Gas Industry Company Statement of Intent

2022– 2024 /

GAS INDUSTRY COMPANY LIMITED

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Statement of Intent for Financial Years 2022-2024

The Gas Industry Company Limited was established in 2004 as the 'industry body' under Part 4A of the Gas Act 1992.

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 2022, and the following two financial years (30 June 2023 and 30 June 2024), and it 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, 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

Robin Hill
DEPUTY CHAIR

June 2021

1/ Foreword

This Statement of Intent outlines plans for our work and strategy as New Zealand's energy eco-system continues to evolve.

We see ahead change at a scale that grows more profound, a pace of change that will become more rapid, and issues that are becoming more complex to resolve.

Gas Industry Company has three main roles in support of the gas sector and the wider energy industry:

- We are a source of trusted advice for stakeholders. We have specialist expertise, relationships and daily monitoring of industry information that can help stakeholders navigate change.
- We facilitate the gas industry, so that the market operates in an orderly way and consumers enjoy safe, efficient, reliable, fair, and environmentally sustainable gas delivery.
- Our work in gas governance and ongoing statutory accountability provides for a regulatory collaboration between government and industry. It is low cost, efficient and effective.

The Work Programme for 2022-2024 outlined in this document was developed in consultation with industry and government. As always, our Work Programme addresses the objectives for the downstream gas sector as set out in the Gas Act and the Government Policy Statement. Our priority projects and work streams are driven by requirements to address issues identified by the government, Gas Industry Company, and industry stakeholders. The Work Programme is influenced by our context.

The availability of natural gas is in long term decline as fields deplete. Security of supply looms as an issue once gas fields enter decline phase. The industry needs to manage this decline in an orderly way.

Our domestic economy is going to decarbonise rapidly, and the rest of the world will be focused on meeting energy needs while trying to achieve the goals of the Paris climate accord. We will require new energy sources and technologies.

Hydrogen and biogas are emerging energy sources where our expertise adds value. Replacing high temperature process heat will be a priority for decarbonising our sector. We see our governance of natural gas as highly relevant to hydrogen and biogas as those fuels are commercialised.

We will step up our advisory work to assist the sector and government to manage an orderly transition.

THEME	2021			2030
TRUSTED ADVISER	» Hydrogen » Biogas » Gas in a renewable-rich future	» High temperature industrial process heat » Consumer issues » Hardship » Orderly transition	» Security of supply » Managing orderly user exists	» Security of supply
FACILITATING THE GAS INDUSTRY	» D+1 » Information Disclosure	» Market arrangements » OATIS » Market access rules » Gas storage » Biogas and hydrogen gas certification		
GAS GOVERNANCE	» Transmission security & reliability » Electricity Price Review » Critical Contingency Management		» Information Disclosure » Infrastructure resilience » Smart metering	» Hydrogen » Biogas
ON-GOING	COMPLIANCE STATUTORY ACCOUNTABILITY			

This Statement of Intent sets out what Gas Industry Company intends to accomplish for the 2021-2022 period specifically, but also outlines our broader strategy and work programme right through to 2024.

We look forward to continuing our work alongside industry professionals, government, fellow regulatory bodies, and our many, valuable stakeholders in the wider community.

Rt Hon James B. Bolger, ONZ
CHAIR

Andrew Knight
CHIEF EXECUTIVE

June 2021

2/ Work Programme Priorities

This section sets out the main elements of Gas Industry Company's Work Programme for FY2022, 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 of Energy and Resources. These projects aim to resolve priority issues within the industry and better meet the Gas Act and GPS objectives.

Priority projects include:

- Gas markets settings investigation;
- Information disclosure;
- Advanced gas metering;
- Workstreams closely associated with changes to the gas transmission access arrangements;
- The Daily Allocation (D+1) pilot project and the future implementation of a formal D+1 system.

TABLE 1: GAS INDUSTRY COMPANY'S ROLES AND ACTIVITIES

ROLE 1	ROLE 2	ROLE 3
GAS GOVERNANCE	FACILITATING INDUSTRY SYSTEMS AND PROCESSES	TRUSTED ADVISER TO GOVERNMENT AND INDUSTRY
Comprising: » Critical Contingency Management » Electricity Price Review » Advanced Gas Metering » Retail Gas Contracts Oversight Scheme » Gas Distribution Contracts Oversight Scheme » Downstream Reconciliation » Switching and Registry » Compliance and Enforcement » Statement of Intent and Annual Report » Other Reporting	*Comprising:* » Implementing a formal D+1 System » Information Disclosure » Gas transmission pipeline access	*Comprising:* » Monitor and support the potential use of hydrogen and biogas in transmission and distribution pipelines » Green gas certification scheme for biogas and hydrogen » Sector Coordinating Entity role COVID-19 pandemic » Provide gas market information and analysis that enables the industry to make informed decisions

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.

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 2020.

The Work Programme and budget addressing the Company's strategic priorities were detailed in a Consultation Paper[1], which was issued in December 2020. 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 2022.

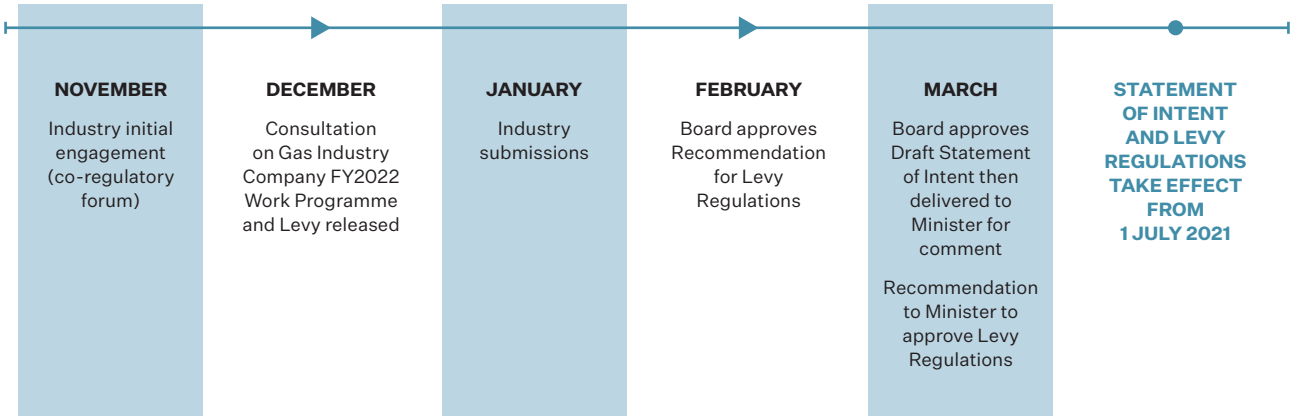
The consultation process led to the development of this Statement of Intent which, along with the Levy Recommendation[2], provides the basis for Gas Industry Company to deliver robust outcomes for gas consumers and the wider industry as part of our mandate as the industry body. The Levy Recommendation 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.

[1] Consultation on Gas Industry Co FY2022 Work Program and Levy found at www.gasindustry.co.nz

[2] Gas Industry Co Recommendation to Minister of Energy and Resources to make Gas (Levy of Participants) Regulations 2022 found at www.gasindustry.co.nz

FIGURE 1: CONSULTATION PROCESS



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

The gas industry context is likely to be increasingly dominated by the decline of supply and demand and the arrangements required to ensure the industry continues to operate in an orderly way through the transition to a renewables-rich future.

Natural gas today is a key contributor to New Zealand, at more than 20 per cent of primary energy supply. Gas is an important fuel for industrial, commercial, and residential consumers. Today, there are over 290,000 gas consumers, an increase of around 20 per cent over the past decade.

Ongoing change in the energy sector is influenced by factors including climate policies, new technological developments, and market issues.

We are currently faced with two global upheavals – COVID-19 and climate change. Both issues require immediate action and attention.

The Climate Change Commission's February 2021 draft report recommends no new natural gas or LPG bottles to be fitted to homes or business after 2025, all gas to be removed in the 2040s, an end to gas or coal-powered electricity, and replacement of gas and coal process heat in industry.

The availability of natural gas is affected by field depletion. Considerable investment is required annually to develop resources already discovered in producing fields.

Natural gas will remain an important energy source during the transition, providing cost effective electricity supply security and support for uses such as industrial process heat.

Hydrogen and biogas are emerging and are likely to use some existing natural gas infrastructure and, potentially, be blended into natural gas during the transition.

Legislative and policy framework

The gas industry downstream of the exploration and production sector is operated under a co-regulatory model. Gas Industry Company is the industry body. It creates the link between government and industry, delivers improved governance arrangements for participants and consumers, and provides high quality advice.

Gas Industry Company's regulatory oversight spans wholesale and retail natural gas markets, processing facilities, transmission and distribution, and early stage planning for the emergence of hydrogen and biofuels.

Gas Industry Company's role in relation to the gas transmission and distribution sector focuses on open access to pipelines. The Commerce Commission has a complementary role in relation to economic regulation of those assets. The Gas Act provides for the two agencies to work together on any areas of overlap.

The settings are 'co-regulatory' because the Gas Act framework has Gas Industry Company making recommendations to the Minister of Energy and Resources, having regard to the objectives for the industry body in the Gas Act, and the objectives and outcomes in the Government Policy Statement.

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 government policy statement 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:

- facilitating and promoting the supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements;
- ensuring barriers to competition are minimised, and incentives are maintained or enhanced for investment in gas processing facilities, transmission, and distribution;
- 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;
- consistency is maintained with the Government's gas safety regime.

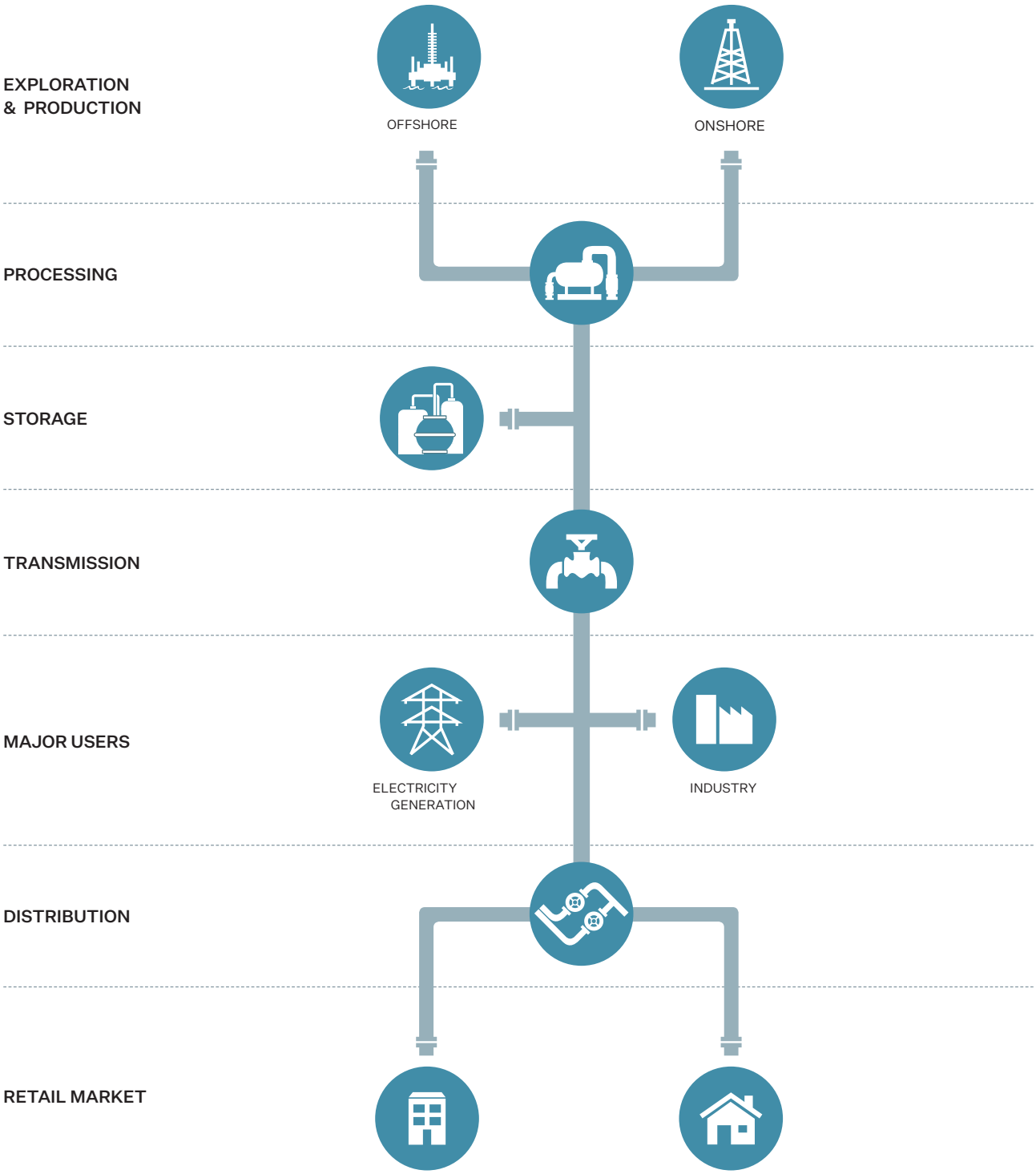
Additional objectives for Gas Industry Company and the gas industry are set out in the Government Policy Statement, and include:

- efficient use of energy and other resources that deliver gas to consumers;
- facilitating competition 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;
- where gas services include a trade-off between quality and price, as far as possible, they 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. The industry body, as co-regulator, advises the Minister about the exercise of many of these powers and must follow prescribed procedures before making a recommendation to her. Mandatory requirements include consultation with affected stakeholders and assessment of the costs and benefits associated with any recommendation. It must consider all reasonably practicable options, including non-regulated options that achieve the same outcome.

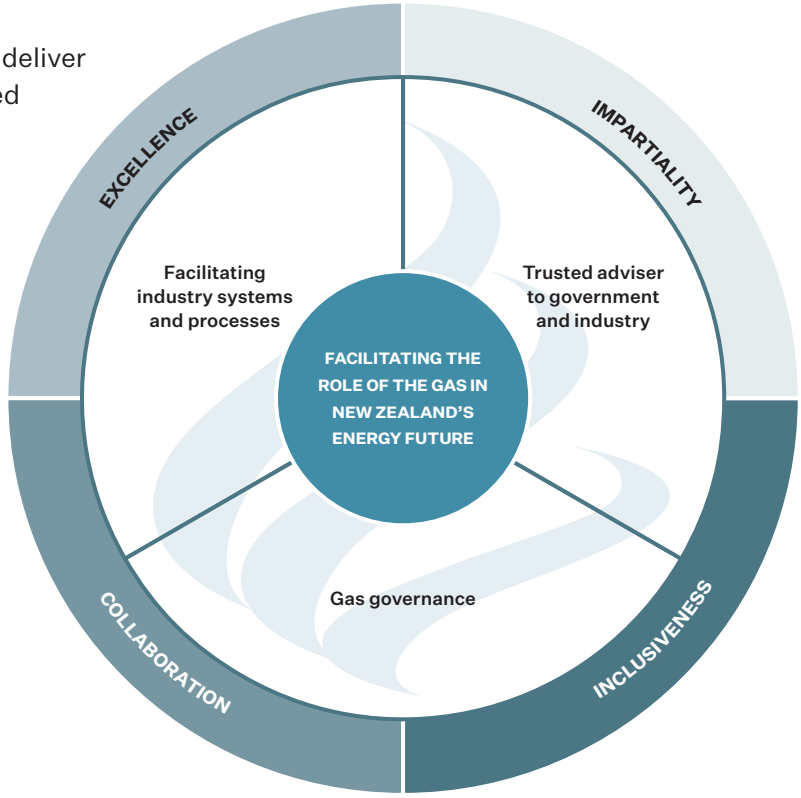
Gas Industry Company monitors existing arrangements for effectiveness and relevance.

FIGURE 2: GAS INDUSTRY STRUCTURE



GAS INDUSTRY COMPANY'S STRATEGY

The Gas Industry Company strategy to deliver its statutory role, and frame its proposed FY2022 Work Programme.



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 about eight times a year and whenever matters requiring immediate attention require. 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.

5/ Industry Performance

Gas Industry Company's strategy and Work Programme objectives seek to align with government policy objectives and outcomes, and to support industry performance, particularly in relation to consumer switching, downstream reconciliation, critical contingency management and transmission system balancing.

Gas Industry Company tracks the performance of the Switching Rules, Reconciliation Rules and CCM Regulations and reports on their ongoing effectiveness, the competitive outcomes they foster, and industry participants' adherence to them.

The retail market is vibrant and competitive

Annual switching rates (an indicator of contestability in the market) have ranged from 14 per cent to 18 per cent in the last five years.

Switches are completed fast

Switches take place just over two business days on average. As a comparison, gas switches in the UK take about 18 days for domestic consumers.[3]

Gas customers generally have choice

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 87 percent of consumers.

Over 99.8 percent of consumers are connected at a gas gate where at least seven retailers trade.

In the past ten years, six retailer brands have entered the gas market: Energy Online (owned by Genesis Energy); MegaTEL (owned by Nova Energy); Trustpower; Pulse Energy; Switch Utilities; and Hanergy.

[3] 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

FIGURE 3: MONTHLY SWITCHING RATES

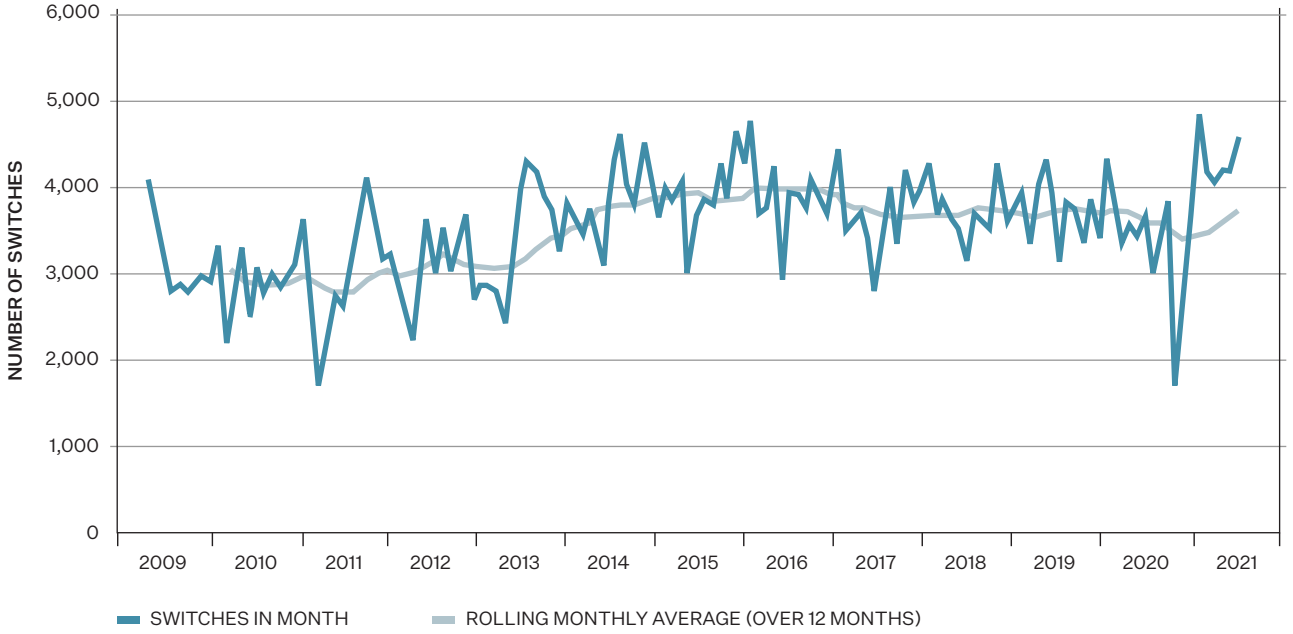
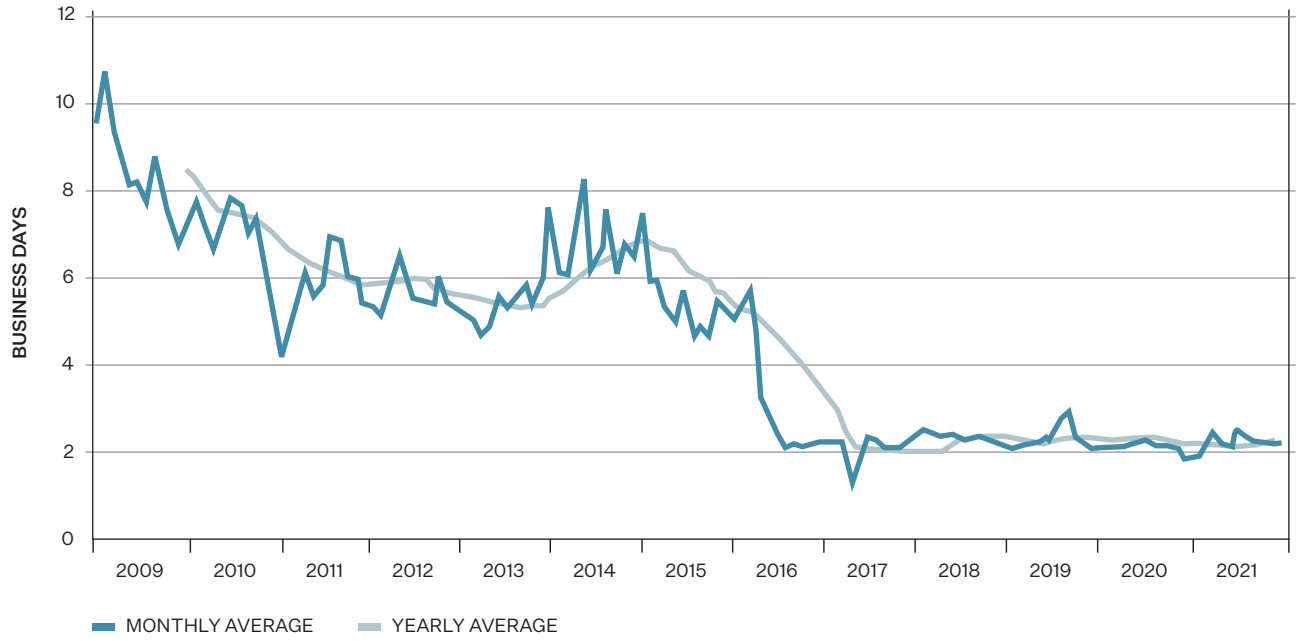


FIGURE 4: AVERAGE TIME TO SWITCH A CUSTOMER



Market concentration has decreased

The gas market as a whole and in the regions where gas is available are less concentrated (Figure 5). New retailers have gained market share, diluting the dominance of previously incumbent retailers.

This change has been particularly striking in areas such as Waikato, Northland, Gisborne, and Hawke's Bay.

Unaccounted for gas is down over the past decade

Unaccounted-for gas (UFG) 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. It's therefore a measure of market efficiency.

Reconciliation Rules were introduced in 2009 to provide a process for attributing volumes of gas used by consumers at shared gas gates to the retailers responsible for them.

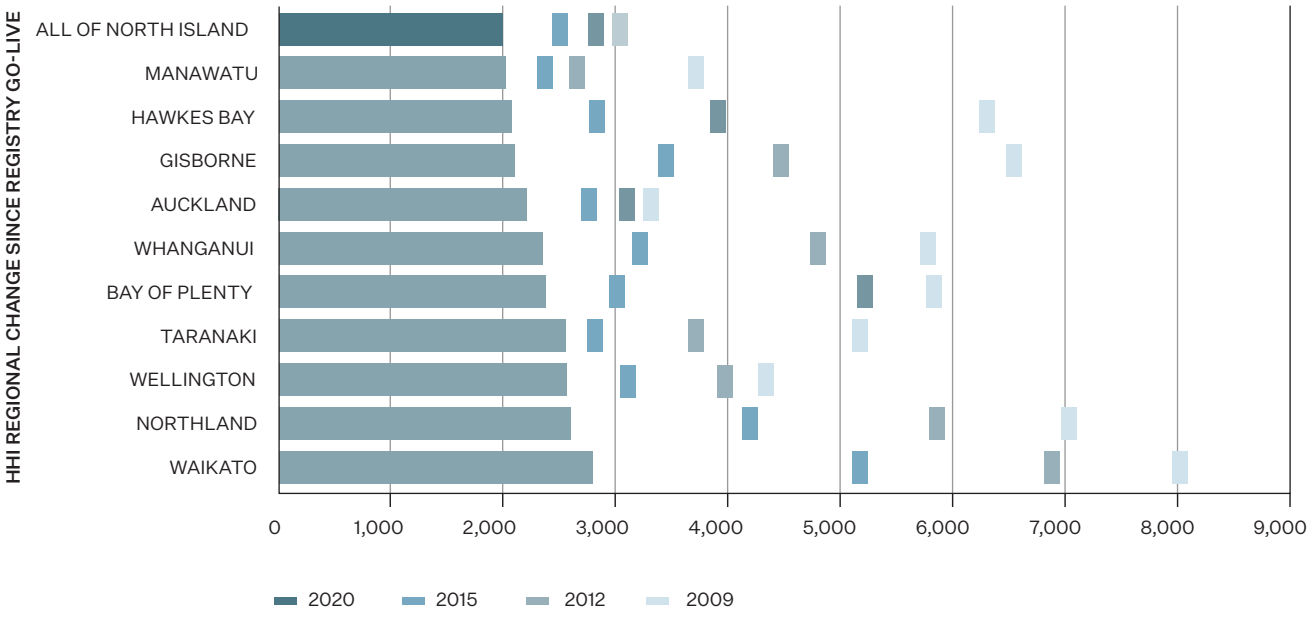
The Reconciliation Rules have been instrumental in reducing the level of UFG.

Annual UFG has fallen from about 2 percent of gas consumed when the Rules were adopted, to about 1.2 percent today (Figure 6).

Cost savings to the industry associated with the rules-based system are estimated to be 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 auditing that can more readily identify anomalies in consumption data.

FIGURE 5: RETAIL MARKET CONCENTRATION



Critical Contingency Management

The CCM Regulations outline the industry's response during supply emergencies. The response can include demand curtailment.

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 monitors the effectiveness of the CCM Regulations through reviews of critical contingency events and annual exercises.

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.

Allegations of breaches are first considered by Gas Industry Company as the market administrator. If it deems a material issue exists, the matter is referred to an independent investigator for further examination and, where appropriate, settlement.

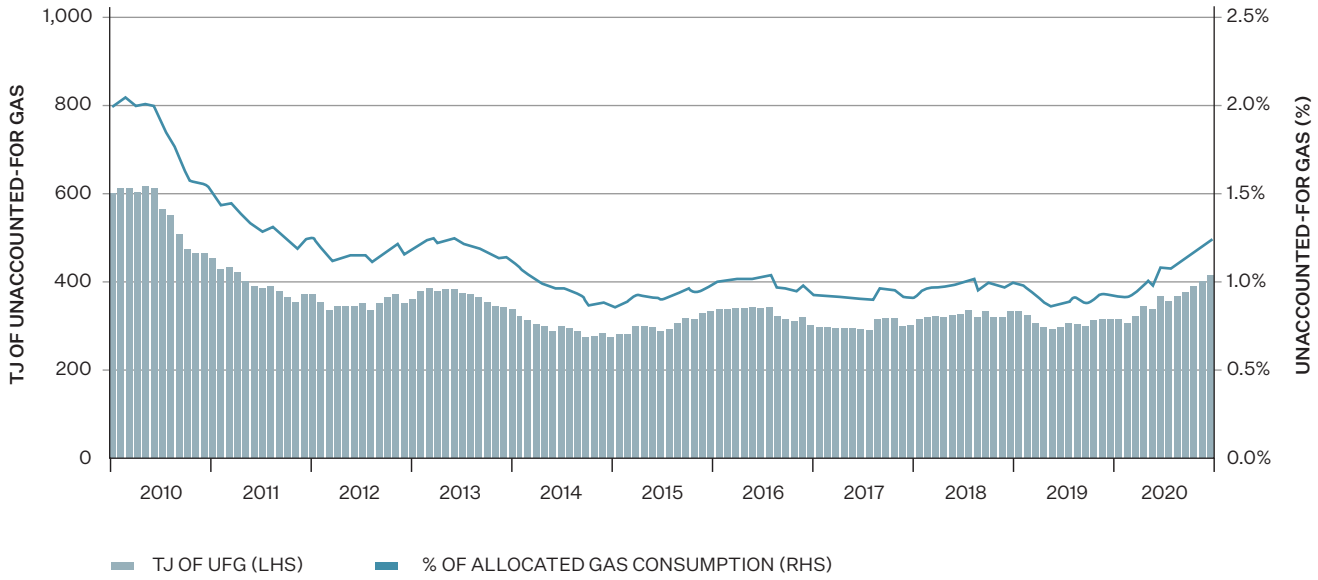
Settlements must be referred to the Rulings Panel for approval or rejection.

The Rulings Panel is a one-person quasi-judicial body appointed by the Minister. It also considers matters where parties are unable to settle.

The Rulings Panel can issue fines, make orders for compensation or directing compliance, and suspend or terminate the rights of an industry participant.

Gas Industry Company liaises with market participants and promotes awareness of regulatory requirements.

FIGURE 6: ANNUAL UNACCOUNTED FOR GAS



6/ Work Programme & Indicative Activities FY2022 – 2024

This section outlines the scope of Gas Industry Company's operations for the financial years ended 30 June 2022 to 30 June 2024.

The FY2022 Work Programme has been developed having regard to:

- the Gas Act and Government Policy Statement 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.

The Statement of Intent focuses on the first year of the three-year period and indicative activity in the subsequent years. The multi-year scope reflects the requirement for funding to be approved by regulation each year, the changing nature of the industry and the co-regulatory role.

The multi-year focus also recognises that policy development requires comprehensive consultation, which provides the opportunity for continuous improvements in policy thinking.

The Work Programme is substantially in the form consulted on with stakeholders

The Work Programme was broadly supported in submissions. The submissions themselves, and the analysis of submissions, can be found on Gas Industry Company's website.

The Work Programme is grouped into the three classes of activities:

- Gas Governance;
- Facilitating industry systems and processes; and
- Trusted Adviser to Government and Industry.

Gas Governance

Work Programme activities that relate to gas governance are given priority in the Work Programme given that they are, or stem from, statutory obligations. Funding for gas governance activities is derived from a combination of market fees and levy.

Facilitating industry systems and processes

There are several projects that are regarded as important by stakeholders or have been requested by the Minister of Energy and Resources.

Examples include:

- The D+1 Pilot and the future implementation of a formal D+1 system; and
- Information Disclosure.

Meaningful progress on these projects requires that these projects are budgeted and included in the Work Programme. These activities are funded by the levy.

Trusted Adviser to Government and Industry

Examples of Gas Industry Company's role in providing high quality, trusted advice include:

1. Monitoring and supporting potential to use hydrogen and biogas in transmission and distribution pipelines;
2. COVID-19 Sector Coordinating Entity role.

Gas Industry Company's role as a trusted adviser has grown as the wider energy sector and government entities have sought to develop their understanding of the changing energy future.

It is essential that sufficient budget is included to allow these activities to be undertaken. They are funded by the levy.

Flexibility and cost efficiencies

It is always possible that unplanned, unbudgeted work might be needed because of the changing nature of the industry and the period between development and implementation of plans.

Gas Industry Company prefers not to budget contingency amounts to keep the levy at a reasonable level. If unplanned or unbudgeted work becomes a priority, Gas Industry Company will reassess its planned workstreams and milestones. We have been successful over recent years using this approach, progressing key industry priorities while maintaining appropriate cost discipline.

Gas Industry Company aims to deliver value in both its operational workstreams and in the provision of support services. There is a specific focus on delivering efficiency and value for money. As well, Gas Industry Company has considered carefully how each line item in the Work Programme should be budgeted. Some areas are demand-driven and it does not make sense to make full provision for each of these individually. Instead, Gas Industry Company makes a modest provision for these items and backs itself to manage within the global amount.

6.1/ FY2022 Work Programme: Gas Governance

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 provide for the appointment of a Critical Contingency Operator (CCO) whose role is to determine, manage, and terminate critical contingencies, as well as associated activities such as stakeholder training and running exercises. The appointment of the current CCO expires on 1 March 2022, and work will be undertaken prior to this to renew or appoint a new CCO.

Gas Industry Company will make recommendations to the Minister to amend the CCM Regulations during FY2022, as a result of a review currently being undertaken. Gas Industry Company will work to implement changes during FY2022, subject to ministerial approval.

FORECAST ACTIVITIES IN FY2022
1. Make a recommendation to the Minister on CCM regulation changes;
2. Implement changes to CCM Regulations;
3. Appoint and monitor the CCO;
4. Assess the performance of the CCM Regulations;
5. Respond to CCM events by appointing/monitoring experts;
6. Monitor the annual CCM exercise; and
7. Process applications and renewals for priority designations in the areas of critical care, essential services, critical processing, and electricity supply as required.

The recommendation to the Minister and associated implementation of any changes to the CCM Regulations is expected to be completed during FY2022. Work during FY2023 and 2024 is likely to entail business as usual maintenance of the updated regulations.

Electricity Price Review

Gas Industry Company monitors governance arrangements in related industries to assess whether any changes may influence existing gas industry regulations, and if any changes to gas regulations are required in response.

The government's Electricity Price Review made 32 recommendations about whether the electricity market delivers efficient, fair, and equitable prices to customers. Gas Industry Company considered it prudent to review whether those recommendations should apply to the gas market, given the similarities and links between the gas and electricity markets.

Gas Industry Company released a consultation paper "Extending the Electricity Price Review's Final Recommendations to the Gas Market - An Assessment". The consultation paper set out our initial assessment of whether recommendations from the Electricity Price Review should be extended to the gas market.

FORECAST ACTIVITIES IN FY2022
1. Determine whether to amend existing or introduce new, gas governance arrangements (including having regard to the effectiveness of any non-regulatory arrangements);
2. Consult with stakeholders on the content and form of any proposed changes to gas governance arrangements; and
3. Make recommendations to the Minister accordingly.

In FY2023 and 2024 we expect any changes to be implemented and to continue monitoring the arrangements.

Advanced Gas Metering

Gas Industry Company is determining what changes are required to support the roll-out of advanced gas meters. This includes assessing if there is merit in changing the Switching Rules and the Downstream Reconciliation Rules, and working closely with industry to ensure associated systems and rules are fit for purpose.

FORECAST ACTIVITIES IN FY2022
1. Continue to work with industry to ensure systems and rules are appropriate for advanced gas metering;
2. Make a recommendation to the Minister if changes to the rules are required; and
3. Make changes to registry or switching in accordance with advanced gas metering deployment.

It is expected that any relevant industry system or rule changes will be completed during FY2022. On completion of these changes, advanced gas metering will be managed under the business-as-usual workstreams of Switching and Registry and Downstream Reconciliation.

Retail Gas Contracts Oversight Scheme

In 2010, Gas Industry Company established a Retail Gas Contracts Oversight Scheme. This was designed to assess retailers' contracts with residential and small commercial/industrial consumers, against a series of benchmarks of satisfactory customer expectations and outcomes. Reviews are undertaken by an Independent Assessor.

The most recent full review occurred 2018. There was 'substantial' compliance with the scheme.

This review process is carried out every three years. The next review is due in 2021.

FORECAST ACTIVITIES IN FY2022
1. Engage an Independent Assessor to carry out an assessment of retailers' contracts with residential and small commercial/industrial consumers, and advise retailers of the results of this assessment;
2. Review new-entrant retail contracts, as requested; and
3. Provide information to new entrant retailers to help them understand their obligations and the governance processes.

As full reviews are carried out every three years, FY2023 and 2024 are expected to involve carrying out assessments of new entrant retailers, or changes to existing contracts, if requested.

Gas Distribution Contracts Oversight Scheme

In 2012, Gas Industry Company established the Gas Distribution Contracts Oversight Scheme. This is an industry-agreed scheme which assesses contracts between gas distributors and gas retailers against a set of principles.

Gas Industry Company appointed an independent assessor in FY2014 who found that contracts offered by distributors exhibited 'substantial' alignment with the set of principles agreed upon.

Recent communications with distributors indicated that there had been no material changes to distribution contracts. Gas Industry Company will seek an update from distributors in FY2021.

FORECAST ACTIVITIES IN FY2022
1. Assess findings from the responses provided by distributors in FY2021; and
2. Report on next steps.

FY2023 and 2024 are likely to involve implementation of any changes deemed necessary by the responses.

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.

Gas Industry Company has an ongoing obligation to appoint and oversee an Allocation Agent as they fulfil their duties under the Reconciliation Rules. The appointment of the current Allocation Agent expires 31 December 2021 and work will be undertaken prior to this to renew or appoint a new Allocation Agent.

Gas Industry Company monitors allocation results to identify, at an early stage, issues and ensure these are addressed in an appropriate and timely fashion. This work complements that of several industry participants who also undertake monitoring and, from time to time, bring issues to the attention of Gas Industry Company and the Allocation Agent.

FORECAST ACTIVITIES IN FY2022
1. Appoint and monitor the Allocation Agent;
2. Assess ongoing performance of the Reconciliation Rules;
3. Monitor allocation results;
4. Commission performance and event audits as required;
5. Assess any outcomes from the audit reports; and
6. Make determinations under the Rules as required.

FY2023 and 2024 will likely involve continued monitoring of the Reconciliation Rules and other business as usual maintenance.

Switching and Registry

The purpose of the Switching Rules is to establish a set of gas switching and registry arrangements that will enable consumers to choose, and alternate, efficiently and satisfactorily between competing retailers.

The Switching Rules provide for a centralised database, the gas registry, which stores key technical parameters about every customer installation and facilitate and monitors each customer switch from initiation through to completion.

The Switching Rules provide for the appointment of a Gas Registry Operator. The appointment of the current Gas Registry Operator does not expire until 2025.

FORECAST ACTIVITIES IN FY2022
1. Monitor Gas Registry Operator;
2. Assess the ongoing performance of the Switching Rules;
3. Monitor and report on switching statistics;
4. Make determinations under the Switching Rules as required;
5. Commission performance and event audits as required;
6. Follow up on any issues identified in the switching audits; and
7. Update Switching Rules in response to advanced gas meter roll-out.

FY2023 and 2024 will likely involve continued monitoring of the Switching Rules and other business as usual maintenance.

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.

FORECAST ACTIVITIES IN FY2022
1. Appoint Rulings Panel;
2 Perform Market Administrator role;
3. Assess ongoing performance of the Compliance Regulations;
4. Assist Investigator and Rulings Panel as required; and
5. Monitor compliance trends for indications of regulatory inefficiency.

FY2023 and 2024 will likely involve continued monitoring of the Compliance Regulations and other business as usual maintenance.

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). Similarly, annual Statements of Intent (SOI) are required to be submitted to the Minister for comment prior to being finalised and published.

FORECAST ACTIVITIES IN FY2022
1. Prepare and publish the SOI to meet statutory timeframes;
2. Provide the draft SOI to the Minister for comment prior to publication; and
3. Prepare and publish the Annual Report and meet requirements for tabling in Parliament.

FY2023 and 2024 will involve continued reporting of the Statement of Intent and Annual Report.

Other Reporting

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 publications including Switching Statistics, Quarterly Report and Industry Performance Measures.

FORECAST ACTIVITIES IN FY2022
1. Prepare and publish Switching Statistics and Industry Performance Measures; and
2. Continue engagement and communications for interested stakeholders.

FY2023 and 2024 will involve continued reporting and production of miscellaneous publications such as Switching Statistics, Quarterly Report and Industry Performance Measures.

6.2/ FY2022 Work Programme: Facilitating industry systems and processes

Implement a formal D+1 System

D+1 allocation is a process that allocates gas on the day following gas flow.

Gas Industry Company has been trialling D+1 allocation as a means of providing more timely information to retailers about their customers' gas usage. Gas Industry Company expects to implement a formal D+1 allocation system as part of the Reconciliation Rules.

FORECAST ACTIVITIES IN FY2022
1. Operate and maintain the current D+1 model under the pilot scheme;
2. Develop and consult on any required changes to the Reconciliation Rules;
3. Make a recommendation to the Minister to amend the Reconciliation Rules; and
4. Develop, test and implement the supporting D+1 system.

FY2023 and 2024 will likely involve business as usual maintenance of the D+1 System under the Reconciliation Rules.

Information Disclosure

In 2018 Gas Industry Company commenced a workstream to assess the level of information disclosure in the industry and consider options to address any issues found. As part of this workstream, the Information Disclosure: Problem Assessment paper was published in October 2019. This paper assessed possible information issues in 10 separate information elements.

From the Problem Assessment paper, three projects were identified where further work was required:

1. Development of a Statement of Proposal (SOP) for the disclosure of gas production and storage facility outage information;
2. Development of a paper on gas contract price and volume information – this project assesses whether a weighted average gas price would provide valuable insight into market gas prices; and
3. Development of a paper on major user outage information – this project assesses whether major gas user outage information should be disclosed publicly.

The latter two papers are expected to be completed by the end of FY2021. Depending on the conclusion reached, these issues may proceed to an SOP stage in FY2022.

The timeframes for the SOP for gas production and storage outages will depend on when Gas Act changes have completed their passage through the House of Representatives.

FORECAST ACTIVITIES IN FY2022
The work on Information Disclosure in FY2022 will depend on outcomes from the SOP process and the separate papers on contract price and volume information, and major user outages. If the SOP concludes that current arrangements for gas production and storage outage information are sufficient, Gas Industry Company's focus will be on monitoring the performance of these arrangements. If the SOP concludes that the regulatory objective is unlikely to be satisfactorily achieved by any reasonably practicable means other than through regulation, then Gas Industry Company will make a recommendation to the Minister for a gas governance regulation. Subject to Ministerial approval, Gas Industry Company will then proceed to implement a regulated solution. We expect FY2023 and 2024 to involve monitoring the effectiveness of any Information Disclosure arrangements.

Gas transmission pipeline access

Firstgas and its stakeholders are working through a process to determine potential changes to the transmission access arrangements (the Vector Transmission Code and Maui Pipeline Operating Code).

At a workshop on 17 November 2020, Firstgas received feedback from stakeholders on the benefits that stakeholders wished to achieve as a result of any changes to the current access arrangements and the pathway to achieving those benefits. Firstgas is considering stakeholder feedback with a view to providing a way forward in March 2021.

FORECAST ACTIVITIES IN FY2022
1. Be prepared to assume any role allocated to Gas Industry Company under the terms of the current gas transmission codes in relation to changes to the transmission access arrangements; and
2. Assess and action any changes to industry arrangements that may be required as a result of the GTAC not progressing (e.g. gas metering, gas quality, transmission security and reliability, interconnection).

We expect our activities in FY2023 and 2024 will be dependent on any industry arrangements and changes that occur in FY2022.

6.3/ FY2022 Work Programme: Trusted Adviser to Government and Industry

Monitor and support the potential use of hydrogen and biogas in transmission and distribution pipelines

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, Firstgas has received a grant to support a trial that will investigate how hydrogen could be distributed through its gas pipelines.

There is also a role for biogas to be blended with natural gas and distributed around New Zealand.

FORECAST ACTIVITIES IN FY2022
1. Monitor any work undertaken in relation to hydrogen and biogas being used in gas pipelines;
2. Review arrangements in other international jurisdictions in preparation for the updating of any rules and regulations; and
3. Update any rules and regulations needed to support hydrogen and biogas transmission and distribution.

We expect our activities in FY2023 and 2024 will be dependent on any industry arrangements and changes that occur in FY2022. We will continue to work with industry to support potential new technology and if necessary, implement rules and regulations.

Green Gas Certification Scheme for Biogas and Hydrogen

Gas Industry Company is investigating a green gas certification scheme, similar to the newly created New Zealand Energy Certificate System (NZECS).

NZECS enables electricity consumers to purchase certificates from renewable generators and to make claims based on these certificates. With the potential of hydrogen and biogas being mixed with natural gas in our pipelines, there could be benefit in a scheme for gas too.

We are currently working with industry to assess whether there is an opportunity for a green gas certification scheme for both biogas and hydrogen.

FORECAST ACTIVITIES IN FY2022
1. Continue to work with industry on options for a green gas certification scheme.

Our activities in FY2023 and 2024 will be dependent on the progression of this workstream and any role we may be assigned by industry within the green gas certification scheme.

Sector Coordinating Entity role – COVID-19 pandemic

The COVID-19 pandemic that struck during 2020 highlighted the importance of natural gas for maintaining security of energy supply. This issue became important when considering repairs, maintenance and safe and efficient use of key assets and infrastructure. Gas Industry Company acted as the Sector Coordinating Entity for the gas industry to:

- collate industry information on any risks to the New Zealand gas industry arising from the COVID-19 outbreak to inform MBIE's weekly reporting to Cabinet,
- provide MBIE with daily updates in relation to any emergent issues in the New Zealand gas industry,
- collate information from industry participants in relation to any key workers they require to be brought in from overseas to progress critical projects relating to the provision of essential services.

FORECAST ACTIVITIES IN FY2022
1. Maintain a watching brief of COVID-19 activities and be prepared to step into the Sector Coordinating Entity role as and when required.

We expect our role in FY2023 and 2024 to include contributing to anticipated reviews of this process.

Provide gas market information and analysis that enables the industry to make informed decisions

Gas Industry Company has a role in providing information to support stakeholders in making better informed decisions.

In FY2020 Gas Industry Company commenced a project that investigates the role of gas in New Zealand over the next 15 years as the electricity generation fleet becomes increasingly renewable.

Gas Industry Company has previously commissioned reports focussing on gas supply and demand over the long term and on particular aspects of the industry. Further occasional reports will be published, and existing reports updated, where they can be of value to the industry.

In FY2021 Gas Industry Company is developing an information portal as a repository of gas industry information.

FORECAST ACTIVITIES IN FY2022
1. Continue to produce the short-term and long-term supply and demand studies and communicate their findings;
2. Carry out any ad hoc analyses that further inform the industry of the role of gas in New Zealand as the energy sector undergoes a transition to lower emissions over the coming years; and
3. Continue to enhance the information portal.

We expect our activities in FY2023 and 2024 to include continuing with our studies, reports and assessments to keep the industry informed. We anticipate this role will continue expanding and we are planning for this growth by ensuring we have adequate resourcing to deal with issues as they arise.

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 FY2022 are included in industry consultation and the annual recommendation to the Minister, which results in annual levy regulations. In summary for FY2022:

- An annual levy of $3,472,367 from 1 July 2021, comprising a wholesale levy and a retail levy (0.64% higher than the same figure for FY2021).
- The wholesale levy revenue is $1,953,651 for FY2022 and will be collected each month from the relevant levy payers at a rate of 1.1445 c/GJ based on each industry participant's volume of gas purchased from gas producers (the wholesale levy is 2.51% higher than in FY2021).
- The retail levy revenue is $1,518,716. This is calculated based on Gas Industry Co's estimate of 300,000 active ICP's, at a levy rate of $5.28/ICP per annum (the retail levy is 2.33% higher than in FY2021).

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.

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 FY2022 Gas Industry Company levy.

Further detail about the assumptions, revenue calculations and workstream expenses used to calculate the FY2022 levy can be found in the document, Consultation on Gas Industry Company FY2022 Work Programme and Levy, issued in December 2020.

The FY2021 forecast was approved by Gas Industry Company's Board and includes actual results for the period 1 July 2020 to 31 January 2021, and an up-to-date forecast to 30 June 2021.

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 FY2022 Levy Recommendation that has been made to the Minister of Energy and Resources under section 43ZZB of the Gas Act.

Rt Hon James B. Bolger, ONZ
CHAIR

Robin Hill
DEPUTY CHAIR

June 2021

Forecast Statement of Financial Performance

	BUDGET FY2022 $	FORECAST FY2021 $	ACTUAL FY2020 $
REVENUE			
Wholesale Levy	1,953,651	1,898,882	2,040,055
Retail Levy	1,518,716	1,520,853	1,776,954
Levy Revenue Subtotal	*3,472,367*	*3,419,735*	*3,817,009*
Market Fees	1,299,000	1,218,231	1,267,330
Annual Fees	26,000	26,000	26,000
Interest Income	25,000	24,798	37,740
Subtotal Other Revenue	*1,350,000*	*1,269,029*	*1,331,070*
TOTAL REVENUE	**4,822,367**	**4,688,764**	**5,148,079**
Refunded Levies	–	(243,296)	(155,928)
Net Revenue	**4,822,367**	**4,445,468**	**4,992,151**
EXPENSES			
Depreciation & Amortisation	34,044	47,438	28,390
Operating lease expenses	237,917	268,545	275,940
Fees paid to audit firm – financial statement audit	21,210	20,417	20,000
Fees paid to audit firm - other services	–	–	–
Bad Debts	–	–	6
Directors' fees	262,460	262,460	266,860
General expenses	311,385	361,243	330,785
Recruitment expenses	–	11,144	93,847
Technical, economic, and legal advice	815,500	969,495	226,994
Service Provider Fees	1,299,000	1,218,231	1,216,127
Kiwisaver contributions	47,907	48,194	49,102
Employee benefit expense	1,741,945	1,573,437	1,759,972
TOTAL EXPENSES	**4,771,368**	**4,780,604**	**4,268,023**
Finance Costs	–	–	–
TOTAL EXPENDITURE	**4,771,368**	**4,780,604**	**4,268,023**
PROFIT / (LOSS) BEFORE TAX	**50,999**	**(335,136)**	**724,128**
Income Tax Expense	7,000	6,944	10,567
PROFIT / (LOSS) FOR THE YEAR	**43,999**	**(342,080)**	**713,561**

Forecast Statement of Financial Position

	BUDGET FY2022 $	FORECAST FY2021 $	ACTUAL FY2020 $
CURRENT ASSETS			
Cash and cash equivalents	1,553,559	1,505,516	2,119,358
Term Deposit	–	–	–
Trade and other receivables	42,813	26,648	10
Prepayments	90,435	87,215	108,088
Income tax receivable	7,000	5,135	–
TOTAL CURRENT ASSETS	**1,693,807**	**1,624,514**	**2,227,456**
NON-CURRENT ASSETS			
Property, plant & equipment	109,119	140,313	62,948
Intangible assets	1,687	4,537	6,638
TOTAL NON-CURRENT ASSETS	**110,806**	**144,850**	**69,586**
TOTAL ASSETS	**1,804,613**	**1,769,364**	**2,297,042**
CURRENT LIABILITIES			
Trade and other payables	306,823	318,689	471,341
Employee entitlements	196,351	193,235	226,181
Reedemable Shares	13	13	13
TOTAL CURRENT LIABILITIES	**503,187**	**511,937**	**697,535**
TOTAL LIABILITIES	**503,187**	**511,937**	**697,535**
NET ASSETS	**1,301,426**	**1,257,427**	**1,599,507**
Represented by			
Industry Reserves	493,426	475,427	843,507
Retained Earnings	808,000	782,000	756,000
TOTAL SHAREHOLDERS' FUNDS	**1,301,426**	**1,257,427**	**1,599,507**

Forecast Statement of Movement in Equity

	INDUSTRY RESERVES	RETAINED EARNINGS	TOTAL	INDUSTRY RESERVES	RETAINED EARNINGS	TOTAL
	BUDGET FY2022			FORECAST FY2021		
OPENING BALANCE	**475,427**	**782,000**	**1,257,427**	**843,507**	**756,000**	**1,599,507**
Net surplus/(deficit) for the year	–	43,999	43,999	–	(342,080)	(342,080)
Industry Advances Reserves transfer	25,200	(25,200)	–	(368,080)	368,080	–
FORECAST CLOSING BALANCE	**500,627**	**800,799**	**1,301,426**	**475,427**	**782,000**	**1,257,427**

Forecast Statement of Cash Flows

	BUDGET FY2022 $	FORECAST FY2021 $	ACTUAL FY2020 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Levy revenue	3,472,367	3,696,438	3,817,318
Market fee revenue	1,299,000	1,348,251	1,272,501
Annual fees	26,000	26,000	26,000
Interest received	25,000	24,837	37,740
Net GST	–	–	–
	4,822,367	**5,095,526**	**5,153,559**
CASH WAS APPLIED TO			
Payments to suppliers	(2,692,012)	(3,447,620)	(2,276,663)
Payments to employees	(1,789,852)	(1,715,353)	(1,756,867)
Payments to directors	(262,460)	(284,332)	(232,236)
Refund of levy to industry participants	–	(243,296)	(187,206)
Taxes paid	–	(608)	(10,567)
Net GST	–	(15,669)	(3,042)
	(4,744,324)	**(5,706,878)**	**(4,466,581)**
NET CASH INFLOWS FROM OPERATING ACTIVITIES	**78,043**	**(611,352)**	**686,978**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(30,000)	(2,490)	8,506
Purchase of intangible assets	–	–	–
Term Deposit	–	–	–
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(30,000)**	**(2,490)**	**8,506**
NET CASH FLOWS	**48,043**	**(613,842)**	**695,484**
Opening cash balance	1,505,516	2,119,358	1,423,874
CLOSING CASH BALANCE	**1,553,559**	**1,505,516**	**2,119,358**

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 $291,845.

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

	BUDGET FY2022 $	FORECAST FY2021 $
BUILDING LEASE COMMITMENTS		
Within one year	291,845	291,845
Later than one year but not later than five years	121,602	413,447
Later than five years	–	–
TOTAL OPERATING LEASE COMMITMENTS	**413,447**	**705,292**
EQUIPMENT LEASE COMMITMENTS		
Withing one year	–	–
Later than one year but not later than five years	–	–
Later than five years	–	–
TOTAL EQUIPMENT LEASE COMMITMENTS	**–**	**–**
OPERATING LEASE COMMITMENTS		
Within one year	291,845	291,845
Later than one year but not later than five years	121,602	413,447
Later than five years	–	–
TOTAL OPERATING LEASE COMMITMENTS	**413,447**	**705,292**
SERVICE PROVIDER COMMITMENTS		
Within one year	246,432	503,928
Later than one year but not later than five years	410,720	657,152
Later than five years	–	–
TOTAL SERVICE PROVIDER COMMITMENTS	**657,152**	**1,161,080**

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 2022-2024 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 $3,472,367 is assumed to be effective from 1 July 2021 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 $1,953,651 for FY2022 and will be collected each month from the relevant levy payers at a rate of 1.1445c/GJ based on each industry participant's volume of gas purchased from gas producers.
- The retail levy revenue is budgeted to be $1,518,716. This is calculated based on Gas Industry Company's estimate of 300,000 active ICP's, at a levy rate of $5.28/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 FY2022 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 FY2022. 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 2021 is approximately $1,257,427. Of this, $475,427 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, $782,000, 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 FY2022 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).

9/ Alignment with Government Policy Objectives and Outcomes

» Gas Industry Company's Strategic Objectives— facilitate gas governance and markets that deliver gas in a safe, efficient, fair, reliable, and environmentally sustainable manner, act as a trusted adviser to government and industry and facilitate the industry through the energy transition — are aligned with the objectives and outcomes contained in the Gas Act and GPS. The Company's diverse workstreams help the Company move toward meeting those objectives and outcomes.

» We have found it helpful to group the Gas Act and GPS Objectives & Outcomes under five categories – Efficiency, Reliability, Safety, Environment, Fairness. The full description of the Objectives & Outcomes and their respective categories are listed in Table 2.

GIC WORK PROGRAMME FY2022 & FUTURE AREAS OF WORK	GAS ACT, GPS OBJECTIVES & OUTCOMES ALIGNMENT				
	EFFICIENCY	RELIABILITY	SAFETY	ENVIRONMENT	FAIRNESS
Critical Contingency Management	•	•	•	•	•
Electricity Price Review	•				•
Advanced Gas Metering	•				•
Retail Gas Contracts Oversight Scheme	•				•
Gas Distribution Contracts Oversight Scheme	•				•
Downstream Reconciliation	•				•
Switching and Registry	•				•
Compliance and Enforcement	•	•	•	•	•
Other Reporting	•	•			•
Implement a Formal D+1 System	•				•
Information Disclosure	•	•			•
Gas transmission pipeline access	•	•	•		•
Monitor and support the potential use of hydrogen and biogas in transmission and distribution pipelines	•	•	•	•	•
Green Gas Certification Scheme for Biogas and Hydrogen	•			•	•
Sector Coordinating Entity Role - COVID-19 Pandemic	•	•	•	•	•
Provide gas market information and analysis that enables the industry to make informed decisions	•	•			•

TABLE 2: GAS ACT, GPS OBJECTIVES & OUTCOMES ASSESSMENT CRITERIA

CRITERION	OBJECTIVE/OUTCOME	TEXT	CATEGORY
1	Gas Act s43ZN(a)	The principal objective is to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner	Efficiency, Reliability, Safety
2	Gas Act s43ZN(b)(i)	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	Efficiency, Reliability
3	Gas Act s43ZN(b)(ii)	Barriers to competition in the gas industry are minimised	Efficiency
4	Gas Act s43ZN(b)(iii)	Incentives for investment in gas processing facilities, transmission, and distribution are maintained or enhanced	Efficiency
5	Gas Act s43ZN(b)(iv)	Delivered gas costs and prices are subject to sustained downward pressure	Efficiency
6	Gas Act 43ZN(b)(v)	Risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties	Reliability
7	Gas Act s43ZN(b)(vi)	Consistency with the Government's gas safety regime is maintained	Safety
8	GPS Item 12(a)	Energy and other resources used to deliver gas to consumers are used efficiently	Efficiency, Environment
9	GPS Item 12(b)	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	Efficiency
10	GPS Item 12(c)	The full costs of producing and transporting gas are signalled to consumers	Efficiency
11	GPS Item 12(d)	The quality of gas services where those services include a trade-off between quality and price, as far as possible, reflect customers' preferences	Efficiency
12	GPS Item 12(e)	The gas sector contributes to achieving the Government's climate change objectives as set out in the New Zealand Energy Strategy, or any other document the Minister of Energy may specify from time to time, by minimising gas losses and promoting demand-side management and energy efficiency	Environment

TABLE 2: GAS ACT, GPS OBJECTIVES & OUTCOMES ASSESSMENT CRITERIA (CONTINUED)

CRITERION	OBJECTIVE/OUTCOME	TEXT	CATEGORY
13	GPS Item 9	It is also the Government's objective that Gas Industry Co takes account of fairness and environmental sustainability in all its recommendations. To this end, the Government's objective for the entire gas industry is as follows: To ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner	Environment, Fairness
14	GPS Item 13 point 1	Pursue: An efficient market structure for the provision of gas metering, pipeline and energy services	Efficiency
15	GPS Item 13 point 2	Pursue: The respective roles of gas metering, pipeline and gas retail participants are able to be clearly understood	Efficiency
16	GPS Item 13 point 3	Pursue: Efficient arrangements for the short-term trading of gas	Efficiency
17	GPS Item 13 point 4	Pursue: Accurate, efficient and timely arrangements for the allocation and reconciliation of upstream gas quantities	Efficiency
18	GPS Item 13 point 5	Pursue: Gas industry participants and new entrants are able to access transmission pipelines on reasonable terms and conditions	Fairness
19	GPS Item 13 point 6	Gas governance arrangements are supported by appropriate compliance and dispute resolution processes	Efficiency

10/ Other Information

Additional Reporting

In addition to the reporting described in the Work Programme, 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

11/ 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*

Nigel Barbour, B Comm, LLB

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

Babu Bahirathan BE (Hons) M.Fin.

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