



**FROM THE CHIEF EXECUTIVE**

Two recent energy industry conferences in which I have been involved have thrown a spotlight on the interplay between energy policy aspirations and primary energy supply reality, which together will shape how this country satisfies energy demand growth in coming decades. In both cases, it was evident that gas continues to play a pivotal role, and will continue to do so out to the medium and long term.

The New Zealand Downstream and New Zealand Wind Energy conferences both looked at the future evolution of energy supply. A common theme was the need to pursue best use of available resources while achieving environmental management and sustainability goals. Both of these elements are central not just to New Zealand’s energy policy, but to wider economic policies in New Zealand and leading global economies. Discussion of these issues and pathways forward is crucial to the gas industry. What is clear is that the two concepts need not be mutually exclusive, and indeed should not be if New Zealand is to enjoy a sustainable energy future when viewed from both the environmental and security of supply perspectives.

The proposition “Wind and Gas – a perfect match”, which I presented at the Wind Energy conference provides a good example. There is a surprisingly close and important relationship between these two forms of energy.

Successive energy policies have included a target of 90 percent renewable electricity generation by 2025, and gas clearly has a role to play there and beyond. Forecast energy scenarios reflect the extent and location of future gas finds, as well as the cost of carbon. On all the MED’s Energy Outlook scenarios to 2030, increasing energy demand will see more gas-fired generation than at present.

Analysis of the future roles for wind and gas-fired electricity generation does not suggest there is a mad race between them. Rather, the range of scenarios sees wind and gas both playing key roles, with a high correlation between the two, depending particularly on ongoing levels of gas discoveries.

There is also a particular correlation with the peaky nature of wind generation. As for hydro, particularly in dry years, gas efficiently covers the volatility inherent in wind generation, especially through new era highly efficient gas-fired peaker generation plants that can be brought online very quickly.

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*From the Chief Executive continued.....*

Gas Industry Co continues to see “optimising the contribution of gas to New Zealand” as an appropriate strategy for our organisation and for the industry. This continues to hinge on an active exploration and production programme to tap the full potential of New Zealand’s gas resources, so that gas will continue to fulfil its important role of supporting electricity supply security as well as providing consumers with energy choice for a range of heating and cooking applications in industry, businesses, and homes.

Steve Bielby  
Chief Executive

## Industry Performance Highlights

This Quarterly Report includes a full report (**page 10**) on the industry’s performance against the Switching Rules, the Reconciliation Rules, and the Critical Contingency Management Regulations in the three months ended 31 March 2012. Highlights include:

- Average balancing gas volumes have declined by 92 percent from the 403,000 GJ/month in 2006-2008 to just over 33,000 GJ since January 2011.
- Gas customer switches between retailers totalled 3,700 in March, about 450 more than the rolling 12-month average. Switching times remain about 6 days, compared with several weeks prior to the Switching Rules taking effect.
- Retailers’ market shares have not changed markedly during the quarter. Genesis Energy remains the largest retailer by customer numbers, and Nova and OnGas are the largest retailers by gas volume.
- Annual unaccounted-for gas (UFG) volumes are about 1.2 percent of allocated gas volumes, compared with about 2.5 percent prior to the introduction of the Reconciliation Rules in 2008.
- Over 93 percent of gas customers are connected to a gate where at least six retailers trade.
- A Pohokura Production Station outage triggered a critical contingency declaration on 3 March. Compliance with demand curtailment directions was good, and no breaches of the Critical Contingency Management Regulations have been alleged.

## Maui pipeline outage follow up well advanced

Work on capturing learnings from the five-day Maui outage in October last year is well advanced.

In liaison with key market participants, Vector in its role as the Critical Contingency Operator (CCO) is implementing the majority of recommendations in the CCO’s Performance Report on the response to the Maui outage contingency. These generally involve process improvements, such as improving liaison between the CCO and the electricity System Operator, and improving Transmission System Owners’ Critical Contingency Management Plans.

Six of the CCO’s 19 recommendations are directed at Gas Industry Co and may require changes to the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations). Gas Industry Co is working on those recommendations and identifying any other issues that might see changes to the CCM Regulations.

Concept Consulting Group is near completion of extensive work directly with industry participants to identify any wider opportunities to improve critical contingency management in the New Zealand gas market. Developments in international practice have also been considered. A discussion paper will be issued shortly.

Gas Industry Co is also reviewing its Guidelines for Essential Service Providers (ESPs) and Minimal Load Users (MLCs), and will shortly seek submissions on revisions based on experience from the Maui pipeline outage about the process for designating these Users.

In addition, Gas Industry Co is addressing wider issues, such as industry and consumer awareness of critical contingency management processes, and how best to communicate with stakeholders and the public before, during and after an event. Specifically, it is considering:

- how aspects of the curtailment bands work, whether those aspects are appropriate for optimal management of critical contingencies, and if changes are needed.
- the response to the critical contingency by gas consumers, and particularly whether large consumers have backup arrangements to be resilient against gas outages.

The Ministry of Economic Development (MED) is providing a separate report to the Minister of Energy and Resources on the Maui pipeline outage and associated issues.

Meanwhile, Gas Industry Co as Market Administrator is assessing three alleged breaches of the Gas Governance (Critical Contingency Management) Regulations 2008 arising from the Maui Pipeline outage, and which were reported by the CCO. The Market Administrator's role is to determine whether each of the alleged breaches raises a material issue based on information provided in the breach notices and other information submitted by the CCO and the participant allegedly in breach.

## Pohokura outage results in critical contingency

An unplanned outage of the Pohokura Production Station resulted in a critical contingency event lasting almost 11 hours on 3 March 2012.

A power outage caused the station to trip at 3.40am. Initial demand curtailment responses under the Maui Pipeline Operating Code (MPOC) and Vector Transmission Code (VTC) were insufficient to prevent pressures in the Maui pipeline approaching the critical contingency threshold.

Vector, in its role as the Critical Contingency Operator (CCO), held initial discussions with Transpower, electricity generators, and petrochemical manufacturers to discuss the outage and plan for any required curtailment. Electricity supply was restored to the Pohokura Production Station, but production did not resume due to a fault in the plant's heating system. With declining pressure at the inlet to the Rotowaro compressor station, and uncertainty over when the Pohokura station would restart, the CCO declared a critical contingency at 12.48pm.

Gas-fired power stations and major users were instructed to curtail gas use. No other gas consumers were affected. Gas production rates were increased at the Kupe, Oaonui and Turangi Production Stations to help offset the Pohokura production loss. The Pohokura station resumed production at 5pm, but full gas full flow was not achieved until 8pm. The CCO authorised curtailed users to resume normal demand from 10pm. The critical contingency was terminated at 11.39pm, 10 hours and 51 minutes after it had been declared.

In the Incident Report issued on 9 March, the CCO reported good compliance by large consumers with demand curtailment directions. As the initial demand side response was insufficient to prevent a critical contingency being declared, the CCO suggested that transmission system owners review the application of the code rules to ensure adequate incentives exist for market participants to act quickly and consistently with any notices issued.

In the second report, the Performance Report issued on 2 April 2012, the CCO concluded that the CCM Regulations were effective and did not recommend any amendments beyond those it has previously

recommended in the Performance Report on the Maui Pipeline critical contingency in October 2011. Incident and Performance Reports by the CCO can be found in the CCO section of the OATIS website<sup>1</sup>.

## Gas Transmission Investment Programme (GTIP) and Bridge Commitments update

Progress with both the short-term and longer-term programmes addressing transmission capacity issues on the Vector North Pipeline continues to be generally good, although work on some Bridge Commitments has been slower than targeted. Market circumstances, namely a relatively flat market and confirmation that there is scope for improved utilisation of the North Pipeline, have provided some breathing space.

### Gas Transmission Investment Programme (GTIP)

The GTIP is Gas Industry Co's initiative aimed at:

- getting more efficient use of existing gas transmission capacity - in the quarter, it has become clearer that there is scope for better utilisation of existing pipelines, especially Vector's North Pipeline.
- laying a pathway for future investment in new capacity – it is also increasingly clear that substantial investment in new transmission capacity may not be needed in the short term. However, there is equally strong industry consensus that the investment pathway needs to be reviewed now, ahead of demand growth.

The Panel of Expert Advisors (PEA) is the GTIP's vehicle for considering market design changes and it has continued to meet regularly through the quarter. It has been making good progress in its first key deliverables, an assessment of current transmission access and capacity pricing arrangements and identification of preferred options for improvement. The PEA is due to provide its advice on these matters to Gas Industry Co in June, and has a target of producing preferred new market design arrangements in the first quarter of 2013.

Also part of the GTIP is the first detailed gas supply/demand study for New Zealand. This is being undertaken for Gas Industry Co by Concept Consulting. It will be holding a workshop for industry participants in May to outline its study and get feedback on supply/demand scenarios.

All PEA meeting papers are available on Gas Industry Co's website <http://gasindustry.co.nz/work-programme/advisory-panels/panel-expert-advisers>. Industry participants and other stakeholders will have the opportunity to participate in the GTIP through workshops and public consultations on the PEA's work. Gas Industry Co anticipates there will be a number of these opportunities in the coming 12 months. The first of these opportunities will be a forum in May, which will include an update to stakeholders on the progress of the PEA and other transmission capacity workstreams.

### Bridge Commitments

The [Bridge Commitments](#) are a series of commitments made by the majority of Shippers aimed at addressing short term concerns about competition on the North Pipeline. They have been in place for nine months. In its second [Progress Report](#) released last week, Gas Industry Co notes significant progress has been made on a number of the Bridge Commitments. Although no capacity has yet been traded, Gas Industry Co is pleased that incumbent Shippers are offering capacity when it is requested and that Shippers are about to test the feasibility of the new Gas Trading Exchange (GTX).

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<sup>1</sup> [www.oatis.co.nz](http://www.oatis.co.nz)

We consider that the provision of capacity and gas delivery information has set an important and useful precedent for the industry, while the GTIP is making good progress on longer-term solutions. Overall, it is pleasing that the industry has shown that it is capable of working together to address the complex issues that the North Pipeline capacity issues present.

To date, however, progress on some Bridge Commitments has been slower than targeted. While Gas Industry Co acknowledges lower energy demand, and that some technical issues involved have proven difficult and complex, we consider that more effort is required to ensure the full potential of the Commitments is realised, particularly from the freeing up of power station capacity and obtaining value from the GTX.

## **GTX**

The [GTX](#), an online bulletin board for trading of transmission capacity rights on the North Pipeline, is now operational. Established to facilitate open and transparent trading between willing buyers and sellers, it is designed to bring together Vector shippers wishing to buy, sell or loan transmission capacity on the North Pipeline. The objective is to “match” parties wishing to buy or lease additional capacity with parties having capacity to sell or lend.

The GTX was developed by Vector, and Gas Industry Co has agreed to operate and fund the facility until 30 June 2012. With only the largest users potentially being the object of offers, Gas Industry Co does not expect extensive trading. However, Shippers have committed to both the development and use of the GTX, and it also provides opportunities for large end users to signal demand for capacity (through their Shipper).

## **Power station capacity**

After six months of negotiating, parties have yet to agree commercial terms that will allow spare pipeline capacity held by power stations under Supplementary Agreements and Non-Code Shipper agreements to be freed up and onsold. While understanding that some significant and unexpected complexities have arisen, Gas Industry Co is disappointed agreement has not yet been reached.

Gas Industry Co understands that the power stations have not received any demand side interest in spare capacity to date, which may reflect the relatively flat energy demand at present. Gas Industry Co is nonetheless keen to see measures for transferring capacity in place in the interests of facilitating competition on the North Pipeline. The addition of trading provisions into other supplementary agreements as they have been rolled over has been a welcome recent development.

Power station capacity accounts for about 60 percent of all capacity on the North Pipeline and, as power station owners are running their stations differently than in the past, the tradability of supplementary capacity has the potential to achieve more efficient use of existing North Pipeline capacity.

## **Tenders for gas supply**

Shippers appear to be providing capacity offers in relation to time of use customers when requested by other Shippers, as promised under the Bridge Commitments. However, the low number of tenders and the fact that none have been taken up mean that it is not yet possible to determine the effect of this Commitment on market competition.

Although no capacity has been traded under the primary commitment, the ability of competing Shippers to access capacity is an important element of a competitive market. It is apparent that incumbent Shippers are upholding their commitment and offering capacity if requested when a large end user seeks competitive bids for gas supply. Gas Industry Co is aware of four offers of capacity since August 2011 by incumbent shippers. The amount of capacity offered has been for 75-80 percent of the consumers’ optimised maximum daily quantity. None of these offers was taken up, but Gas Industry Co has received no feedback from Shippers suggesting that the capacity offers have been insufficient, or the terms unattractive.

Gas Registry records show seven large end users on the North Pipeline have switched supplier since August, but Gas Industry Co believes only one was subject of a capacity offer. The others switched without competing

Shippers requesting capacity offers. Gas Industry Co is also aware of several tenders where customers ultimately chose to stay with their incumbent retailers.

Industry feedback to Gas Industry Co indicates that incumbents have provided competitive prices and that the tender processes have been competitive and transparent. It is also understood that price offers for sites on the North Pipeline have been similar to prices offered to end users on other parts of the transmission system, which suggests that the capacity constraint is not impacting end-user prices.

## Gas Industry Co supports MPOC change request

Gas Industry Co has supported a proposed change to the Maui Pipeline Operating Code (MPOC) aimed at improving pipeline balancing. The primary objective of the change request by the pipeline manager, Maui Development Limited (MDL), is to make the causers of pipeline balancing actions more accountable for their costs.

In its [Final Recommendation](#) on 16 April, Gas Industry Co concludes that the proposed change will bring improvements over current balancing arrangements in the MPOC, and better meet the objectives of the Gas Act 1992. In particular, it is a significant step towards achieving back-to-back allocation of balancing costs for the industry to deliver on its promise to improve balancing without recourse to regulation.

The MPOC changes include new peaking charges, mechanisms to better target balancing charges to causers, and the expansion of information published on the Balancing Gas Exchange (BGX). MDL submitted that the proposed changes will improve balancing efficiency, enhance transparency, provide industry participants with greater certainty about their exposure to balancing charges and, through tighter compliance incentives, put downward pressure on balancing gas volumes with savings to end users.

MDL's proposed changes followed an earlier request by the industry for the opportunity to craft non-regulated arrangements to improve balancing. A number of submissions on the changes highlighted the fact that the MPOC changes do not offer a complete solution. In that regard, MDL has agreed not to implement the change request until 1 June 2013, allowing time for other improvements to be designed and implemented. Gas Industry Co will help industry participants with these improvements and work with MDL and Vector to address impacts that the MPOC changes will have on Vector's transmission system arrangements.

Full details of the MPOC change request, submissions and Gas Industry Co's Draft and Final Recommendations are available on [Gas Industry Co's](#) website.

### Gas Industry Co role in MPOC changes

Under the Maui Pipeline Operating Code (MPOC), Gas Industry Co has a role of consulting with the gas industry on any proposed amendment to the MPOC, and determining whether or not to support it. Change requests are evaluated having regard to the objectives of the Gas Act.

A change request proceeds only where required by law or where Gas Industry Co makes a written recommendation to MDL supporting the change. MDL has sole discretion to reject a recommendation if it considers the change would materially adversely affect its business, or would require MDL to incur capital expenditure that is not recoverable.

A Memorandum of Understanding (MoU) between Gas Industry Co and MDL describes how this role is performed.

Gas Industry Co is required to come to a view on whether a proposed change will better meet the objectives of the Gas Act, including whether efficiency will be improved.

## Distribution contract assessment framework released for discussion

Gas Industry Co is proposing a qualitative scoring system, similar to the Retail Gas Contracts Oversight Scheme, as an assessment framework for gas distribution contracts.

The [Distribution Contract Principles: Proposed Design of the Assessment Framework](#) was issued on 29 March for industry feedback by 10 May. A workshop for industry participants was held on 27 April.

Gas Industry Co reviewed arrangements on gas distribution systems in 2011 to fulfil the Government Policy Statement outcome of ensuring industry participants and new entrants are able to access distribution systems and related services on reasonable terms and conditions.

The proposed Assessment Framework comprises a qualitative scoring system, using five assessment rankings – Full, Substantial, Moderate, Low and Nil. Assessments will be conducted by an independent assessor, appointed for an initial two-year term to cover the 2012 and 2013 assessments.

The Principles and the Assessment Framework are subject to final endorsement by the Minister of Energy and Resources. The first assessment will commence six months after the Minister's endorsement, and is expected to occur in the second half of the 2012 calendar year.

The results of the first assessment will be reported at a consolidated level. Individual distributors will not be publicly identified, although their individual results will be reported to them.

The second assessment will commence 12 months after the results of the first assessment are published, and will determine if distributors have implemented any improvements identified in the initial round. The second round results for individual distributors will be published.

### Retail contracts assessment

The third assessment under the Retail Gas Contract oversight scheme will be conducted as at 1 July 2012. Results for individual retailers from this assessment will be made public for the first time. Through the previous initial and transitional assessments there has

been constructive engagement with retailers and Gas Industry Co is encouraged by indications that retailers are actively moving to improve their retail contracts and achieve greater alignment with the benchmarks.

## Information request protocol to be developed alongside regulatory framework

Following consideration of submissions on its information gathering proposal, Gas Industry Co is developing a more formalised protocol for requesting information, while simultaneously progressing a regulatory framework to provide certainty and enforceability.

Further consultation is planned and will provide industry participants with more opportunities to contribute. The information gathering proposal, detailed in a [Statement of Proposal](#) (SoP) issued in December 2011, recommends a regulatory framework that would serve as a backup if full and timely information cannot be obtained from participants voluntarily. The proposal attracted eight [submissions](#), which were divided between qualified support for the regulatory framework, and opposition to it.

Gas Industry Co notes the submissions generally indicate an industry protocol might now receive a more positive rating given the willingness, expressed by most submitters, to comply with information requests under a voluntary regime. Gas Industry Co welcomes this willingness, but nonetheless believes the regulation options potentially provide more certainty with respect to comprehensive coverage of industry and enforcement. The

regulatory model provides a backstop to obtain information if cooperation from industry participants during the initial voluntary stage is not achieved.

In light of the submissions, Gas Industry Co has “identified that a more formalised and transparent protocol is required for requesting information from industry participants.” It is developing such a protocol, which will be widely communicated to the industry. At the same time work will continue on drafting a regulatory framework that can be the subject of further consultation, based on the information request protocol.

## Industry Advisory Group assisting downstream reconciliation review

An Industry Advisory Group has been established to assist Gas Industry Co’s work on the downstream reconciliation review and drafting revised rules for consultation.

The Group comprises six industry participant representatives selected for their operational understanding of the downstream reconciliation process and their grasp of how the Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules) work in practice. It held its first meeting in March.

The Reconciliation Rules prescribe the process for volumes of gas leaving the high pressure system to be reconciled with volumes consumed by end users and appropriately attributed to the retailers responsible for them. Gas Industry Co monitors gas industry arrangements for their continuing effectiveness and to identify where improvements can be made. The Reconciliation Rules have operated since October 2008 and the review seeks to improve specific aspects of them, rather than re-assess their underlying intent and purpose.

An [Options Paper](#) released in December 2011, presented several options for improving the accuracy of the initial allocation. The eight submissions received – and detailed in an [Analysis of Submissions](#) on 13 March - indicated a strong degree of consensus on a range of matters, notably the need for further work around options for the initial allocation. This will involve refining the initial allocation process, or replacing the month-end initial allocation process with a system of daily allocations throughout the consumption month (D+1).

A D+1 solution would result in retailers having daily information about their gas positions, based on the previous day’s gas usage. In contrast, the current practice is for gas positions to be updated as monthly allocations are performed. Accordingly, D+1 would provide shippers with improved information to self-balance by better matching their upstream and downstream positions.

Work arising from the Options Paper will be split into two streams. The first, encompassing most of the matters identified, will form the content of a Statement of Proposal (SoP) scheduled for release in June 2012. These matters involve either codifying existing exemptions in the Reconciliation Rules or making processes more efficient. The second workstream is focused primarily on the more challenging initial allocation and D+1 processes and will lead to a later SoP.

The main function of the Advisory Group is to help Gas Industry Co progress Reconciliation Rules changes. Initially assisting Gas Industry Co to finalise the first SoP, the Advisory Group’s main task concentrates on the initial allocation options and developing the second SoP.

Areas being addressed by the downstream reconciliation review are:

- atypical gas gates
- correcting AUFG factors
- allocation of ongoing fees
- compliance
- the process for granting exemptions
- initial allocation
- D+1

## Proposed FY2013 strategy, work programme and levy submitted to Minister

Gas Industry Co's draft Strategic Plan for FY2013-15 and its recommendation on the industry levy for FY2013 have been submitted to the Minister of Energy and Resources for consideration.

The Company has invited the Minister's comments on the draft Strategic Plan, which reflects the indicative work programme Gas Industry Co has presented to industry participants, both at the Co-regulatory Forum in November 2011 and in the [Statement of Proposal](#) on the FY2013 Strategy, Work Programme and Levy, released for industry submissions on 21 December. The SoP was the subject of further discussions at an industry workshop on 2 February.

The work programme also reflects the Company's strategic objectives, which in turn have regard to the objectives and outcomes set for the gas industry by the Gas Act and the Government Policy Statement on Gas Governance. The Minister has been advised that the work programme in the current year (FY2012) is more extensive than expected due to the industry-supported focus on gas transmission issues, now being addressed through the Gas Transmission Investment Programme (GTIP). Gas Industry Co has also been required to undertake significant work on the Critical Contingency Management Regulations in the wake of the Maui pipeline outage, as well as a review of the need for insolvent retailer regulations.

As part of the levy development process, [a change was proposed](#) to the method of collecting the wholesale levy, to make it more akin to that applying to market fees, whereby the calculated annual wholesale levy requirement would be allocated each month based on each industry participant's share of gas volumes for that month. Following receipt of submissions, Gas Industry Co has decided not to pursue the change at this time, but will continue to monitor the appropriateness of the current collection method in the light of any future surpluses, and any changing views by levy payers. Further details on the development of the Strategic Plan, work programme and levy can be found [here](#).

Coming up	
<p><b>May</b></p> <p>10th – submissions due, distribution contracts assessment framework</p> <p>18<sup>th</sup> – Transmission Update presentation for industry participants; Gas supply/demand workshop</p> <p>CCM Regulations review discussion paper and revised Guidelines for Essential Service Providers and Minimal Load Users released for industry feedback</p>	<p><b>June</b></p> <p>First Statement of Proposal – downstream reconciliation review</p> <p>Distribution contract assessment framework – recommendation to Minister</p> <p>Gas Industry Co Strategic Plan FY2013-15 published</p>

# Performance Measures Quarterly Report for the period ending 31 March 2012

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## 1 Summary

This Report provides an update on the performance measures that Gas Industry Co monitors on a regular basis. The purpose of these measures is to track the performance of the Gas (Switching Arrangements) Rules 2008 (the Switching Rules), the Gas (Downstream Reconciliation) Rules 2009 (the Reconciliation Rules), and the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations), both in terms of activity related to these statutes and the competitive outcomes that they foster.

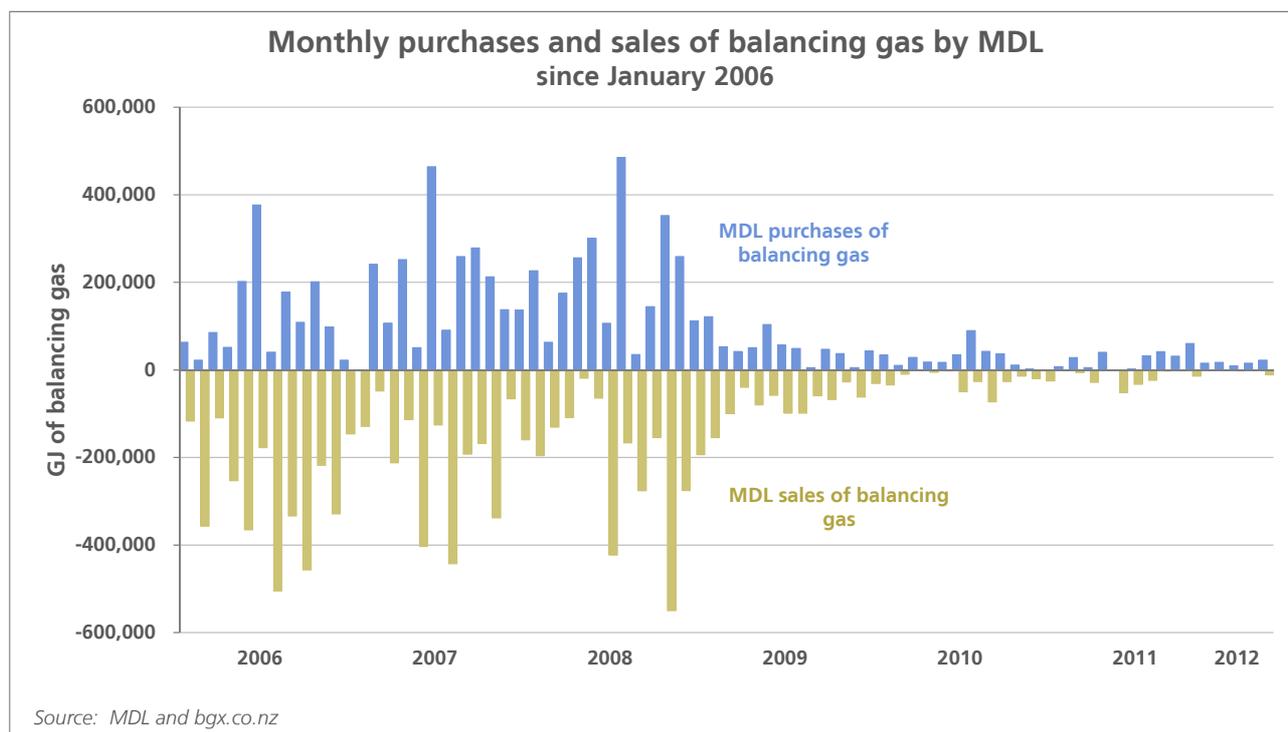
Highlights of the Report:

- Balancing gas volumes are a fraction of what they were prior to 2009. Since January 2011, average balancing gas volumes have been just over 33,000 GJ, a decrease of 92% from the 403,000 GJ monthly average experienced from 2006-2008.
- Switching levels rebounded in March with over 3,700 switches, about 450 more than the rolling 12-month average. The time required to process switches remains at about 6 days, a fraction of the weeks that switching used to take before the inception of the switching rules.
- Despite the increase in switching rates, there have been no major movements in customer market share over the past quarter. Genesis Energy continues to be the largest retailer by number of customers.
- In terms of volume, Nova and OnGas are the largest retailers, each with over 683,000 GJ per month of allocated gas volumes.
- Volumes of annual unaccounted-for gas (UFG) are about 1.2% of allocated gas volumes on an annual basis. Prior to the introduction of the Reconciliation Rules, the annual percentage of UFG was about 2.5%.
- Consistent with the trend over the past 18 months, the majority of gas customers – over 93% -- are connected to a gate where at least six retailers trade.
- There was a critical contingency on 3 March 2012, caused by an unexpected outage of the Pohokura Production Station. Compliance with demand curtailment directions during the event by large consumers was good, and no breaches have been alleged in respect of this event.

## 2 Balancing gas volumes

The volume of gas in a pipeline relates to the gas pressure in the pipeline and needs to be maintained below the safe operating pressure limit for the pipeline and above the minimum required to maintain the supply of gas to consumers. On the Maui pipeline, pressures will rise or fall as parties who inject gas into the pipeline over- or under-inject and as parties who receive gas from the pipeline under- or over-take relative to their respective scheduled volumes. Managing the gas inventory in a pipeline is referred to as *balancing*. MDL buys and sells balancing gas in order to manage gas volumes and thus maintain gas pressure within safety and operational limits.

Prior to 2008, balancing services were essentially free to holders of legacy Maui gas contracts, but changes implemented at the end of 2008 to the Maui Pipeline Operating Code mean that interconnected parties and gas shippers are now responsible for imbalances that they create. In 2009, MDL instituted the Balancing Gas Exchange, an online platform that displays pipeline balance conditions and enables gas producers and wholesale gas consumers to post offers to buy and sell balancing gas. These two changes appear to have provided gas transmission customers with an incentive to self-balance and greater information on which to base their balancing decisions.



The outcome is the significantly reduced volumes of gas needed to be purchased or sold by MDL to balance the Maui pipeline, as can be seen in the chart above. In each of the calendar years 2006, 2007, and 2008, over 4,600,000 GJ of balancing gas were bought and sold by MDL. In 2009, balancing gas volumes totalled less than 1,500,000; and in 2010, balancing gas volumes were just over 600,000GJ – a decrease of 87% from 2008 volumes. In calendar 2011, balancing volumes

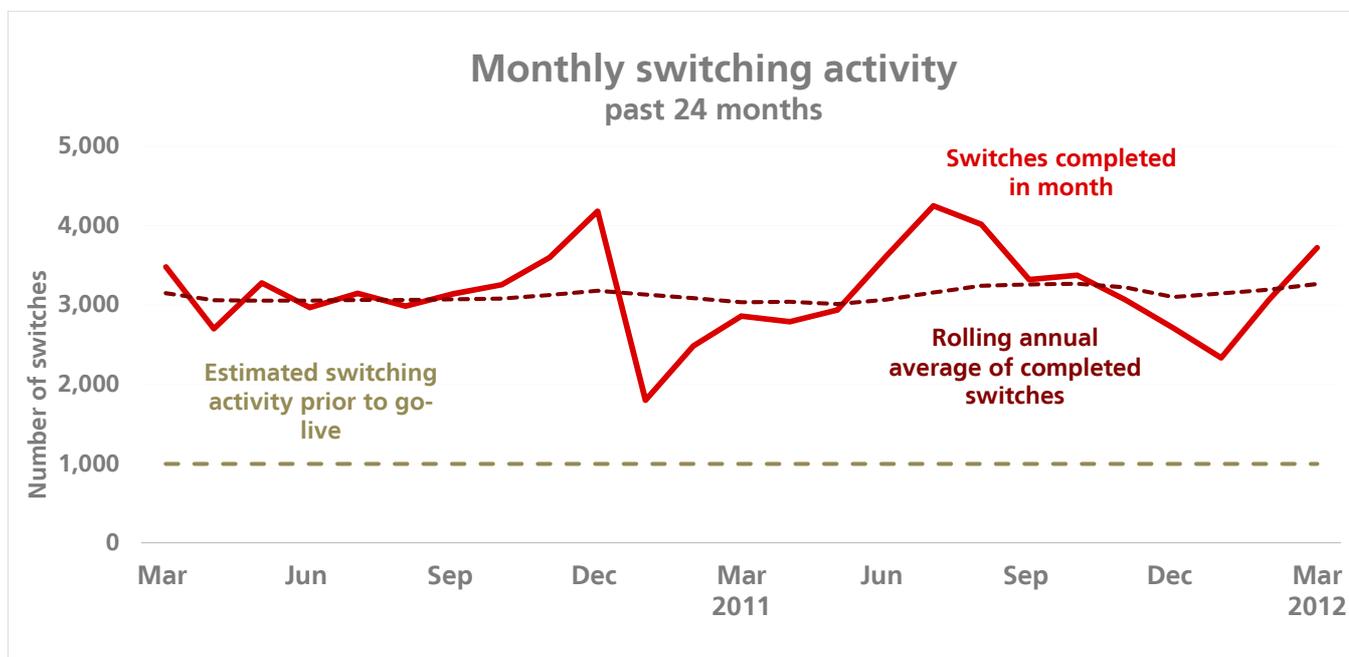
declined again, to less than 440,000 GJ. These low volumes have continued at the beginning of 2012; the average monthly volume since January 2011 is just over 33,000 GJ.

### 3 Switching performance measures

#### Monthly switching activity

Switching activity dipped in December 2011 and January 2012, consistent with patterns seen over the holiday season in previous years. Switching rebounded in March; 3,720 switches were recorded in this month, more than the monthly average. The annual rate of switching is about 16%. As a comparison, the electricity switching rate for the year ended March 2012 is about 21%.

Prior to the gas registry going live in March 2009, approximately 1,000 switches were processed on a monthly basis, and the annual churn rate was approximately 4.8%.

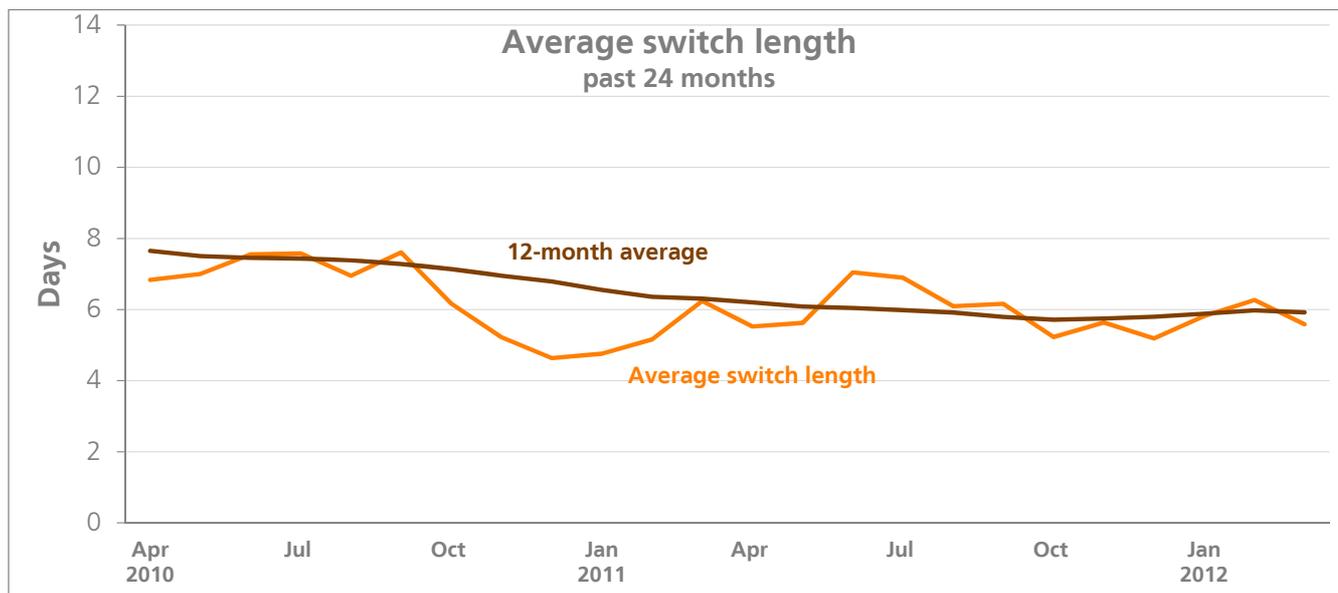


Note that this chart includes only switches that occurred on open-access distribution networks; switches from open-access to bypass networks (or vice versa) would not be recorded as a switch in the Gas Registry.

## Time to process switches

The chart below shows the average length of time it has taken to process the switch requests that have been received in a month. The average time to process a switch has consistently fallen in the past two years. The twelve-month rolling average switching time has been just under six days since July of last year. In comparison, switches could take weeks or even months to process prior to the inception of the switching registry.

The downward trend in switching times may be a byproduct of the switching requirements in electricity and is pleasing to see, provided that the costs of the shortened switching times do not outweigh the benefits to consumers.

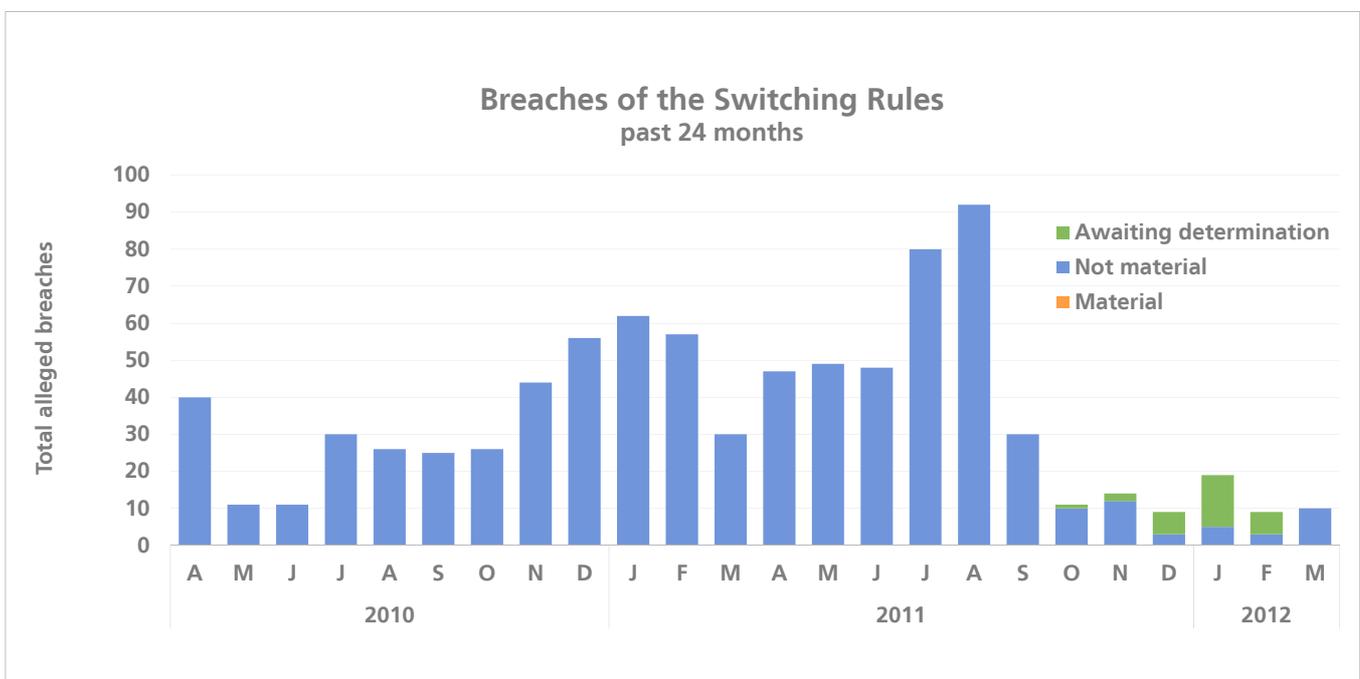


Note that the chart above excludes the transfers from E-Gas to Nova and from Auckland Gas to Nova, all of which went through in less than a day.

## Number and severity of breaches of the Switching Rules

In the first year after the inception of the Switching Rules, nearly 5,500 switching breaches were alleged. Many of these breaches can be attributed to unfamiliarity with the Rules. Since that first year, the numbers of switching breaches have fallen significantly. Switching breaches have fallen again since the start of the current gas year; there have been an average of about 11 breaches per month since October 2011.

The Market Administrator has made a number of material determinations in this quarter that are not reflected in the chart below, since, at the time of this report, those material determinations are being finalised for circulation to the participants allegedly in breach and any participants joined to the alleged breaches.



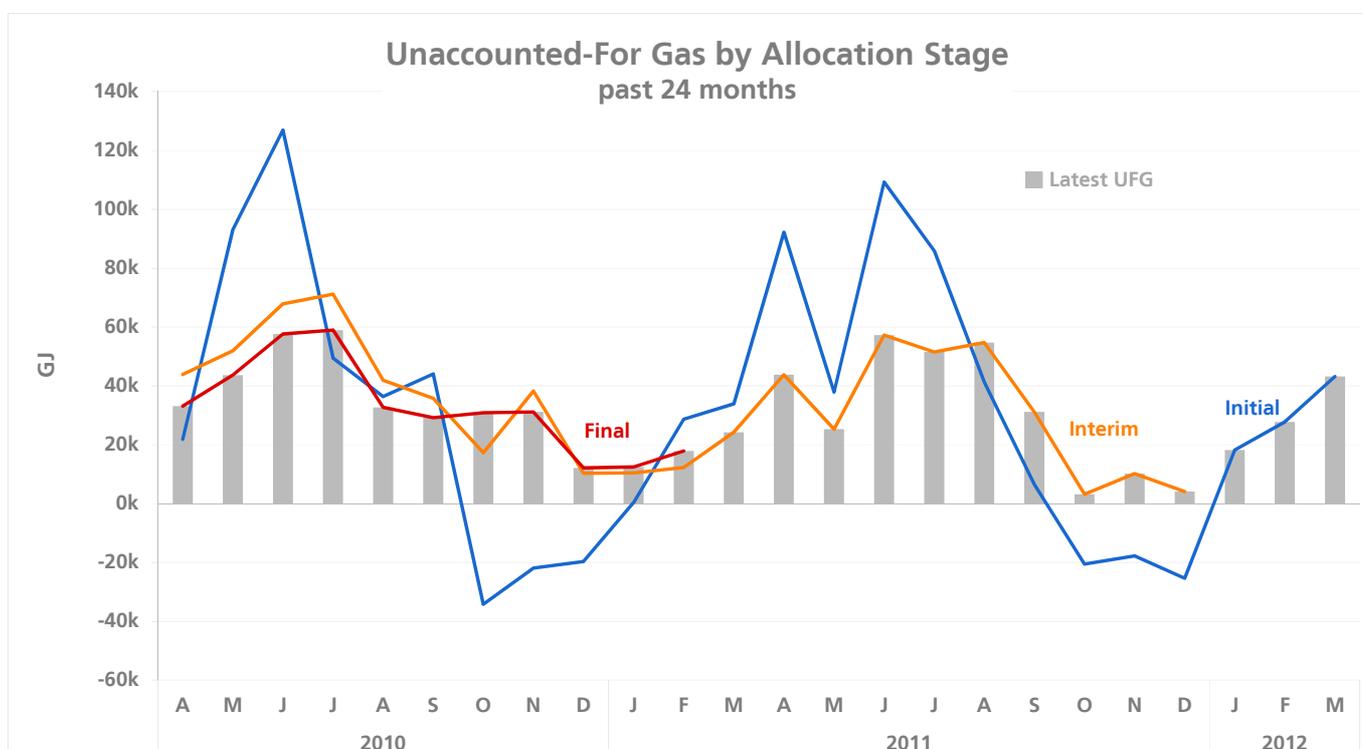
## 4 Allocation and reconciliation performance measures

### Volumes of Unaccounted-for Gas

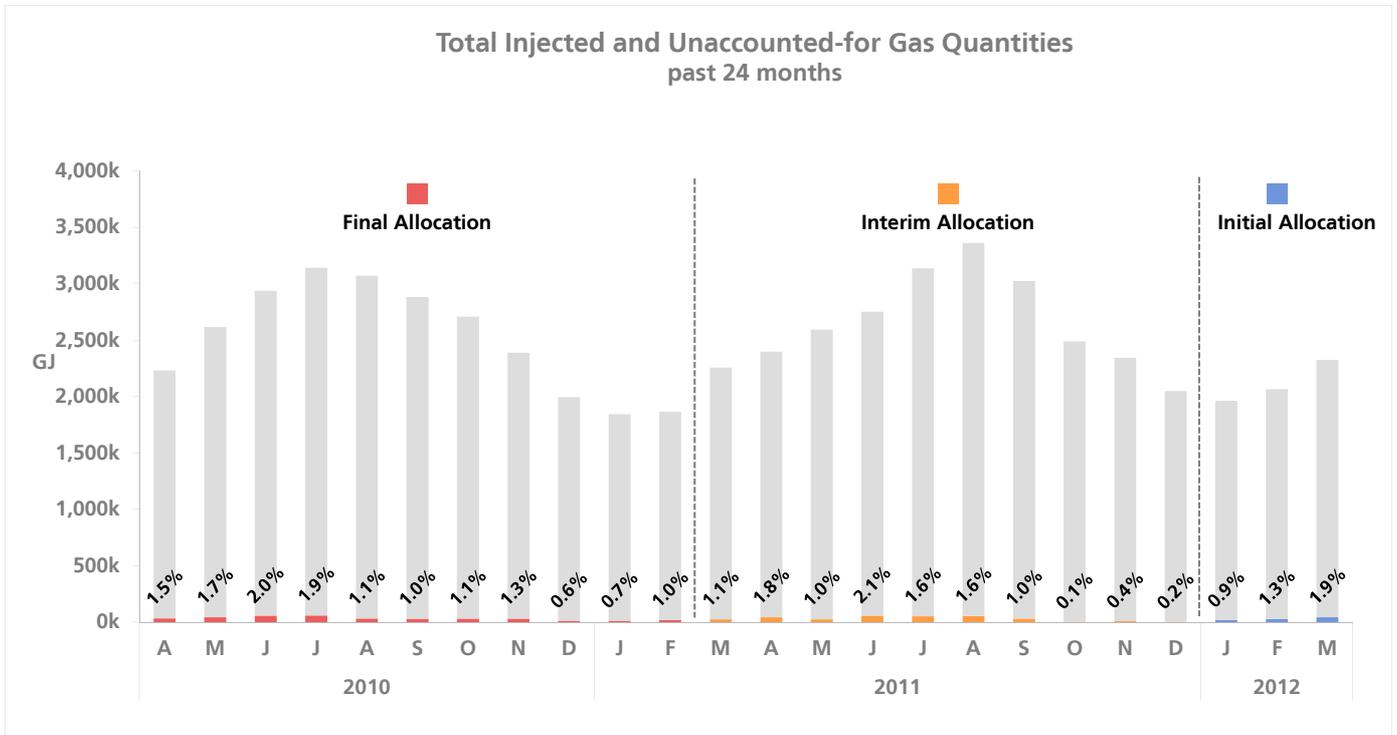
Under the Reconciliation Rules, the amounts of gas that retailers estimate their customers have used are subtracted from the amounts of gas leaving the transmission system. The difference is UFG, which arises from technical losses on the system, metering inaccuracies, and retailer estimation errors. UFG imposes a cost on the market: it is gas that retailers are allocated and must pay for, but cannot sell. Tracking UFG is a way of monitoring these costs and the efficiency of the retail market. This transparency should assist the industry to take steps to reduce UFG where it is efficient to do so.

The chart below compares total UFG quantities by consumption month and allocation stage (initial, interim or final). The grey bars show UFG based on the most recent data available.

Changes in UFG from one allocation stage to another are largely due to mass market retailers' consumption submissions becoming more accurate at later allocation stages. The chart below shows that UFG at the initial stage was negative for October, November, and December of both 2010 and 2011, but subsequent allocations for those months resulted in relatively small amounts of positive UFG. This effect is due to retailers tending to overestimate their customers' consumption in that shoulder period between seasons and then correcting the estimations at the interim and final allocations. Initial UFG for January, February, and March of this year are positive and roughly in line with UFG experienced at the initial UFG in the same months of 2011.

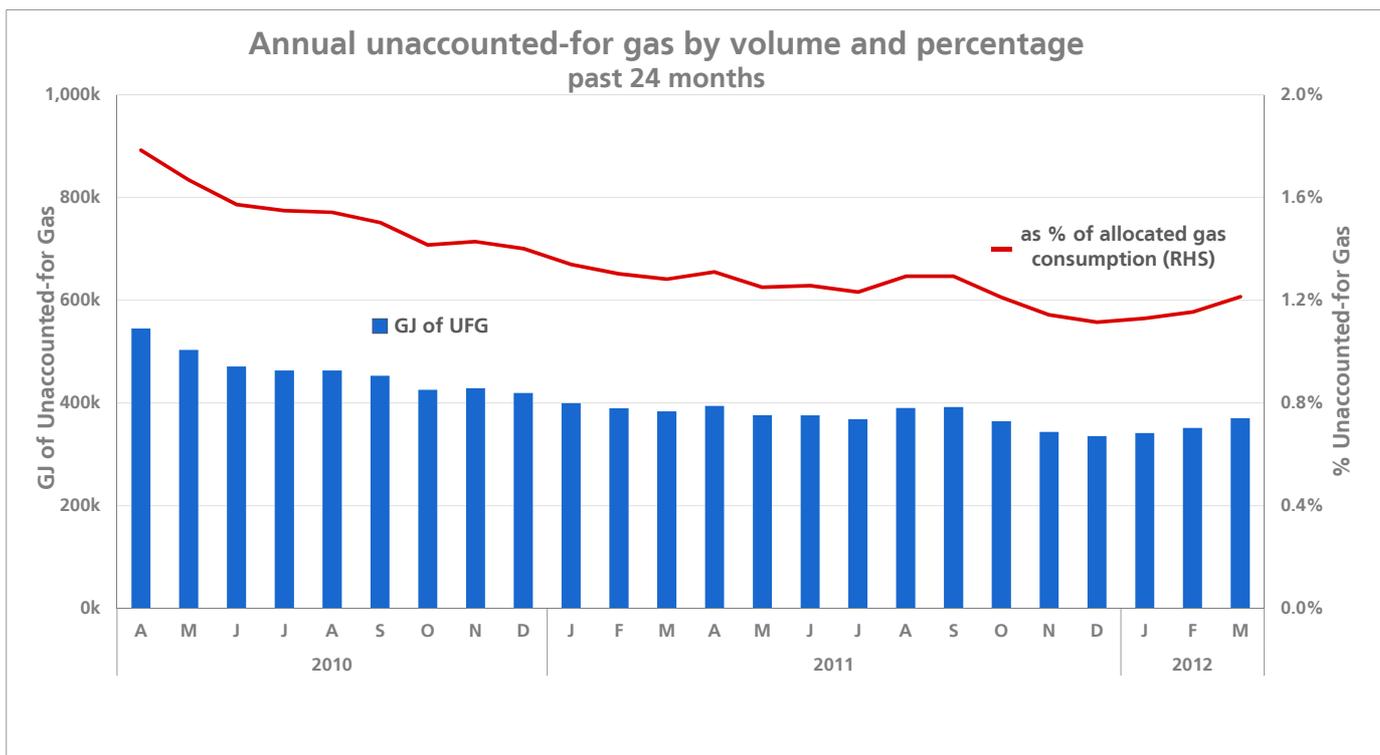


The chart below shows the amount of unaccounted-for gas in comparison to the total amount of allocated gas consumed each month. The grey bars show gas consumption at allocated gas gates, which follows a seasonal pattern: higher in winter and lower in summer. UFG as a percentage of volume follows a similar seasonal pattern.



Another way to think about UFG is the amount recorded over a 12-month period. The chart below shows rolling 12-month UFG figures, both as a GJ total and as a percentage of gas consumed. The information is based on the best data available at the time of publication, so, for example, the March 2012 total is based on three initial allocation results and nine interim results, while the March 2011 total is based on twelve final allocation runs.

The chart shows that annual UFG has declined from about 1.8% of annual consumption at allocated gas gates to about 1.2%.



### Accuracy of submission data

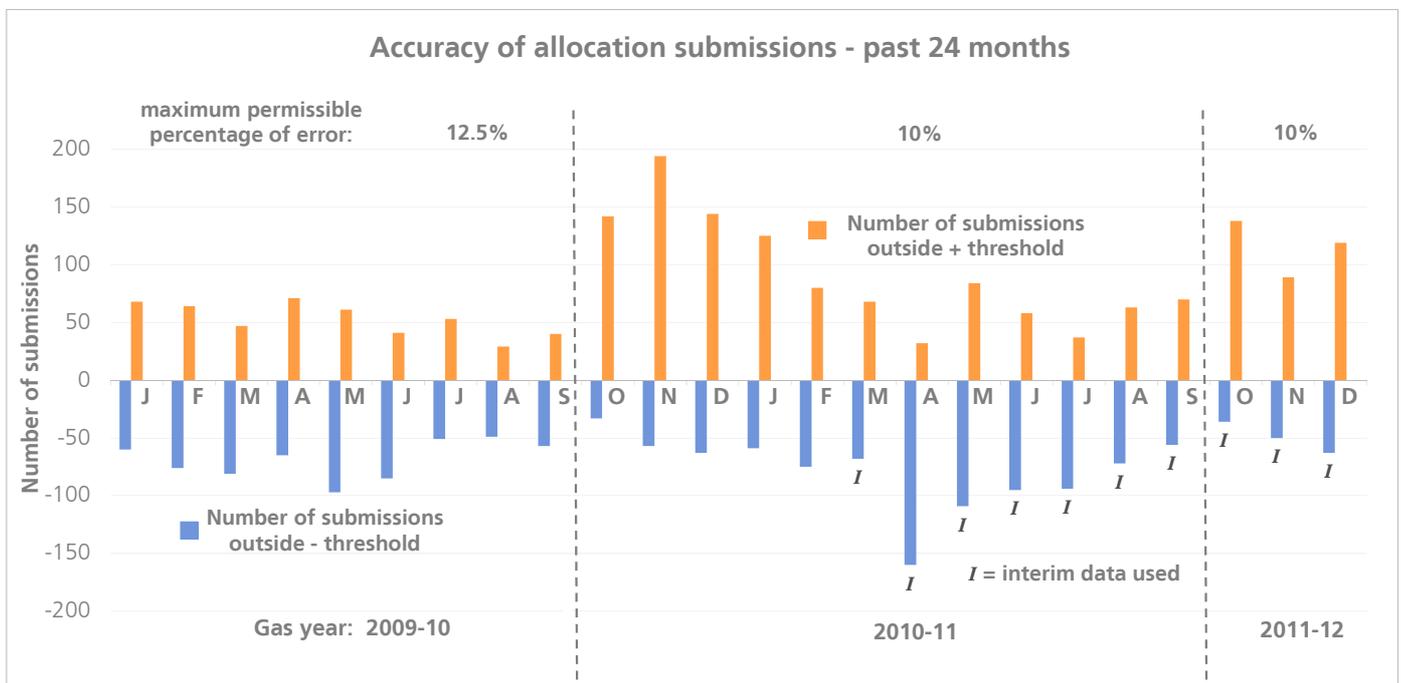
The accuracy of initial submissions is important, as balancing and peaking charges on the Vector transmission system are levied on the basis of initial allocation results and are not subsequently washed up. This means that the balancing costs of the UFG created through inaccurate initial consumption submissions fall onto all retailers at the affected gate. To limit the impact of this effect, the Reconciliation Rules require that initial consumption submissions are within a specified percentage of the final (and most accurate) consumption submissions.

The chart below shows the number of retailer submissions that were outside the maximum permissible error threshold in the last 24 months for which data are available. For this analysis, final submissions were compared to initial allocation submissions for the months they were available (January 2010 – February 2011). Other months use interim submissions (in place of final) for the comparison data and are marked with ‘I’ in the chart below. The percentage of error relevant to the consumption month

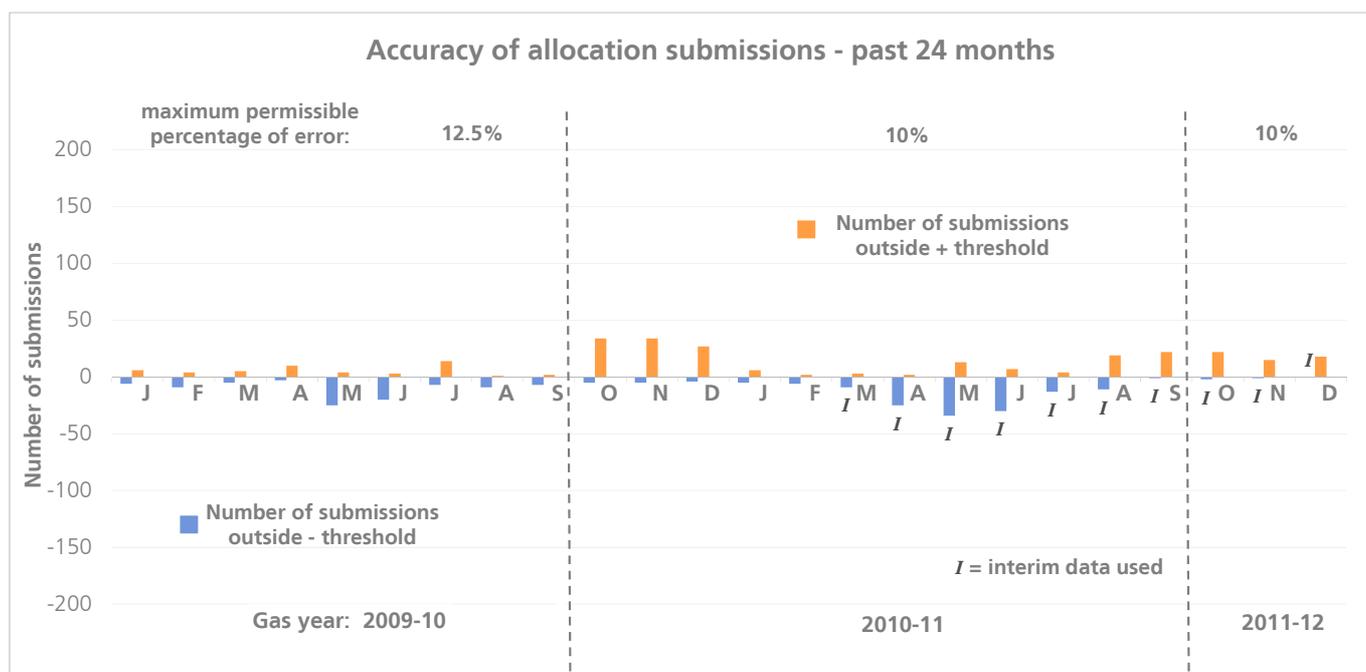
has been used to measure accuracy: 12.5% in the 2009-10 gas year and 10% in both 2010-11 and 2011-12.

October 2010 saw an increase in the number of submissions outside the accuracy threshold, and this increase is noticeable particularly in the number of oversubmissions (orange bars) from October 2010 through February 2011. The oversubmissions at the initial allocation stage for these months are reflected in the negative UFG at the initial allocation shown in the preceding charts. A similar increase can be seen in the 2011-12 gas year.

The number of undersubmissions in the winter months of 2010-11 increased over the same months in the previous year. This effect is shown in the increase in positive UFG in these months.



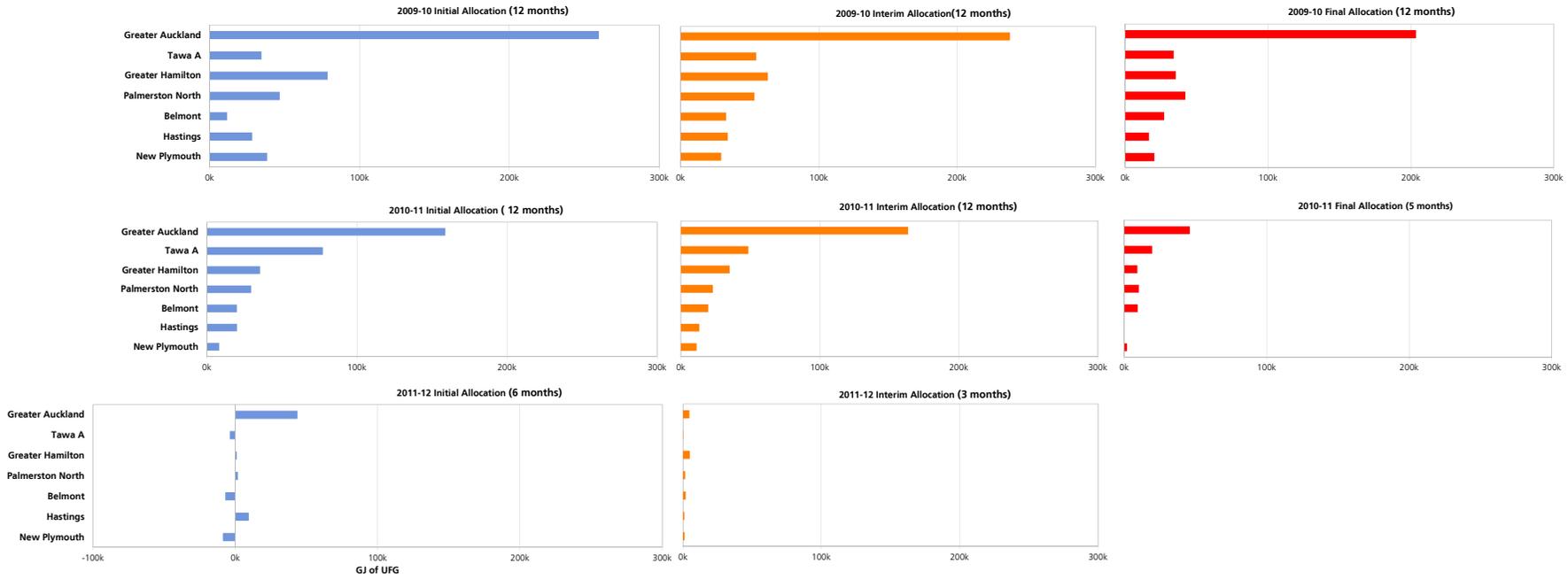
The market administrator uses a volume threshold of 200 GJ as a means of differentiating those breaches that are likely to have had a materially adverse effect on other market participants. The chart below shows the number of accuracy breaches that involve gas quantities larger than 200 GJ. As a comparison of the two charts illustrates, there is a significant proportion of accuracy breaches that have involved less than 200 GJ. Deeming these breaches not material allows industry participants to focus on addressing the harm caused by larger volume estimation errors.



### Gas gates where UFG is the highest

Greater Auckland gas gate is consistently the largest contributor of all the gas gates to UFG volumes, followed by Tawa A, Greater Hamilton, Palmerston North, Hastings, and Belmont. This pattern is roughly consistent over all three allocation cycles and across gas years, indicating that UFG is a persistent issue at these gates.

The charts below compare UFG across time and across allocation stages. All allocations have now been performed for the 2009-10 gas year and are shown in the top row below. For the 2010-11 year, shown in the second row, initial and interim allocations have been done for all 12 months; as well as the final allocations for October through February 2011. For the 2011-12 gas year, shown in the third row, initial allocations for October through March 2012 and interim allocations for October through December 2011 have been performed. As can be seen from the charts, there is a trend of decreasing UFG both from year to year and across allocation stages.



## **Audits commissioned**

### **Event audits**

There have been no event audits commissioned in the past quarter.

### **Performance audits**

No performance audits of retailers have been commissioned this quarter.

A performance audit of the allocation agent was finalised and published in February this year. There were two specific areas of concern that the auditor identified:

- The auditor expressed concern about the completeness of the disaster planning arrangements in place for the allocation agent function. Gas Industry Co is working with the allocation agent to investigate options for improving allocation disaster recovery planning.
- The allocation process would be improved by using the gas registry to determine for each gate which retailer should be submitting which consumption files for which allocation groups each day; it could also be used to provide gas gate static information for the allocation process. This would allow the allocation system to accept only valid inputs and identify missing submissions with greater accuracy. This would provide much higher certainty of the input consumption information, provide a readily auditable trail (and reporting if desired) of retailer compliance, and reduce the present reliance on human checking of reported potential submission errors.

This recommendation is being considered as part of the review of the Downstream Reconciliation Rules (which will entail system changes to the allocation system).

## Number and severity of breaches of the Reconciliation Rules

Over 80% of breaches alleged under the Reconciliation Rules relate to rule 37, the rule that requires the accuracy of consumption information provided at the initial allocation stage to be within a specified tolerance level of the information provided at the final allocation stage.

The Market Administrator has recently determined a number of rule 37 breaches in accordance with the *Market Administrator Guideline note rule 37 – materiality of rule 37.2 breaches (Downstream Reconciliation)*.<sup>2</sup> These determinations are about to be sent to participants, and the chart below reflects the determinations made.

Last year, the Market Investigator worked with Gas Industry Co to effect a settlement of a group of material breaches of rule 37. It may be possible to adopt a similar process for the recently determined group of rule 37 breaches.

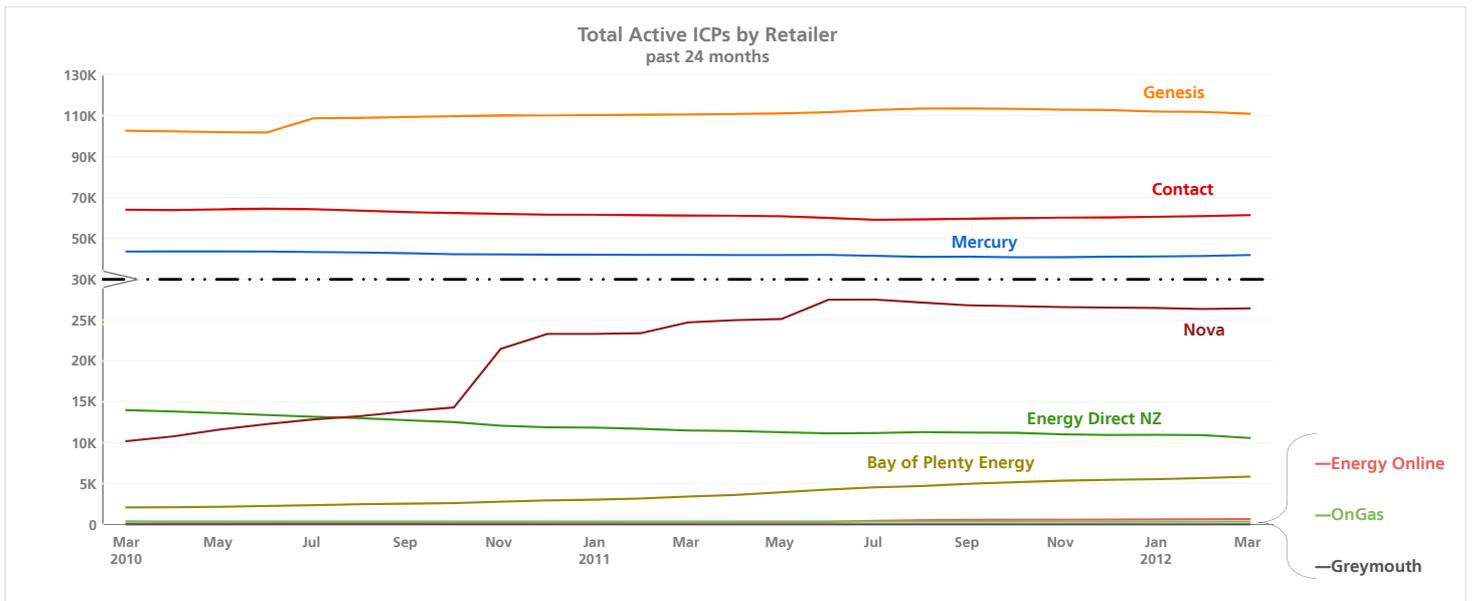


<sup>2</sup> Available at [http://gasindustry.co.nz/sites/default/files/u254/Market\\_Administrator\\_Guideline\\_Note\\_37\\_154636.1.pdf](http://gasindustry.co.nz/sites/default/files/u254/Market_Administrator_Guideline_Note_37_154636.1.pdf)

## 5 Market competition performance measures

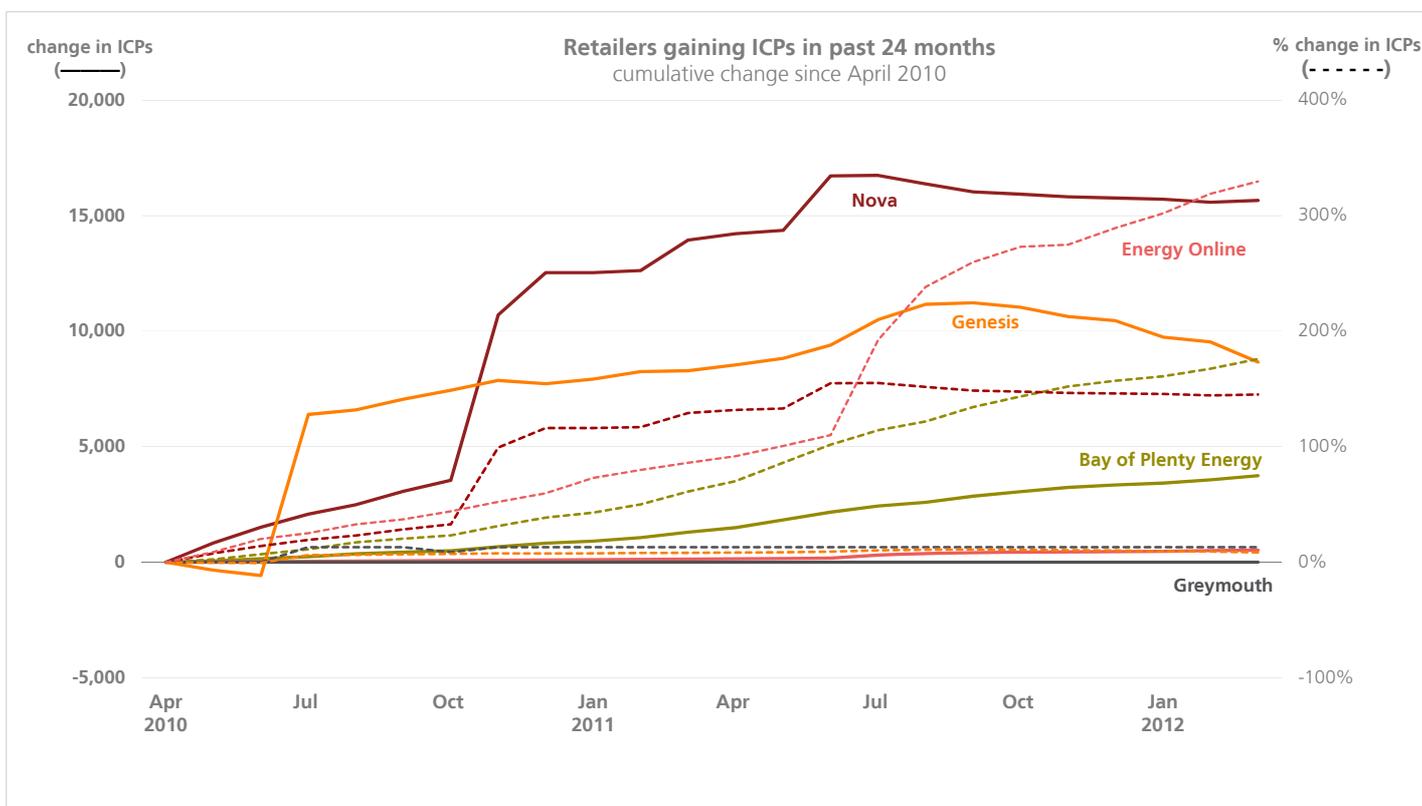
### Market share of ICPs by retailer

Market share of ICPs has again been relatively constant over the past quarter, as illustrated by the chart below. Nova Energy's step changes are a result of acquiring the E-Gas customer base in November 2010 and amalgamating its Auckland Gas brand in December 2010 and June 2011. The other movements in market share are due to customer switching.

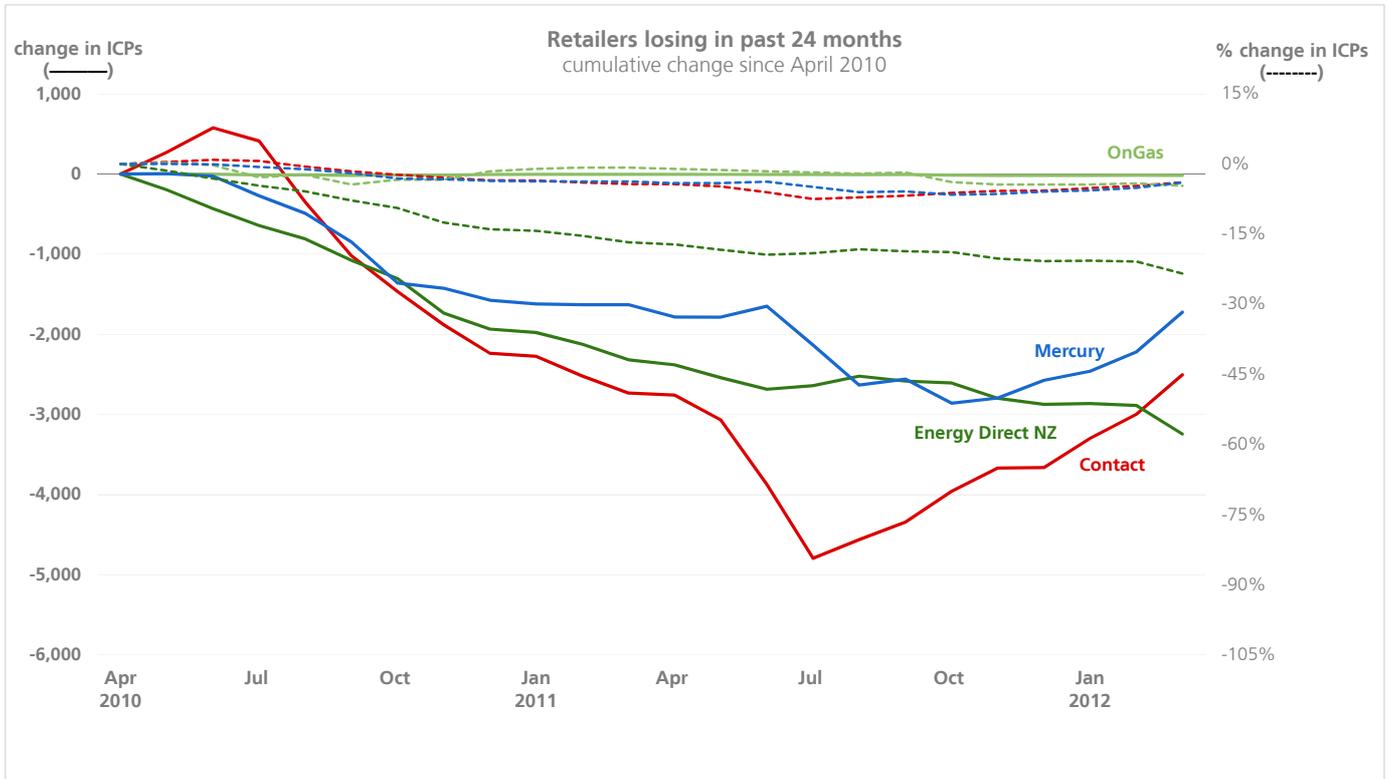


The two charts below are drawn from the same data set. The solid lines represent the change in numbers of ICPs, and the dashed lines show the percentage change in ICPs relative to April 2010. The first chart includes retailers who have experienced net gains in ICPs in the past two years, and the second includes retailers who overall have lost ICPs in the same timeframe.

In percentage terms, Energy Online, a retail brand of Genesis Energy, has grown by over 300% in the past two years, adding 524 ICPs to its customer base. Bay of Plenty Energy has grown by over 170% with the addition of over 3,700 ICPs. Genesis increased its customer base by over 11,000 ICPs, but has lost some of those gains recently. Nova's customer numbers have been boosted by the acquisition of E-Gas, amalgamation of the Auckland Gas brand, and organic growth.



The chart below shows the retailers who have lost market share in ICP numbers in the past two years. Although Mercury and Contact have overall lost customers in the past two years, both have made net gains in customer numbers since about mid-last year.



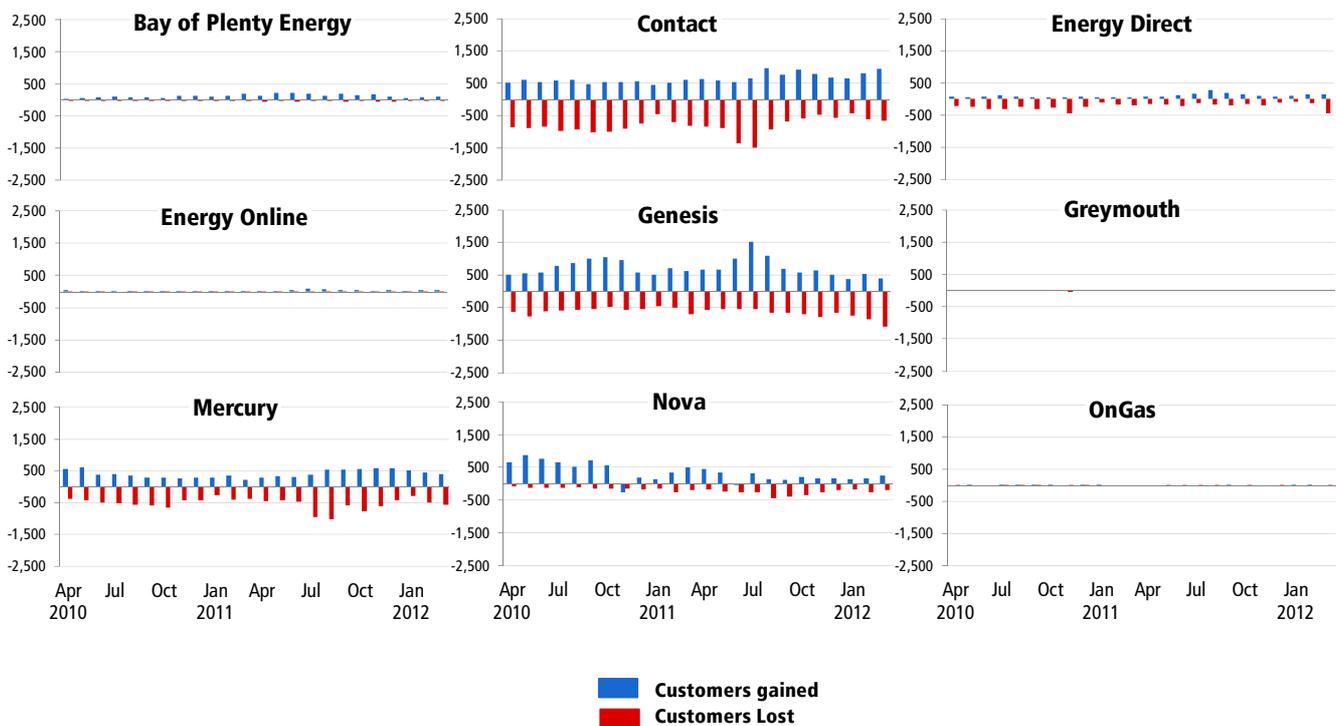
Note that all three of the ICP share charts above include data from ICPs on open-access distribution networks only; information about ICPs on bypass networks is not available in the Gas Registry.

## Switching activity by retailer

This chart shows the numbers of ICPs gained and lost by retailers over the past two years. The blue bars show the number of customers gained by the retailer each month, and the red bars show the number of customers lost.

As shown by these charts, although the net changes in number of customer ICPs may not change significantly from month to month for some retailers, there is a lot of underlying switching activity, particularly for the mass market retailers Contact, Genesis, and Mercury. Note that these charts exclude the bulk transfer of 6,348 ICPs from E-Gas to Nova in November 2010; they also exclude the transfer from Auckland Gas to Nova of 1,478 ICPs in December 2010 and 2,243 ICPs in June 2011.

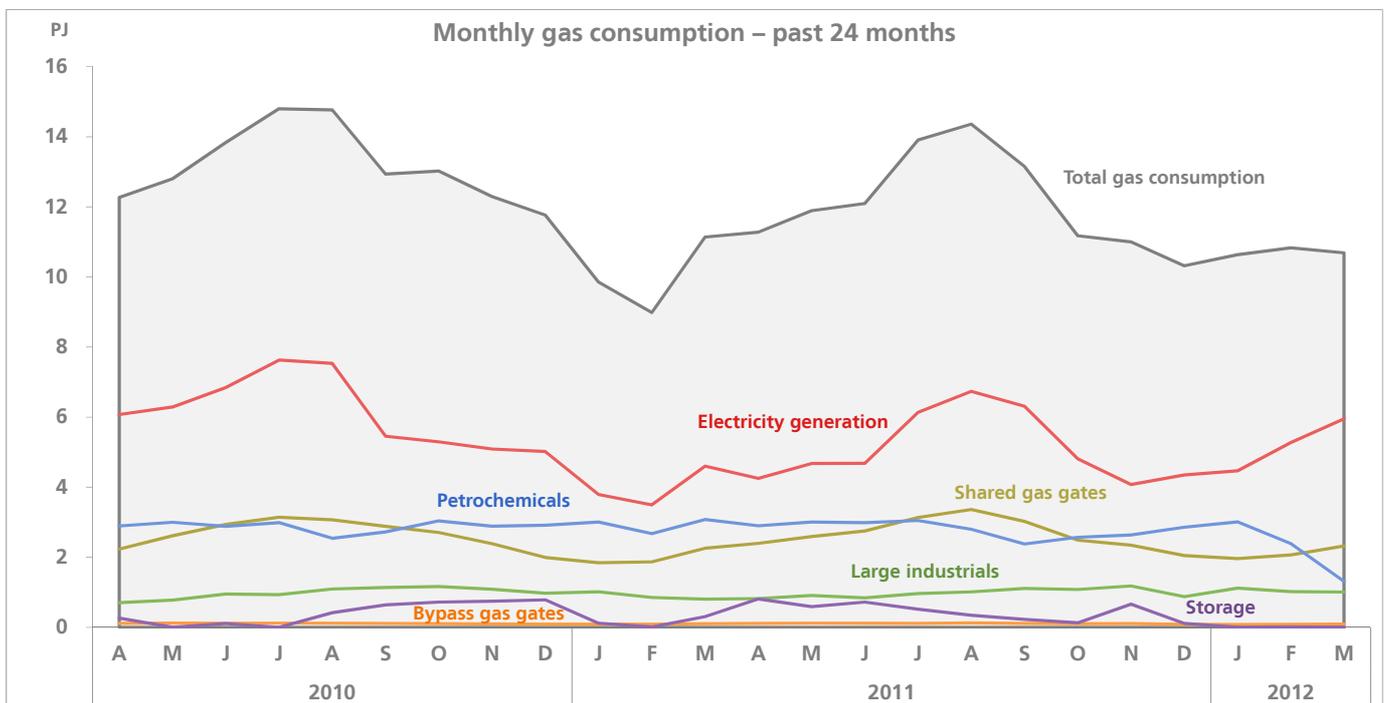
## Switching activity by retailer



## Total gas volumes

The chart below shows the total amount of gas consumed over the past two years by all gas users. The top grey line shows total consumption; the coloured lines provide a breakdown by type of use.

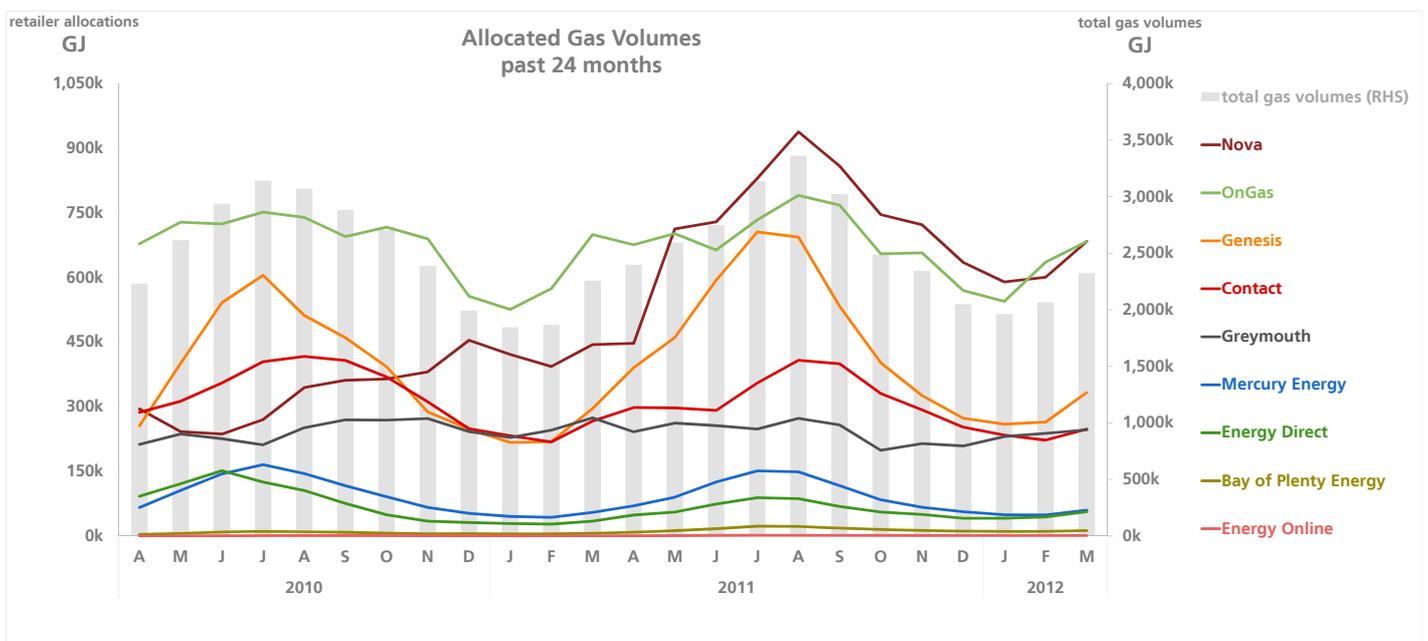
- The red line shows the seasonal peaks and troughs in gas used for thermal electricity generation.
- Consumption for petrochemicals, in blue, is relatively constant, as is usage by large industrials (in green). The decline in petrochemical gas consumption in March is due to the scheduled two-week outage of Pohokura for maintenance and the unexpected trip of the Pohokura production station at the beginning of the month.
- The purple line shows the volumes of gas going to storage.
- The orange line represents gas used by consumers connected to the private pipelines owned by Nova.
- The tan line shows the amount of gas used by customers connected to shared gas gates. This represents the majority of commercial and residential customers. There is a seasonality trend to the consumption, higher in winter and lower in summer. These allocated gas volumes are broken down by retailer in the next section.



## Allocated gas volumes

This chart shows the gas volumes allocated to retailers at shared gas gates over the past two years. This is gas consumed by industrial, commercial, and residential customers, but it excludes gas volumes from direct connect gas gates; that is, from gas gates that supply a single customer directly from the transmission system. For this reason, gas volumes supplied through direct connect gas gates to such industrial sites as thermal power stations, oil refinery, and paper and chemical factories are not included in the chart below.

In May last year, Nova Energy overtook OnGas in terms of the largest share of allocated gas. This increase reflects the increase in Nova's customer base, through its acquisition of E-Gas, amalgamation of Auckland Gas, and organic growth. In the past two months, allocated volumes for Nova and OnGas have been similar. Genesis, the third largest retailer by volume, has a load profile that peaks in winter and troughs during the summer. Contact, Mercury, and Energy Direct all show similar – but less pronounced – winter peaking patterns. Greymouth's share of allocated gas, in contrast, is relatively steady throughout the year, reflecting their position as largely as supplier to industrial loads.

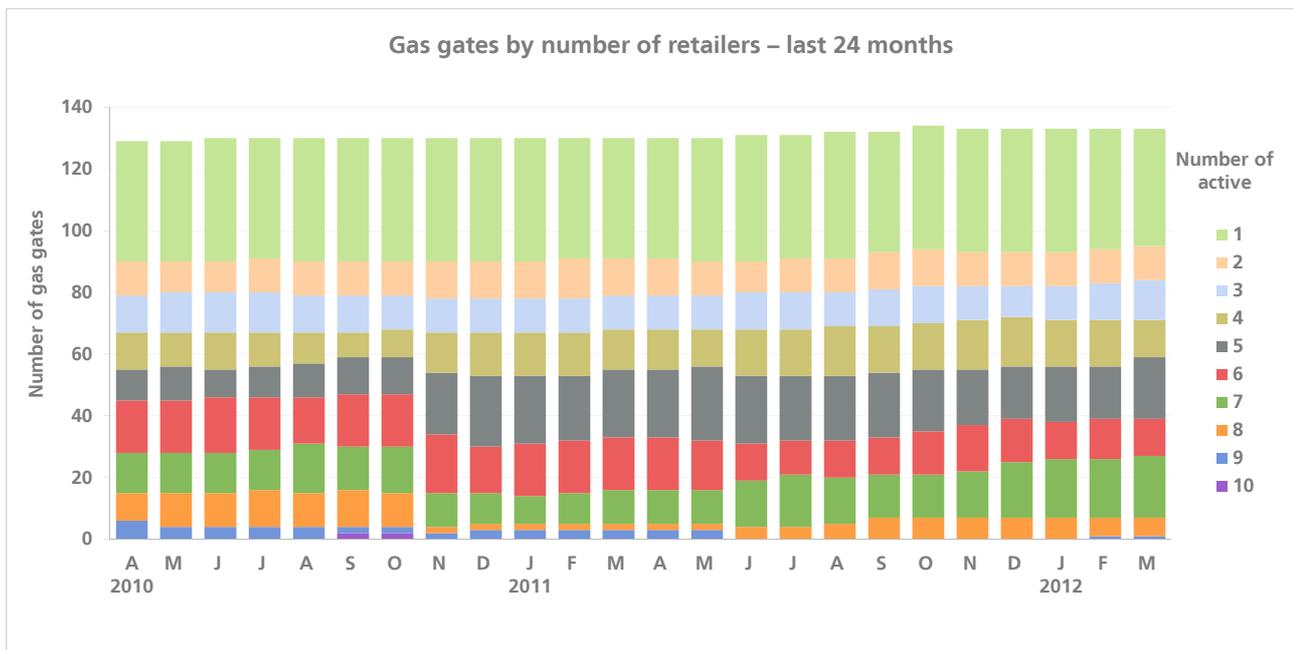


The data are from a mix of allocation stages: Final through February 2011; Interim for March 2011 through December 2011; and Initial for January through March 2012.

## Gas gates by number of retailers

This chart shows, by month, numbers of gas gates by the number of active retailers. The greater the number of retailers that trade at a gas gate, the greater the potential competition for customers is.

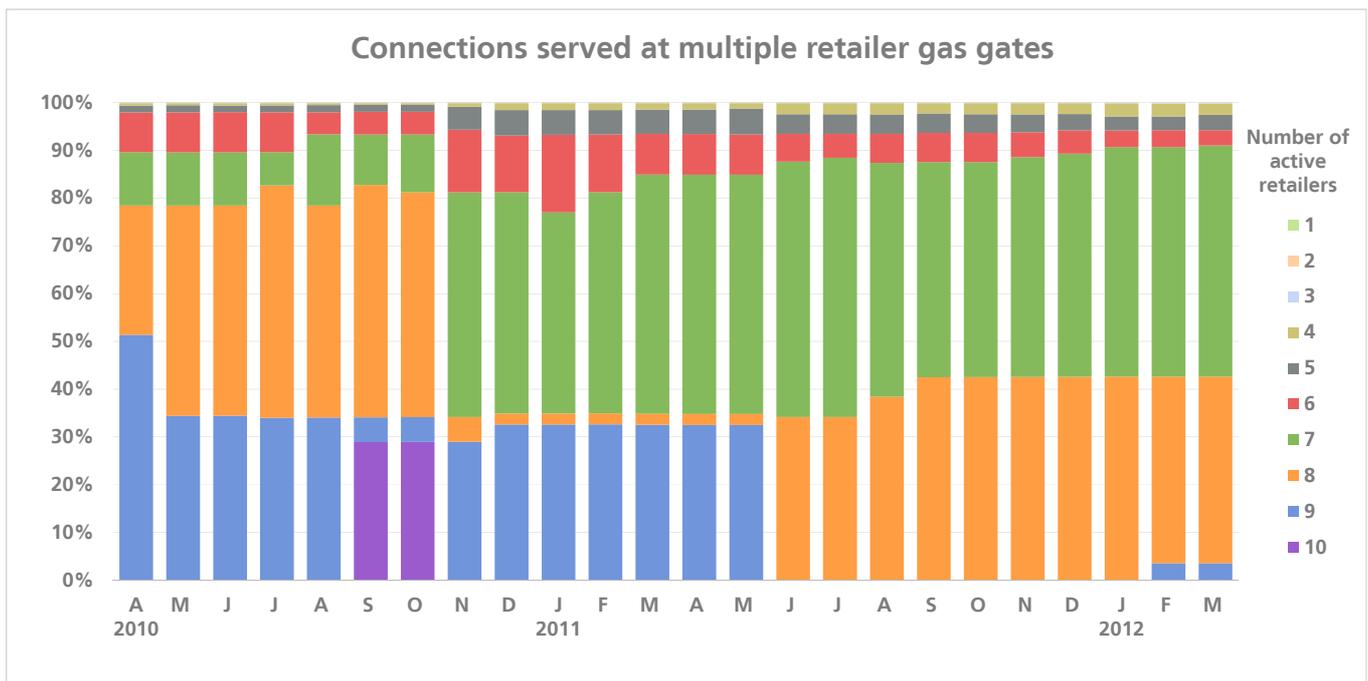
The chart shows that there has been a slight increase in retailers' activity at gas gates, following the amalgamation of Auckland Gas into the Nova Gas brand in 2011 and the exit from the market of E-Gas in 2010. As an example, in March of this year, 59 gas gates had five or more retailers operating at them, the same number as in October 2010, prior to the E-Gas liquidation. Likewise, the number of gas gates at which six or more retailers trade has increased from 30 in late 2010 to 39 as of February 2012.



## Connections served by multiple retailers

This chart plots the proportion of gas customers who are served from the gas gates in the chart above; that is, customers served at gas gates where multiple retailers trade. As with the previous chart, the acquisition of E-Gas and the amalgamation of Auckland Gas have produced step changes in the data.

The chart shows that, for the first time since last May there are a number of customers connected to a gas gate at which all nine retailers trade. (The gate is Papakura, in the Auckland region.) Consistent with the trend over the past 18 months, the majority of gas customers – over 93% -- are connected to a gate where least six retailers trade.



Note that the above chart includes data from ICPs on open-access distribution networks only; information about ICPs on bypass networks is not available in the Gas Registry.

## 6 Critical Contingency Management performance measures

There was one critical contingency in the past quarter. On Saturday 03 March 2012, an unplanned outage of the Pohokura Production Station occurred, causing a complete loss of supply to the Ngatimaru Road and Tikorangi 2 receipt points, as well as a reduction in supply to the Tikorangi receipt point. A critical contingency was declared at 12:48. During the contingency, the Critical Contingency Operator ordered the demand curtailment of bands 0, 1a, and 1b – gas storage, thermal generation plants, and petrochemical production facilities.

Supply from Pohokura Production Station was able to restart late in the afternoon of the same day and was fully restored later that evening. Curtailed demand was restored at 22:00, and the critical contingency was terminated at 23:30.

In the Incident Report, the Critical Contingency Operator<sup>3</sup> noted that compliance with demand curtailment direction by large consumers was good. The Performance Report recommended a change in the way contingency notices are conveyed to Methanex and Ballance Agri-Nutrients during a contingency and the continued advancement of recommendations made in relation to the Maui outage incident in October of last year. These recommendations will be considered as part of Gas Industry Co's review of the Critical Contingency Management Regulations, which is ongoing.

## **Breach notices**

### **March critical contingency**

No breach notices have been received in respect of the March critical contingency.

### **October critical contingency**

The Market Administrator is close to issuing determinations on the three existing breach allegations that arose from the Maui pipeline outage, after considering responses from affected parties. Given that these breaches are the first to be alleged with respect to the Critical Contingency Management Regulations, the Market Administrator has been particularly careful to ensure that all aspects of these breaches have been thoroughly considered.

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<sup>3</sup> Incident and Performance reports relating to the critical contingency can be found on the Critical Contingency Operator website at <https://www.oatis.co.nz>; (follow the CCO link from the home page).

## Strategic Progress: Quarterly Report January – March 2012

This report provides an update of progress towards Gas Industry Co's strategic goals. These reflect the Government's objectives and outcomes for the gas industry, as set out in the Gas Act 1992 and the April 2008 Government Policy Statement on Gas Governance, and as implemented through the Company's FY2012-2014 Strategic Plan.

Project	Rationale	Activity	Status
<b>Strategic Goal: Efficient Use of, and timely investment in infrastructure</b>			
<b>Transmission Pipeline Balancing</b>	<ul style="list-style-type: none"> <li>Improved industry arrangements. Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions.</li> </ul>	<ul style="list-style-type: none"> <li>Assess balancing market developments.</li> <li>Provide advice to Minister on balancing market developments by February 2012.</li> </ul>	<ul style="list-style-type: none"> <li>Advice to Minister on 2 March reports significant industry initiatives to improve balancing arrangements, including through a Maui Pipeline Operating Code (MPOC) change request relating to transmission balancing to take effect on 1 June 2013. Assisting industry to implement complementary balancing improvements also by 1 June 2013.</li> </ul>
<b>Interconnection</b>	<ul style="list-style-type: none"> <li>Improved industry outcomes. Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions.</li> </ul>	<ul style="list-style-type: none"> <li>Monitor two new interconnection arrangements on each open access transmission pipeline (Vector, MDL).</li> <li>Investigate the extent, if any, of issues relating to access to private pipelines.</li> <li>Advise Minister of any new interconnection issues relating to open access pipelines by 2013.</li> <li>Advise Minister of any issues relating to private pipeline access by June 2012.</li> </ul>	<ul style="list-style-type: none"> <li>No advice of new interconnections received to date. Gas Industry Co continues to monitor developments.</li> </ul>

Project	Rationale	Activity	Status
<b>Access to Processing Facilities</b>	<ul style="list-style-type: none"> <li>• Statutory Role under Gas (Processing Facilities Information Disclosure) Rules 2008.</li> <li>• Improved industry outcomes by ensuring gas industry participants and new entrants have good information about spare capacity in processing facilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Collect, monitor, and publish disclosed information.</li> <li>• Recommend to Minister by 27 June 2013 as to continuance, amendment, or expiry of these Rules.</li> </ul>	<ul style="list-style-type: none"> <li>• All disclosures for current year received and published on Gas Industry Co website.</li> </ul>
<b>Strategic Goal: Build efficient, competitive, and confident gas markets</b>			
<b>Rule Changes</b>	<ul style="list-style-type: none"> <li>• Improved industry governance through regular review of existing arrangements and recommending changes where appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain rule change registers.</li> <li>• Review industry feedback on options paper on Reconciliation Rules review.</li> <li>• Consult on Statement(s) of Proposal for changes to Reconciliation Rules.</li> <li>• Review effectiveness of the Gas Governance (Critical Contingency Management) Regulations 2008 following any events/exercises.</li> </ul>	<ul style="list-style-type: none"> <li>• Options Paper for technical improvements to Reconciliation Rules issued for industry comment December 2011. Submissions due 6 February 2012.</li> <li>• Progressing review of Critical Contingency Management arrangements in the wake of the Maui Pipeline outage on 25-30 October 2011, including consideration of improvements through changes to the Regulations.</li> </ul>
<b>Gas Quality</b>	<ul style="list-style-type: none"> <li>• Maintain an acceptable standard of gas quality.</li> <li>• Ensure costs of gas quality incident are met efficiently.</li> <li>• Achieve improved transparency on gas quality incidents.</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing review of industry arrangements for managing gas quality.</li> <li>• Consider options for improving gas quality arrangements.</li> <li>• Report review findings to Minister by June 2012.</li> </ul>	<ul style="list-style-type: none"> <li>• Survey of gas quality monitoring completed.</li> <li>• Options report in progress.</li> <li>• Retailers establishing information exchange protocol to be able to demonstrate compliance with gas quality requirements.</li> </ul>

Project	Rationale	Activity	Status
<b>Insolvent Retailer Arrangements</b>	<ul style="list-style-type: none"> <li>• Protect long-term interests of consumers. Assessment of 2010 temporary Insolvent Retailer Regulations to consider whether generic regulatory solution is required to address retailer insolvency.</li> </ul>	<ul style="list-style-type: none"> <li>• Prepare Issues and options paper for industry consultation.</li> </ul>	<ul style="list-style-type: none"> <li>• Developing terms of reference for an issues paper.</li> </ul>
<b>Gas Distribution Principles</b>	<ul style="list-style-type: none"> <li>• Improved industry outcomes. Gas industry participants and new entrants are able to access distribution pipelines on reasonable terms and conditions.</li> <li>• Ensure consistency in distribution services arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor and report annually to Minister on status of distribution arrangements.</li> <li>• Develop and publish distribution contract benchmarks.</li> <li>• Encourage publication of network services agreements.</li> </ul>	<ul style="list-style-type: none"> <li>• Draft distribution principles created and issued for consultation.</li> <li>• Analysis of submissions completed and published.</li> <li>• Distribution contract assessment framework released for discussion.</li> </ul>
<b>Transmission Change Requests</b>	<ul style="list-style-type: none"> <li>• Contractual role pursuant to MoUs with MDL and Vector.</li> <li>• Ensure ongoing relevance and efficiency of multilateral terms of access to transmission pipelines.</li> </ul>	<ul style="list-style-type: none"> <li>• Process MPOC change requests and VTC change request appeals in accordance with respective Memorandum of Understanding (MoU).</li> </ul>	<ul style="list-style-type: none"> <li>• Change requests and appeals processed as received.</li> <li>• Final Recommendation supporting October 2011 MPOC change request issued on 16 April (also see Transmission Pipeline Balancing above).</li> <li>• Evaluating Vector Transmission Code appeal.</li> </ul>

Project	Rationale	Activity	Status
<b>Compliance</b>	<ul style="list-style-type: none"> <li>• Statutory role under the Compliance Regulations.</li> <li>• Improved industry operations through provision of a compliance and dispute resolution process for industry participants.</li> </ul>	<ul style="list-style-type: none"> <li>• Oversight of Gas Governance (Compliance) Regulations 2008.</li> </ul>	<ul style="list-style-type: none"> <li>• Gas Industry Co continues to fulfil its role as Market Administrator under the Compliance Regulations.</li> <li>• Three breach notices from CCO alleging non-compliance with the Critical Contingency Management Regulations during the Maui Pipeline critical contingency are being processed pursuant to Compliance Regulations. The Market Administrator has determined two alleged breaches to be material, and these are referred to the Investigator for further assessment. The third breach allegation is determined to be not material, but the party has agreed to improve processes.</li> </ul>
<b>Customer Issues</b>	<ul style="list-style-type: none"> <li>• Enhanced consumer benefits through complaints process for small gas customers.</li> </ul>	<ul style="list-style-type: none"> <li>• Liaise with the Electricity &amp; Gas Complaints Commission (the approved complaints scheme), and other relevant regulators to remain aware of consumer complaint issues.</li> </ul>	<ul style="list-style-type: none"> <li>• Regular liaison with EGCC Gas-related inquiries and complaints statistics included in Gas Industry Co 2011 Annual Report.</li> </ul>
<b>Retail Contracts</b>	<ul style="list-style-type: none"> <li>• Enhanced consumer outcomes by providing clarity around the respective roles and obligations of consumers and industry participants involved in the supply of gas to small users.</li> </ul>	<ul style="list-style-type: none"> <li>• Administer the retail contracts oversight scheme.</li> <li>• Annual assessment of alignment of industry contracts with retail contract benchmarks.</li> <li>• Report to Minister by end of September 2011.</li> </ul>	<ul style="list-style-type: none"> <li>• Transitional assessment of retailers' progress towards alignment with benchmarks completed and report provided to Minister.</li> </ul>

Project	Rationale	Activity	Status
<b>Transmission Pipeline Capacity</b>	<ul style="list-style-type: none"> <li>Improved consumer outcomes by addressing short and long-term competition issues arising from the North Pipeline capacity constraint.</li> <li>Enhanced industry/consumer outcomes by improved level, and quality, of information on which to base business/energy use decisions.</li> </ul>	<ul style="list-style-type: none"> <li>Address by regulatory and/or non-regulatory options any lessening of competition due to transmission constraints.</li> <li>Implement the Gas Transmission Investment Programme (GTIP).</li> <li>Improve the quality and availability of pipeline security standards and supply/demand information.</li> <li>Promote changes to commercial and regulatory arrangements so the GTIP objectives can be met.</li> </ul>	<ul style="list-style-type: none"> <li>Continued monitoring of information provided by signatories to the "Bridge Commitments", designed to address short-term issues.</li> <li>Gas Transmission Exchange (GTX) - one of the 7 Bridge Commitments - goes live in April as online capacity trading platform.</li> <li>New work programme, Gas Transmission Investment Programme (GTIP), initiated to address long-term solutions to capacity issues on North Pipeline.</li> <li>Panel of Expert Advisers and Panel of Strategic Advisers fully underway in assisting with this workstream.</li> <li>Individual projects in start-up phase.</li> </ul>

Project	Rationale	Activity	Status
<b>Strategic Goal: Deliver effectively on accountabilities</b>			
<b>Downstream Reconciliation</b>	<ul style="list-style-type: none"> <li>• Statutory role under Reconciliation Rules.</li> <li>• Improved industry arrangements and consumer outcomes through the objective of fairly allocating, and reducing, unaccounted-for-gas (UFG) and its associated costs.</li> </ul>	<ul style="list-style-type: none"> <li>• Oversight of Gas (Downstream Reconciliation) Rules 2008.</li> </ul>	<ul style="list-style-type: none"> <li>• Gas reconciliations being performed every month</li> <li>• Long-term UFG has flattened out at ~1.5%.</li> <li>• Options Paper issued for industry comment December 2011, with submission due by 6 February 2012.</li> <li>• Advisory panel appointed to assist with development of options and rule changes. Twin workstreams developed to focus on reconciliation issues. First Statement of Proposal scheduled for June 2012.</li> </ul>
<b>Switching and Registry</b>	<ul style="list-style-type: none"> <li>• Statutory Role under Switching Rules 2008.</li> <li>• Efficient retail market and improved consumer outcomes by facilitating market contestability through customer switching between retailers.</li> </ul>	<ul style="list-style-type: none"> <li>• Oversight of Gas (Switching Arrangements) Rules 2008.</li> </ul>	<ul style="list-style-type: none"> <li>• Electricity Authority "What's my number" campaign had spillover effect on gas switching rates – up to 40% more switches in recent months.</li> <li>• Customer switching has returned to steady-state level of ~3200 switches per month.</li> </ul>
<b>Performance Measures</b>	<ul style="list-style-type: none"> <li>• Improved industry and consumer outcomes through the provision of public information on industry performance.</li> <li>• Monitor the effectiveness of governance arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>• Determine and publish information on each gas governance arrangement that has been implemented.</li> </ul>	<ul style="list-style-type: none"> <li>• Performance measures computed and reported quarterly.</li> </ul>

<b>Policy Development and Information Gathering</b>	<ul style="list-style-type: none"> <li>• Ensure Gas Industry Co has all information required to properly analyse issues in arriving at conclusions.</li> <li>• Industry and consumer benefits from improved level, and quality, of information on which to make business and/or energy use decisions.</li> </ul>	<ul style="list-style-type: none"> <li>• Proposal initiated following the publication in June 2011 of the FY2012-2014 Strategic Plan - to develop a process enabling Gas Industry Co to request and, if necessary, require the supply of specific information from participants to assist the timely development of market solutions.</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Proposal issued for industry comment December 2011. Submissions due by 17 February.</li> <li>• Following submissions analysis, developing information requests protocol and continuing to develop regulatory framework.</li> </ul>
<b>Industry Facilitation</b>	<ul style="list-style-type: none"> <li>• Facilitate nexus between industry and Government.</li> <li>• Maintain informed industry participants and other stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>• Facilitate, influence and communicate with the industry and Government.</li> <li>• Liaise with other regulatory bodies, agencies and associations with responsibilities and interests encompassing the gas industry.</li> </ul>	<ul style="list-style-type: none"> <li>• Gas Industry Co's one-day Gas Industry Conference held (August).</li> <li>• MoU concluded with Commerce Commission relating to areas of common interest in the gas sector.</li> </ul>
<b>Critical Contingency Management</b>	<ul style="list-style-type: none"> <li>• Statutory role under Gas Governance (Critical Contingency Management) Regulations 2008.</li> <li>• Improved industry outcomes through increased market confidence in industry's ability to manage critical events.</li> </ul>	<ul style="list-style-type: none"> <li>• Manage Critical Contingency Operator (CCO) via service provider agreement.</li> <li>• Review effectiveness of the Regulations following any events/exercises.</li> <li>• Operate critical contingency pool following an event.</li> </ul>	<ul style="list-style-type: none"> <li>• Annual exercises held.</li> <li>• CCO activities monitored and reviewed quarterly.</li> <li>• Reviewed CCO Incident and Performance Reports on the Maui Pipeline outage on 25-30 October 2011</li> <li>• Commenced CCM Regulations review, including appointment of outside consultants to advise on aspects such as international best practice.</li> <li>• Reviewed CCO Incident and Performance reports on critical contingency event arising from a Pohokura production station outage on 3 March 2012.</li> </ul>