June 2012

FROM THE CHIEF EXECUTIVE

In 2011, Gas Industry Co established a broad policy of ‘optimising the contribution of gas to New Zealand’ following an in-depth review of how best we can fulfil our role as the industry body and co-regulator.

The strategy encompasses our core functions of delivering effectively on our accountabilities; facilitating efficient use of, and timely investment in, gas infrastructure; building efficient, competitive and confident markets; and, by telling the New Zealand Gas Story, enhancing people’s appreciation of the contribution that gas makes to their lives.

This year, we tested those strategic assumptions against what we know and expect to be the main issues for the industry in the near to medium future. We concluded it still holds up strongly and, accordingly, those strategic fundamentals can be found in our just-published Strategic Plan for the financial years 2013-15.

The New Zealand gas industry is robust. Systems are in place to promote efficient and competitive markets and there is a commitment to continuously improve industry arrangements at a time when consumers demand more from their suppliers.

The Company’s Strategic Plan has been developed following extensive industry engagement, and our collective focus is made sharper by the high level of participant agreement over what the key issues are, and how they should be tackled.

The two immediate priorities are to fulfil the promise of the Gas Transmission Investment Programme to efficiently manage transmission capacity arrangements, and to incorporate lessons from last year’s Maui pipeline outage into strengthened critical contingency management arrangements.

Behind these priorities is a solid plan focused on completing key workstreams to ensure existing core market systems are working well, or to introduce new market arrangements where required.

Steve Bielby
Chief Executive

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Industry Performance Highlights

This Quarterly Report includes a full report (**page 11**) on the industry's performance against the Switching Rules, the Reconciliation Rules, and the Critical Contingency Management Regulations in the three months ended 30 June 2012. Highlights include:

- Balancing gas volumes continue to run at a fraction of what they were prior to 2009. In the 18 months from January 2011, monthly balancing gas volumes have averaged less than 33,000 gigajoules, a decrease of 92 percent from the 403,000 GJ monthly average in the period 2006-2008.

- A relatively high number of customer switches in March and May has seen the rolling annual switches trending up to about 16.6 percent in the past quarter. Switching process times remain at about 6 days.

- Retailer customer market shares are relatively unchanged. Genesis Energy is the largest with 42 percent of customer ICPs, followed by Contact (24 percent) and Mercury Energy (16 percent).

- Market share by gas volumes is led by Nova Energy with 29 percent, followed by OnGas with 26 percent.

- Annual unaccounted-for gas (UFG) volumes increased in May and June, reflecting the normal seasonal pattern. On a rolling annual basis, UFG accounts for about 1.3 percent of allocated gas volumes, compared with about 2.5 percent prior to the introduction of the Gas (Downstream Reconciliation) Rules 2008.

- There is a high level of market contestability, with the majority of gas customers (95 percent in June 2012) connected to a gate where least six retailers trade.

Critical contingency management discussion paper released

The critical contingency management (CCM) review has entered a new phase with the release of Concept Consulting's discussion paper 'Review of Gas Critical Management: Post Maui Pipeline Outage'. Eight submissions were received on this by the 2 July 2012 deadline, and have been reviewed by Gas Industry Co. The submissions analysis is available here.

Concept's paper was commissioned by Gas Industry Co as part its wider review of CCM arrangements to capture lessons from the October 2011 Maui pipeline outage. Concept's findings and recommendations take into account feedback it received in interviews with a range of stakeholders.

Following the Maui pipeline outage, Vector Gas, as the Critical Contingency Operator (CCO) under the Gas (Critical Contingency Management) Regulations 2008 (CCM Regulations) presented 19 recommendations to improve CCM practices. Of these, six are directed at Gas Industry Co and involve potential changes to the CCM Regulations. The others involve process improvements and are being implemented by the CCO in liaison with industry participants.

In addition to considering the recommendations addressed to Gas Industry Co, Concept looked again at international CCM practices, which were last reviewed when the CCM Regulations were developed over four years ago.

Concept reported a broad consensus among interviewees that the CCM arrangements worked well during the outage, but presented a series of recommendations, including changes to the CCM Regulations, to ensure the New Zealand gas industry is even better positioned for any future outages. Principal among the recommendations are:

- changes to the Essential Service Provider (ESP) criteria, the order in which ESPs are curtailed, and processes for the ESP and Minimal Load Consumer (MLC) approvals
- improvements to retailer and consumer preparedness to cope with major contingency events
- improvements to communications and consumer information
- enhancing clarity around regional and national contingencies
- strengthening compliance incentives

From the discussion paper and participants' submissions, Gas Industry Co is drafting formal proposals, including regulatory changes. In the meantime, the Company is also revising its ESP and MLC Guidelines, which will be issued for industry comment in the near future.

In other CCM-related matters:

- invoices and credit notes associated with contingency imbalances arising from the Pohokura Production Station outage on 3 March 2012 have been issued by Gas Industry Co
- a workshop for industry communications specialists was held in May to discuss roles to ensure effective communication during critical contingencies. Participants were encouraged to develop a communications protocol for further consultation
- Maui Development Limited has released a report on the cause of the pipeline failure. This can be found on the Maui pipeline website at www.mauipipeline.co.nz

Full details of the CCM Review, including submissions received, can be found here

Milestones reached in Gas Transmission Investment Programme (GTIP) and Bridge Commitments

Activities during the quarter included a forum in May to update industry participants and other stakeholders on the progress of the transmission access and capacity pricing review work being undertaken by the Panel of Expert Advisers (PEA), and other transmission capacity work streams, and a look at preliminary results of New Zealand's first detailed gas supply/demand study. A major milestone in the GTIP has since been reached with receipt of the PEA's initial advice to Gas Industry Co setting out its thoughts on improving current transmission capacity arrangements.

There has also been a notable development within the Bridge Commitments in the form of the first matched capacity bid on the Gas Trading Exchange (GTX), which commenced operations in March.

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 efficient 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.

Click here for full GTIP details.

Gas Transmission Investment Programme (GTIP)

The PEA's advice to Gas Industry Co is for evolution of existing arrangements, not revolution. It presents a 'straw man' proposal to address what it perceives as weaknesses in current transmission access and capacity pricing arrangements, and suggests a number of changes to current practices.

The Company recognises, however, that it represents the collective wisdom of a variety of experts from within and outside the gas industry, and as such is a valuable basis for further, more focused industry discussion.

The PEA has observed that the drivers for immediate transmission capacity investment are not strong. Events of capacity scarcity are rare; they are limited to only a few days of the year, and do not necessarily occur annually.

There has been an increasing trend in peak demand on the North Pipeline in the past 10 years due to changes in gas-fired power stations' operating practices, but non-power station demand has exceeded reserved capacity on only one day in the past year – during an extreme cold snap on 19 August 2011.

In the PEA's view, capacity scarcity at present is best addressed by making more efficient use of existing capacity. This will involve changes to current arrangements and the introduction of a transparent pricing mechanism – short of a full spot market – to ensure that when capacity is scarce it goes to the party that values it most highly.

Key features of the PEA's straw man proposal are:

- greater clarity around the definition of 'capacity', including length and firmness
- resolving perpetual grandfathering of entitlements by diluting existing entitlements and introducing an auction approach to primary allocation of capacity when demand exceeds supply
- enhancing secondary allocation through lowering transaction costs
- managing short-term capacity constraints through a nominations regime, which is expected to also incentivise trading
- reducing investment uncertainty

The proposal expresses a view that 'a common access arrangement across the Vector and Maui pipelines may be the logical end-point in terms of future development'.

Submissions on the PEA straw man proposal are due by 24 August 2012. There will be a number of further opportunities for industry participants to have a say. Following an analysis of the submissions, an industry workshop is planned in October to discuss a preferred option, and this will lead to the PEA's final advice to Gas Industry Co in November. From that, Gas Industry Co will issue a consultation paper.

After considering submissions on that consultation paper, Gas Industry Co expects to reach a final recommendation in early 2013. An industry workshop will then consider implementation issues, and a resulting finalised implementation plan will be put into effect over the ensuing year.

The PEA's report – 'Review of Transmission Access and Capacity Pricing: Advice from the Panel of Expert Advisers'- is the view of the PEA, not of Gas Industry Co, and the views of PEA members are not necessarily the views of their employer organisations.

All PEA meeting papers are available here

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 third Progress Report, Gas Industry Co notes progress made with the new Gas Transmission Exchange (GTX) during the quarter, as well as its understanding that parties are closer to agreeing changes that would allow spare pipeline capacity held by power stations under supplementary agreements to be freed up and onsold. Further details follow.

GTX

The GTX is an online bulletin board for matching buyers and sellers of transmission capacity rights on the North Pipeline. It was established to facilitate open and transparent trading between willing buyers and sellers by enabling parties wishing to buy or lease additional capacity, and those with capacity to sell or lease, to make contact with each other. When parties are matched, the trade is completed offline.

During the quarter, the GTX recorded its first matched offer, which Gas Industry Co sees as an encouraging sign of both the potential effectiveness of the platform, and the willingness of shippers to engage in capacity trades. This good news is tempered, however, by the knowledge that few offers have been posted on the site, and the GTX still has only five of the eight eligible shippers signed up as participants.

Gas Industry Co urges the three shippers who have not yet signed up as GTX participants to do so. It also urges shippers generally to make use of the GTX, and end users wishing to procure more capacity to ask their shippers to post bids on their behalf.

Power station capacity

Gas Industry Co understands that changes to supplementary agreements to remove restrictions that prevent power stations trading capacity have still to be finalised, but that, in one case, agreement in principle has been reached. In the March Quarterly Report, Gas Industry Co expressed disappointment that a mechanism to allow pipeline capacity held by power stations to be freed up, thereby achieving more efficient use of current capacity, continued to be elusive.

Once these changes are implemented, the process for end users exploring opportunities to access spare capacity should be straightforward. To date, however, Gas Industry Co is not aware of any expressions of interest by other potential users to do so. Nonetheless, the Company remains concerned to see mechanisms in place for transferring power station capacity in the interests of efficiency and facilitating competition on the North Pipeline.

Tenders for gas supply

A cornerstone of the Bridge Commitments is for incumbent shippers to offer capacity if requested when a large end user seeks competitive bids for gas supply. The number of tenders made under this Commitment continues to be small.

During the quarter, there was one capacity offer, which was for 75 percent of the consumer's optimised maximum daily quantity. The offer was accepted and has yet to be finalised. Due to the continuing low number of tenders, it has not been possible to more fully evaluate the effect of this Commitment on market competition.

The number of large consumer switches also continues to be low, and not all are subject to capacity offers. Gas Registry records show one Time of Use (ToU) customer on the North Pipeline switched supplier during the quarter. Combined with the above switch in progress, this brings to nine the number of ToU customer switches since the Bridge Commitments commenced in August 2011. By comparison, there were 12 ToU customer switches on the North Pipeline in the period August 2010 and June 2011; and 11 from August 2009 to June 2010.

Preview of supply/demand study results

Gas Industry Co held a workshop in May where Concept Consulting presented preliminary results from its gas supply and demand study. The presentation can be viewed here.

The study's objective is to develop a framework and toolset to project future national gas supply and demand over a 15-year timeframe. The study has a particular focus on North Pipeline capacity demand issues.

On the supply side, Concept finds that:

- New Zealand is unlikely to 'run out' of gas in next 10-15 years, as a number of factors operate to maintain a broad state of balance between supply and demand
- gas production delivered through the existing transmission system is likely to come from Taranaki for the next 10-15 years. Although potential exists for gas to be discovered in other locations, development lead times make it unlikely that such gas would come to the retail market in the next 15 years
- the real issue is not availability of gas – but the price at which gas will be available

On the demand side, the factors that influence future gas demand depend upon the sector.

- in the industrial sector, some gas users – particularly methanol production and electricity generation – are able to scale their production in response to changing gas supply, and therefore price. Effectively, these users play a swing role in New Zealand's gas market
- in terms of industrial demand for process heat, gas competes with coal and biomass as a fuel. Gas is competitive in this application due to its energy density (compared with biomass), its lower level of CO_2 emissions, and its lack of fuel handling and ash disposal requirements (compared to both). A modest rate of demand growth is likely in this sector
- water and space heating demand is mainly from domestic and smaller commercial customers. Gas-fired water heating is likely to increase over the next 15 years due to superior economics, instantaneousness and continuity. However, intense competition may see a relatively flat demand profile for gas-fired space heating. A slow rate of demand growth is likely in this sector

On the North Pipeline, Concept finds that greater use of interruptible capacity, particularly by the thermal generators, may be efficient and could possibly free up capacity for other users.

Concept's study will be released as a report with an accompanying toolset. A draft will be released by the end of September for public comment.

Advice on insolvent retailer arrangements

Advice has been received from Castalia Strategic Advisers on whether there is a need for a regulatory backstop in the event of a gas retailer becoming insolvent. The advice is currently open for feedback, with submissions due by 30 July 2012.

Gas Industry Co engaged Castalia to advise it on whether 'market failures' are present during normal insolvency processes when a gas retailer becomes insolvent. Castalia's report represents the first step in a process initiated in March 2011, when Gas Industry Co issued a Statement of Proposal seeking (retrospective) submissions on the Gas Governance (Insolvent Retailers) Regulations 2010. The regulations were introduced with urgency when the E-Gas group of companies went into voluntary liquidation in late 2010. The liquidator subsequently sold E-Gas's customers to Nova Energy.

The consultation process culminated in Gas Industry Co recommending to the Minister of Energy and Resources in May 2011 that the Regulations should be allowed to expire and that Gas Industry Co would establish a workstream to consider whether a generic regulatory solution is required to address retailer insolvency, and if so, the form of that solution.

In its report, 'Discussion Paper on Gas Retailer Insolvency – Report to Gas Industry Company', Castalia finds that unexpected and immediate insolvencies of gas retailers in New Zealand are rare and unlikely. It identifies some unique features of the New Zealand gas industry that may create problems when a gas retailer becomes insolvent, and finds that outcomes resulting in 'orphaned customers' represent a market failure because such customers impose third party costs on other gas market participants.

Castalia recommends that, if contemplating a regulatory solution to address market failures arising from an insolvent retailer, the industry first ensures:

- there is a clear purpose to the regulations
- it is satisfied existing bilateral contracts are insufficient to manage risks, and normal insolvency arrangements cannot produce acceptable outcomes
- regulatory responses are commensurate with the rare event/low probability outcome of these market failures occurring
- regulations won't interfere with normal insolvency processes, recognising that the market failure in the gas industry is one possible outcome of a standard insolvency process
- the benefits of regulations outweigh the costs of administering them

Gas Industry Co is aware that the Electricity Authority is also currently considering retailer insolvency, including whether there is a need to regulate. Castalia's paper notes that gas market issues have clear differences to those in electricity. Exchanges between electricity generators and retailers are facilitated through the spot market where a clearing manager aggregates generation and centrally coordinates dispatch. Unlike the gas market, which relies on bilateral contracts, participants in the wholesale electricity market arrangements do not have contractual counterparties against whom to enforce payment.

Distribution Contracts Oversight Scheme submitted to the Minister

The new Gas Distribution Contracts Oversight Scheme (Oversight Scheme) has been submitted to the Minister of Energy and Resources for endorsement. Subject to this endorsement, the first assessment of distribution contracts against a set of contract principles is expected to be conducted in February 2013.

The final assessment framework is consistent with the 'Distribution Contract Principles: Proposed Design of the Assessment Framework' discussion document issued by Gas Industry Co on 29 March 2012. A workshop for industry participants was held on 27 April 2012 and five submissions were received by the closure date of 10 May 2012.

This round of consultation was the latest in a thorough process of liaison with industry participants to develop the Principles and the overall Oversight Scheme. Industry participants generally support the Oversight Scheme and the approach it takes of assessing distribution contracts against the Principles.

Distributors have advised Gas Industry Co that they are currently revising their contracts to align with the Principles and achieve greater transparency and standardisation.

The Oversight Scheme involves the appointment of an independent assessor to undertake the assessment, an analysis of contract terms based on a qualitative scoring system, and the publication of results.

The results of the first assessment will be reported on a consolidated basis, but individual distributors' results from subsequent assessments will be published on Gas Industry Co's website.

The Oversight Scheme is a non-regulatory mechanism aimed at ensuring that core terms and conditions in distribution contracts are clear and reasonable, promote market efficiency, and ultimately enhance consumer outcomes.

It complements the Retail Gas Contracts Oversight Scheme (Retail Scheme), which was endorsed by the (then) Associate Minister of Energy and Resources in May 2010. The Retail Scheme assesses retail gas supply arrangements for small consumers against a set of more prescriptive outcome-based Benchmark terms. The distinction between the assessment against 'bright line' Benchmarks and more 'aspirational' Principles is a recognition that parties to distribution service arrangements are commercial entities, better able to negotiate mutually acceptable terms than small gas consumers can with retailers.

Third retail contracts assessment underway

The third assessment under the Retail Gas Contracts Oversight Scheme is underway. Retail contract arrangements with small users are being evaluated against contract Benchmarks as at 2 July 2012, and, for the first time, assessment results for individual retailers will be made public.

At a consolidated level, the initial and transitional assessments conducted in 2010 and 2011 respectively rated retailers' alignment with the benchmarks as 'moderate'.

However, individual improvements between those assessments were noted and there has been constructive engagement by retailers. Gas Industry Co is encouraged that retailers are actively moving to improve their retail contracts and achieve greater alignment with the Benchmarks.

The Retail Scheme is designed to achieve Government policy objectives for arrangements to protect the long-term interests of small gas consumers.

Proposed amendments to the Compliance Regulations

Gas Industry Co has reviewed the Gas Governance (Compliance) Regulations 2008 (Compliance Regulations) and is proposing a number of minor improvements that have been identified in their first four years of operation.

The Compliance Regulations prescribe processes to enable the efficient determination and settlement of alleged breaches of the Gas (Switching Arrangements) Rules 2008, Gas (Downstream Reconciliation) Rules 2008, the CCM Regulations, and the Gas (Processing Facilities Information Disclosure) Rules 2008.

A 'Statement of Proposal: Amendments to the Gas Governance (Compliance) Regulations 2008' was issued on 31 May 2012, and seven submissions had been received by the due date of 13 July 2012.

Since their introduction in 2008, the Compliance Regulations have operated well and have encouraged industry participants to take care to comply with the gas governance rules and regulations. In addition to correcting some inefficiencies, the proposed changes are aimed at reducing compliance costs for participants.

The 15 amendments proposed include the introduction of a threshold regime that would apply to the mandatory reporting by the gas registry operator and allocation agent of alleged breaches of the rules and regulations. This would exclude minor breaches of a type unlikely to raise a material issue, but where the costs of processing them –borne by industry participants and, potentially, customers - outweigh the benefits in terms of impact and harm caused.

Downstream Reconciliation Advisory Group approaches first review milestone

The Downstream Reconciliation Advisory Group, established in March this year to assist Gas Industry Co's review of the Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules), is well advanced in its first stream of work to codify existing exemptions and improve process efficiency.

The Group comprises six industry participant representatives selected for their operational understanding of the downstream reconciliation process. The Group was established following the release of an Options Paper in December 2011. Based on the submissions received on the Options Paper, the work has been split into two streams.

During the quarter, the Group focused on the first workstream and a 'Statement of Proposal: Downstream Reconciliation Rules Review', setting out proposed changes to the Reconciliation Rules, was issued in July, with submissions due by 31 August. Following an analysis of feedback, Gas Industry Co expects to make a recommendation to the Minister of Energy and Resources later this year.

The Group will now shift its focus to the second stream aimed at improving the accuracy of initial allocations. This will be progressed in a separate Statement of Proposal, which is expected to be issued by June 2013. Submissions on the Options Paper supported the need for further work around options for the initial allocation, as the issues are expected to be more challenging than those in the first round of rules changes. Changes may be made to refine the initial allocation process or to replace 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. D+1 therefore has the associated potential to feed into work to improve current industry balancing arrangements. However, there is considerable work to be done both to establish the feasibility of D+1 and to ensure that the benefits outweigh the costs.

The Reconciliation Rules prescribe the process for volumes of gas leaving the high pressure transmission system to be reconciled with volumes consumed by end users and appropriately attributed to the retailers responsible for them.

VTC change request appeal not supported

Gas Industry Co has not supported a Vector Transmission Code (VTC) change request appeal seeking to alter arrangements relating to peaking, corrections, prudential requirements, shipper insolvency, and invoicing.

Vector proposed the change in November 2011, but did not receive the 75 percent support from shippers necessary for it to be adopted. Vector appealed to Gas Industry Co, as the VTC appeals body, to have the change request allowed. Gas Industry Co's role is to recommend whether a change should be supported, including taking into account whether the changed arrangements would better meet the objectives of the Gas Act 1992 and Government Policy Statement (GPS).

In a draft recommendation in May 2012, Gas Industry Co found the proposal would bring improvements in relation to corrections and invoicing; be neutral in respect of prudential requirements; and be detrimental in respect of peaking and shipper insolvency. Overall, the detrimental aspects were sufficiently significant for Gas Industry Co to conclude that it could not support the change request.

In June 2012, after considering submissions on the draft recommendation, Gas Industry Co confirmed its conclusion not to support the change request.

Details relating to this VTC change request appeal can be found here.

Andrew Knight Joins Gas Industry Co Board

Andrew Knight, Managing Director of New Zealand Oil and Gas Limited (NZOG), has been appointed as a non-independent Director of Gas Industry Co. His appointment fills a casual vacancy following the departure of Ron Kelly, who has taken up a new role with Shell in the United Kingdom.

Mr Knight was appointed Managing Director and Chief Executive of NZOG in December 2011, after serving as a non-executive director of NZOG since 2008. He previously held a range of executive management roles over a 13-year period with Vector Limited, the NGC Holdings Limited Group of Companies, The Australian Gas Light Company and Fletcher Challenge Energy. He is currently a director of Powerco Limited.

A Chartered Accountant holding a BMs (Hons) degree from Waikato University, Mr Knight's early career was spent as an auditor with Coopers & Lybrand.

Mr Knight brings considerable energy industry experience and commercial skills to the Board. His appointment also continues to provide an upstream exploration and production perspective following Mr Kelly's resignation as a Director.

Gas Industry Co is required to have a majority of Independent Directors on its seven-member Board. The Independent Directors are Mr Jim Bolger, ONZ (Chair), Robin Hill (Deputy Chair), Keith Davis and Andrew Brown. Mr Knight joins industry-associated Directors Albert Brantley, Chief Executive Officer of Genesis Energy, and Dennis Barnes, Chief Executive Officer of Contact Energy.

As an appointee to fill a casual vacancy, Mr Knight is required to retire at the Company's Annual Meeting in November and will be eligible to stand for election by shareholders at that time.

Coming up

July	August	September
Third Retail Gas Contract assessment underway. 30th – submissions due on gas retailer insolvency arrangements. 18th – Transmission Update presentation for industry participants; Gas supply/demand workshop.	CCM Regulations review - revised Guidelines for Essential Service Providers and Minimal Load Users released for industry feedback 24th – Submissions on PEA straw man proposal: transmission access and capacity pricing.	3rd – submissions due on first Statement of Proposal, downstream reconciliation review. 31st – Gas Industry Co 2012 Annual Report tabled. Release of Concept Consulting draft gas supply/demand study report for public comment. Statement of Proposal: Critical contingency management review.

Performance Measures Quarterly Report for the period ending 30 June 2012

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.

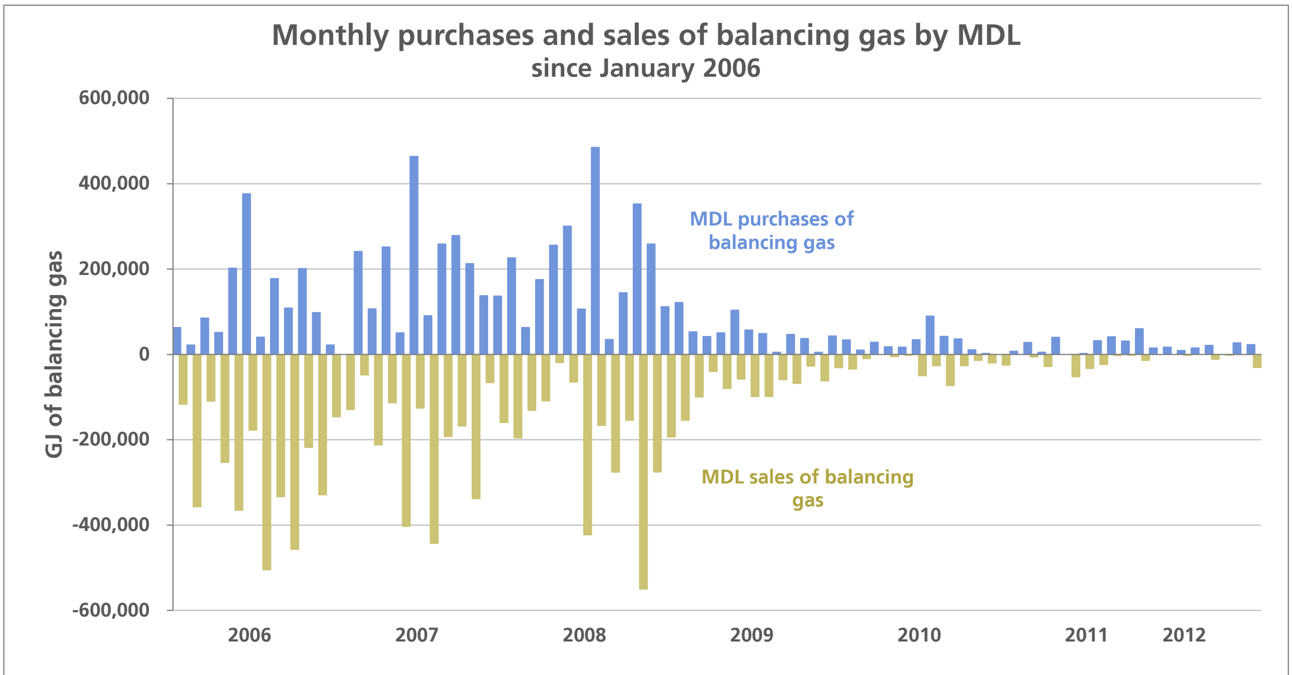
Highlights of the Report:

- Balancing gas volumes are a fraction of what they were prior to 2009. In the 18 months from January 2011, monthly balancing gas volumes have averaged less than 33,000 GJ, a decrease of 92% from the 403,000 GJ monthly average experienced from 2006-2008.
- The annual average number of switches has trended up over the past quarter, due to relatively high numbers of customer switches in March and May 2012. The annual rate of switching stands at about 16.6%. 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.
- There have been no major movements in customer market share over the past quarter. Genesis Energy continues hold the largest customer market share: about 42% of customer ICPs. Contact is next, with 24%; followed by Mercury, with 16%.
- In terms of market share by gas volumes, Nova and OnGas are the largest retailers, with 29% and 26%, respectively, of allocated gas volumes over the previous 12 months.
- Volumes of annual unaccounted-for gas (UFG) increased in May and June, following the usual seasonal pattern. UFG accounts for about 1.3% of allocated gas volumes on a rolling 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 are connected to a gate where least six retailers trade: 95%, as of June 2012.

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.



Source: MDL and bgx.co.nz

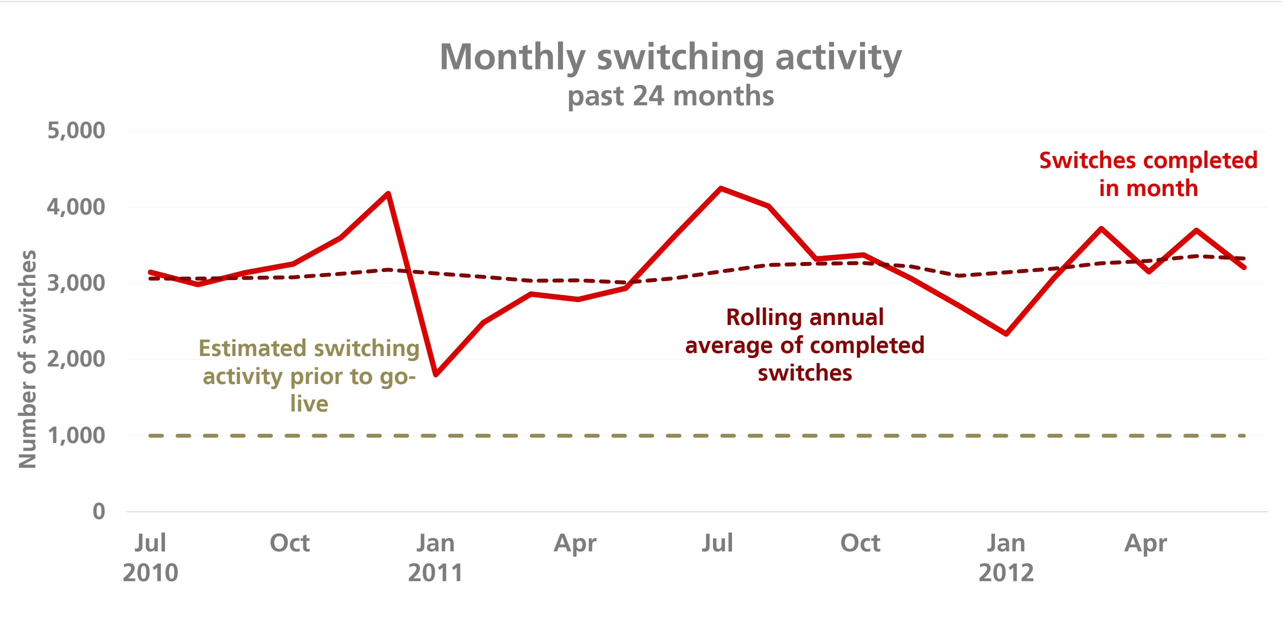
The outcome is the significantly reduced volumes of gas needed to be purchased or sold by MDL to balance the Maui pipeline, as can be seen in the chart above. In each of the calendar years 2006, 2007, and 2008, over 4,600,000 GJ of balancing gas were bought and sold by MDL. In 2009, balancing gas volumes 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. In calendar 2012, about 140,000 GJ of balancing gas have been bought and sold by MDL in the first six months.

3 Switching performance measures

Monthly switching activity

The annual average number of switches has trended up over the past quarter, due to relatively high numbers of customer switches in March and May 2012. The annual rate of switching stands at about 16.6%. As a comparison, the annual electricity switching rate 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%.

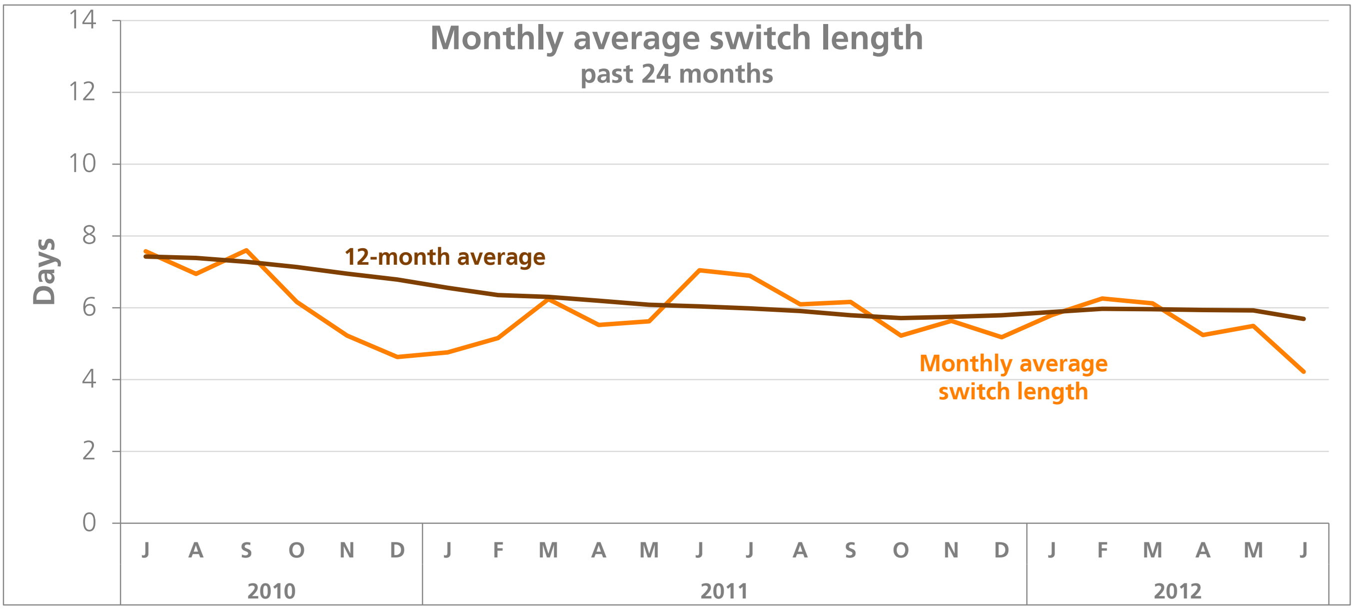


Note that this chart includes only switches that occurred on open-access distribution networks; switches from open-access to bypass networks (or vice versa) would not be recorded as a switch in the Gas Registry.

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 to not outweigh the benefits to consumers.

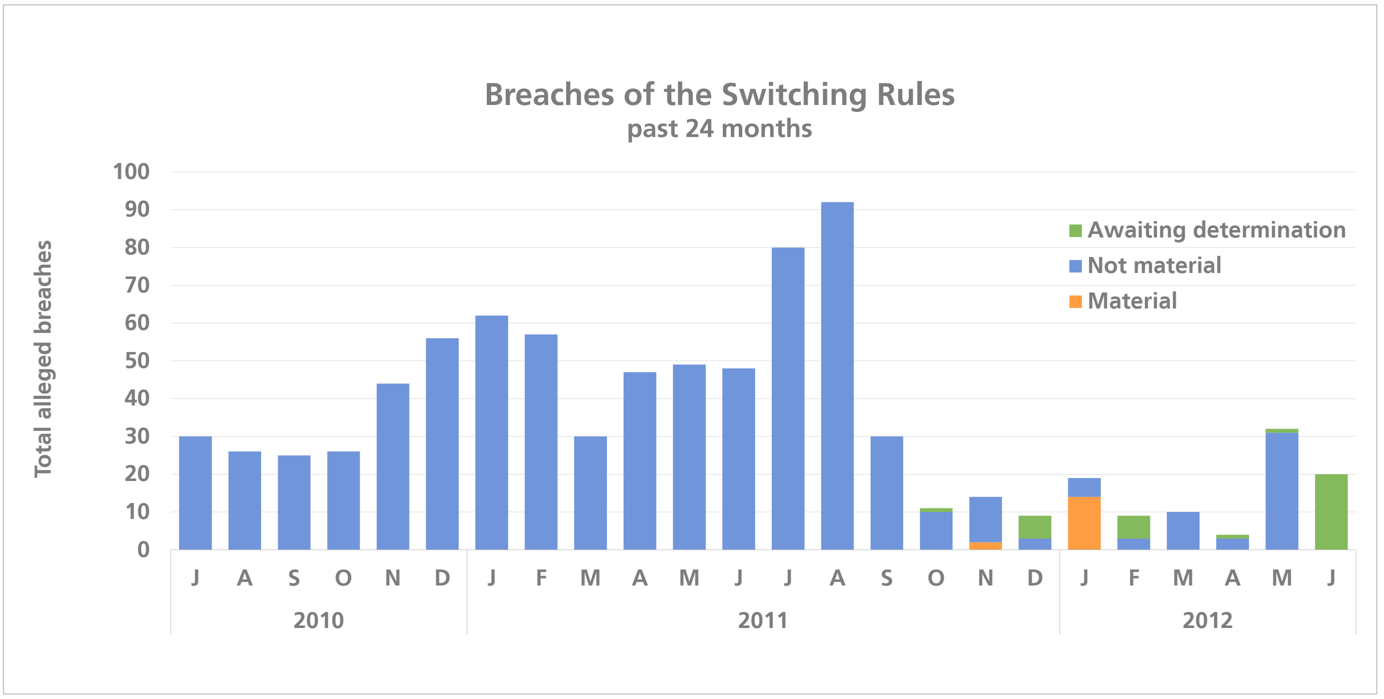


Note that the chart above excludes the transfers from E-Gas to Nova and from Auckland Gas to Nova, all of which went through in less than a day.

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. The average number of alleged breaches per month has fallen from 450 in the first 12 months to under 30 in the past 12 months.

The number of breaches reported in May 2012 seems unusual, but the majority of those breaches arose from a minor clerical error by one participant and have been determined to be not material.



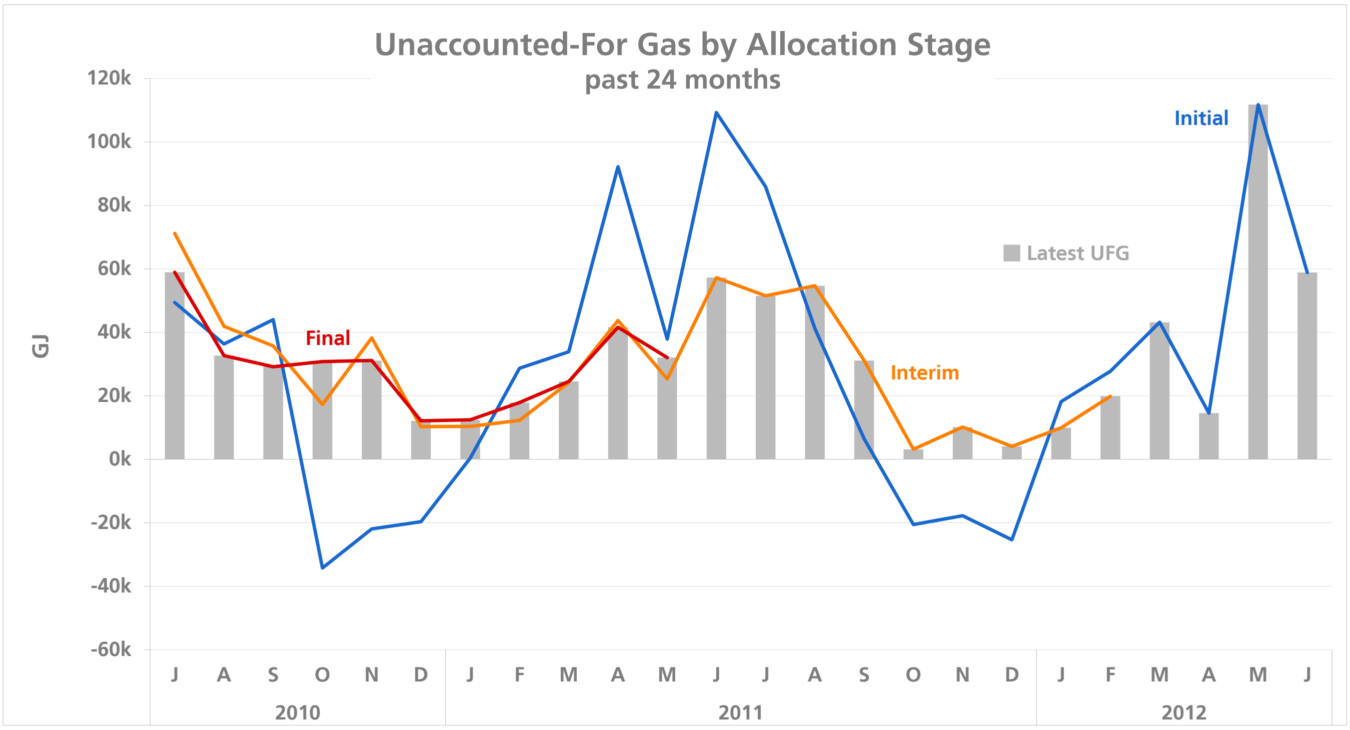
4 Allocation and reconciliation performance measures

Volumes of Unaccounted-for Gas

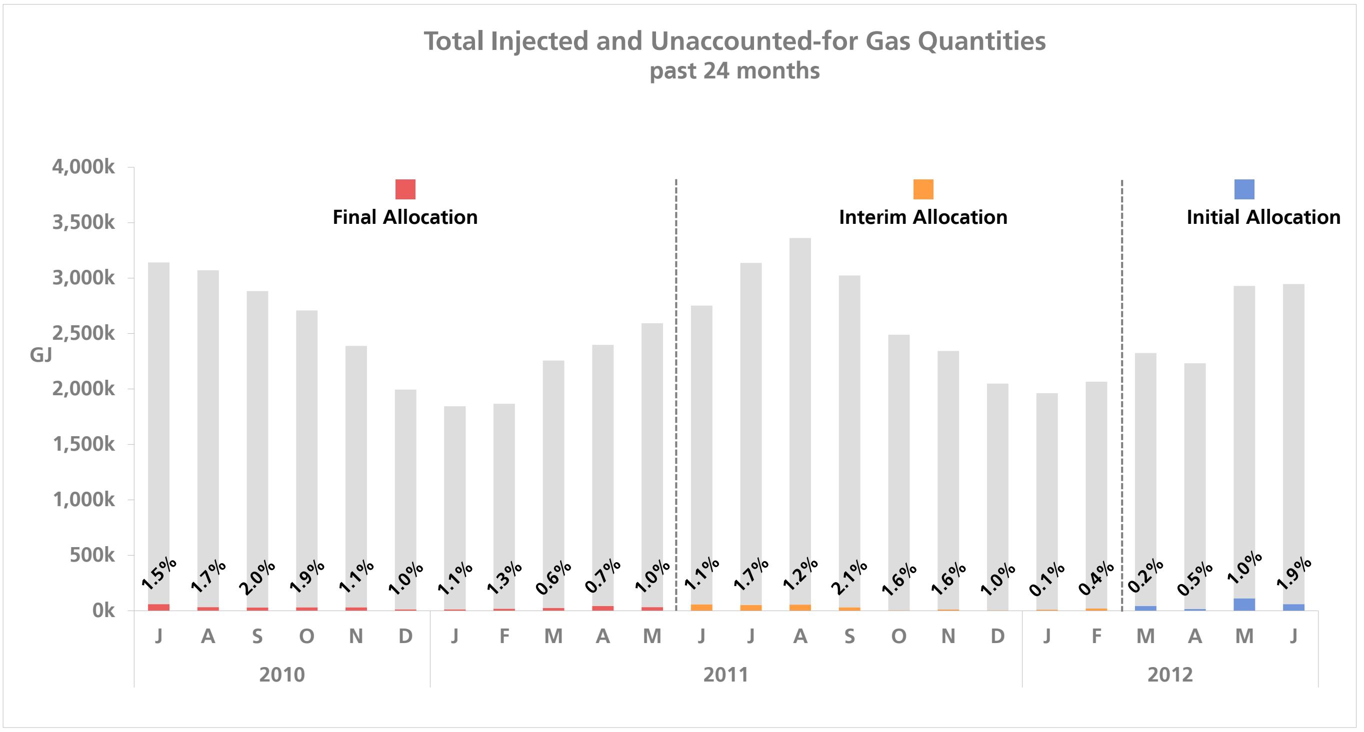
Under the Reconciliation Rules, the amounts of gas that retailers estimate their customers have used are subtracted from the amounts of gas leaving the transmission system. The difference is UFG, which arises from technical losses on the system, metering inaccuracies, and retailer estimation errors. 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 spiked in May of this year, as it has in previous winters.

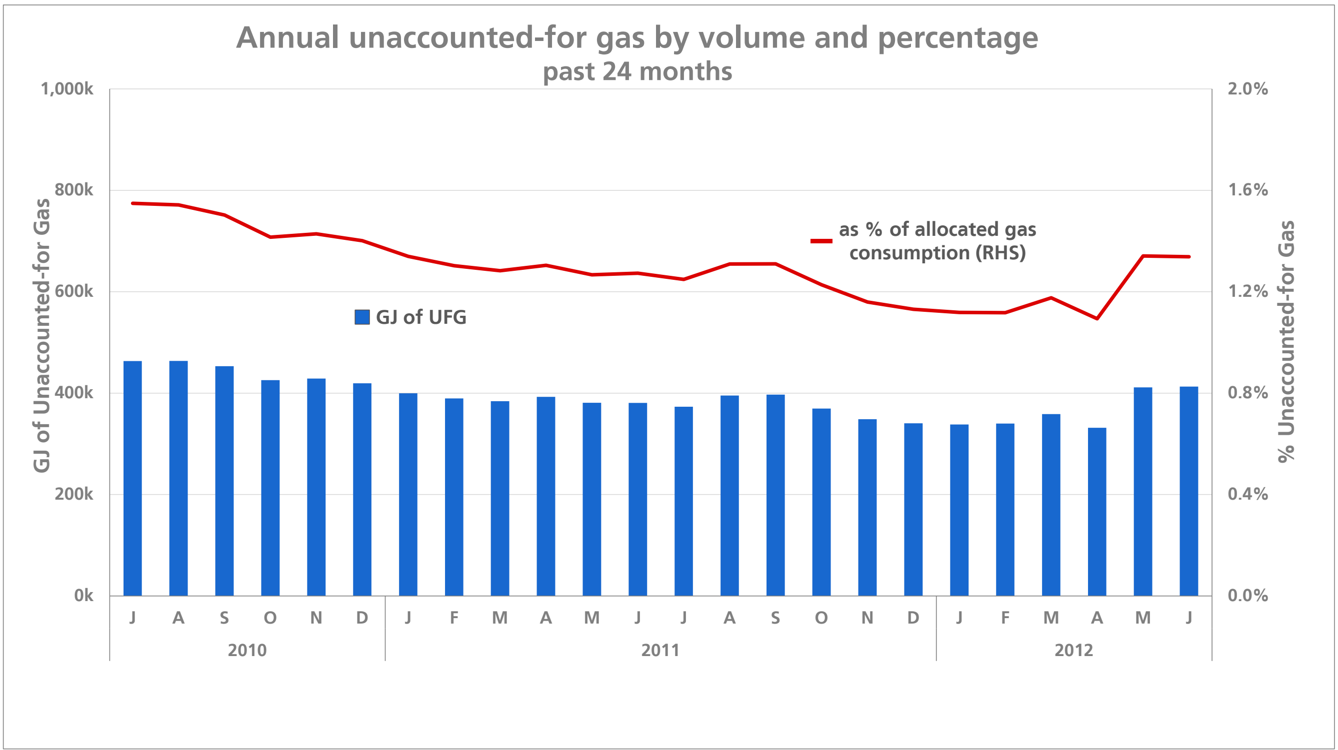


The chart below shows the amount of unaccounted-for gas in comparison to the total amount of allocated gas consumed each month. The grey bars show gas consumption at allocated gas gates, which follows a seasonal pattern: higher in winter and lower in summer. UFG as a percentage of volume follows a similar 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 June 2012 total is based on four initial allocation results and eight interim results, while the June 2011 total is based on twelve final allocation runs.

For the first year after the Reconciliation Rules came into effect, annual UFG was about 2%. This percentage has dropped to as low as 1.1% in recent months, although the winter spike in UFG has raised the figure to 1.3% in May and June of this year.



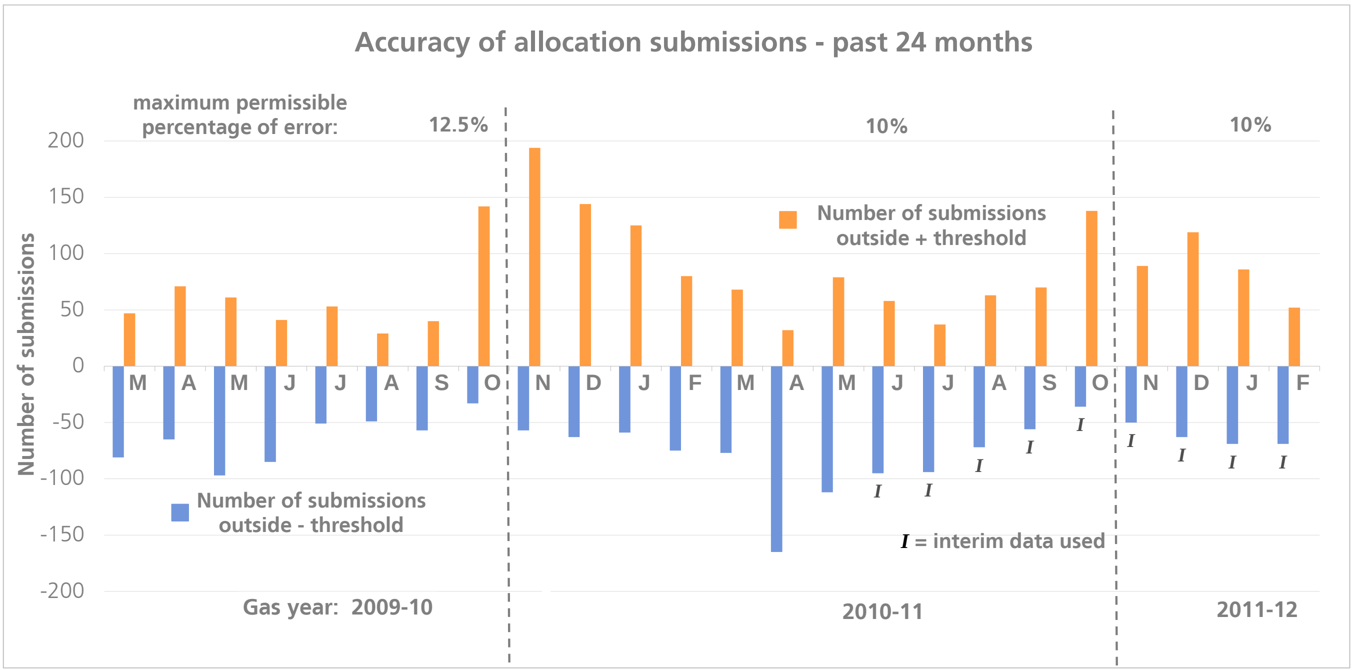
Accuracy of submission data

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.

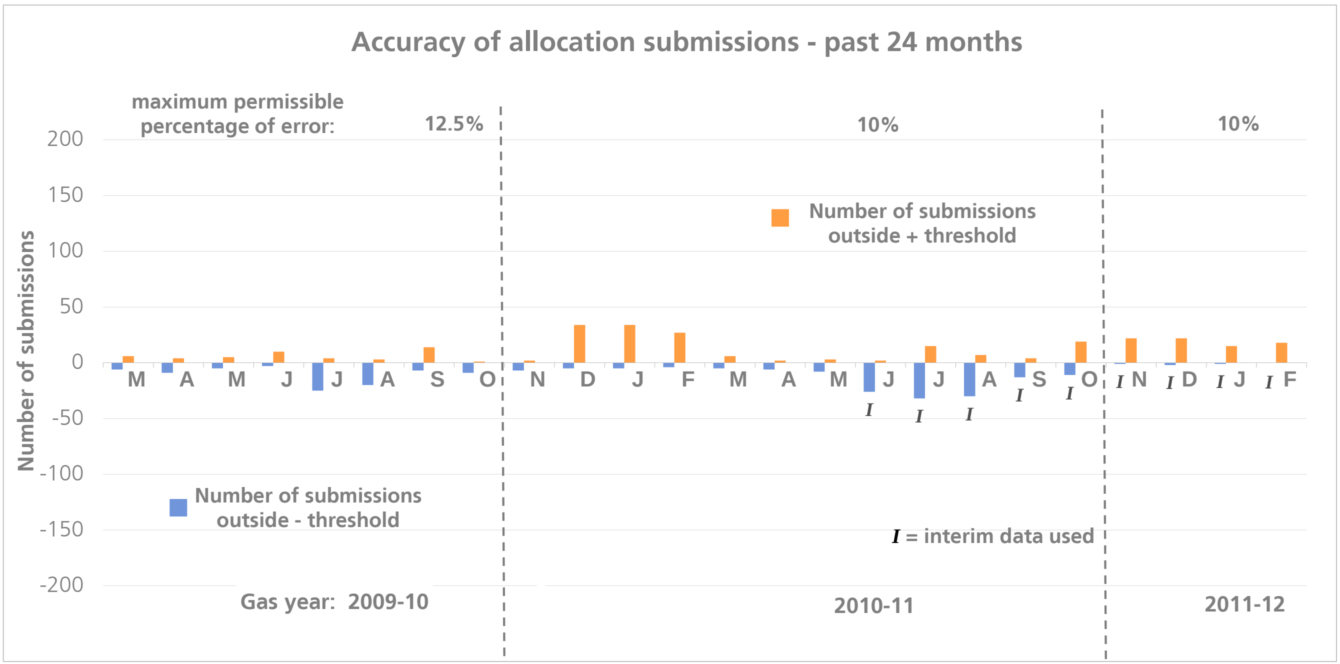
The chart below shows the number of retailer submissions that were outside the maximum permissible error threshold in the last 24 months for which data are available. For this analysis, final submissions were compared to initial allocation submissions for the months they were available (March 2010 – May 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 December 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.



Distribution of AUFG factors

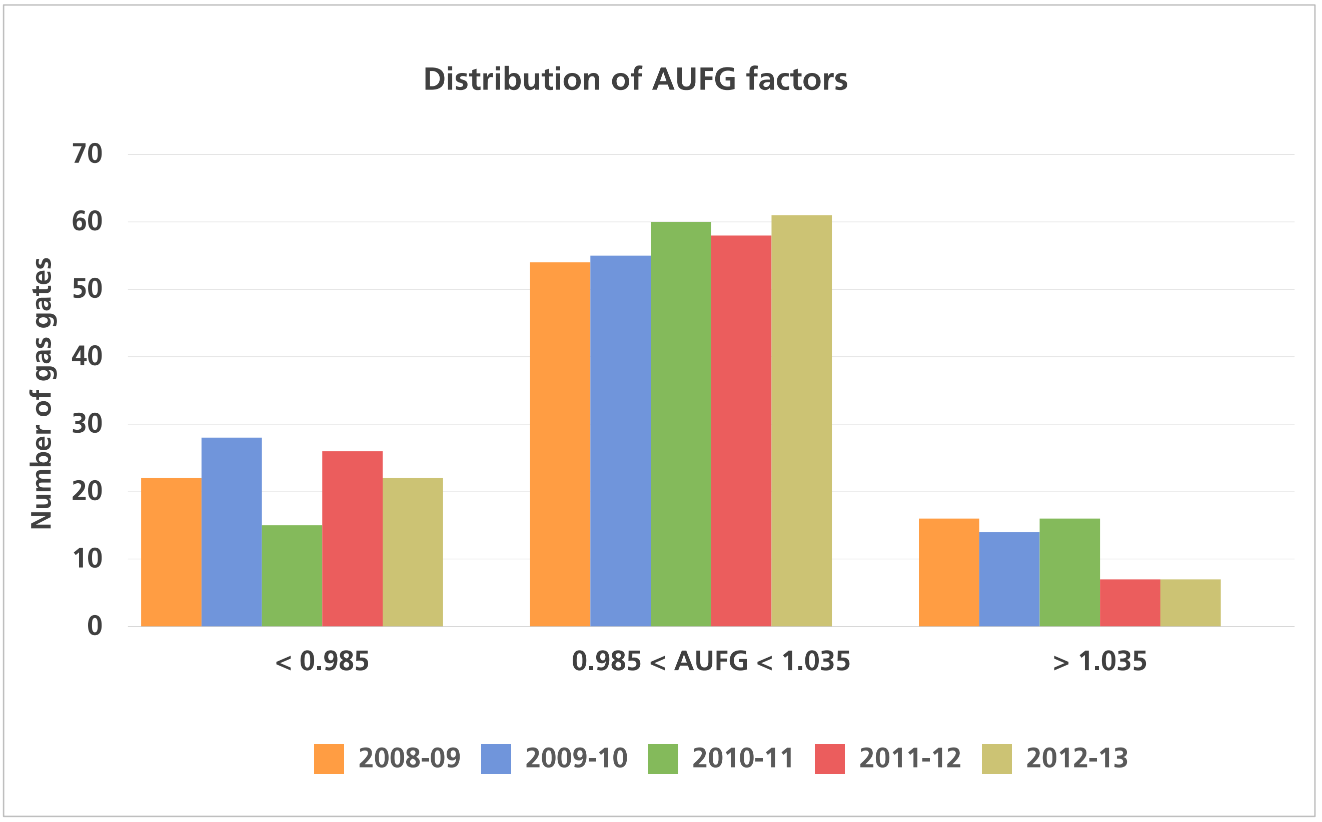
Annual UFG (AUFG) factors are used as part of the reconciliation process to determine how much of UFG gets assigned to customers with time of use meters. Time of use meters are used by large industrial customers and are generally considered to be more reliable than meters used in the mass market. Time of use meters receive UFG based on historical amounts of UFG at the gas gate, defined as the AUFG factor, while the remainder of customers at a gas gate receive the remainder of the UFG experienced at that gate

When the Reconciliation Rules were implemented, AUFG factors by were constrained by transitional provisions to a floor and cap. Those transitional provisions have now expired; however, the former cap and ceiling limits are useful as a means of tracking improvements in AUFG factors.

The closer AUFG is to one, the more accurate the consumption submissions have historically been at that gate. The chart below shows the improvement in AUFG factors over the five years that the Reconciliation Rules have been in effect. The number of gas gates with an AUFG factor greater than 1.035 has decreased dramatically, from 16 gas gates to seven. This outcome reflects falling UFG and the underlying efforts of retailers, aided by the results of the event and performance audits, to remedy identified causes of UFG.

The number of gas gates with AUFG figures less than 0.985 has decreased from the previous year. Many of these gates are small, with low gas volumes and relatively small numbers of ICPs associated with them. A number of these gates have atypical load patterns and are candidates for allocation by a methodology that avoids the use of AUFG factors, as outlined in the *Statement of Proposal: Downstream Reconciliation Rules Review*, which was recently released for consultation. The majority of the remaining gas gates with less than 0.985 AUFG do not have any Time of Use customers connected to them, so the AUFG factors are not used in allocations for those gates.

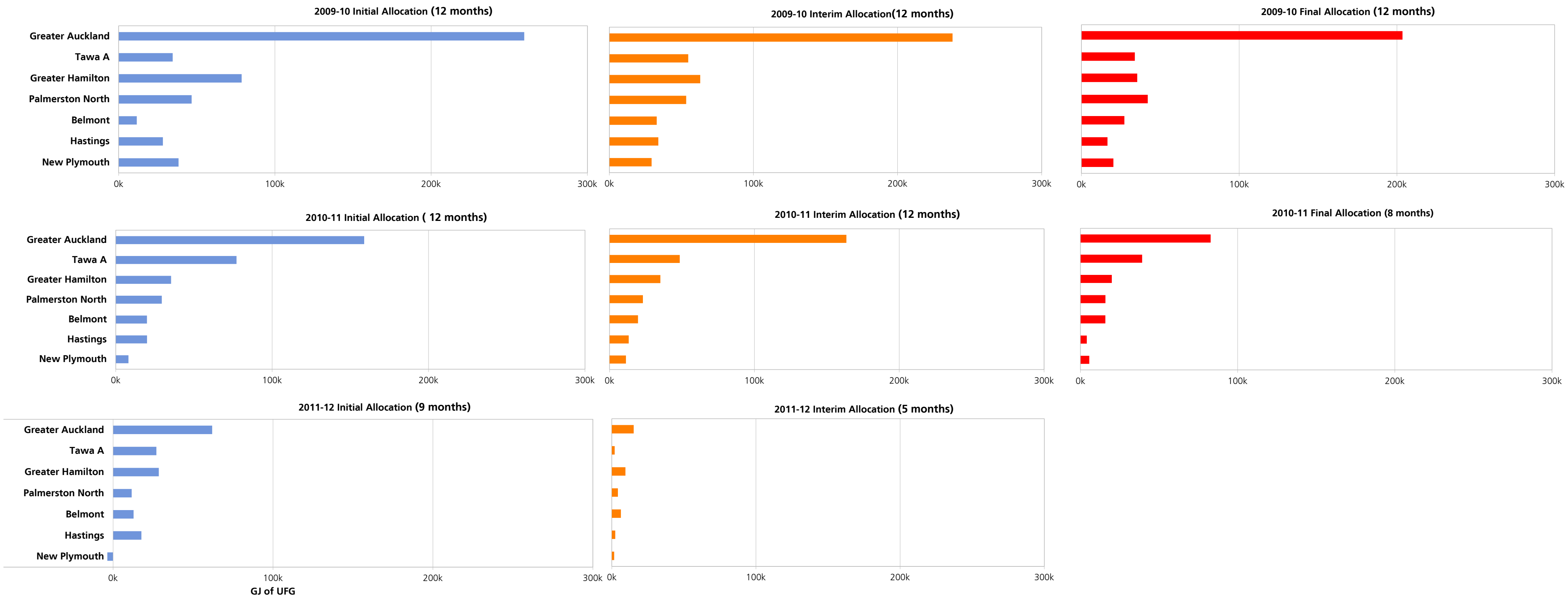
Gas Industry Co intends to conduct audits on the larger gas gates with outlying AUFG factors as a means of determining and remedying the causes of UFG at those gates.



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. These gates are also the largest gates in terms of consumption volumes, so it is not surprising that they are relatively large contributors to UFG. The pattern is roughly consistent over all three allocation cycles and across gas years.

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 the eight months of October through May 2011. For the 2011-12 gas year, shown in the third row, initial allocations for October through June 2012 and interim allocations for October through February 2012 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.



2009-10 Initial Allocation (12 months)
2009-10 Interim Allocation(12 months)
2009-10 Final Allocation (12 months)
2010-11 Initial Allocation (12 months)
2010-11 Interim Allocation (12 months)
2010-11 Final Allocation (8 months)
2011-12 Initial Allocation (9 months)
2011-12 Interim Allocation (5 months)
Greater Auckland
Tawa A
Greater Hamilton
Palmerston North
Belmont
Hastings
New Plymouth
0k
100k
200k
300k
GJ of UFG

Audits commissioned

Event audits

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

Performance audits

There have been no performance audits commissioned this quarter.

Number and severity of breaches of the Reconciliation Rules

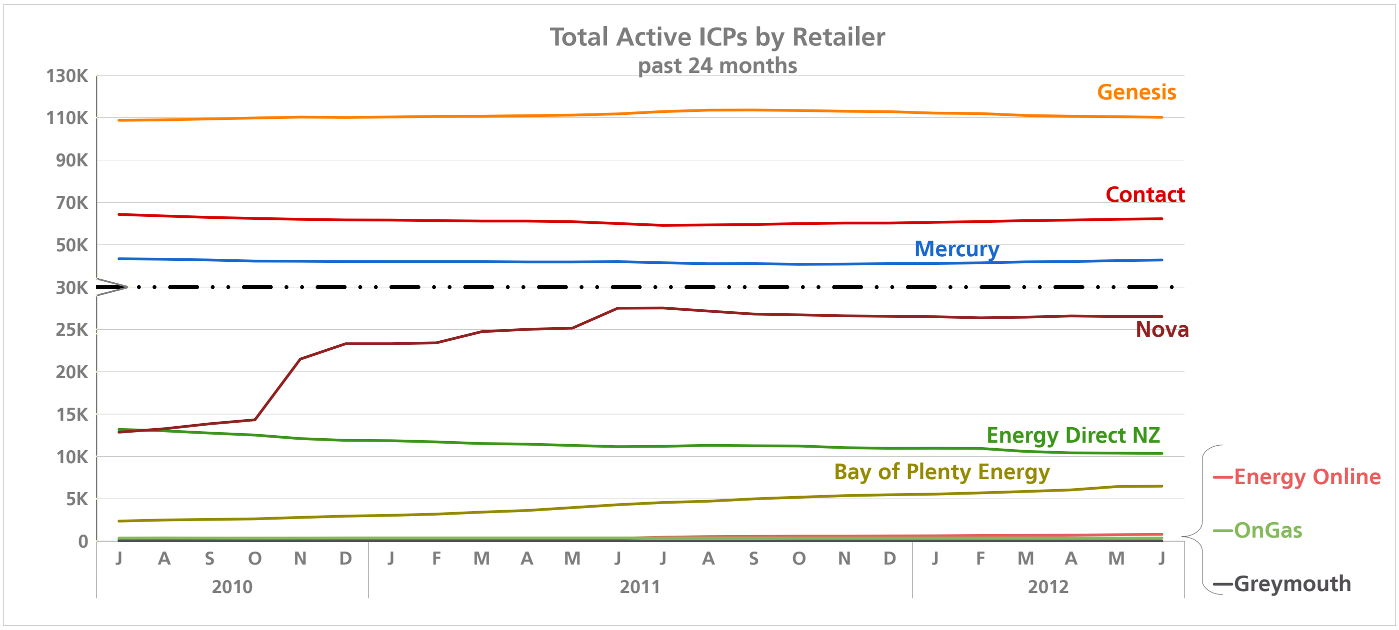
Over 90% of breaches alleged under the Reconciliation Rules relate to rule 37, the rule that requires the accuracy of consumption information provided at the initial allocation stage to be within a specified tolerance level of the information provided at the final allocation stage.

It has proven efficient for the Market Investigator to attempt to reach a settlement on batches of rule 37 breaches. The Market Investigator is in the process of trying to effect a settlement of the most recent batch, which represents breaches alleged from January 2011 to April 2012.

5 Market competition performance measures

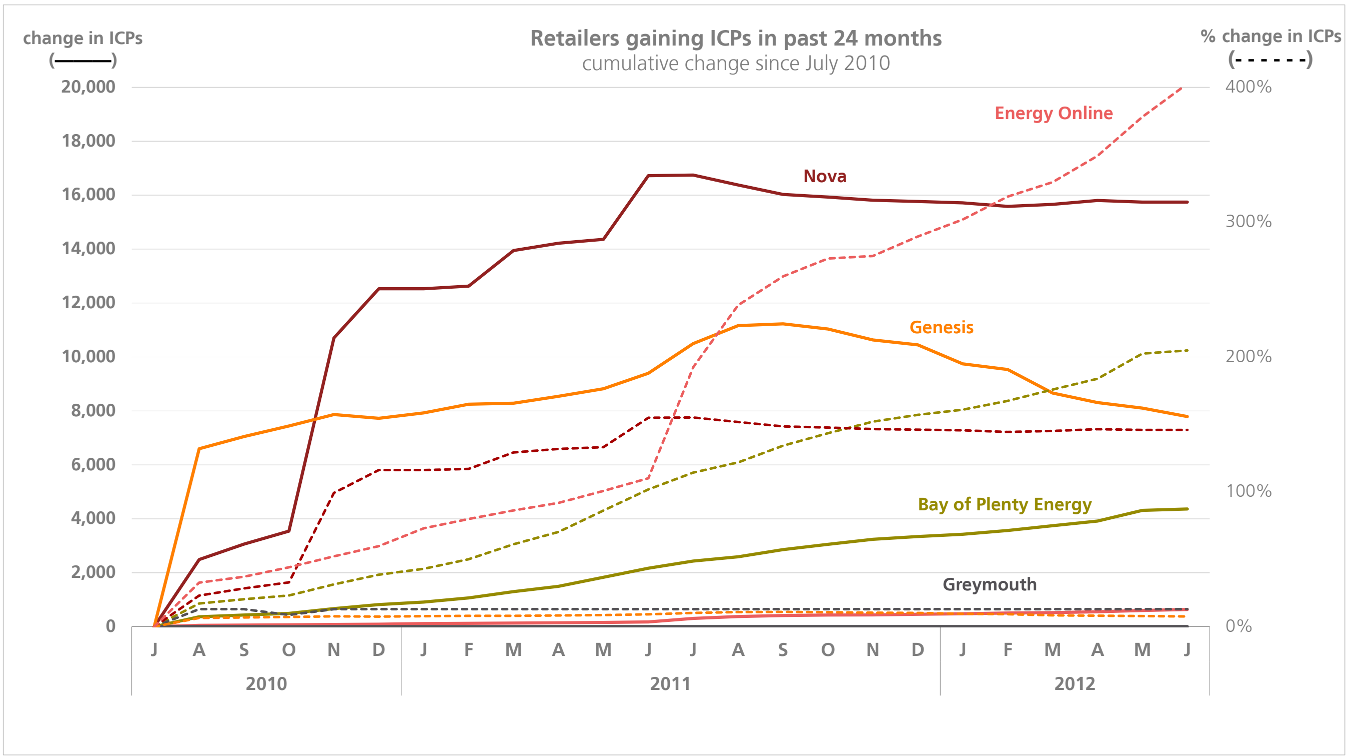
Market share of ICPs by retailer

Market share of ICPs has again been relatively constant over the past quarter, as illustrated by the chart below. Contact, Mercury, and Bay of Plenty Energy have been steadily winning customers since the beginning of the calendar year, while Genesis and Energy Direct have lost customers over the same time period. 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.

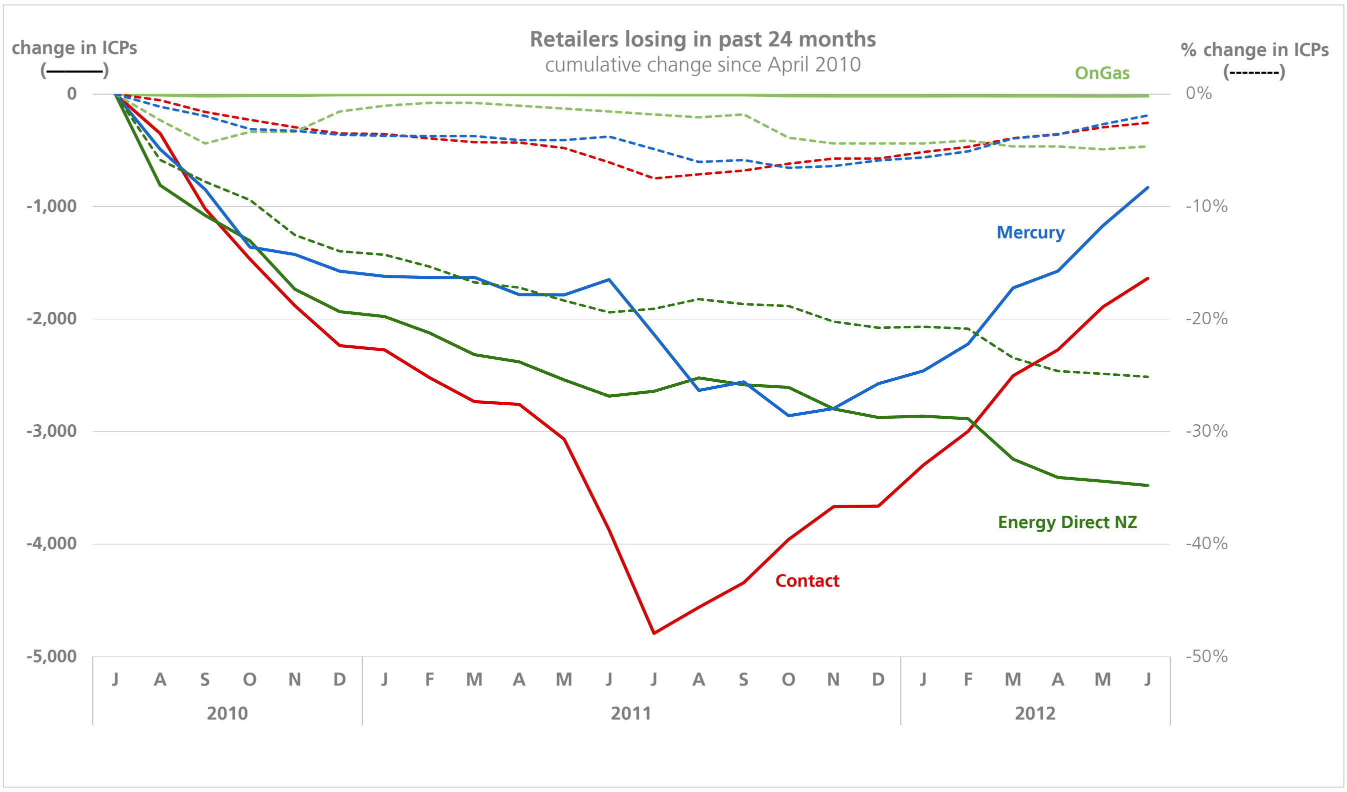


The two charts below are drawn from the same data set. The solid lines represent the change in numbers of ICPs, and the dashed lines show the percentage change in ICPs relative to July 2010. The first chart includes retailers who have experienced net gains in ICPs in the past two years, and the second 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 640 ICPs to its customer base. Bay of Plenty Energy has grown by over 200% with the addition of over 4,300 ICPs. Genesis increased its customer base by over 11,000 ICPs as of the middle of last year, but it has lost over 3,400 ICPs in the past nine months. 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.



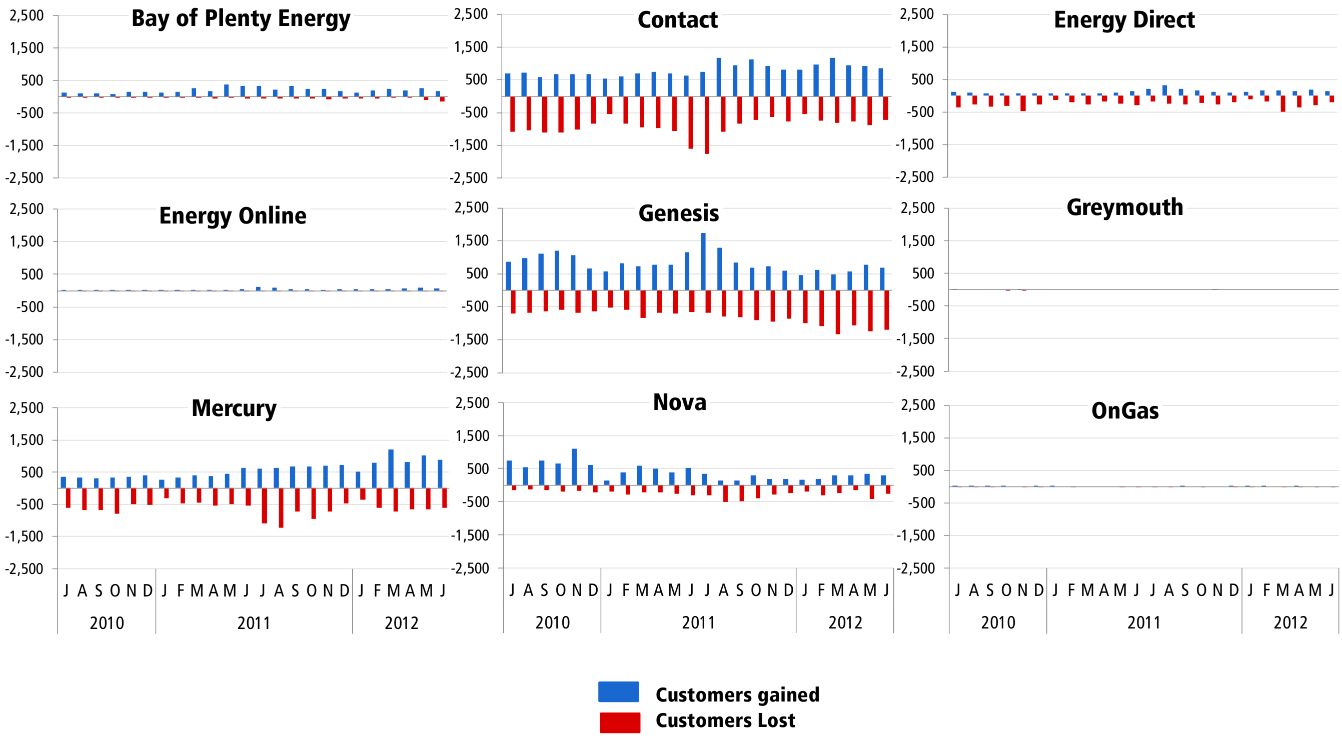
Note that all three of the ICP share charts above include data from ICPs on open-access distribution networks only; information about ICPs on bypass networks is not available in the Gas Registry.

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 numbers 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.

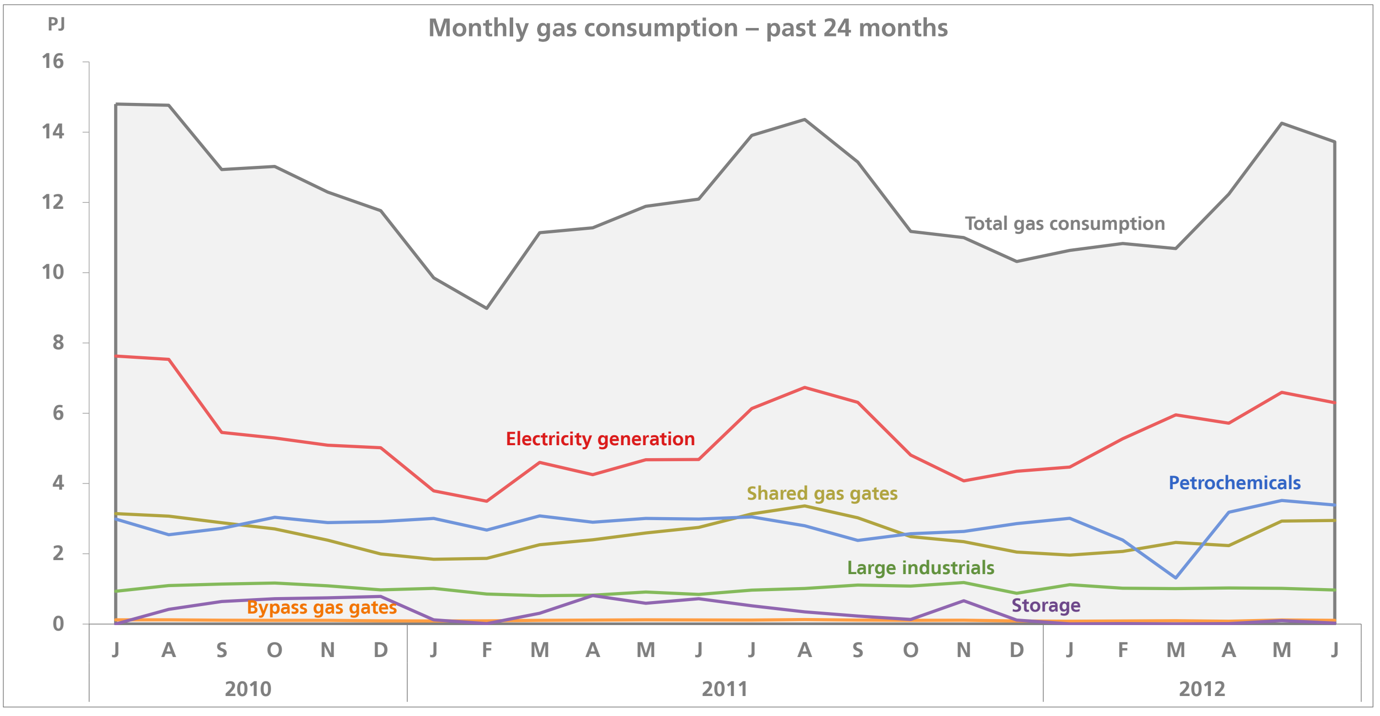
Switching activity by retailer



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 dip in petrochemical gas consumption in March was caused by scheduled and unscheduled outages of the Pohokura production station during 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.

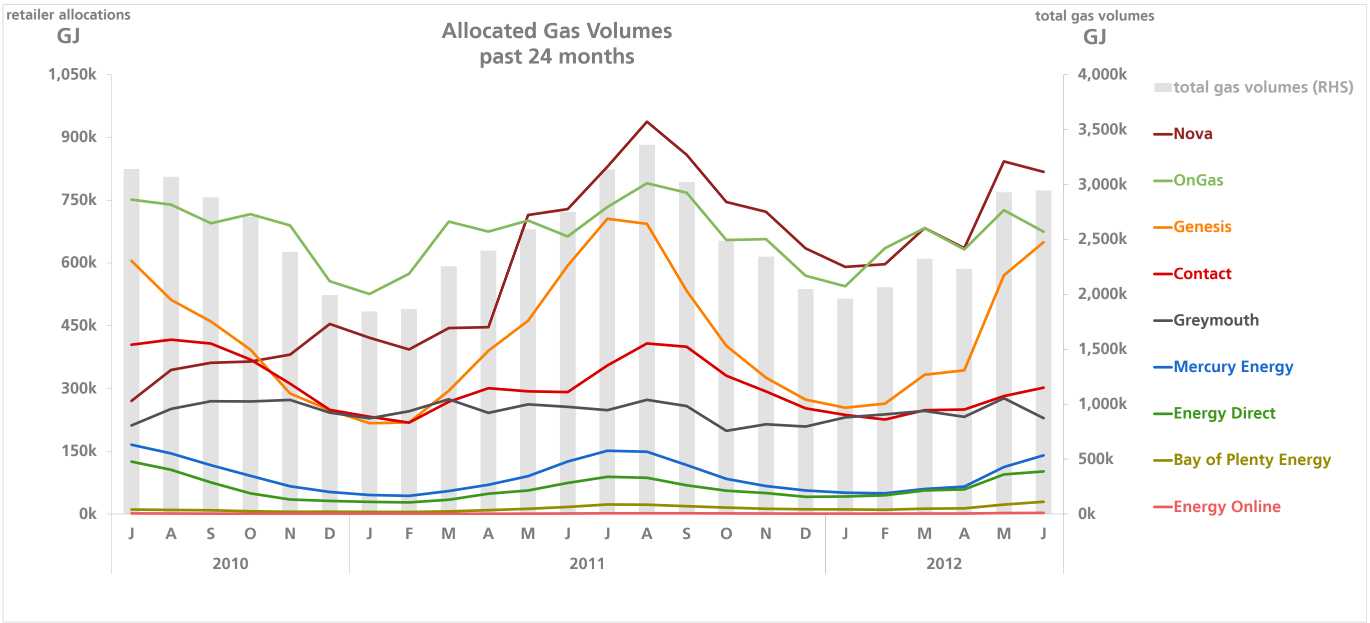


GAS INDUSTRY COMPANY LIMITED

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. 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 its position as largely a supplier to industrial loads.

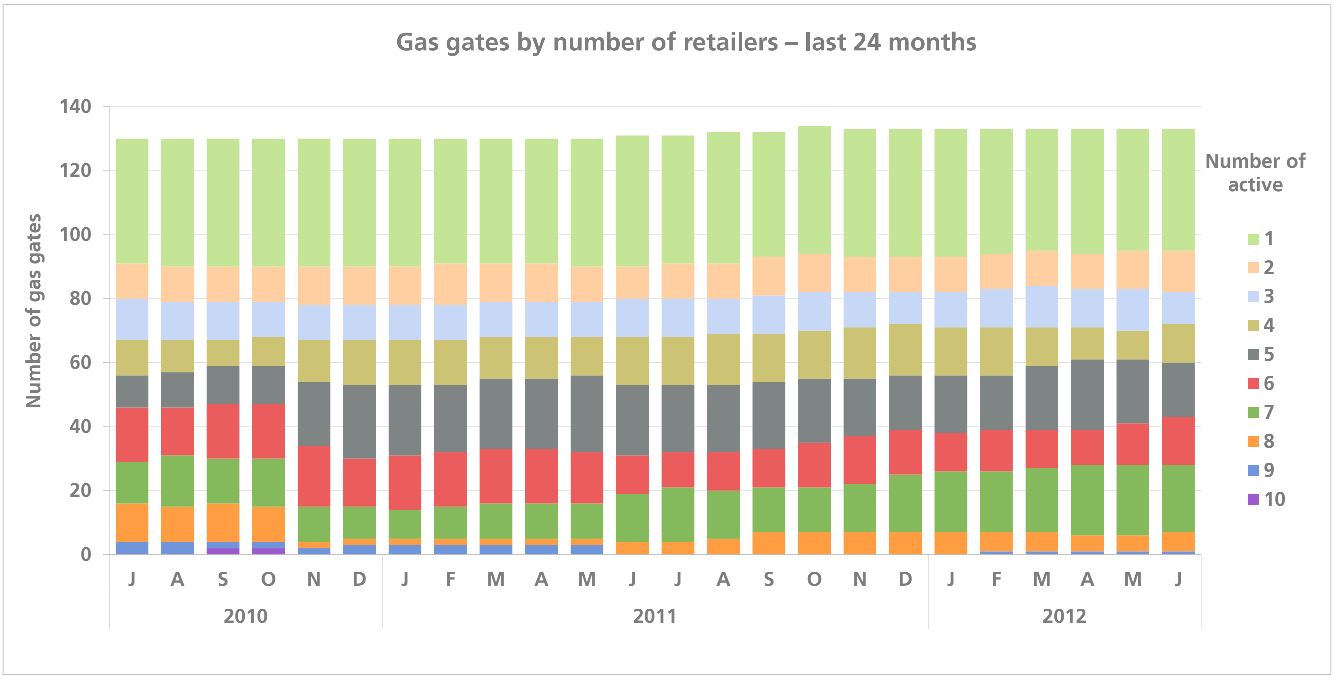


The data are from a mix of allocation stages: Final through May 2011; Interim for June 2011 through February 2012; and Initial for March through June 2012.

Gas gates by number of retailers

This charts 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.

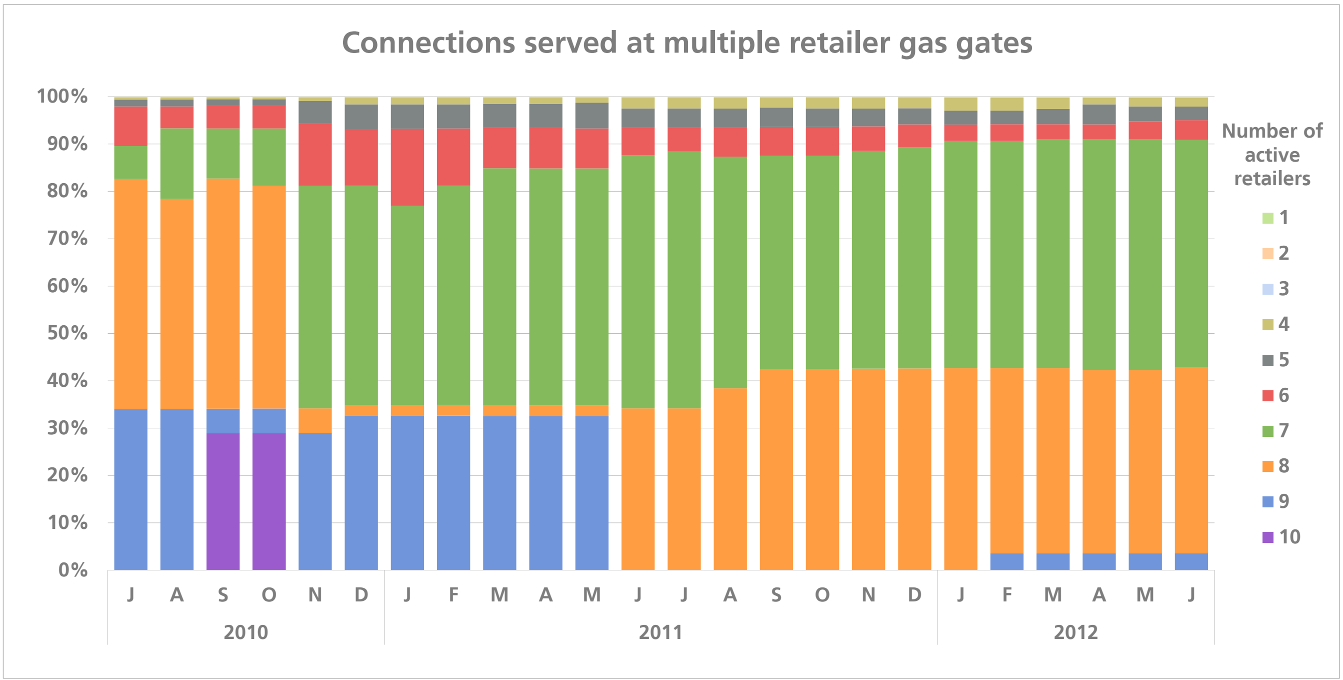
The chart shows that there has been a slight increase in retailers' activity at gas gates, following the amalgamation of Auckland Gas into the Nova Gas brand in 2011 and the exit from the market of E-Gas in 2010. The number of gas gates with six or more retailers (the red band and below in the chart) has seen an increase over the past year: in June 2011 there were 31 such gates; as at June 2012, there are 43.



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.

Since February, there has been a gas gate at which nine retailers trade, something that has not happened since Nova amalgamated its Auckland Gas brand. (The gate is Papakura, in the Auckland region.) Consistent with the trend over the past 18 months, the majority of gas customers are connected to a gate where least six retailers trade: 95%, as of June 2012.



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

No critical contingencies were declared in the quarter.

Strategic Progress: Quarterly Report April – June 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
Strategic Goal: Efficient Use of, and timely investment in infrastructure			
Transmission Pipeline Balancing	• Improved industry arrangements. Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions.	• Assess balancing market developments. • Provide advice to Minister on balancing market developments by February 2012.	• 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.
Interconnection	• Improved industry outcomes. Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions.	• Monitor two new interconnection arrangements on each open access transmission pipeline (Vector, MDL). • Review transmission pipeline interconnections and consult on any issues by the end of 2013. • Investigate the extent, if any, of issues relating to access to private pipelines.	• Only one new pipeline connection has occurred since Ministerial request. This has been reviewed and no issues have been identified.
Access to Processing Facilities	• Statutory Role under Gas (Processing Facilities Information Disclosure) Rules 2008.	• Collect, monitor, and publish disclosed information. • Recommend to Minister by 27 June 2013 as to continuance, amendment, or expiry of these Rules.	• All disclosures for current year received and published on Gas Industry Co website.

Project	Rationale	Activity	Status
Strategic Goal: Build efficient, competitive, and confident gas markets			
Rule Changes	• Improved industry governance through regular review of existing arrangements and recommending changes where appropriate.	• Maintain rule change registers. • Review industry feedback on options paper on Reconciliation Rules review. • Consult on Statement(s) of Proposal for changes to Reconciliation Rules. • Review effectiveness of the Gas Governance (Critical Contingency Management) Regulations 2008 following any events/exercises. • Consult on proposed changes to the Compliance Regulations.	• Options Paper for technical improvements to Reconciliation Rules issued for industry comment December 2011. Submissions received 6 February 2012. Advisory Group formed March 2012 to assist development of Statements of Proposal • 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. • Statement of Proposal issued on 31 May 2012 on proposed changes to the Compliance Regulations.
Gas Quality	• Maintain an acceptable standard of gas quality. • Ensure costs of gas quality incident are met efficiently. • Achieve improved transparency on gas quality incidents.	• Ongoing review of industry arrangements for managing gas quality. • Consider options for improving gas quality arrangements. • Report review findings to Minister by June 2012.	• Survey of gas quality monitoring completed. • Investigation update report in progress. • Retailers establishing information exchange protocol to be able to demonstrate compliance with gas quality requirements.
Insolvent Retailer Arrangements	• Following recommendation to revoke 2010 temporary Insolvent Retailer Regulations, consider whether generic regulatory solution is required to address retailer insolvency.	• Prepare Issues and options paper for industry consultation.	• Castalia Strategic Advisers advice received and released for industry discussion. Submissions due 30 July 2012.

Project	Rationale	Activity	Status
Gas Distribution Principles	• Improved industry outcomes. Gas industry participants and new entrants are able to access distribution pipelines on reasonable terms and conditions. • Ensure consistency in distribution services arrangements.	• Monitor and report annually to Minister on status of distribution arrangements. • Develop and publish distribution contract Principles. • Encourage publication of network services agreements.	• Draft distribution Principles created and issued for consultation. • Analysis of submissions completed and published. • Distribution contract assessment framework released for discussion. • Recommendation to Minister for endorsement of the Gas Distribution Contracts Oversight Scheme sent on 29 June 2012.
Transmission Change Requests	• Contractual role pursuant to MoUs with MDL and Vector. • Ensure ongoing relevance and efficiency of multilateral terms of access to transmission pipelines.	• Process MPOC change requests and VTC change request appeals in accordance with respective Memorandum of Understanding (MoU).	• Change requests and appeals processed as received. • Final Recommendation on 13 October MPOC Change Request (balancing) supported the change. (also see Transmission Pipeline Balancing above). • Final recommendation on 14 December 2011 VTC Change Request Appeal (invoicing) did not support the proposal.

Project	Rationale	Activity	Status
Compliance	• Statutory role under the Compliance Regulations. • Improved industry operations through provision of a compliance and dispute resolution process for industry participants.	• Oversight of Gas Governance (Compliance) Regulations 2008.	• Gas Industry Co continues to fulfil its role as Market Administrator under the Compliance Regulations. • 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. • Record of Settlement published in respect of one party. Party did not commit breach; working with CCO to clarify processes.
Customer Issues	• Enhanced consumer benefits through complaints process for small gas customers.	• Liaise with the Electricity & Gas Complaints Commission (the approved complaints scheme), and other relevant regulators to remain aware of consumer complaint issues.	• Regular liaison with Electricity & Gas Complaints Commission, and bi-monthly meetings with Electricity & Gas Complaints Commission and other relevant regulators. Gas-related inquiries and complaints statistics included in Gas Industry Co 2011 Annual Report.
Retail Contracts	• 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.	• Administer the Retail Gas Contracts Oversight Scheme. • Annual assessment of alignment of retail contracts with contract Benchmarks. • Report to Minister on the results of the 2012 assessment.	• Transitional assessment of retailers' progress towards alignment with the Benchmarks completed and report provided to Minister. • Third assessment to commence in July 2012.

Project	Rationale	Activity	Status
Transmission Pipeline Capacity	• Improved consumer outcomes by addressing short and long-term competition issues arising from the North Pipeline capacity constraint. • Enhanced industry/consumer outcomes by improved level, and quality, of information on which to base business/energy use decisions.	• Address by regulatory and/or non-regulatory options any lessening of competition due to transmission constraints. • Implement the Gas Transmission Investment Programme (GTIP). • Improve the quality and availability of pipeline security standards and supply/demand information. • Promote changes to commercial and regulatory arrangements so the GTIP objectives can be met.	• Continued monitoring of information provided by signatories to the "Bridge Commitments", designed to address short-term issues. • Gas Transmission Exchange (GTX) - one of the 7 Bridge Commitments - goes live in April as online capacity trading platform. • New work programme, Gas Transmission Investment Programme (GTIP), initiated to address long-term solutions to capacity issues on North Pipeline. • Panel of Expert Advisers issues first advice report to Gas Industry Co (July 2012). Report issued for industry comment. •

Project	Rationale	Activity	Status
Strategic Goal: Deliver effectively on accountabilities			
Downstream Reconciliation	• Statutory role under Reconciliation Rules. • Improved industry arrangements and consumer outcomes through the objective of fairly allocating, and reducing, unaccounted-for-gas (UFG) and its associated costs.	• Oversight of Gas (Downstream Reconciliation) Rules 2008.	• Gas reconciliations being performed every month • Long-term UFG has flattened out at ~1.5%. • Options Paper issued for industry comment December 2011, with submission due by 6 February 2012. • 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 July 2012.
Switching and Registry	• Statutory Role under Switching Rules 2008. • Efficient retail market and improved consumer outcomes by facilitating market contestability through customer switching between retailers.	• Oversight of Gas (Switching Arrangements) Rules 2008.	• Customer switching at steady-state level of ~3200 switches per month.
Performance Measures	• Improved industry and consumer outcomes through the provision of public information on industry performance. • Monitor the effectiveness of governance arrangements.	• Determine and publish information on each gas governance arrangement that has been implemented.	• Performance measures computed and reported quarterly.

Policy Development and Information Gathering	• Ensure Gas Industry Co has all information required to properly analyse issues in arriving at conclusions. • Industry and consumer benefits from improved level, and quality, of information on which to make business and/or energy use decisions.	• 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.	• Statement of Proposal issued for industry comment December 2011. Submissions due by 17 February. • Following submissions analysis, developing information requests protocol and continuing to develop regulatory framework.
Industry Facilitation	• Facilitate nexus between industry and Government. • Maintain informed industry participants and other stakeholders.	• Facilitate, influence and communicate with the industry and Government. • Liaise with other regulatory bodies, agencies and associations with responsibilities and interests encompassing the gas industry.	• CEO presentations to industry conferences (Downstream, 'Wind Energy, LPG).
Critical Contingency Management	• Statutory role under Gas Governance (Critical Contingency Management) Regulations 2008. • Improved industry outcomes through increased market confidence in industry's ability to manage critical events.	• Manage Critical Contingency Operator (CCO) via service provider agreement. • Review effectiveness of the Regulations following any events/exercises. • Operate critical contingency pool following an event.	• Annual exercises held. • CCO activities monitored and reviewed quarterly. • Reviewed CCO Incident and Performance Reports on the Maui Pipeline outage on 25-30 October 2011 • Commenced CCM Regulations review, including appointment of outside consultants to advise on aspects such as international best practice. • Reviewed CCO Incident and Performance reports on critical contingency event arising from a Pohokura production station outage on 3 March 2012.