

GAS INDUSTRY COMPANY LIMITED

Statement of Intent
2021 - 2023



CONTENTS

CHAPTER ONE	Foreword	2
CHAPTER TWO	Work Programme Priorities	4
CHAPTER THREE	Consultation Process	6
CHAPTER FOUR	Operating Environment	7
CHAPTER FIVE	Industry Performance	10
CHAPTER SIX	Work Programme & Indicative Activities FY2021 – 2023	14
CHAPTER SEVEN	Financial Matters	19
CHAPTER EIGHT	Financial Statements	19
CHAPTER NINE	Alignment with Government Policy Objectives and Outcomes	26
CHAPTER TEN	Other Information	28
CHAPTER ELEVEN	Directory	29

Note: References to the Minister in this Statement of Intent relates to the Minister of Energy and Resources.
Gas Industry Company Limited's Statement of Intent is available on our website: www.gasindustry.co.nz

Please consider the environment before printing.

STATEMENT OF INTENT

Financial Years 2021-2023

The Gas Industry Company Limited (Gas Industry Company) 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 Company to meet the requirements of section 43ZQ of the Gas Act. It sets out the intended scope and objectives of Gas Industry Company's operations for the financial year ended 30 June 2021, and the following two financial years (30 June 2022 and 30 June 2023), 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 Company is required to report on the achievement of those objectives and on the performance and the current state of the New Zealand gas industry.



Rt Hon James B. Bolger, ONZ

CHAIR

June 2020



Robin Hill

DEPUTY CHAIR

CHAPTER 1

Foreword

In our role as the industry body under the Gas Act, Gas Industry Company works with the Government, industry, and regulatory agencies in a co-regulatory partnership.

Gas Industry Company's strategy and work programme set out in this Statement of Intent have been prepared in consultation with the industry and Government, while also having regard to changes being experienced in the wider energy sector.

Emerging climate change policies, new technological developments, and the availability and affordability of natural gas continue to influence the future shape of the New Zealand gas industry.

The Government has set a target under the Paris Agreement to reduce New Zealand's greenhouse gas emissions by 30 percent below the 2005 levels by 2030. It aims to achieve a net zero carbon economy by 2050. This ambitious goal requires transition away from an energy system which is dependent on hydrocarbons such as oil, coal, and gas, to one that is based on renewable energy sources.

Last year, the Interim Climate Change Commission (ICCC) provided its recommendations on planning for that transition and its response proposed the Government focus on electrifying fossil-fuelled processes to meet the challenge of ensuring reliable electricity supply.

'A Vision for Hydrogen in New Zealand'¹ released last September aims at signalling the opportunity hydrogen can bring to New Zealand and frame discussions for a national strategy. The paper discusses the potential for hydrogen to be blended with natural gas and distributed through the gas network. In addition to this paper, First Gas has received a grant to support a trial that will investigate how hydrogen could be distributed through its existing gas pipelines.

It is often said about the energy sector that the only constant is change. Recent changes present fresh challenges for the gas industry. In this regard, the role of Gas Industry Company is also evolving. Gas Industry Company intends to monitor the progress of work undertaken by the industry that investigates the potential use of hydrogen in both transmission and distribution pipelines. We will also review arrangements in other international jurisdictions and accordingly work on updating any rules and regulations needed to support the inclusion of hydrogen in our energy system.

Central to our planning process is our statutory obligation to develop and administer industry arrangements and ensure that gas is delivered to consumers in a 'safe, efficient, fair, reliable, and environmentally sustainable manner'. This is further supported by our overarching strategic goal to provide leadership for the New Zealand gas industry.

The reference to 'sustainable' arrangements links our work to the work led by the New Zealand Government to address climate change issues during the transition to a low emissions future.

Natural gas has an important transitional role to play in New Zealand's primary energy mix and to the country's economy. As New Zealand pursues its goal of 100 percent renewable electricity generation by 2035, gas is still seen as a complementary form of energy, especially for weather-sensitive renewables, and as an integral element of smart infrastructure network systems of the future.

Gas Industry Company recognises and reflects this context of change - our activities remain firmly directed at addressing the objectives and outcomes for the downstream gas sector as set out in the Gas Act and the GPS. Our priority projects are driven by a matrix of statutory and policy requirements, maintaining the momentum of existing and committed projects, and attending to new work that is seen as priority by the Government, Gas Industry Company and industry stakeholders.

Gas Industry Company's information disclosure workstream, initiated in August 2018, is aimed at considering whether the existing market arrangements relating to information disclosure are sufficient, or if further arrangements are required. Industry response to our March 2019 Options Paper indicated a broad consistent theme in its submissions that upstream production outage information, both planned and unplanned, should be the highest priority for this workstream. As a result, and in parallel to our workstream, upstream parties who acknowledge this view are actively working to develop an industry-led disclosure regime for gas production outages.

By the end of FY2020, Gas Industry Company will have analysed submissions on its recent problem assessment paper, and will begin consultation on a statement of proposal for information issues that have been identified as having the highest priority. This statement of proposal will set out these issues and review options for addressing them (including non-regulatory options). Our work will involve working alongside the Ministry of Business, Innovation and Employment (MBIE) on the information identified in the paper. Likewise, we will also be working with the Electricity Authority on its wholesale market information disclosure workstream, which will pick up the disclosure of thermal generators' fuel positions. We will continue the statement of proposal process during FY2021 which will likely require continued work with the industry to deliver robust industry-led solutions or recommending regulation to the Minister (or a combination of both).

¹ A Vision for Hydrogen in New Zealand: Green paper is available on MBIE's website: <https://www.mbie.govt.nz/have-your-say/a-vision-for-hydrogen-in-new-zealand-public-consultation/>

Industry input into our work programme and budgeting process has been robust and successfully underpins the co-regulatory model for the downstream gas sector.

This was especially evident at our November 2019 Co-regulatory Forum where a question was raised on whether there would be benefit in understanding if efficiency gains could be made in the end-to-end process of supplying gas, that could result in a reduction of emissions. To better understand this, we will work with the industry on establishing if a gas supply efficiency review would be valuable and, if so, we will progress to commissioning such a review in FY2021.

Gas Industry Company's strategy seeks to lead forward thinking, in conjunction with industry stakeholders, to anticipate future opportunities and challenges within the industry. In this respect we will continue to produce a range of documents that enrich understanding of the industry and its contribution to the economy, as well as assist participants with their planning and to provide our assessment of how the industry is generally performing.

This Statement of Intent outlines what the Company intends to accomplish specifically for the 2020/21 financial year and more broadly over the coming three-year period. The work programme set out in this Statement of Intent is extensive. We look forward to continuing to work with the industry and Government to meet the challenges raised either through the operation of the existing gas governance arrangements, or those that might arise from policy development activity.

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

The ongoing success of the co-regulatory model continues to be built on the considerable contributions of all our stakeholders. We record our appreciation and thank all stakeholders for their valuable input to the work programme development during the consultation process.

We look forward to working together with our co-regulatory partners in tackling the challenges that lie ahead.



Rt Hon James B. Bolger, ONZ

CHAIR

June 2020

Andrew Knight

CHIEF EXECUTIVE

CHAPTER 2

Work Programme Priorities

This section sets out the main elements of Gas Industry Company's work programme for FY2021, 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 and ongoing projects

A number of important projects are in train or in prospect, some at the request of the Minister. These projects aim to resolve priority issues within the industry and better meet the Gas Act and GPS objectives.

Priority projects include:

- » Information disclosure;
- » Advanced gas metering;
- » The biennial update of the Long-Term Gas Supply and Demand Scenarios;
- » Workstreams closely associated with the Gas Transmission Access Code (GTAC) arrangements which will require review following its implementation, include downstream reconciliation, critical contingency management, gas balancing, gas quality, and transmission interconnection; and
- » The Daily Allocation (D+1) pilot project will need to continue until there is agreement from industry for its discontinuation or it is replaced by a production solution.

Future strategic issues

As part of our requirement 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 Company develops discussion and papers on the role of gas in New Zealand.

Past reports commissioned by Gas Industry Company have focused on consumer energy options, options for gas commercialisation, supply and demand study to assist participants make informed decisions, 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 issues.

Table 1: Work programme objectives and activities

OBJECTIVE 1	OBJECTIVE 2	OBJECTIVE 3	OBJECTIVE 4
<i>Promote efficient, competitive, and confident gas markets</i>	<i>Facilitate efficient use of, and investment in, gas infrastructure</i>	<i>Deliver effectively on Gas Industry Company's accountabilities as the industry body</i>	<i>Communicate the role of gas in meeting New Zealand's energy needs</i>
<i>Comprising:</i>	<i>Comprising:</i>	<i>Comprising:</i>	<i>Comprising:</i>
<ul style="list-style-type: none"> » Retail gas contracts oversight scheme » Gas distribution contracts oversight scheme » Retailer insolvency » Gas quality » Regulation and rule changes » Electricity price review » Advanced gas metering » Gas supply/demand » Wholesale market » Information disclosure » Hydrogen 	<ul style="list-style-type: none"> » Gas transmission access » Transmission pipeline balancing » Transmission code changes » Transmission pipeline interconnection » Gas transmission security and reliability » Gas supply efficiency review 	<ul style="list-style-type: none"> » Downstream reconciliation » Switching and registry » Critical contingency management » Compliance and enforcement » Statement of Intent and Annual Report 	<ul style="list-style-type: none"> » New Zealand Gas Story » Other reports

CHAPTER 3

Consultation Process

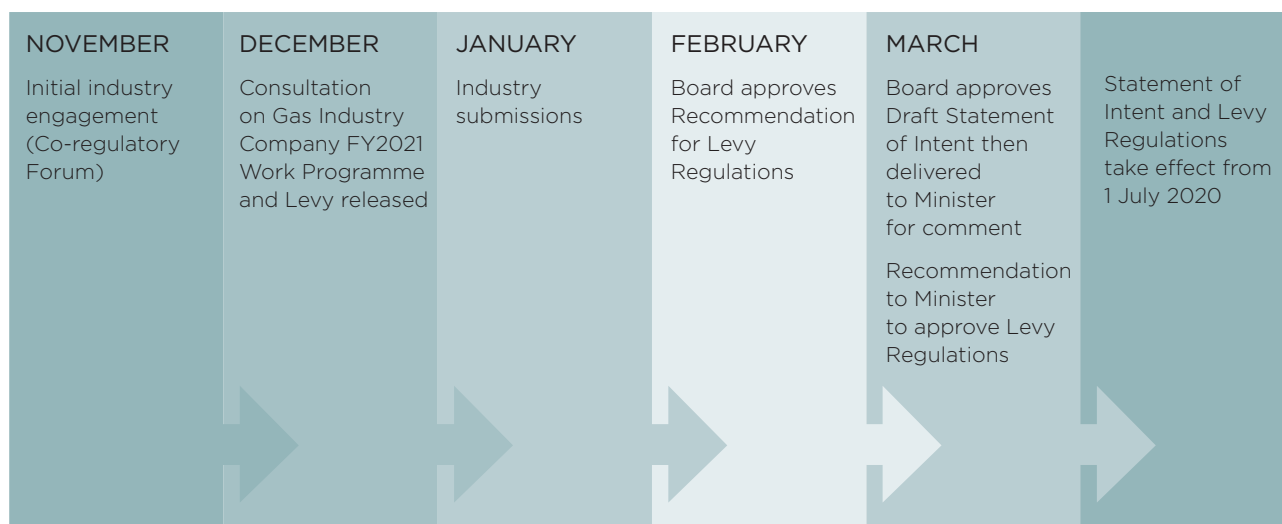
Consultation with industry stakeholders on Gas Industry Company's intended work programme and budget requirements, commenced with the Co-regulatory Forum, held in November 2019.

The work programme and budget addressing the Company's strategic priorities were detailed in a Consultation Paper², which was issued in December 2019. Submissions on the Consultation Paper were taken into account in finalising the recommendation to the Minister for levy funding through regulations (Levy Recommendation) for the financial year ending 30 June 2021.

The consultation process led to the development of this Statement of Intent which, along with the Levy Recommendation³, provides the basis for Gas Industry Company 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 process



² Consultation on Gas Industry Company FY2021 Work Programme and Levy found at www.gasindustry.co.nz

³ Gas Industry Company Recommendation to Minister of Energy and Resources to make Gas (Levy of Participants) Regulations 2021 found at www.gasindustry.co.nz

CHAPTER 4

Operating Environment

Gas Industry Company's work programme is directly influenced by the industry structure, and the legislative and policy framework. Together these form the Company's operating environment.

Industry context

Ongoing change in the energy sector influenced by a number of factors, such as emerging climate change policies and new technological developments, will alter the future shape of the New Zealand gas industry.

The ICCC's expert report Accelerated Electrification recommends a series of actions the Government can take using renewable electricity to achieve its 100 percent renewable target by 2035. The report notes that New Zealand is on track to deliver a 93 percent renewable electricity system by 2035. The report opens the way for the industry and Government to work together on a steady transition.

Looking forward, the industry is embracing these new challenges by collaborating and working together to test out options to achieving their emissions targets. Joint venture partners Hiringa Energy and Ballance Agri Nutrients, a major gas user, confirmed a joint development agreement for a project in Taranaki to explore the production of green hydrogen. Hiringa Energy is aiming to start building its Kapuni hydrogen plant later in 2020.

A Vision for Hydrogen in New Zealand discusses the potential for hydrogen to be blended with natural gas. Following a Government funding, First Gas will investigate and trial how hydrogen could be distributed through its existing gas pipelines. The trial will assess whether hydrogen can be used in New Zealand and transported via its pipelines which will result in the first ever commercial pilot in New Zealand of hydrogen from production to distribution to end use.

As new technologies surface, natural gas will have an important role during this transition phase in providing cost effective electricity supply security and to support renewable electricity generation.

Natural gas currently contributes 21 percent of our primary energy. It provides over 290,000 New Zealand homes, business and local amenities such as schools, hospitals, and rest homes with secure affordable energy.

Legislative and policy framework

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

Gas Industry Company'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 Gas industry structure).

Gas Industry Company's role in relation to the gas transmission and distribution sector 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.

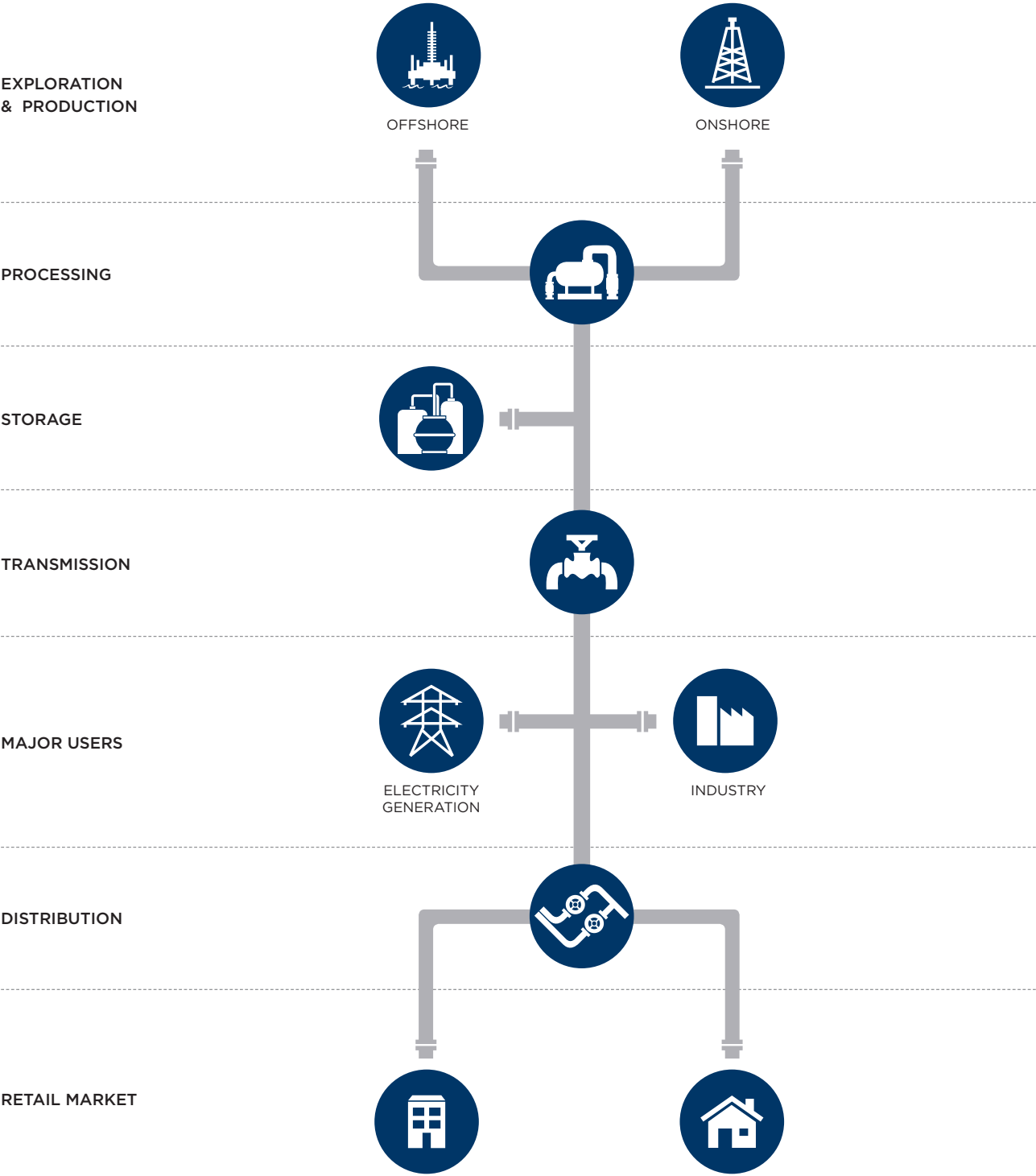
The Gas Act empowers Gas Industry Company to make recommendations to the Minister on certain matters, having regard to the objectives for the industry body in the Gas Act, and the objectives and outcomes in the GPS.

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.

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;
- » risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties; and
- » consistency with the Government's gas safety regime is maintained.

Figure 2: Gas industry structure



Additional objectives for Gas Industry Company 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 recommendations on governance arrangements, Gas Industry Company 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 Company vision, mission, and values

Consistent with the legislative and policy framework described above, Gas Industry Company's Board has put in place the following vision, mission, and values which assists in the delivery of its statutory role, including by framing the Company's proposed FY2021 work programme (see Figure 3).

Gas Industry Company governance

Gas Industry Company 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 non-independent 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 3: Vision, Mission, and Values



CHAPTER 5

Industry Performance

In addition to alignment with Government policy objectives and outcomes, Gas Industry Company'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

Since the implementation of the Switching Rules in 2009, a competitive, vibrant retail market has developed. Annual switching rates, an indicator of contestability in the market, have ranged from 15 percent to 18 percent in the last five years, as shown in Figure 4.

Figure 4: Monthly switching rates

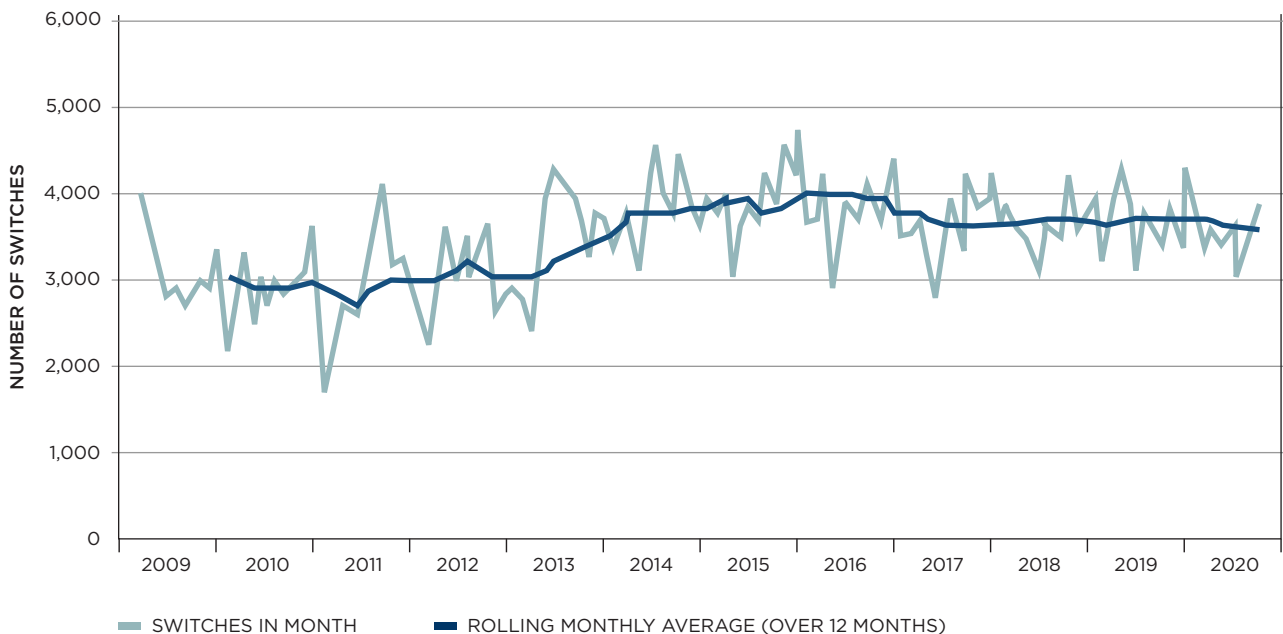
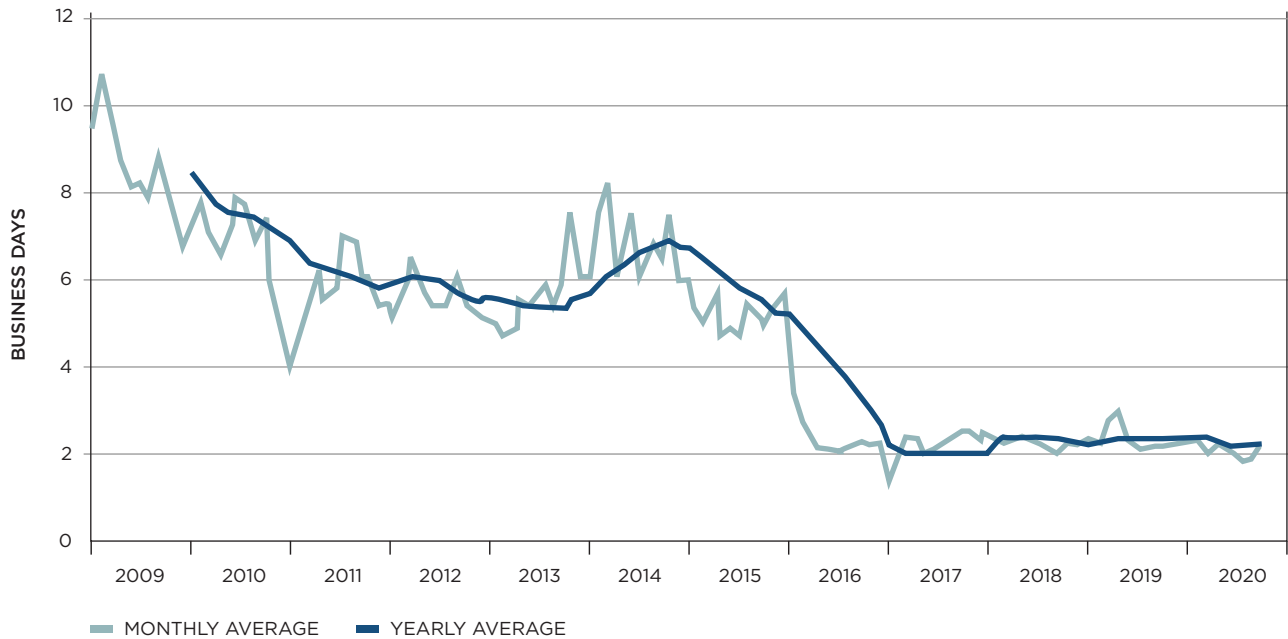


Figure 5: Average time to switch a customer



Another positive outcome of the Switching Rules is that switches are completed much faster than previously. Currently, switches take place in just over two business days on average, as shown in Figure 5.

As a comparison, gas switches in the United Kingdom take about 18 days for domestic consumers⁴.

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

Gas customers generally have access to multiple retailers. The ten 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 over 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 6). This change has been particularly striking in areas such as Waikato, Northland, Gisborne, and Hawke's Bay, where the HHI in 2009 was greater than 6,000. The HHI is now less than 2,100 nationally and less than 3,000 in all regions where gas is available (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 concentrated)⁵.

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 Company considers there is potential for retail competition to strengthen further as more niche retailers join the market. While these sorts of market forces are outside Gas Industry Company'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.

⁴ The UK regulator Office of Gas and Electricity Markets (Ofgem) publishes a number of retail market indicators, including switching times, on its website at <https://www.ofgem.gov.uk/data-portal/retail-market-indicators>

⁵ <http://www.justice.gov/atr/public/guidelines/hhi.html> accessed 1 May 2014.

Figure 6: Retail market concentration

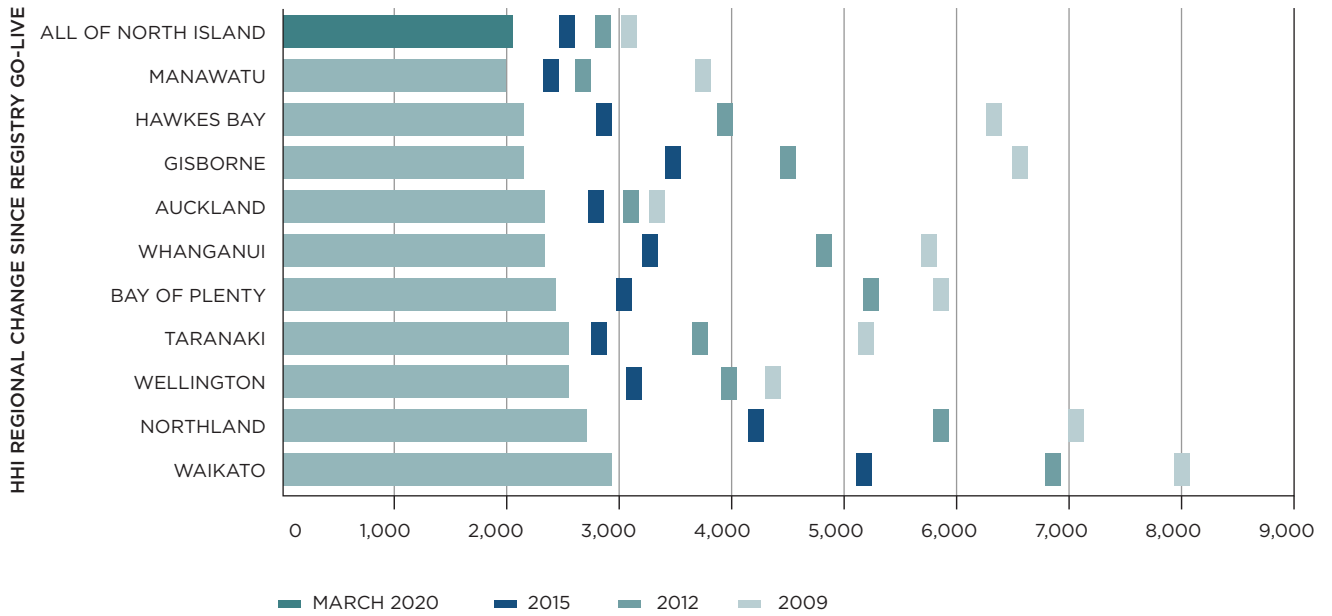
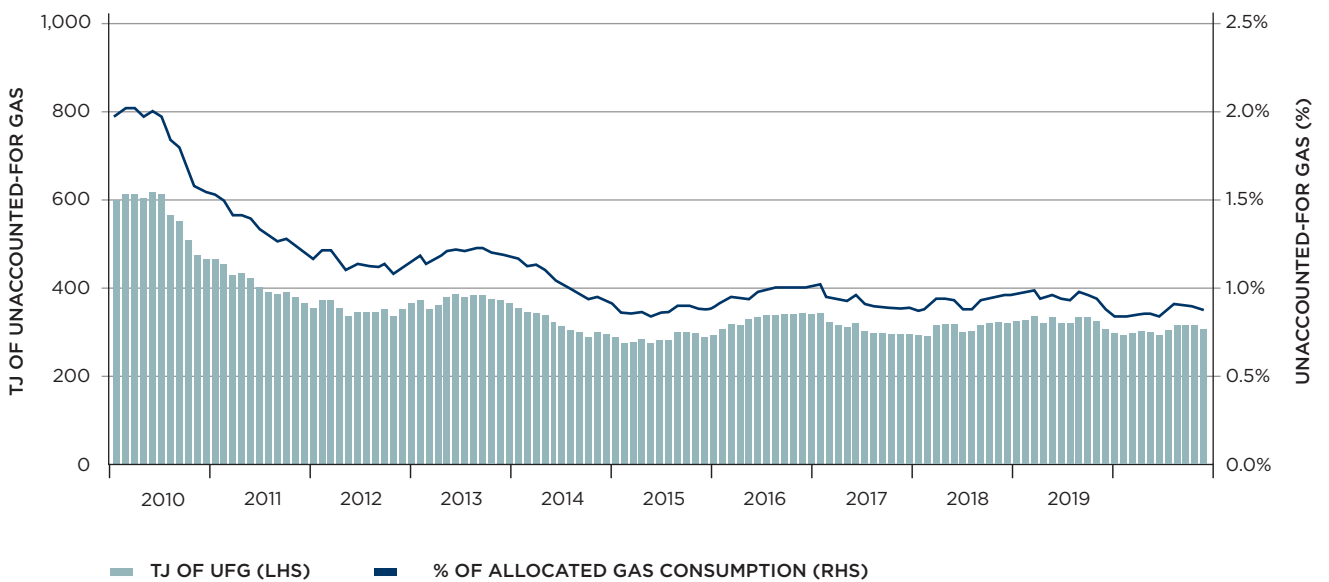


Figure 7: Annual unaccounted for gas



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.

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 310,000 GJ, or from about 2 percent of gas consumed to about 0.9 percent (Figure 7).

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 Company regularly 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.

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 Company. 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 Company 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.

CHAPTER 6

Work Programme & Indicative Activities FY2021 – 2023

This section outlines the scope of Gas Industry Company's operations for the financial years ended 30 June 2021 to 2023.

The FY2021 work programme has been developed having regard to the Gas Act and GPS objectives and outcomes for the gas industry, Gas Industry Company's statutory accountabilities under existing governance arrangements, and reporting requirements under the Gas Act and Companies Act 1993.

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 Company's funding to be approved by regulation each year, the changing nature of the industry and the 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 Analysis of Submissions, can be found on Gas Industry Company's website.

OBJECTIVE 1

Promote efficient, competitive, and confident gas markets**Retail Gas Contracts Oversight Scheme**

The Retail Gas Contracts Oversight Scheme assesses retailers' posted contracts for residential and small commercial/industrial 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 late 2018, which concluded that retail contracts showed 'substantial' compliance with the benchmarks.

Gas Industry Company aims to conduct full reviews at three-yearly intervals, and the next one is scheduled for FY2022. Gas Industry Company will also provide additional information to assist new entrant retailers to understand their obligations and governance processes.

Gas Distribution Contracts Oversight Scheme

The Gas Distribution Contracts Oversight Scheme (Distribution Scheme) assesses gas distributors' contracts with gas retailers 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 indicated that there had been no material changes to standard terms.

A further check will be undertaken in FY2020 and Gas Industry Company will consider the findings of the checks with retailers and distributors. If required, Gas Industry Company will review the Distribution Scheme, with a focus on its effectiveness in facilitating reasonable terms and conditions for access to, and use of, distribution pipelines and report our findings to stakeholders.

Retailer insolvency

This workstream aims to manage the market issues created when a gas retailer becomes insolvent. Because an instance of retailer insolvency can unfold quickly, Gas Industry Company has developed an agile approach that would allow us to quickly develop a recommendation for urgent regulations that are tailored to the specific situation. To do this, Gas Industry Company has developed a framework that sets out the steps we would take in the event of a retailer insolvency and provides a template for urgent regulation drafting instructions.

With the anticipated implementation of the GTAC during FY2022, Gas Industry Company will revisit the framework arrangements to identify any minor amendments that need to be made to the drafting instructions. It is not expected that any routine activity will be required in FY2021 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).

Gas Industry Company 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 need to take place in an orderly and timely manner.

Gas quality

In FY2015, Gas Industry Company published a Gas Quality Requirements and Procedures document describing the legal landscape in relation to gas quality, clarifying the responsibilities of industry participants, and relating how those parties were performing their respective roles. This work was in response to stakeholder concerns that the supply chain participants may not have clear and comprehensive responsibility and liability for gas quality.

Stakeholders have re-visited some aspects of gas quality while developing the GTAC arrangements. As well as simplifying those arrangements by bringing them under a single code, the GTAC, when implemented, would also bring improved transparency. An update of the Gas Quality Requirements and Procedures document was completed in October 2019 to reflect the consolidated and improved arrangements the industry had forged into the new GTAC.

With a view to achieving better outcomes against Gas Act objectives, Gas Industry Company will be ready to review operation of the GTAC in relation to gas quality. Gas Industry Company intends to encourage further improvements to the notification of gas quality excursions and procedures for managing gas quality incidents and will further update the Gas Quality Requirements and Procedures document as required.

Regulation and rule changes

The objective of this workstream is to ensure efficient, effective regulatory arrangements. Details of all regulations and rules administered by Gas Industry Company can be found on our website.

Downstream Reconciliation

Gas Industry Company will keep the D+1 Pilot Scheme running and will continue to make refinements to its calculation and operation before the introduction of the GTAC.

The D+1 Pilot Scheme was initiated as a result of the transmission access arrangements in place at the time of its development. Gas Industry Company will continue to run the D+1 Pilot Scheme and work with the industry to determine whether the scheme will be required under the new GTAC arrangements.

If the D+1 Pilot Scheme is required to continue, we will also begin the process of amending the Reconciliation Rules to formalise the requirements and procedures for daily day-after allocations, in consultation with stakeholders. Subject to Ministerial approval of a recommendation to amend the Reconciliation Rules, Gas Industry Company will work to implement the changes, including developing and testing new supporting allocation systems.

Critical Contingency Management

It is expected that during FY2020 Gas Industry Company will make a recommendation to the Minister to amend the CCM Regulations as a result of the Critical Contingency Management Review being undertaken this financial year. Subject to Ministerial approval, Gas Industry Company will be working to implement the recommended changes during FY2021.

Switching and Registry

During FY2020 Gas Industry Company will be working with the industry to assess the effectiveness of the Switching Rules to support an anticipated gas advanced meter roll-out (discussed below under 'Advanced gas metering'). This assessment may resolve that changes to the Switching Rules are required and the work would commence in FY2021.

Electricity price review

The Electricity Price Review⁶ (EPR) has identified 32 recommendations for the electricity industry. In reviewing the EPR, Gas Industry Company identified that some of the recommendations relating to the electricity industry arrangements and practices also exist in the gas industry. This has led to a new workstream being formed which will involve reviewing and considering whether the recommendations should result in changes to existing gas governance arrangements or if new arrangements should be introduced.

Gas Industry Company will liaise with the Electricity Authority and other government agencies to understand their responses to the recommendations in the EPR. We will also consider whether the recommendations should result in changes to the existing gas governance arrangements, or if new arrangements should be introduced, and will make recommendations to the Minister where appropriate on the proposed changes under the empowering provisions in the Gas Act.

Advanced gas metering

A technical advisory group was established in FY2018 with the objective of developing a minimum voluntary standard for advanced gas metering. That work was paused as further information on the capabilities of devices likely to be deployed by meter owners was uncertain. More recently, however, work has commenced to consider the changes that may be required to the industry systems and rules to support a roll-out of advanced gas meters following Genesis Energy's announcement that it would roll-out advanced gas meters to its customers in FY2021. This work will also consider whether there is still merit in producing an advanced gas metering standard. The work required for FY2021 will be to build on the work taking place during FY2020 and working closely with the industry during the roll out to ensure industry systems are appropriate for advanced metering.

Gas supply/demand

Gas Industry Company first published a study on long-term gas supply and demand scenarios in 2012. Due to the significant contribution of the report, update reports have since 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: gas supply, pipeline capacity, electricity generation, industrial demand, and distribution-level demand projections.

Gas Industry Company intends to publish the next update in FY2021 and will work with the industry to communicate its findings.

In addition to this long-term report, Gas Industry Company intends to develop further reports for the industry that have a shorter-term focus. We intend to begin producing a report that investigates the relationship between short-term gas supply and electricity security of supply. We expect this work to continue into FY2021.

⁶ Government's Final Report on the Electricity Price Review released 21 May 2019: <https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-consultations-and-reviews/electricity-price/>

Wholesale market

The emsTradepoint Wholesale Market (eTp) has now been in operation for over five years and has increased in both membership and volume over that time. 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 Company intends to continue to monitor activity and developments in the wholesale market with a focus on the market's role as the source of volume and pricing for transmission balancing.

Information disclosure

Concerns have been expressed by some energy sector participants regarding information transparency in the gas wholesale market, particularly information regarding upstream and major user outages (both planned and unplanned). This issue was given some consideration during the development of the GTAC, but no resolution had been reached among stakeholders.

In parallel, the Minister wrote to Gas Industry Company expressing concern with the lack of transparency regarding upstream activities and asking whether the Gas Act provides the necessary tools to address this issue.

In response to these concerns Gas Industry Company commenced a workstream to assess the level of information disclosure in the industry and consider options to address any issues found.

By the end of FY2020 Gas Industry Company will have analysed submissions on its recent problem assessment paper and will begin consultation on a statement of proposal for information issues that have been identified as having the highest priority. This statement of proposal will set-out these issues and review options for addressing them (including non-regulatory options). Gas Industry Company will also work with MBIE on the information identified in the paper that MBIE already collects information on. Likewise, Gas Industry Company will work with the Electricity Authority on its wholesale market information disclosure workstream, which will pick up the disclosure of thermal generators' fuel positions.

Work required during FY2021 will be to continue the statement of proposal process and on its completion begin the work required to deliver its proposed solutions. This work will likely require continued work with the industry to deliver industry-led solutions or recommending regulation to the Minister (or a combination of both). Work will also continue with MBIE and the Electricity Authority on issues that sit across those agencies.

Hydrogen

In September 2019, the New Zealand Government published a green paper that lays out its vision for hydrogen in New Zealand. The paper discusses the potential for hydrogen to be blended with natural gas and distributed via the gas network. In addition to this paper, First Gas has received a grant to support a trial that will investigate how hydrogen could be distributed through its gas pipelines.

Gas Industry Company intends to monitor the progress of any work undertaken by the industry that investigates the potential use of hydrogen in both transmission and distribution pipelines. Gas Industry Company also intends to review arrangements in other international jurisdictions and if required, update any rules and regulations needed to support the inclusion of hydrogen.

OBJECTIVE 2

Facilitate efficient use of, and investment in, gas infrastructure

Gas 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 few 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 Company.

Gas Industry Company completed its assessment of the GTAC in February 2019 (assessing it as materially better than existing arrangements). Gas Industry Company will continue to provide support, as required, to aid effective implementation of the new code. Once the code is implemented, Gas Industry Company will monitor these new arrangements to ensure they are performing as expected.

Transmission pipeline balancing

The last significant improvement to transmission pipeline balancing occurred in FY2016 when market-based balancing (MBB) was implemented. Implementation of the GTAC will significantly reorient the approach to pipeline balancing.

Once there is sufficient experience following the implementation of the GTAC, it may be necessary to re-assess the effectiveness of the balancing arrangements. Gas Industry Company will continue to monitor the arrangements and work with stakeholders on any balancing-related matters.

Transmission code changes

Gas Industry Company has a role in processing GTAC change requests on an 'as required' basis. During the development of the GTAC, early indication noted that a code change request to address minor issues could be expected soon after the GTAC is implemented. Gas Industry Company has published a document outlining how it would perform its GTAC change request role. That document is available on our website.

Transmission pipeline interconnection

First Gas has reviewed and unified the transmission pipeline interconnection arrangements as part of the GTAC development. This includes developing an Interconnection Policy explaining how First Gas will facilitate new interconnections and setting out key terms of interconnection.

Gas Industry Company is assessing how these new arrangements compare to the Interconnection Guidelines that set out its view of good practice in relation to policies and procedures for connecting to transmission pipelines. We expect to complete our review by the end of FY2020. Subject to its conclusions, it should be sufficient for Gas Industry Company to monitor future interconnections at a high level and expect that any issues will be brought to its attention.

Gas transmission security and reliability

The introduction of information disclosure requirements in 2012, as an element of a price-quality regime administered by the Commerce Commission under the Commerce Act 1986, greatly improved the transparency of pipeline security and reliability (S&R). In particular, the owners of open access transmission pipelines were required to publish their Asset Management Plans (AMPs). However, stakeholders found the disclosed information difficult to understand, and concerns about transmission pipeline S&R remained. This prompted Gas Industry Company to review the factors influencing S&R and assess their adequacy. Gas Industry Company's findings were published in the 2016 Security and Reliability Issues Paper, and in 2017, in a Security and Reliability Update Paper.

First Gas has since worked with stakeholders to develop the GTAC and revitalise associated business practices, systems, and documentation of the previous pipeline owners. This has included adopting many of the recommendations in Gas Industry Company's S&R reports.

In the wake of wider energy sector concerns about risk management and the resilience of key infrastructure, we note that the two recent reviews by AECOM⁷, commissioned by the Commerce Commission, give added confidence in the S&R improvements introduced by First Gas.

Given the safety, financial, and reputational importance of S&R, Gas Industry Company will continue to maintain a watching brief and monitor AMPs and report on any significant matters as required.

Gas supply efficiency review

A question has been raised by the industry at our recent Co-regulatory Forum as to whether there is benefit in understanding if any efficiency gains could be made in the end-to-end process of supplying gas, that would result in a reduction of emissions.

In this regard, Gas Industry Company intends to work with the industry during FY2020 to gain an understanding as to whether a gas supply efficiency review would be beneficial. If it is found that it would be useful, then work will be undertaken in FY2021 to commission such a review.

OBJECTIVE 3

Deliver effectively on Gas Industry Company'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 unaccounted for gas (UFG) at the final allocation stage and Gas Industry Company will be continuing to assess the ongoing performance of the Reconciliation Rules.

Gas Industry Company has an ongoing obligation to appoint and oversee the operation of the Allocation Agent. It monitors allocation results 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 and, from time to time, bring issues to the attention of Gas Industry Company and the Allocation Agent.

The Reconciliation Rules also require Gas Industry Company to commission performance audits of the Allocation Agent and Allocation Participants at regular intervals. The Allocation Participant performance audit programme is generally carried out every two or three years. The most recent programme commenced in FY2020 and will continue throughout FY2021. As well as these regular audits the rules require event audits to be commissioned to examine particular issues or events.

In addition to the tasks required under the Reconciliation Rules, it is expected that Gas Industry Company will continue the pilot project for D+1 allocations until there is agreement from the industry for its discontinuation or it is replaced by a production solution.

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 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. Gas Industry Company will continue to assess the ongoing performance of the Switching Rules.

There are a number of requirements under the Switching Rules that Gas Industry Company is required to continue. These include appointment and monitoring of the registry operator as a service provider and making determinations under the Switching Rules as required. The Switching Rules also require Gas Industry Company to commission performance audits of retailers, meter owners, and distributors at regular intervals.

⁷ AECOM's 17 September 2019 report, Geotechnical Risk Management Review – First Gas Transmission Pipelines, concluded that First Gas has good, well documented processes in place to identify geohazards and evaluate/manage the risks associated with them. AECOM's 4 October 2019 report, Risk Management Review of Gas Pipeline Businesses, looked at the four distribution pipeline businesses as well as the gas transmission business. In relation to the transmission business the report suggests that First Gas is approaching the best level of risk management.

These are done in conjunction with the audits under the Reconciliation Rules. The most recent audit programme commenced in FY2020 and will continue throughout FY2021. As well as these regular audits the rules require event audits to be commissioned to examine particular issues or events. Gas Industry Company will also continue to monitor and report on the switching statistics.

Alongside the Electricity Authority, Gas Industry Company has provided modest support to Consumer NZ's 'Powerswitch' to ensure the continued existence of an independent, credible source of information for consumers. Gas Industry Company will continue to provide support to Powerswitch until new arrangements are created and/or the site becomes self-sustaining.

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 in October 2011, and, in May 2017, a system imbalance event.

The CCM Regulations require Gas Industry Company to appoint and monitor 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. Under the CCM Regulations, Gas Industry Company is also responsible for processing gas consumers' applications for critical care, essential services, critical processing, and electricity supply designations. Gas Industry Company also appoints expert advisers to analyse critical contingency management plans when required.

In the case of a critical contingency, Gas Industry Company 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 (ie, those that involve the entire transmission system), Gas Industry Company appoints an industry expert to determine a critical contingency price and administers the contingency pool used to settle contingency imbalances.

The CCM Regulations and further details about CCM can be found on our website.

Compliance and enforcement

The Compliance Regulations 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/regulations 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.

Consistent with obligations under the Compliance Regulations, Gas Industry Company performs the market administrator role, and appoints and monitors the market investigator. The Rulings Panel is appointed by the Minister. We provide assistance to the market investigator and the Rulings Panel as required. Gas Industry Company also monitors compliance trends for indications of regulatory inefficiency.

The Compliance Regulations and further details about compliance can be found on our website.

Statement of Intent and Annual Report

The Gas Act requires that the industry body provide its Annual Report to the Minister within three months following the end of the financial year (the Minister then tables it in the House of Representatives). Similarly, annual Statements of Intent are required to be submitted to the Minister for comment prior to being finalised and published.

Annual Reports and Statements of Intent can be found on our website.

OBJECTIVE 4

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

New Zealand Gas Story

During FY2013, Gas Industry Company published the first New Zealand Gas Story. The last edition was published in December 2017. A new edition, with a refreshed format, is expected to be published in FY2021. This work is intended to help stakeholders understand the industry and to assist industry participants to make informed investment and energy use decisions. In addition to the document itself, Gas Industry Company communicates the role of gas on its website, in its annual and quarterly reports, and through presentations to various stakeholder groups.

Other reports

Gas Industry Company 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 Company has previously commissioned reports focussing on particular aspects of the industry, and further occasional reports will be published, and existing reports updated, where they can be of value to the industry.

We published the Long-Term Gas Supply and Demand Scenarios in 2012, 2014, 2016, and more recently in 2019. Each edition takes an in-depth look at a topic relevant to the industry and surveys the gas supply and demand environment in New Zealand. Gas Industry Company intends to publish the next update in FY2021.

During FY2021, we intend to develop further reports with a short-term focus and will begin producing a report that investigates the future relationship between short-term gas supply and electricity security of supply.

CHAPTER 7

Financial Matters

Gas Industry Company develops funding budgets to support its work programme proposals as part of the consultation process discussed in the section Work Programme Priorities above.

Gas Industry Company 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 Company to recommend to the Minister that regulations be made to require industry participants to pay a levy to cover the costs of Gas Industry Company 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 FY2021 are included in industry consultation and the annual recommendation to the Minister, which results in annual levy regulations. In summary for FY2021:

- » An annual levy of \$3,450,182 from 1 July 2020, comprising a wholesale levy and a retail levy (8.6% lower than the same figure for FY2020).
- » The wholesale levy revenue is \$1,951,206 for FY2021 and will be collected each month from the relevant levy payers at a rate of 1.1164 c/GJ based on each industry participant's volume of gas purchased from gas producers (the wholesale levy is 1.02% lower than in FY2020).
- » The retail levy revenue is \$1,498,976. This is calculated based on Gas Industry Company's estimate of 290,000 active ICP's, at a levy rate of \$5.16/ICP per annum (the retail levy is 15.69% lower than in FY2020).

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 Company'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.

CHAPTER 8

Financial Statements

In accordance with section 43ZR of the Gas Act, Gas Industry Company'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 FY2021 Gas Industry Company levy.

Further detail about the assumptions, revenue calculations and workstream expenses used to calculate the FY2021 levy can be found in the document, Consultation on Gas Industry Company FY2021 Work Programme and Levy, issued in December 2019.

The FY2020 forecast was approved by Gas Industry Company's Board and includes actual results for the period 1 July 2019 to 29 February 2020, and an up-to-date forecast to 30 June 2020.

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 Company's FY2020 Levy Recommendation that has been made to the Minister under section 43ZZB of the Gas Act.



Rt Hon James B. Bolger, ONZ
CHAIR



Robin Hill
DEPUTY CHAIR

June 2020

Forecast Statement of Financial Performance

	BUDGET FY2021 \$	FORECAST FY2020 \$	ACTUAL FY2019 \$
REVENUE			
Wholesale Levy	1,953,782	2,020,261	2,098,988
Retail Levy	1,496,400	1,775,406	1,763,945
<i>Levy Revenue Subtotal</i>	<i>3,450,182</i>	<i>3,795,667</i>	<i>3,862,933</i>
Market Fees	1,436,000	1,431,000	1,276,967
Annual Fees	26,000	26,000	26,000
Interest Income	35,000	39,889	53,537
<i>Subtotal Other Revenue</i>	<i>1,497,000</i>	<i>1,496,889</i>	<i>1,356,504</i>
TOTAL REVENUE	4,947,182	5,292,556	5,219,437
Refunded Levies	-	(155,928)	(879,821)
Net Revenue	4,947,182	5,136,628	4,339,616
EXPENSES			
Depreciation & Amortisation	37,873	31,532	32,571
Operating lease expenses	237,917	245,249	269,029
Fees paid to audit firm – financial statement audit	21,000	21,000	15,756
Directors' fees	262,460	231,660	262,460
General expenses	324,001	363,376	301,405
Recruitment expenses	-	93,959	7,200
Technical, economic, and legal advice	833,500	500,447	537,245
Service Provider Fees	1,436,000	1,431,000	1,211,080
Kiwisaver contributions	45,826	48,626	51,075
Employee benefit expense	1,687,605	1,714,917	2,158,944
TOTAL EXPENSES	4,886,182	4,681,766	4,846,765
Finance Costs	-	-	-
TOTAL EXPENDITURE	4,886,182	4,681,766	4,846,765
PROFIT / (LOSS) BEFORE TAX	61,000	454,862	(507,149)
Income Tax Expense	9,800	11,169	14,990
PROFIT / (LOSS) FOR THE YEAR	51,200	443,693	(522,139)

Forecast Statement of Financial Position

	BUDGET FY2021 \$	FORECAST FY2020 \$	ACTUAL FY2019 \$
CURRENT ASSETS			
Cash and cash equivalents	1,618,083	1,559,010	1,423,874
Trade and other receivables	145,871	47,823	26,648
Prepayments	50,143	50,721	49,041
Income tax receivable	9,800	16,304	-
TOTAL CURRENT ASSETS	1,823,897	1,673,858	1,499,563
NON-CURRENT ASSETS			
Property, plant & equipment	19,609	54,609	80,406
Intangible assets	2,759	6,266	12,894
TOTAL NON-CURRENT ASSETS	22,368	60,875	93,300
TOTAL ASSETS	1,846,265	1,734,733	1,592,863
CURRENT LIABILITIES			
Trade and other payables	289,997	220,527	522,641
Employee entitlements	175,416	184,554	184,262
Redemable Shares	13	13	14
TOTAL CURRENT LIABILITIES	465,426	405,094	706,917
TOTAL LIABILITIES	465,426	405,094	706,917
NET ASSETS	1,380,839	1,329,639	885,946
<i>Represented by</i>			
Industry Reserves	598,839	573,639	155,946
Retained Earnings	782,000	756,000	730,000
TOTAL SHAREHOLDERS' FUNDS	1,380,839	1,329,639	885,946

Forecast Statement of Movement In Equity

	INDUSTRY RESERVES	RETAINED EARNINGS	TOTAL	INDUSTRY RESERVES	RETAINED EARNINGS	TOTAL
	BUDGET FY2021			FORECAST FY2020		
OPENING BALANCE	573,639	756,000	1,329,639	155,946	730,000	885,946
Net surplus/(deficit) for the year	-	51,200	51,200	-	443,693	443,693
Industry Advances Reserves transfer	25,200	(25,200)	-	417,693	(417,693)	-
FORECAST CLOSING BALANCE	598,839	782,000	1,380,839	573,639	756,000	1,329,639

Forecast Statement of Cash Flows

	BUDGET FY2021 \$	FORECAST FY2020 \$	ACTUAL FY2019 \$
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>			
Levy revenue	3,450,182	3,799,907	3,911,936
Market fee revenue	1,436,000	1,243,794	1,223,168
Annual fees	26,000	26,000	26,000
Interest received	35,000	39,385	53,538
Net GST	-	55,032	-
	4,947,182	5,164,118	5,214,642
<i>CASH WAS APPLIED TO</i>			
Payments to suppliers	(2,862,218)	(2,772,965)	(2,343,420)
Payments to employees	(1,733,431)	(1,825,285)	(2,186,994)
Payments to directors	(262,460)	(270,076)	(262,460)
Refund of levy to industry participants	-	(155,968)	(869,263)
Taxes paid	-	(4,688)	(14,990)
Net GST	-	-	(4,256)
	(4,858,109)	(5,028,982)	(5,681,383)
NET CASH INFLOWS FROM OPERATING ACTIVITIES	89,073	135,136	(466,741)
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>			
Purchase of property, plant and equipment	(30,000)	-	-
Purchase of intangible assets	-	-	(11,693)
Term Deposit	-	-	700,000
NET CASH FLOWS FROM INVESTING ACTIVITIES	(30,000)	-	688,307
NET CASH FLOWS	59,073	135,136	221,566
Opening cash balance	1,559,010	1,423,874	1,202,308
CLOSING CASH BALANCE	1,618,083	1,559,010	1,423,874

Statement of Contingent Liabilities and Commitments

Gas Industry Company has no known contingent liabilities or assets.

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

	BUDGET FY2021 \$	FORECAST FY2020 \$
BUILDING LEASE COMMITMENTS		
Within one year	251,330	251,330
Later than one year but not later than five years	356,051	607,381
Later than five years	-	-
TOTAL OPERATING LEASE COMMITMENTS	607,381	858,711
EQUIPMENT LEASE COMMITMENTS		
Withing one year	7,800	11,225
Later than one year but not later than five years	2,400	10,200
Later than five years	-	-
TOTAL EQUIPMENT LEASE COMMITMENTS	10,200	21,425
OPERATING LEASE COMMITMENTS		
Within one year	259,130	262,555
Later than one year but not later than five years	358,451	617,581
Later than five years	-	-
TOTAL OPERATING LEASE COMMITMENTS	617,581	880,136
SERVICE PROVIDER COMMITMENTS		
Within one year	246,432	1,180,224
Later than one year but not later than five years	390,184	1,440,280
Later than five years	-	-
TOTAL SERVICE PROVIDER COMMITMENTS	636,616	2,620,504

STATEMENT OF ACCOUNTING POLICIES

The following accounting policies apply to these financial statements:

Reporting Entity: Gas Industry Company 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 Company'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 Company'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 Company. 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 2021-2023 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 Company's revenue other than through the annual levy process.
- » Section 43S of the Gas Act enables Gas Industry Company to collect from industry participants fees relating to the ongoing costs associated with gas market rules and regulations.
- » An annual levy of \$3,450,182 is assumed to be effective from 1 July 2020 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 \$1,953,782 for FY2021 and will be collected each month from the relevant levy payers at a rate of 1.1164c/GJ based on each industry participant's volume of gas purchased from gas producers.
- » The retail levy revenue is budgeted to be \$1,496,400. This is calculated based on Gas Industry Company's estimate of 290,000 active ICP's, at a levy rate of \$5.16/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 FY2021 levy calculation is based on a work programme consistent with the 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 FY2021. 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 2020 is approximately \$1,329,639. Of this, \$573,639 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, \$756,000, is set aside to be held as cash reserves.
- » Gas Industry Company's budget is based on a best estimate of the costs to deliver the work programme prepared for calculation of the FY2021 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).

CHAPTER 9

Alignment with government policy objectives and outcomes

Gas Industry Company'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 COMPANY 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
Proper and efficient management of 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 HAS BEEN DONE	WORK PROGRAMME FY2021	FUTURE 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 assessment in 2010, 2011, 2012, 2015 and 2018 » Considered that further LPG regulation is not currently needed (FY2015) and reviewed retail market arrangements for LPG (FY2019) » Published the sixth edition of NZ Gas Story (December 2017) and the fourth edition of Long-Term Supply and Demand Scenarios (September 2019) » 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 » A comparative assessment of First Gas' new gas transmission access code against the current arrangements applying the requirements of the Gas Act and GPS. » Established a technical advisory group to develop minimum voluntary standards for gas advanced metering. 	<ul style="list-style-type: none"> » Assist new entrant retailers, including by reviewing new-entrant retail contracts » Continue to work with Utilities Disputes to identify and address any systemic issues raised by gas consumers » Update the Long-Term Gas Supply and Demand Study and develop reports with a shorter-term focus » Continue market administrator work » Refine D+1 and consider changes to the Downstream Reconciliation Rules to incorporate D+1 into the Rules » Consult on a statement of proposal for information disclosure issues that have the highest priority and consider whether a non-regulated solution or regulation is required. Work with MBIE and the Electricity Authority on issues that sit across these agencies » Work with the industry to assess the effectiveness of the Switching Rules to support an anticipated gas advanced meter roll out 	<ul style="list-style-type: none"> » Next assessment of gas retail contracts scheduled for FY2022 » Continue market administrator work » Continue to provide information on the state and performance of the gas sector » Oversee industry implementation of the GTAC
<ul style="list-style-type: none"> » Reviewed gas distribution use-of-system agreements with retailers in FY2013 and FY2014 and undertook checks in FY2015, FY2016 and FY2020 » Completed a comparative assessment of First Gas' new gas transmission access code against the current arrangements applying the requirements of the Gas Act and GPS. » A private company created a gas trading market in 2013 » Post-implementation review of market-based balancing 	<ul style="list-style-type: none"> » Review the findings of checks with retailers and distributors on gas use-of-system agreements and, if required, assess the effectiveness of the Distribution Contracts Oversight Scheme 	<ul style="list-style-type: none"> » Monitor short-term gas trading with a particular focus on the market's role as the source of volume and pricing for transmission balancing » Oversee industry implementation of the GTAC
<ul style="list-style-type: none"> » Recommended the Gas (Switching Arrangements) Rules 2008 » Completed a comparative assessment of First Gas' new gas transmission access code against the current arrangements applying the requirements of the Gas Act and GPS 	<ul style="list-style-type: none"> » Work with the industry to assess the effectiveness of the Switching Rules to support an anticipated gas advanced meter roll out » Monitor the wholesale market 	<ul style="list-style-type: none"> » Monitor short-term gas trading with a particular focus on the market's role as the source of volume and pricing for transmission balancing » Oversee industry implementation of the GTAC
<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 to replace the Company's trading platform 	<ul style="list-style-type: none"> » Work with the industry to assess the effectiveness of the Switching Rules to support an anticipated gas advanced meter roll out » Continue to publish monthly switching statistics 	<ul style="list-style-type: none"> » Monitor short-term gas trading with a particular focus on the market's role as the source of volume and pricing for transmission balancing
<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 Gas Transmission Security and Reliability Issues Paper in April 2016 » Completed a comparative assessment of First Gas' new gas transmission access code against the current arrangements applying the requirements of the Gas Act and GPS » Updated the Gas Quality Requirements and Procedures document in October 2019 	<ul style="list-style-type: none"> » Recommend amendments to the CCM Regulations arising from the Critical Contingency Management Review 	<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 » Completed a comparative assessment of First Gas' new gas transmission access code against the current arrangements from a safety perspective (in particular, the Gas (Safety and Measurement) Regulations) 2010. 		<ul style="list-style-type: none"> » Work closely with the Commerce Commission to ensure that security and reliability are adequately reported on

CHAPTER 10

Other Information

Additional Reporting

In addition to the reporting described in 'Statement of Intent, Annual Report and Other Reporting' (page 18), Gas Industry Company 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 Company 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 Company:

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

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*

Andrew Brown, LLB, *Independent Director*

Parekawhia McLean, MSocSc, MPA (Wisconsin), *Independent Director*

Gabriel Selischi, MSc (Power Engineering), MBA

Nigel Barbour, B Comm, LLB

Mike Fuge, BE (Hons) MCom (Hons) MIPENZ

Executive

Andrew Knight, BMS (Hons), CA, *Chief Executive*

Susan Dunne, LLB, BCA, CA, *General Manager Corporate Services*

Auditors

KPMG, Wellington

Bankers

Westpac New Zealand Limited

Shareholders

Contact Energy Limited

emsTradepoint 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

Trustpower Limited

Vector Limited

