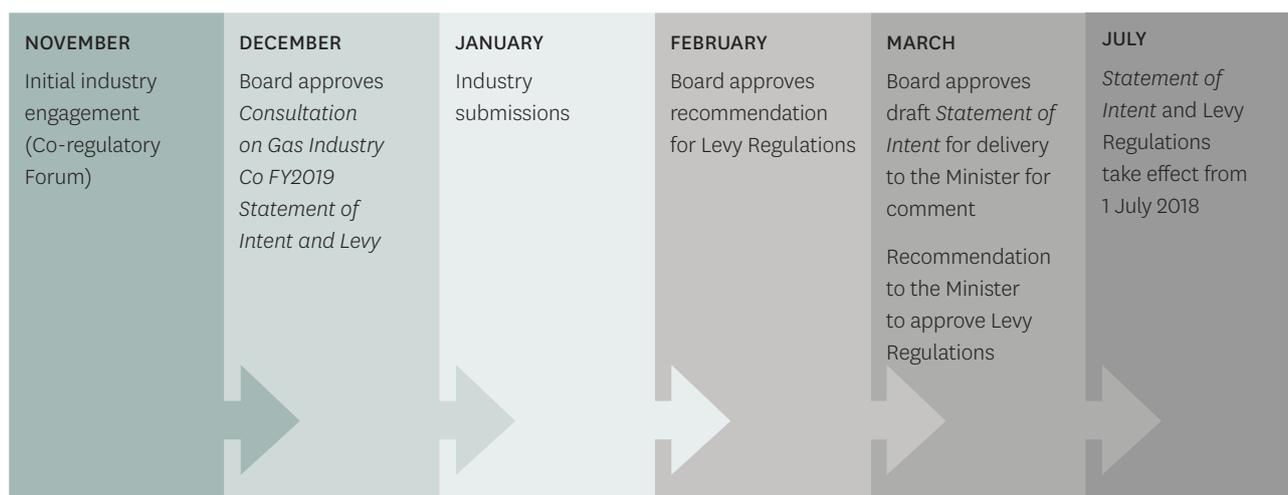
Consultation with industry stakeholders on Gas Industry Co's intended Work Programme and Budget, commenced with the Co-regulatory Forum, held in November 2017.

The Work Programme and Budget addressing the Company's strategic priorities were detailed in a *Consultation Paper*¹, which was issued in December 2017. Submissions on the *Consultation Paper* were taken into account in finalising the recommendation to the Minister² for levy funding through regulations (*Levy Recommendation*) for the financial year ended 30 June 2019.

The consultation process led to the development of this *Statement of Intent* which, along with the *Levy Recommendation*³, provides the basis for Gas Industry Co to deliver robust outcomes for gas consumers and the wider industry as part of our mandate as the industry body. The *Levy Recommendation* and draft *Statement of Intent* are presented to the Minister in March each year.

Figure 1 sets out the consultation and approval processes leading to the annual promulgation of Levy Regulations.

FIGURE 1: CONSULTATION AND LEVY-SETTING PROCESS



¹ *Consultation on Gas Industry Co FY2019 Work Programme and Levy* found at www.gasindustry.co.nz

² 'Minister' is identified in the Gas Act as the Minister with responsibility for administration of the Gas Act. 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.

³ *Gas Industry Co Recommendation to Minister of Energy and Resources to make Gas (Levy of Participants) Regulations 2018* found at www.gasindustry.co.nz

OPERATING ENVIRONMENT

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.

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 over 280,000 industrial, commercial and residential consumers.

Natural gas has a wide range of applications: cooking and heating in homes, providing energy for a variety of businesses and community amenities, and supplying process heat and serving as a feedstock for large industries.

Through thermal power plants, natural gas 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 fields. This evolution has significantly changed the market's dynamics, with a marked increase in the number of participants.

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. LPG is also supplied to some city centres and residential subdivisions via local reticulated networks.

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 creates the link 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 2*). 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 1991.

Gas Industry Co's role in relation to the gas transmission and distribution sectors focuses on terms and conditions of access to open access pipelines. The Commerce Commission has a complementary role in relation to economic regulation of those assets. As provided for in the Gas Act, the two agencies work closely together on any areas of potential overlap.

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

The Gas Act specifies that the industry body's principal objective in recommending regulations is to ensure that gas is delivered to existing and new customers in a safe, efficient and reliable manner. The GPS has a broader policy objective: it sets, for the entire gas industry, the objective of ensuring that gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner.

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....* 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 gasfitters⁴.

OTHER OBJECTIVES SPECIFIED BY THE GAS ACT FOR THE INDUSTRY BODY IN RECOMMENDING REGULATIONS 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.

⁴ 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.

—

ADDITIONAL OBJECTIVES FOR GAS INDUSTRY CO AND THE GAS INDUSTRY 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 customers' preferences; and
- » 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 on 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 are refined as necessary.

GAS INDUSTRY CO 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.

The Company's Strategic Goal, supported by the Company's mission and objectives, together help frame the Work Programme for FY2019 and indicatively for the following two years. A set of overarching principles underpin how we set out to achieve these objectives.

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 in the 1960s. There is an important role for gas, particularly in terms of providing electricity supply security and supporting the New Zealand economy. However, there are a range of scenarios as to future gas supply and demand. The challenge, in line with Government energy and climate policy, is how New Zealand can make the most of its gas resources, for the benefit of all New Zealanders.

MISSION:

Provide good governance and leadership for the gas industry

The gas industry 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.

OBJECTIVES:

- » promote efficient, competitive, and confident gas markets;
- » facilitate efficient use of, and investment in, gas infrastructure;
- » deliver effectively on Gas Industry Co's accountabilities as the industry body; and
- » develop and communicate the role of gas in meeting New Zealand's energy needs.

In pursuing its strategic goal, mission and objectives, Gas Industry Co conducts itself in accordance with the following key principles:

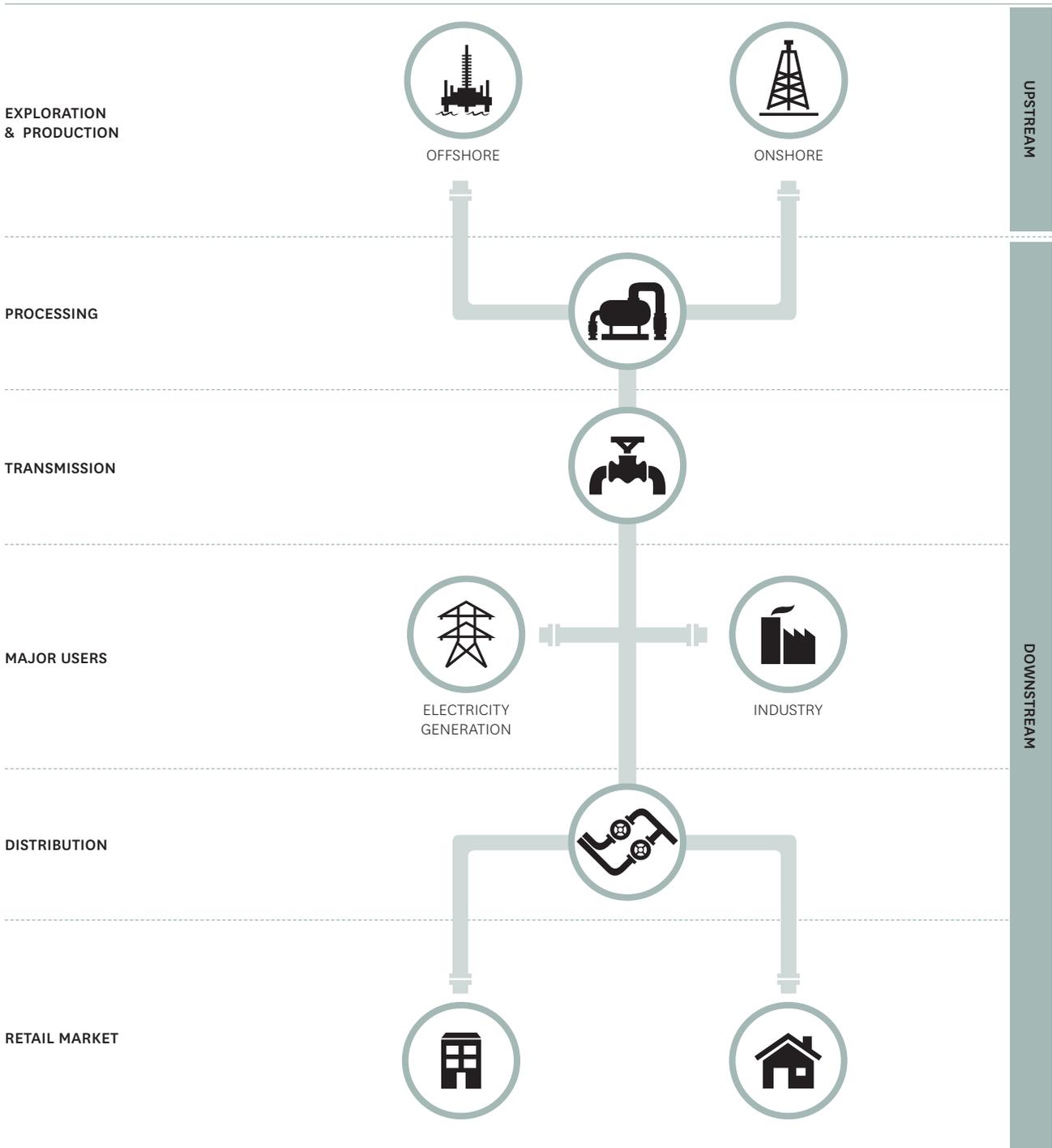
- » fairness;
- » independence and impartiality;
- » openness and transparency;
- » responsibility; and
- » evidence-based decision-making.

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 Chair, 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 meets on around eight scheduled occasions each year and holds unscheduled meetings to consider matters requiring immediate attention as needed. The Board has one standing committee, the Independent Directors' Committee, comprising the four independent Directors. The Committee addresses matters where the industry-associated Directors have potential or actual conflicts of interest.

FIGURE 2: GAS INDUSTRY STRUCTURE



INDUSTRY PERFORMANCE

In addition to alignment with Government policy objectives and outcomes, Gas Industry Co's strategic and Work Programme objectives seek to support key areas of industry performance, particularly in relation to consumer switching, downstream reconciliation, critical contingency management and transmission system balancing.

The Company tracks, and reports regularly upon, the performance of the Switching Rules, Reconciliation Rules and CCM Regulations in terms of their ongoing effectiveness, the competitive outcomes they foster, and industry participants' adherence to them.

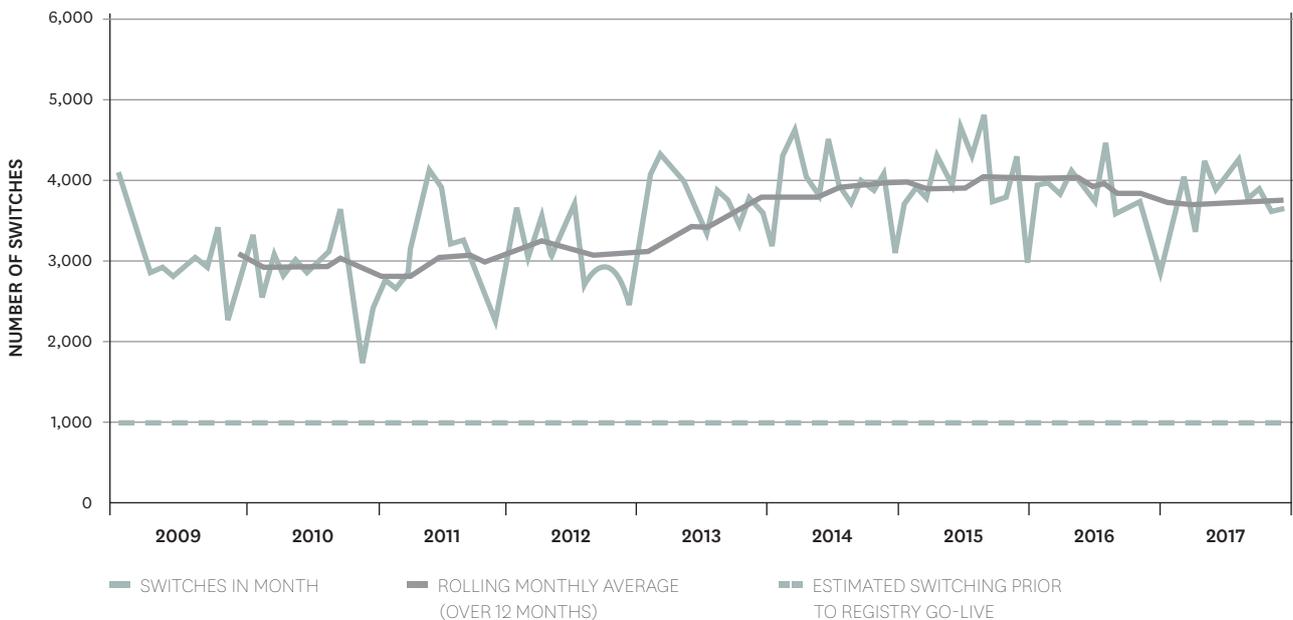
CUSTOMER SWITCHING

The implementation of the Switching Rules in 2009 has fostered the development of a more competitive, more vibrant retail market than existed previously. Formerly, customer switching was governed by an industry protocol that had no formal enforcement provisions. The Switching Rules introduced a formal binding governance regime for switching customers between competing retailers, as well as concrete timeframes for the completion of customer switches.

The results of the Switching Rules have been striking. Switching rates, an indicator of contestability in the market, have since increased over 350 percent, from less than 1,000 to an average of about 3,700 a month, as shown in *Figure 3*. The annual churn rate, the percentage of gas consumers changing retailer over a year, is about 16 percent. (As a comparison the electricity churn rate is about 21 percent, while gas switching rates in European countries vary from less than 1 percent to over 17 percent⁵.)

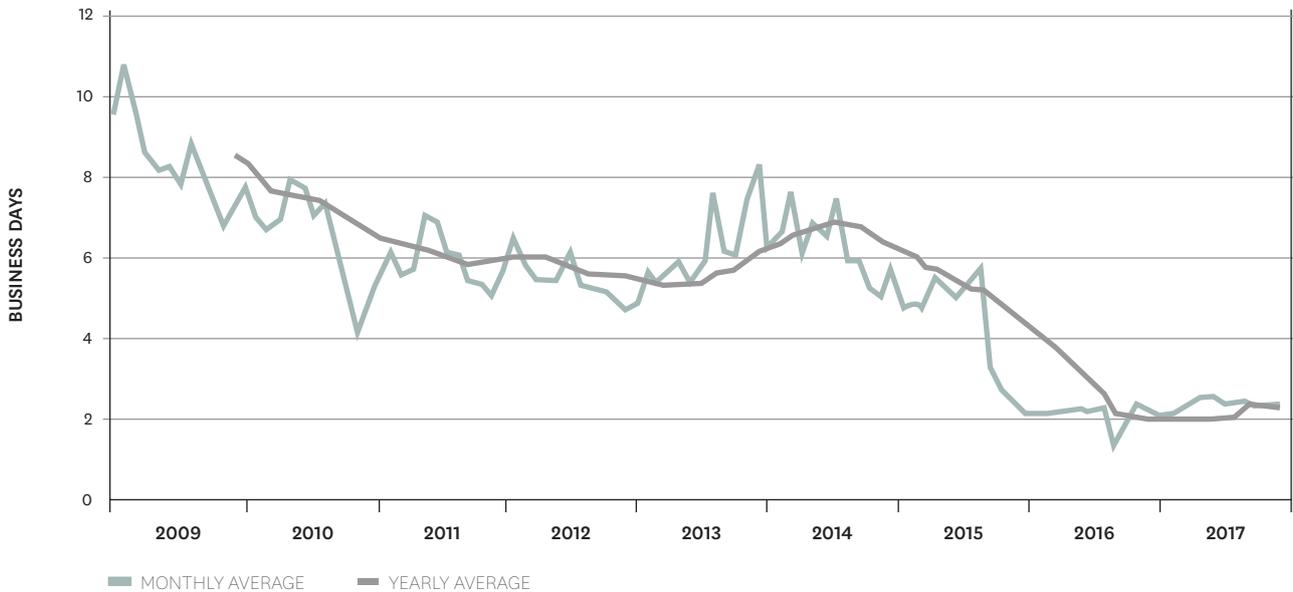
Another positive outcome of the Switching Rules is that switches are completed much faster than previously. Under the old industry protocol, switches could take weeks or even months to complete. Since the inception of the Switching Rules, the time to complete a switch has declined steadily, to the current average of about two business days as shown in *Figure 4*.

FIGURE 3: MONTHLY SWITCHING RATES



⁵ Electricity switching rate based on calendar 2017 data obtained from Electricity Authority website at https://www.emi.ea.govt.nz/Retail/Reports/BLDOA2?DateFrom=20150101&DateTo=20151231&MarketSegment=All&RegionType=REG_COUNCIL&_si=p|16,_dr_DateFrom|20170101,_dr_DateTo|20171231,_dr_MarketSegment|All,_dr_RegionType|REG_COUNCIL,v|4; European gas switching figures from Arthur D Little, "Churn management in utilities," 2015; available at http://www.adlittle.cn/sites/default/files/viewpoints/ADL_Churn_management_in_utilities.pdf

FIGURE 4: AVERAGE TIME TO SWITCH A CUSTOMER



The increased switching activity reflects, in part, greater consumer choice as more retailers have joined the market. In the past nine years, five retailer brands have entered the gas market: Energy Online (owned by Genesis Energy); Trustpower; Pulse Energy; Switch Utilities; and, most recently, Scholarship NZ.

Gas customers generally have access to multiple retailers. The 10 largest retailers are active at gas gates (where gas leaves the high pressure transmission system and enters the local gas distribution networks) that together represent 50 percent of consumers. Over 99 percent of consumers are connected at a gas gate where at least seven retailers trade.

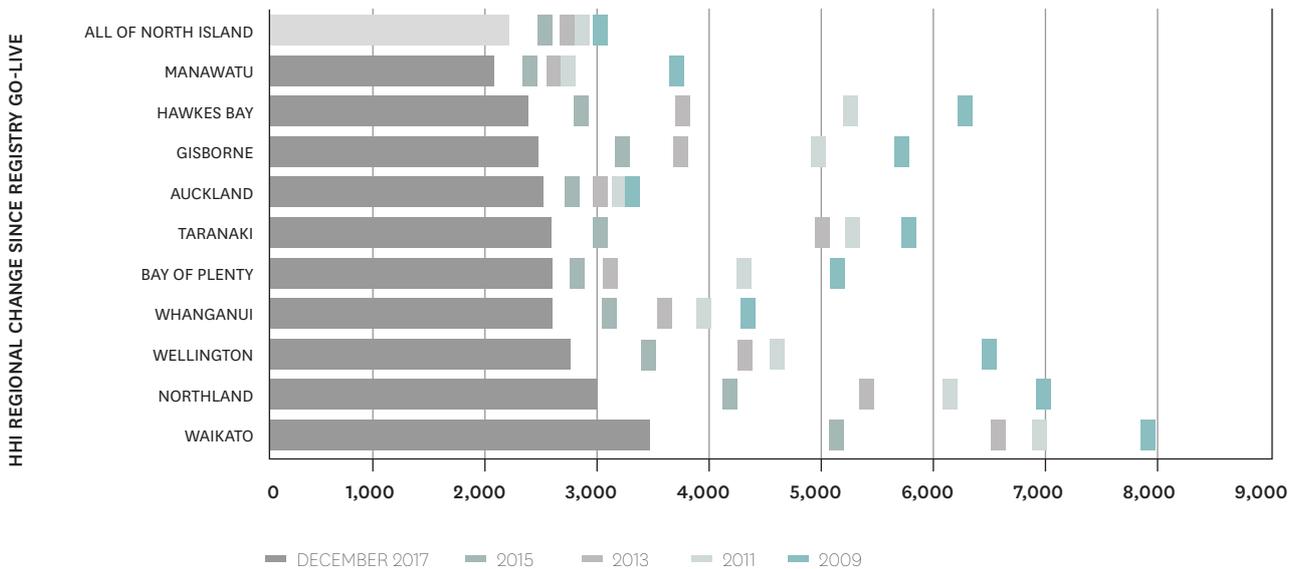
Market concentration, as measured by the Herfindahl-Hirschman Index (HHI), has decreased, both in the gas market as a whole and in the regions where gas is available (Figure 5). This change has been particularly striking in areas such as Waikato, Northland, Wellington, and Hawke's Bay, where the HHI in 2009 was greater than 6,000. The HHI is now less than 2,200 nationally and less than 3,000 in most regions. (As a point of reference, the United States Department of Justice considers markets in which the HHI is between 1,500 and 2,500 to be moderately concentrated. Markets with an HHI of greater than 2,500 are considered highly concentrated⁶).

The changes in HHI show the decreasing concentration of national and regional retail gas markets as new retailers have gained market share, diluting the dominance of previously incumbent retailers.

Gas Industry Co considers there is potential for retail competition to strengthen further as more niche retailers join the market. Such retailers often set out with an electricity offering but subsequently look to expand to a dual electricity/gas commercial platform to compete successfully. While these sorts of market forces are outside Gas Industry Co's direct influence, the Company maintains a strong focus on ensuring market arrangements and associated mechanisms, such as the gas registry, effectively support competitive activity and the best interests of consumers.

⁶ <http://www.justice.gov/atr/public/guidelines/hhi.html> accessed 1 May 2014.

FIGURE 5: RETAIL MARKET CONCENTRATION



DOWNSTREAM RECONCILIATION

Introduced in 2009, the Reconciliation Rules provide a formal process for attributing volumes of gas used by consumers at shared gas gates to the retailers responsible for them. They replaced an outdated industry code that was unfair to incumbent retailers and lacked transparency.

The Reconciliation Rules have been instrumental in reducing the level of unaccounted-for gas (UFG), which is the difference between the amounts of gas that retailers estimate their customers have used and the actual gas volume leaving the transmission system at a gas gate and entering the local distribution network. UFG imposes a cost on the market as it is gas that retailers must pay for, but cannot sell. As such, the extent of UFG is a measure of market efficiency.

Since 2009, annual UFG has fallen from 600,000 gigajoules (GJ) to about 300,000 GJ, or from about 2 percent of gas consumed to about 1 percent (*Figure 6*).

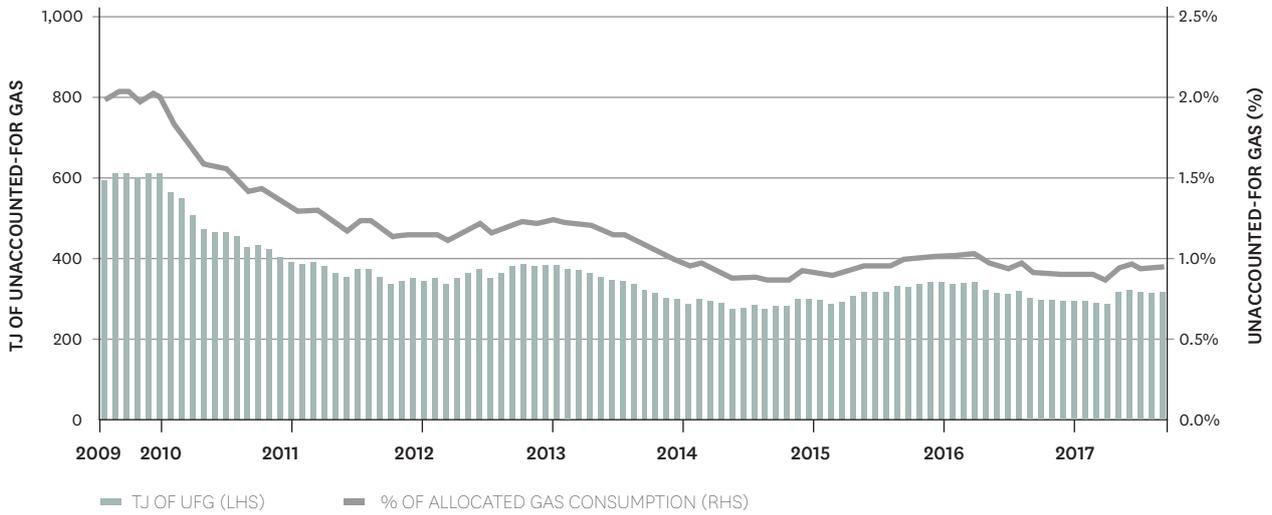
The move to a rules-based regime, and the lower amounts of UFG associated with it, have delivered an ongoing stream of cost savings to the industry worth several million dollars a year. Benefits include improved market efficiency, more accurate retailer reporting, more equitable allocation of UFG among retailers, greater information transparency, and both performance and event auditing that can more readily identify anomalies in consumption data.

CRITICAL CONTINGENCY MANAGEMENT

In 2009, the CCM Regulations replaced a voluntary industry arrangement, reflecting the increasing complexity of the gas industry and the need for greater certainty around the industry's response, including demand curtailment, during a serious supply emergency.

The CCM Regulations have been activated five times since they came into full effect in 2010. The most recent event was in May 2017, caused by a system imbalance related to excess demand during a planned production station outage. Gas Industry Co maintains a close watch on the effectiveness of the CCM Regulations through the monitoring of critical contingency events and annual exercises. Experience from events and exercises is used to refine the critical contingency arrangements in a process of continual improvement.

FIGURE 6 ANNUAL UNACCOUNTED-FOR GAS



COMPLIANCE WITH GOVERNANCE RULES AND REGULATIONS

The Compliance Regulations provide for the monitoring and enforcement of the other gas governance rules and regulations. They are designed as an efficient, low-cost means of determining and, where appropriate, settling rule breaches that raise material issues.

Breach allegations are considered first by the market administrator, a role performed by Gas Industry Co. Where a material issue is deemed to exist, the matter is referred to an independent investigator for further examination and, where appropriate, settlement.

Settlements must be referred to the Rulings Panel for approval or rejection. The Rulings Panel, a one-person quasi-judicial body appointed by the Minister, also considers matters where parties are unable to settle breaches. The Rulings Panel can issue fines, make orders for compensation, make orders directing compliance, and suspend or terminate the rights of an industry participant under any gas governance regulation or rule.

Gas Industry Co liaises closely with participants to ensure there is a good understanding of regulatory requirements. The amount of enforcement activity that we need to undertake is typically low, as participants are generally diligent in ensuring their business processes are compliant with regulatory requirements.

WORK PROGRAMME & INDICATIVE ACTIVITIES FY2019 – 2021

This section outlines the scope of Gas Industry Co's operations for the financial years ended 30 June 2019 to 2021.

The FY2019 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, 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.

The Work Programme is substantially in the form consulted on with stakeholders, which was broadly 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.

STRATEGIC OBJECTIVE 1

Promote efficient, competitive and confident gas markets

RETAIL GAS CONTRACTS OVERSIGHT SCHEME

In 2010, Gas Industry Co established a Retail Gas Contracts Oversight Scheme (Retail Scheme) that assesses retailers' posted contracts for residential and other small consumers against a series of benchmarks consistent with satisfactory customer expectations and outcomes. Reviews are undertaken by an independent assessor. The most recent full assessment was undertaken in FY2016, which concluded that retail contracts showed 'substantial' compliance with the benchmarks.

Gas Industry Co aims to conduct full reviews at three-yearly intervals, and the next one is scheduled for FY2019. Once the assessment is complete, Gas Industry Co will publish the assessed compliance levels for individual retailers. Further assessments may be undertaken on an exceptions basis (for example, to assess the standard contract offered by a new entrant retailer). Gas Industry Co will also provide information to assist new entrant retailers to understand their obligations and governance processes.

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 common set of distribution principles. Over recent years, distributors have developed new agreements in consultation with their customers. The second assessment by an independent assessor in FY2014 found that the contracts offered by distributors exhibited 'substantial' alignment with the distribution principles.

Checks with retailers and distributors in FY2015 and FY2016 identified that incremental changes continue to be made. In addition, the practice is to make those incremental changes available to retailers that have executed earlier versions of the distribution contracts.

Gas Industry Co will assess progress with executing new distribution contracts consistent with the Distribution Scheme principles. To date, this progress has been rather slow, and we note that there are a number of retailers who are operating with out of date or expired contracts. We therefore plan to review the Distribution Scheme, with a particular focus on its effectiveness in facilitating reasonable terms and conditions for access to and use of distribution pipelines. Gas Industry Co will consider any changes or other actions that arise from this review and report our findings to stakeholders.

RETAILER INSOLVENCY

Following a request from the Minister, this workstream was formed to consider the market issues created when a gas retailer becomes insolvent. The Minister accepted the Company's advice that the best solution was an agile approach involving a recommendation for urgent regulations, as and when required, and tailored to the specific situation. Gas Industry Co consulted on drafting instructions in FY2015 and issued a *Final Decision Paper - Framework for Gas Retailer Insolvency Arrangements* in May 2015. With the framework set, it is not expected that any routine activity will be required in FY2019 beyond that already provided for within the audits under the Switching Rules (i.e. checking that registry participants are able to meet their obligations under those rules). Once the shape of the new transmission access arrangements becomes clear, it may be necessary to make minor amendments to related aspects of the drafting instructions.

Gas Industry Co will maintain a watching brief in this area and will implement retailer insolvency arrangements as necessary in the unlikely event of a retailer insolvency. Retailer insolvencies are very low-frequency events, but they have a potentially high impact on the retail market, which is why, if intervention is required, they take place in an orderly and timely manner. Gas Industry Co plans to revisit the framework arrangements once the new transmission arrangements are known in order to identify any minor amendments that need to be made to the drafting instructions. In this way, the insolvency arrangements will remain up to date and ready to implement on short notice.

GAS QUALITY

This workstream was originally developed in response to industry participant and large end-user concerns about the responsibility and liability for gas quality in New Zealand. Some participants considered that responsibilities for gas quality were unclear or not well aligned with liabilities. In FY2015, the Company published *Gas Quality Requirements and Procedures*, a document aimed at clarifying current arrangements and making them accessible. An update was published in March 2017. New transmission access arrangements, when they are implemented, are likely to modify gas quality arrangements. Gas Industry Co will consider whether further action is required following completion of the GTAC.

In relation to this workstream, Gas Industry Co intends to oversee industry-led work on gas quality. The work will also involve reviewing industry arrangements for notifying gas quality excursions and procedures for managing gas quality incidents. The *Gas Quality Requirements and Procedures* document will be updated as required; as noted above, this is likely to be on conclusion of the GTAC.

REGULATION AND RULE CHANGES

The objective of this workstream is to ensure efficient, effective regulatory arrangements.

DOWNSTREAM RECONCILIATION

The past two years have involved an intensive period of reviewing aspects of the daily allocation process and developing improvements, including the provision of tools to assist shippers to better manage their daily balancing positions. This work will continue into FY2019, steered by the progress in developing the GTAC, which (if implemented) will dictate any required changes to regulatory arrangements.

Gas Industry Co intends to keep the D+1 pilot project running and to continue to make refinements to its calculation and operation. Once the new transmission access arrangements are finalised, we will consider how to implement D+1 within those new arrangements and the existing Reconciliation Rules; and consult with stakeholders. Subject to the feedback we receive in submissions and further amendments and refinements, we will then make a recommendation to the Minister to amend the Reconciliation Rules. Subject to Ministerial approval, Gas Industry Co will implement the new Reconciliation Rules, including developing and testing new supporting allocation systems.

CRITICAL CONTINGENCY MANAGEMENT

New transmission access arrangements will likely mean that there need to be consequent changes to the way that critical contingencies are managed. As with a number of other workstreams, Gas Industry Co intends to review the CCM Regulations once the transmission access arrangements are finalised, with a view to ensuring that each works in conjunction with the other.

Gas Industry Co has also identified a number of other matters that potentially need updating in the CCM Regulations, including the considerations that feed into setting the critical contingency price and the way in which contingency imbalances are calculated.

In all of these areas, Gas Industry Co will consult and work with stakeholders to refine our proposals and to ensure alignment with the final transmission access arrangements. The next step is to make a recommendation to the Minister for amending the CCM Regulations. Once the CCM Regulations are amended, we will work on implementing the new arrangements.

GAS MEASUREMENT

High-level work to review the current contracting arrangements between metering equipment providers and retailers as well as consider the outlook for the introduction of gas smart metering technology has been completed. A technical advisory group has been established to develop a minimum voluntary standard for gas advanced metering. Once the standard is developed and consulted upon, it is anticipated that it will be reviewed annually. Current indications are that there will be little, if any, work required in FY2019 in this area, but Gas Industry Co intends to keep a watching brief and will review and update the advanced metering standards document if required.

SUPPLY/DEMAND STUDY

Gas Industry Co first published a study on long-term gas supply and demand scenarios in 2012, and update reports have been published in 2014 and 2016. The reports survey the gas supply and demand landscape in New Zealand and analyse a range of supply scenarios. Each report also takes an in-depth look at a topic relevant to natural gas: pipeline capacity, electricity generation, and distribution-level demand projections. Gas Industry Co intends to continue to publish an updated report biennially; the next report is due to be published in FY2019. It will include a focus on the effect that New Zealand's announced greenhouse gas reductions goals may have on the natural gas sector. It is expected that this report, like the previous ones, will be commissioned from Concept Consulting.

STRATEGIC OBJECTIVE 2

Facilitate efficient use of, and investment in, gas infrastructure

TRANSMISSION ACCESS

The objective of this workstream 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.

The past two years have seen an intense amount of activity dedicated to the development of a single transmission access code, from First Gas, stakeholders, and Gas Industry Co. This work is expected to continue in FY2019 and will require considerable resources from Gas Industry Co as well as from First Gas and stakeholders.

At this stage, it is not possible to say whether that activity will focus on implementation of a new, single transmission code or whether it will focus on completing arrangements for a recommendation to the Minister for regulating transmission access arrangements. The former scenario would see Gas Industry Co overseeing the implementation of the new transmission access code. If the industry code development process stalls or the arrangements otherwise do not meet the Gas Act objectives, then Gas Industry Co would move to develop transmission access regulations. The activity in this latter scenario would include consultation with stakeholders on the development of proposed regulations and preparation of a recommendation to the Minister.

WHOLESALE MARKET

The emsTradepoint (eTp) market has now been in operation since October 2013 and continues to grow in both membership and volume. We note that the GPS seeks an outcome of 'efficient arrangements for the short-term trading of gas and eTp makes a clear contribution to that outcome.

Gas Industry Co intends to continue to monitor activity and developments in the wholesale market with a particular focus on the market's role as the source of volume and pricing for transmission balancing.

Another aspect of market monitoring is the amount of market information that is publicly available. This is an issue that has been raised with us previously by a number of stakeholders. Transparency is an issue that will be affected by the final outcome of the transmission access arrangements, discussed above, as whatever arrangement is put into place will provide some degree of information about the wholesale gas market. However, we intend to consider whether those arrangements provide sufficient transparency for an informed market; and, if not, to identify ways to address that issue, including regulation if required.

TRANSMISSION PIPELINE BALANCING

Market-based balancing (MBB) was implemented in FY2016 and brought with it a number of improvements in both primary and secondary pipeline balancing. These improvements were made possible by the availability of additional information on shippers' daily positions, through the D+1 pilot project plus daily cash-out information delivered on business days. Improved balancing is also the result of greater attention to primary balancing by shippers and welded parties.

Transmission balancing is a core part of any transmission access arrangement, and balancing arrangements are likely to change again under the GTAC. Gas Industry Co will work with stakeholders on balancing-related matters and monitor new arrangements if and when implemented.

TRANSMISSION CODE CHANGES

Under a Memorandum of Understanding with the owner of the Maui pipeline, Gas Industry Co has a role in processing Maui Pipeline Operating Code (MPOC) change requests on an 'as required' basis. In addition, Gas Industry Co is invited to submit on change requests under the Vector Transmission Code (VTC). This role may be replaced by a regulatory role in the event that the GTAC process does not come to fruition and Gas Industry Co has to recommend regulation of transmission access arrangements.

TRANSMISSION PIPELINE INTERCONNECTION

Gas Industry Co has established *Guidelines on Interconnection with Transmission Pipelines* (Guidelines) that set out the Company's expectations with regard to transmission system owners' policies and procedures for connecting to their pipelines. We have previously commissioned independent reviews of new interconnections and, in recent years, these have shown that the Guidelines have been adopted by the transmission system owners.

Given this, Gas Industry Co does not consider that formal reviews of each new interconnection are required. We will monitor interconnections at a high level and expect that any issues will be brought to our attention. If concerns are identified regarding reasonable access to the transmission system, Gas Industry Co will address them at the time. Once new transmission access arrangements are in place, we will review the provisions for interconnection and amend the Guidelines as required.

TRANSMISSION SECURITY AND RELIABILITY

Gas Industry Co undertook a review of existing information and requirements associated with gas transmission security and reliability in FY2017. These are found in several areas, the existing information and requirements spans the responsibilities of several regulators, and can be difficult to bring together and interpret.

Our findings were that existing information and arrangements give significant assurance about both standards and performance. With the change in ownership of the transmission systems in 2016, Gas Industry Co published *Gas Transmission Security and Reliability Update* in March 2017. That paper canvassed issues that had been raised by stakeholders and found that they had been substantially addressed. However, we expect that matters with a strong security and reliability component will emerge from time to time, and these matters will be dealt with when they arise. Gas Industry Co will continue to monitor successive asset management plans.

STRATEGIC OBJECTIVE 3

Deliver effectively on Gas Industry Co's accountabilities as the industry body

DOWNSTREAM RECONCILIATION

The purpose of the Reconciliation Rules is to 'establish a set of uniform processes that will enable the fair, efficient, and reliable downstream allocation and reconciliation of downstream gas quantities'. The Reconciliation Rules have been instrumental in reducing the level of UFG at the final allocation stage (see the Downstream Reconciliation section under Industry Performance on page 12 for details).

The Reconciliation Rules require Gas Industry Co to appoint and manage the allocation agent as a service provider. Gas Industry Co also closely monitors the allocation results, with an eye to identifying issues that need attention or situations that warrant the commissioning of an event audit.

The Reconciliation Rules also oblige Gas Industry Co to commission performance audits of the allocation agent and allocation participants at regular intervals. Performance audits are generally commissioned every two to three years. The latest round of retailer performance audits was completed in calendar 2017.

In addition to the tasks that are required under the Reconciliation Rules, Gas Industry Co expects to continue the pilot project for D+1 allocations until it is either overtaken by changes to the Reconciliation Rules or a better solution is identified. The D+1 project is discussed further in the Regulation and Rule Changes section on page 15.

SWITCHING AND REGISTRY

The Switching Rules have the purpose of enabling 'consumers to choose, and alternate, efficiently and satisfactorily between competing retailers'. The Switching Rules have facilitated a marked increase in customer switching since their inception (see the Customer Switching section under Industry Performance on page 10 for details).

Under the Switching Rules, Gas Industry Co appoints and monitors the registry operator as a service provider, and we monitor and report on switching statistics. There are also auditing provisions in the Switching Rules that were introduced in 2015, and baseline performance audits of retailers, distributors, and meter owners are nearly complete.

Over the past few years Gas Industry Co, in conjunction with the Electricity Authority, has provided modest support to Consumer NZ's Powerswitch so as to ensure the continued existence of an independent, credible source of information for consumers. This support will continue through FY2020.

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'. The CCM Regulations have been activated five times since they came into full effect in 2010: three have been caused by production station outages, one by a break in the Maui pipeline, and one, in May 2017, by a system imbalance event.

Under the CCM Regulations, Gas Industry Co appoints and monitors the performance of the critical contingency operator (CCO), who is responsible for determining, managing, and terminating critical contingencies, as well as associated activities such as offering stakeholder training and running exercises. Gas Industry Co is also responsible for processing gas consumers' applications for designations for critical care, essential services, critical processing, and electricity supply. We also appoint expert advisers to analyse critical contingency management plans when required.

In the case of a critical contingency, Gas Industry Co considers the performance of the CCO and the effectiveness of the CCM Regulations in managing the situation, with a view to implementing improvements if appropriate. Following non-regional critical contingencies (i.e. those that involve the entire transmission system), Gas Industry Co appoints an industry expert to determine a critical contingency price and administers the contingency pool used to settle contingency imbalances.

COMPLIANCE AND ENFORCEMENT

The Compliance Regulations provide for monitoring and enforcement of the other gas governance rules and regulations. Introduction of gas governance rules and regulations has typically been associated with an increased level of compliance activity as participants adjust to the new arrangements. Since the start of the compliance regime, the market administrator has found nearly 1,800 breaches to have raised material issues, the vast majority of which have been settled by the independent investigator, determined by the Rulings Panel, or are shortly to be settled by the market administrator. However, Gas Industry Co's experience is that industry participants make great efforts to ensure their business processes are compliant with their regulatory obligations.

Consistent with obligations under the Compliance Regulations, Gas Industry Co performs the market administrator role, appoints and monitors the independent investigator, monitors the Rulings Panel, and provides assistance to both the independent investigator and the Rulings Panel as required. Gas Industry Co also monitors compliance trends for indications of regulatory inefficiency.

STATEMENT OF INTENT AND ANNUAL REPORT

The Gas Act requires that the industry body provide its annual report to the Minister of Energy and Resources within three months of the end of the financial year (the Minister then tables it in the House of Representatives). Gas Industry Co's financial year runs from 1 July to 30 June.

Similarly, annual statements of intent are required to be submitted to the Minister for comment prior to being finalised and published.

STRATEGIC OBJECTIVE 4

Develop and communicate the role of gas in meeting New Zealand's energy needs

NEW ZEALAND GAS STORY

During FY2013, Gas Industry Co published the first *New Zealand Gas Story*. Since then, the publication has been updated annually to ensure it remains current and topical. The most recent edition was published in December 2017. Apart from fulfilling Gas Industry Co's statutory reporting requirement, this work is intended to help stakeholders to understand the industry and to assist industry participants make informed investment and energy use decisions. In addition to the document itself, 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.

Gas Industry Co intends to continue its annual update of the *New Zealand Gas Story*.

OTHER REPORTING

Gas Industry Co is required by the Gas Act to report on the present state and performance of the gas industry. It does this through a number of publications including *Quarterly Reports*, *Switching Statistics* and *Industry Performance Measures*.

Gas Industry Co has also commissioned reports focussing on particular aspects of the industry, such as the *Consumer Energy Options Report* (Concept Consulting, 2012/2016); *Commercialisation issues, opportunities and challenges in the event of substantive gas-rich exploration success in New Zealand* (Woodward Partners, 2013); and *Possible Commercialisation Options for New Gas Discoveries* (Concept Consulting, 2015). Further occasional reports will be published, and existing reports updated, where they can add value to the industry.

FINANCIAL MATTERS

Gas Industry Co develops funding budgets to support its Work Programme proposals as part of the consultation process discussed in the section Work Programme Priorities (see page 4).

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

LEVY FUNDING

Section 43ZZB of the Gas Act enables Gas Industry Co to recommend to the Minister that regulations be made to require industry participants 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 levy payers in the following year unless special circumstances warrant otherwise.

Details of funding for FY2019 are included in industry consultation and the annual recommendation to the Minister of Energy and Resources, which results in annual levy regulations. In summary for FY2019:

- » an annual levy of \$3,982,551 from 1 July 2018, comprising a wholesale levy and a retail levy.
- » the wholesale levy revenue is \$2,252,151 for FY2019 and will be collected each month from the relevant levy payers at a rate of 1.2374c/GJ based on each industry participant's volume of gas purchased from gas producers.
- » the retail levy revenue is \$1,730,400. This is calculated based on Gas Industry Co's estimate of 280,000 active ICPs, at a levy rate of \$6.18/ICP per annum.

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 Compliance Regulations contain market fee provisions. These fees are used to recover costs of external service providers and consultants, as provided for in the relevant regulations.

ANNUAL FEES

Gas Industry Co's Constitution provides that the Board may set an annual fee each year in respect of each share issued. The annual fee is currently \$2,000 per shareholder per annum. The Board has resolved that these fees will be set aside to establish cash reserves.

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 FY2019 Gas Industry Co levy.

Further detail about the assumptions, revenue calculations and workstream expenses used to calculate the FY2019 levy can be found in the document, *Consultation on Gas Industry Co FY2019 Work Programme and Levy*, issued in December 2017.

The FY2018 forecast was approved by Gas Industry Co's Board and includes actual results for the period 1 July 2017 to 28 February 2018, and an up-to-date forecast to 30 June 2018.

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 FY2019 *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

June 2018



Robin Hill
DEPUTY CHAIR

FORECAST STATEMENT OF FINANCIAL PERFORMANCE

	BUDGET FY2019 \$	FORECAST FY2018 \$	ACTUAL FY2017 \$
REVENUE			
Wholesale Levy	2,252,151	2,354,192	2,317,410
Retail Levy	1,730,400	1,735,161	1,913,973
<i>Levy Revenue Subtotal</i>	3,982,551	4,089,353	4,231,383
Market Fees	1,441,169	1,241,728	1,355,852
Annual Fees	28,000	28,000	26,000
Refunded Levies	-	(667,243)	(821,973)
Interest Income	35,000	30,265	42,865
<i>Subtotal Other Revenue</i>	1,504,169	632,750	602,744
TOTAL REVENUE	5,486,720	4,722,103	4,834,127
EXPENSES			
Depreciation & Amortisation	30,644	37,755	46,740
Operating lease expenses	235,730	195,767	307,857
Fees paid to audit firm - financial statement audit	15,750	15,756	14,593
Fees paid to audit firm - other services	12,949	14,133	12,290
Directors' fees	262,460	262,460	262,460
General expenses	337,301	336,076	323,899
Bad Debts	-	-	(1,181)
Release of property lease provision	-	(48,777)	-
Recruitment expenses	15,000	80,000	4,000
Technical, economic, and legal advice	758,949	577,885	498,868
Service Provider Fees	1,441,169	1,241,728	1,237,722
Kiwisaver contributions	52,995	51,754	46,350
Foreign exchange loss	-	-	-
Employee benefit expense	2,260,773	2,235,708	1,977,427
TOTAL EXPENSES	5,423,720	5,000,245	4,731,025
Finance Costs	-	-	4,601
TOTAL EXPENDITURE	5,423,720	5,000,245	4,735,626
PROFIT / (LOSS) BEFORE TAX	63,000	(278,142)	98,501
Income Tax Expense	9,800	8,474	12,192
PROFIT / (LOSS) FOR THE YEAR	53,200	(286,616)	86,309

FORECAST STATEMENT OF FINANCIAL POSITION

	BUDGET FY2019 \$	FORECAST FY2018 \$	ACTUAL FY2017 \$
CURRENT ASSETS			
Cash and cash equivalents	1,622,942	1,569,098	2,180,469
Trade and other receivables	145,871	103,435	452,978
Prepayments	50,798	51,344	124,961
Income tax receivable	9,800	8,474	-
TOTAL CURRENT ASSETS	1,829,411	1,732,351	2,758,408
NON-CURRENT ASSETS			
Property, plant & equipment	104,778	105,422	80,292
Intangible assets	2,853	5,365	12,548
TOTAL NON-CURRENT ASSETS	107,631	110,787	92,840
TOTAL ASSETS	1,937,042	1,843,138	2,851,248
CURRENT LIABILITIES			
Trade and other payables	373,922	380,274	951,957
Asset restoration provision	-	-	48,777
Employee entitlements	202,460	155,404	256,438
Redemable Shares	14	14	14
TOTAL CURRENT LIABILITIES	576,396	535,692	1,257,186
TOTAL LIABILITIES	576,396	535,692	1,257,186
NET ASSETS	1,360,646	1,307,446	1,594,062
<i>Represented by</i>			
Industry Reserves	628,646	603,446	918,062
Retained Earnings	732,000	704,000	676,000
TOTAL SHAREHOLDERS' FUNDS	1,360,646	1,307,446	1,594,062

FORECAST STATEMENT OF MOVEMENT IN EQUITY

	INDUSTRY RESERVES	RETAINED EARNINGS	TOTAL	INDUSTRY RESERVES	RETAINED EARNINGS	TOTAL
	Budget FY2019			Forecast FY2018		
OPENING BALANCE	603,446	704,000	1,307,446	918,062	676,000	1,594,062
Net surplus/(deficit) for the year	-	53,200	53,200	-	(286,616)	(286,616)
Industry Advances Reserves transfer	25,200	(25,200)	-	(314,616)	314,616	-
FORECAST CLOSING BALANCE	628,646	732,000	1,360,646	603,446	704,000	1,307,446

FORECAST STATEMENT OF CASH FLOWS

	BUDGET FY2019 \$	FORECAST FY2018 \$	ACTUAL FY2017 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Levy revenue	3,982,551	4,069,364	4,485,180
Market fee revenue	1,441,169	919,958	1,372,004
Annual fees	28,000	28,000	26,000
Interest received	35,000	30,265	42,865
Net GST	-	116,669	-
	5,486,720	5,164,256	5,926,049
CASH WAS APPLIED TO			
Payments to suppliers	(2,826,648)	(2,466,982)	(2,526,840)
Payments to employees	(2,313,768)	(2,334,464)	(2,046,217)
Payments to directors	(262,460)	(262,460)	(264,304)
Refund of levy to industry participants	-	(661,532)	(820,673)
Taxes paid	-	(5,898)	(12,002)
Net GST	-	-	(137,595)
	(5,402,876)	(5,731,336)	(5,807,631)
NET CASH INFLOWS FROM OPERATING ACTIVITIES	83,844	(567,080)	118,418
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(30,000)	(44,291)	(16,148)
Purchase of intangible assets	-	-	(9,823)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(30,000)	(44,291)	(25,971)
NET CASH FLOWS	53,844	(611,371)	92,447
Opening cash balance	1,569,098	2,180,469	2,088,022
CLOSING CASH BALANCE	1,622,942	1,569,098	2,180,469

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 2017 and expires on 30 November 2023 at an annual rental of approximately \$251,330.

Other operating lease commitments are for office equipment.

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

	BUDGET FY2019 \$	FORECAST FY2018 \$
BUILDING LEASE COMMITMENTS		
Within one year	251,330	251,330
Later than one year but not later than five years	858,711	1,110,041
Later than five years	-	-
TOTAL OPERATING LEASE COMMITMENTS	1,110,041	1,361,371
EQUIPMENT LEASE COMMITMENTS		
Within one year	31,934	38,317
Later than one year but not later than five years	6,426	38,360
Later than five years	-	-
TOTAL EQUIPMENT LEASE COMMITMENTS	38,360	76,677
OPERATING LEASE COMMITMENTS		
Within one year	283,264	289,647
Later than one year but not later than five years	865,136	1,148,401
Later than five years	-	-
TOTAL OPERATING LEASE COMMITMENTS	1,148,401	1,438,048
SERVICE PROVIDER COMMITMENTS		
Within one year	246,432	643,528
Later than one year but not later than five years	1,150,014	1,232,158
Later than five years	-	164,288
TOTAL SERVICE PROVIDER COMMITMENTS	1,396,446	2,039,974

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 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 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 2019-2021 *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 process.
- » Section 43S of the Gas Act enables Gas Industry Co to collect from industry participants fees relating to the ongoing costs associated with gas market rules and regulations.

-
- » An annual levy of \$3,982,551 is assumed to be effective from 1 July 2018 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 \$2,252,151 for FY2019 and will be collected each month from the relevant levy payers at a rate of 1.2374c/GJ based on each industry participant's volume of gas purchased from gas producers.
 - » The retail levy revenue is budgeted to be \$1,730,400. This is calculated based on Gas Industry Co's estimate of 280,000 active ICPs, at a levy rate of \$6.18/ICP per annum. Active Contracted ICPs indicate a customer at the ICP has a contract with the retailer. The retail levy is payable only on active ICPs. If the actual number of ICPs substantially differs from the estimate, there may be a small difference in the retail levy revenue.
 - » The FY2019 levy calculation is based on a Work Programme consistent with the Government Policy Statement on Gas Governance 2008 (GPS). 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 FY2019. Section 43ZZC(3) of the Gas Act provides that any over or under-recoveries can be taken into account in setting the levy in subsequent financial years. However, to ensure transparency around the calculation of each year's levy, the Board has determined that, unless required for unanticipated or ongoing Work Programme costs, any surplus should be returned to levy payers by way of refund once the year-end accounts have been received by shareholders at the Annual Meeting.
 - » The forecast equity for the year ending 30 June 2018 is approximately \$1,307,446. Of this, \$603,446 is classified as Industry Advances Reserve and will be either returned to levy payers after the end of the financial year or, if special circumstances warrant, retained for the application to Work Programmes in the subsequent year(s) as per Board policy. The remainder, \$704,000, 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 FY2019 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).

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
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 » 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"> » Provide small consumers with an effective complaints process » Ensure retail contracts adequately protect the long-term interests of small consumers » Provide public information on the performance and state of the gas sector » Ensure gas governance arrangements are supported by appropriate compliance and dispute resolution processes » Provide efficient arrangements for short-term gas trading » Enable accurate, efficient, and timely arrangements for the allocation and reconciliation of upstream gas quantities » Provide an efficient market structure for the provision of gas metering, pipeline, and energy services
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"> » Gas industry participants and new entrants are able to access third party gas processing facilities, transmission pipelines, and distribution pipelines, on reasonable terms and conditions » Consistent standards and protocols apply to the operations relating to access to all distribution pipelines
Minimise barriers to competition in the gas industry	<ul style="list-style-type: none"> » 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"> » Minimise barriers to customer switching » Ensure gas governance arrangements are supported by appropriate compliance and dispute resolution processes
Maintain or enhance incentives for investment in gas processing facilities, transmission, and distribution		<ul style="list-style-type: none"> » Provide an efficient market structure for the provision of gas metering, pipeline, and energy services
Delivered gas costs subject to sustained downward pressure	<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 	<ul style="list-style-type: none"> » Minimise barriers to customer switching » Provide efficient arrangements for short-term gas trading
Have all parties properly and efficiently manage risks relating to security of supply, including transport arrangements		<ul style="list-style-type: none"> » Produce sound arrangements for the management of critical gas contingencies
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

WHAT GAS INDUSTRY CO HAS DONE	WORK PROGRAMME FY2019	FUTURE GAS INDUSTRY CO WORK AREAS
<ul style="list-style-type: none"> » Created the Retail Contracts Oversight Scheme in 2010. It provides assurance that standard retail contracts protect small consumers' long-term interests » Carried out assessments in 2010, 2011, 2012 and 2015 » Considered that further LPG regulation is not currently needed (FY2015) » Published the sixth edition of <i>NZ Gas Story</i> (December 2017) and the third edition of <i>Long Term Supply and Demand Scenarios</i> (October 2016) » Recommended the Gas (Downstream Reconciliation) Rules 2008; ongoing administration through the allocation agent » Recommended the Gas Governance (Compliance) Regulations 2008; ongoing administration through market administrator, independent investigator, and Rulings Panel » A private company created a gas trading market in 2013 » D+1 implemented in December 2015 to assist the more efficient arrangements for balancing gas » Continued involvement in the development of a new gas transmission code 	<ul style="list-style-type: none"> » Assist new entrant retailers » Continue to work with Utilities Disputes to identify and address any systemic issues raised by gas consumers » Conduct next full Retail Contracts Oversight Scheme assessment in 2018 » Monitor the LPG market to determine if current non-regulatory arrangements are satisfactory » A technical advisory group has been established to develop a minimum voluntary standard for gas advanced metering » Update the <i>Long Term Gas Supply and Demand Scenarios</i> Report » Continue market administrator work » Refine D+1 and, depending on the form of the new single transmission code, begin the process to introduce D+1 rules into the Downstream Reconciliation Rules » Work with industry on new transmission code and be prepared to regulate if the objectives and outcomes in the Gas Act and GPS are not being achieved 	<ul style="list-style-type: none"> » Continue market administrator work » Work with industry on the new transmission code and be prepared to regulate if the objectives and outcomes in the Gas Act and GPS are not being achieved » Continue to provide information on the state and performance of the gas sector in future editions of the <i>NZ Gas Story</i>, and supply/demand studies
<ul style="list-style-type: none"> » Reviewed Gas Distribution Use-of-System Agreements with retailers » Continued involvement in the development of a new gas transmission code » A private company created a gas trading market in 2013 » Post-implementation review of market-based balancing 	<ul style="list-style-type: none"> » Work with industry on new transmission code and be prepared to regulate if the objectives and outcomes in the Act and GPS are not being achieved 	<ul style="list-style-type: none"> » Review the efficiency of short-term gas trading and whether gas governance arrangements could improve the market
<ul style="list-style-type: none"> » Recommended the Gas (Switching Arrangements) Rules 2008 » Continued involvement in the development of a new gas transmission code 	<ul style="list-style-type: none"> » Monitor the wholesale market » Continue involvement in the development of a new gas transmission code and be prepared to regulate if the objectives and outcomes in the Act and GPS are not being achieved 	<ul style="list-style-type: none"> » Review the efficiency of short-term gas trading and whether gas governance arrangements could improve the market » Continue involvement in the development of a new gas transmission code and be prepared to regulate if the GTAC process does not come to fruition
<ul style="list-style-type: none"> » Addressed in multiple workstreams, including switching, downstream reconciliation, and single gas transmission code » Revoked Gas Processing Information Disclosure Rules in 2014 		
<ul style="list-style-type: none"> » Recommended the Gas (Switching Arrangements) Rules 2008 » A private company created a gas trading market in 2013 	<ul style="list-style-type: none"> » Continue to publish monthly switching statistics » Continue involvement in the development of a new gas transmission code and be prepared to regulate if the objectives and outcomes in the Gas Act and GPS are not being achieved 	<ul style="list-style-type: none"> » Review the efficiency of short-term gas trading and whether gas governance arrangements could improve the market
<ul style="list-style-type: none"> » Recommended the Gas Governance (Critical Contingency Management) Regulations 2008; continuing to address this through the CCM designation process » Released <i>Gas Transmission Security and Reliability Issues Paper</i> in April 2016 	<ul style="list-style-type: none"> » Review critical contingency price and imbalance arrangements. Ensure that the arrangements for the management of critical gas outages align with transmission access arrangements 	<ul style="list-style-type: none"> » Work closely with the Commerce Commission to ensure that security and reliability are adequately reported on
<ul style="list-style-type: none"> » Recommended the Gas Governance (Critical Contingency Management) Regulations 2008; continuing to address this through the CCM designation process 	<ul style="list-style-type: none"> » Ensure new gas transmission code is consistent with the Government's gas safety regime 	<ul style="list-style-type: none"> » Work closely with the Commerce Commission to ensure that security and reliability are adequately reported on » Ensure that gas transmission arrangements are consistent with the Government's gas safety regime

OTHER INFORMATION

ADDITIONAL REPORTING

In addition to the reporting described in 'Statement of Intent, Annual Report and Other Reporting' (above), Gas Industry Co also 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
CCM Regulations	Critical contingency operator	Core Group

DIRECTORY

GAS INDUSTRY COMPANY LIMITED

Level 8, The Todd Building
95 Customhouse Quay
PO Box 10 646
Wellington

Telephone: +64 4 472 1800
Facsimile: +64 4 472 1801
Email: info@gasindustry.co.nz
Website: www.gasindustry.co.nz

BOARD OF DIRECTORS

Rt Hon James (Jim) Bolger, ONZ
CHAIR, INDEPENDENT DIRECTOR

Robin Hill, B Comm
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

Gabriel Selischi, MSc (Power Engineering), MBA

EXECUTIVE

Andrew Knight, BMS (Hons), CA
CHIEF EXECUTIVE

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

Susan Dunne, LLB, BCA, CA
GENERAL MANAGER CORPORATE SERVICES

AUDITORS

KPMG, Wellington

BANKERS

Westpac New Zealand Limited

SHAREHOLDERS

Contact Energy Limited

emsTradeport Limited

First Gas Limited

Genesis Energy Limited

Greymouth Gas New Zealand Limited

Mercury NZ Limited

Methanex New Zealand Limited

New Zealand Oil & Gas Limited

Nova Energy Limited

OMV New Zealand Limited

Powerco Limited

Shell (Petroleum Mining) Company Limited

Trustpower Limited

Vector Limited

