



**FROM THE CHIEF EXECUTIVE**

Two important Government policy announcements during the quarter ended 30 September 2011 have provided clear Government policy expectations for the energy sector, and in particular have reinforced the continuing importance of gas to the economy.

The *National Infrastructure Plan 2011* issued in July comments on the changing energy mix as New Zealand pursues its renewables targets, while acknowledging the need for thermal electricity generation support in the interests of supply security. It is a direction echoed in the *New Zealand Energy Strategy 2011-2021*, released last month with its companion *New Zealand Energy Efficiency Strategy*. Both the *Infrastructure Plan* and the *Energy Strategy* look to the development and sustainable use of the country’s oil and gas resources to help meet demand growth and strengthen supply resilience.

The themes of making the most of New Zealand’s energy potential for the benefit of all New Zealanders; the environmentally responsible development and efficient use of energy resources; and the provision of secure and affordable energy for consumers dovetail well with Gas Industry Co’s responsibilities as the gas industry body and co-regulator.

They also confirm our wider strategy to *optimise the contribution of gas to New Zealand*, which was also the theme of our Gas Industry Conference in August. I was delighted that so many people from across the industry, including large gas consumers, were able to attend, and to hear the broad insights of our range of speakers. With an industry as diverse and complex as the gas sector, it is not surprising there are equally diverse and complex issues. However, it was apparent the three big ones are reserves, pipeline constraints and effectively engaging with existing and potential small gas customers.

It is pleasing to see these issues are being addressed – with the Government’s upstream Action Plan to encourage explorers to this part of the world, our own work in conjunction with the industry on transmission capacity issues, and consideration being given by some participants to update the consumer proposition for small users.

Successfully meeting challenges like these are crucial to ensuring that gas does indeed fully play the role envisaged for it in the nation’s energy aspirations.

Steve Bielby  
Chief Executive

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**Post-Quarter Event  
Maui Pipeline Outage**

The gas supply contingency affecting the upper North Island from 25-30 October, due to a leak on the Maui pipeline, will be the subject of a review by a number of parties, including the Critical Contingency Operator and Gas Industry Co. The outage presented challenges to gas users and was managed under the Gas Governance (Critical Contingency Management) Regulations 2008, and through strong co-operation of industry participants.

The Regulations provided the framework for managing the necessary supply constraints, maintaining limited supplies to customer bands (particularly residential customers and essential providers), supporting the integrity of the pipeline systems and restoring deliveries in an effective way.

## Industry Performance Highlights

This Quarterly Report includes a full report (**page 6**) on the industry's performance against the Switching Rules, the Reconciliation Rules, and the Critical Contingency Management Regulations in the three months ended 30 September 2011. Highlights include:

- Balancing volumes have fallen 87 percent between 2006 and 2010. Volumes in the first nine months of 2011 are down 38 percent on the same period in 2010.
- Switching volumes in September reverted to normal levels following several months of increased switching activity. The average annual switching rate is about 15.5%.
- Unaccounted-for-gas (UFG) volumes increased as normal over the winter months, but were unseasonably low in September. Annual UFG is running at around 1.4% of allocated volumes.
- Retailer market share was largely unchanged. Over 93% of gas customers have access to six or more competing retailers.

## Gas Transmission Investment Programme Enters New Phase

The next phase in addressing gas transmission capacity availability through Auckland has commenced with Gas Industry Co issuing a Structure and Scoping Report, and appointing members to two key advisory panels that will help progress the Company's Gas Transmission Investment Programme (GTIP).

### Panel of Strategic Advisers

Allen Carvell, Vector  
Doug Watson, Fonterra/Major Gas Users Group  
Duncan Jared, Mighty River Power  
Hayden Laird, Greymouth  
Malcolm Alexander, Genesis  
Murray Jackson, Shell  
Sharon Wray, Contact

The Panel is chaired by Andrew Brown.

The Report, issued in September, sets out the GTIP's objectives, establishes its governance arrangements, and outlines projects aimed at achieving enduring, long-term transmission arrangements tailored to the New Zealand gas market.

The programme, expected to last 18-24 months, follows the introduction in August of industry-led arrangements, known as the "Bridge Commitments", to address short-term issues arising from concerns by some large end users that a capacity constraint on Vector's North Pipeline is inhibiting competition when seeking tenders for gas supply.

Two advisory panels have been established to lead and help execute the projects, and to provide advice which will be considered by Gas Industry Co when making its decisions.

### Panel of Expert Advisers

Brenda Talacek, Vector  
Bruce Girdwood, Vector  
Charles Teichert, Todd Energy  
Don Gray, Maui Development Limited  
John Small, Major Gas Users Group  
Nick McDougall, OMV  
Ross Parry, Genesis

The Panel is chaired by Graham Scott.

A Panel of Strategic Advisers (PSA), comprising senior stakeholder representatives and chaired by Andrew Brown, one of Gas Industry Co's Independent Directors, will provide strategic oversight, promote understanding of the programme and discuss any contentious matters.

Detailed technical work will be guided by a Panel of Expert Advisers (PEA), chaired by former New Zealand Treasury Secretary, Dr Graham Scott.

Comprising seven members selected on the diversity and strengths of their expertise, the PEA's first task is to review the scope of the Programme to ensure it has the right focus and captures everything necessary to its success.

Full details of the Bridge Commitments and the GTIP Structure and Scope Report are available on our website at <http://gasindustry.co.nz/work-programme/transmission-pipeline-capacity/short-term#fragment-2113> and <http://gasindustry.co.nz/work-programme/gas-transmission-investment-programme> respectively.

## Information Gathering Project

Past difficulties in accessing information have prompted an information gathering project by Gas Industry Co to strengthen its policy development process.

An outline of the Gas Gathering for Gas Governance Project is presented on the Company's website <http://gasindustry.co.nz/work-programme/policy-development-and-information-gathering> and a Statement of Proposal will be issued for industry consultation during November.

The objective is to develop a process that will enable the Company to ensure the supply of relevant information from industry participants on specific issues. This in turn will assist the Company's analysis of issues and the timely development of market solutions.

The Project has emerged from Gas Industry Co's recent work on transmission pipeline capacity, gas quality and private pipelines, where difficulties in accessing certain information at times affected the Company's ability to sufficiently analyse issues and, in some cases, delayed the process.

The project will consider all options to improve Gas Industry Co's access to information on particular issues. The Company will continue to engage with the industry in seeking information voluntarily, but the project necessarily will also examine whether regulation is needed.

Last year, the Associate Minister asked Gas Industry Co to consider recommending regulations under the information collection provision of the Gas Act to assist in the investigation of disputes over access to private pipelines. In considering this request, the Company concluded the provision had potential application to its broader policy development process and other workstreams.

Gas Industry Co considers increased availability of quality information will enhance gas market efficiency, but also recognises the need for protocols around commercially sensitive information sought from participants.

## "Moderate" Compliance with Retail Contract Benchmarks

A transitional assessment of gas retail contracts has shown continued "moderate" overall compliance with contract benchmarks introduced last year.

The overall assessment of contract arrangements as at 1 July 2011 was unchanged from the outcome of a baseline assessment conducted in June last year. The baseline and transitional assessments, by an independent assessor, Elwood Law, were made under a Retail Contracts Oversight Scheme endorsed by Government in May 2010. Formal assessments will be conducted annually and, from next year, Gas Industry Co will publicly disclose the rating of individual retailers' contract arrangements.

The Scheme reflects policy objectives for positive consumer outcomes, and is designed to ensure gas retail contracts protect the long-term interests of small gas users. The latest transitional assessment was undertaken to measure retailers' progress against contract benchmarks since the 2010 baseline evaluation.

Although the overall degree of alignment remained “moderate”, Gas Industry Co is encouraged that retailers have taken account of feedback provided from their baseline assessments. There has been constructive engagement from retailers in this process and, in addition to substantial progress by one retailer, there are signs other retailers are taking active steps to improve their contractual arrangements with retail customers.

Individual retailers have been informed of their assessments. However the baseline and transitional assessment results are publicly reported again this year at a consolidated, rather than individual retailer, level to give retailers time to review their contract arrangements and adjust them accordingly.

Gas Industry Co is also aware that the Electricity Authority is conducting a similar assessment of retail electricity contracts, and that a number of retailers will want consistency between their electricity and gas contract arrangements.

The benchmarks were set following consultation with the industry and consumer representative groups, and are intended to ensure that retail gas contracts:

- are sufficiently complete, accessible, and balanced to support the long-term interests of gas consumers;
- clearly set out the respective obligations of the retailer and consumer, including any obligations the consumer has to meter or network owners;
- reflect market structures as far as possible; and
- support the achievement of an effective complaints resolution scheme for consumers.

The transitional assessment evaluated 10 gas supply arrangements across seven retailers, and covered published standard terms for gas retail supply contracts for consumers (residential and business) using less than 10 terajoules (TJ) a year. Assessment is based on a qualitative scale of “Full”, “Substantial”, “Moderate”, and “None”.

The full transitional assessment report is available on Gas Industry Co’s website at [http://gasindustry.co.nz/sites/default/files/u180/final\\_assessment\\_report.pdf](http://gasindustry.co.nz/sites/default/files/u180/final_assessment_report.pdf)

## Submitters Support Voluntary Distribution Contract Principles

Submissions on Gas Industry Co’s Draft Principles for Arrangements on Gas Distribution Systems have generally supported the development of a principles-based approach to improve contracts between gas distributors and retailers.

Following analysis of the six submissions received, Gas Industry Co has confirmed its initial view that there is no strong case for regulation and has made a number of amendments to the proposed Principles as a result of feedback from the consultation. The analysis and resulting amendments to the proposed Principles are available on Gas Industry Co’s website at [http://gasindustry.co.nz/sites/default/files/u254/draft\\_principles\\_for\\_arrangements\\_on\\_gas\\_distribution\\_systems\\_analysis\\_of\\_submissions\\_172966.4.pdf](http://gasindustry.co.nz/sites/default/files/u254/draft_principles_for_arrangements_on_gas_distribution_systems_analysis_of_submissions_172966.4.pdf)

The Company will now develop a recommendation seeking the Minister’s endorsement of the Principles as an industry arrangement. This envisages an assessment process, including monitoring and annual reporting on distributors’ progress on updating their Network Services Agreements to align with the benchmarks.

The review of distribution contract arrangements began last year 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 review found no major issues, but identified some shortcomings, including instances of Network Services Agreements being out of date or not publicly available.

## MoU with Commerce Commission

Gas Industry Co and the Commerce Commission have entered into a Memorandum of Understanding in recognition of their common interests in areas of the gas business.

Both parties have an interest in promoting outcomes consistent with competitive markets and have mutual obligations under the Commerce Act, including how it interfaces with the Gas Act. In addition, the Commission has responsibility in the key areas of setting price-quality paths for gas pipeline services, information disclosure, and goods and services regulations, while Gas Industry Co is concerned with the ongoing operation of open access pipelines and ensuring downwards pressure on gas costs and prices.

The MoU identifies opportunities for the Company and the Commission to co-ordinate their responsibilities and interests, share information, knowledge and expertise, and ensure each is informed of relevant matters in a timely way. View the full MoU at [http://gasindustry.co.nz/sites/default/files/publications/05\\_08\\_11\\_com\\_com\\_and\\_gic\\_mou\\_173249.pdf](http://gasindustry.co.nz/sites/default/files/publications/05_08_11_com_com_and_gic_mou_173249.pdf)

## 2011 Annual Report

Gas Industry Co's 2011 Annual Report has been published and is available on our website at [http://gasindustry.co.nz/sites/default/files/publications/gic\\_ar\\_final\\_single\\_page\\_presentation\\_175259\\_0.pdf](http://gasindustry.co.nz/sites/default/files/publications/gic_ar_final_single_page_presentation_175259_0.pdf)

## Christmas/New Year Office Hours

Gas Industry Co's offices will close from 5.00pm on Friday 23 December 2011 for the Christmas/New Year period, and reopen on Monday 9 January 2012.

For urgent inquiries during this period, contact:

Keith FitzPatrick  
Industry & Communications Adviser  
027 767 1152

Sandy Thambiah  
Internal Communications Assistant  
027 360 6755

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### Coming up....

#### November

Co-Regulatory Forum

Gas Industry Co Annual Meeting of Shareholders

Statement of Proposal – Information Gathering for Gas Governance

# Performance Measures Quarterly Report for the period ending 30 September 2011

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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.

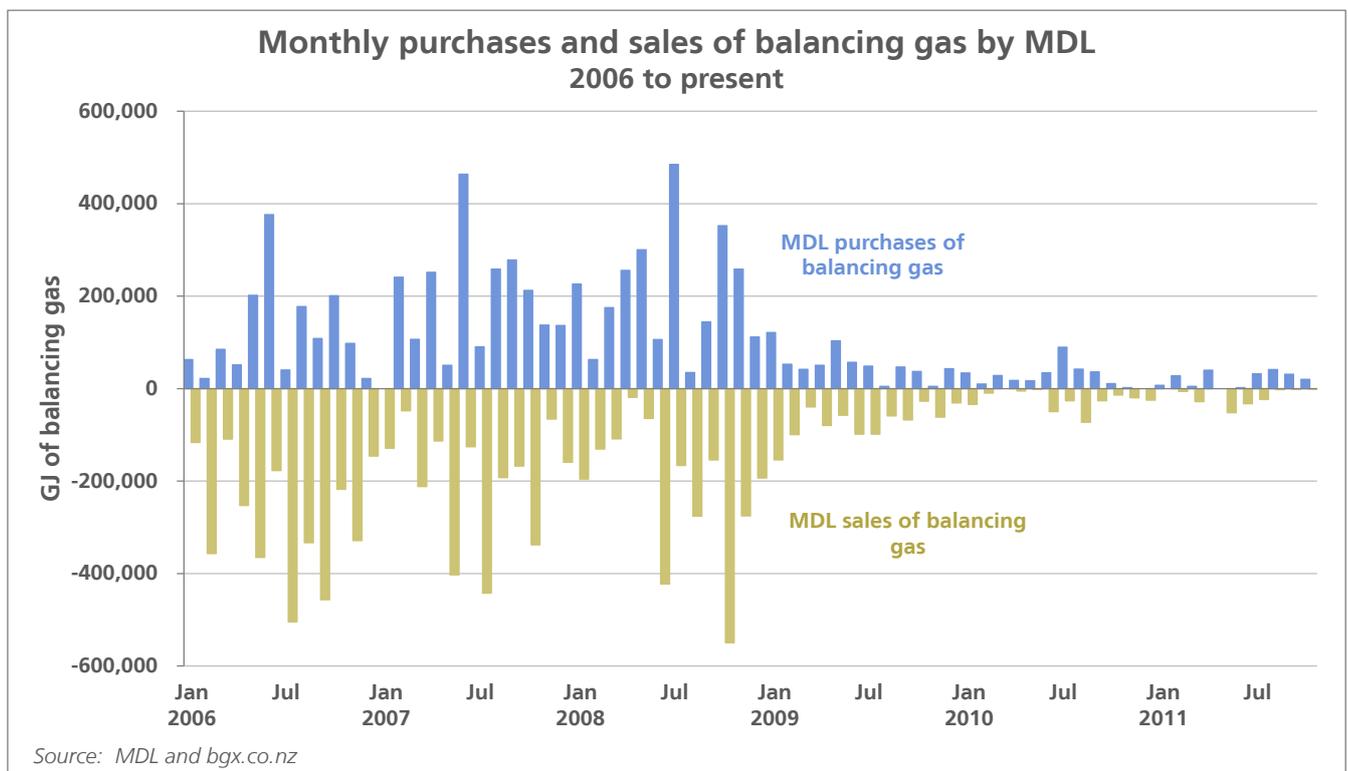
Highlights of the Report:

- Balancing volumes have continued to fall in calendar 2011 compared to previous years. Balancing volumes fell 87% from calendar 2006 to 2010; comparison of the first nine months of 2011 with the same time period in 2010 shows a further decrease of 38% in gas volumes.
- Switching volumes in September have reverted to historical levels, following several months of heightened switching activity. The average annual switching rate is about 15.5%.
- Annual volumes of unaccounted-for gas (UFG) stand at about 1.4% of allocated volumes. UFG had an uptick over the winter months, consistent with previous years, but UFG for September is unseasonably low.
- There have been no major movements in market share this quarter. Genesis Energy is the largest gas retailer by number of customers; Nova Energy is the largest by volumes of allocated gas.
- Consistent with last quarter, over 93% of gas customers are connected to gas gates where six or more retailers operate.
- There were no critical contingencies this quarter.

## 2 Balancing gas volumes

Gas Industry Co is monitoring developments in the balancing market with a view to providing advice to the Minister in February 2012. Balancing refers to the management of the gas inventory in a pipeline. 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. 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 have meant 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.



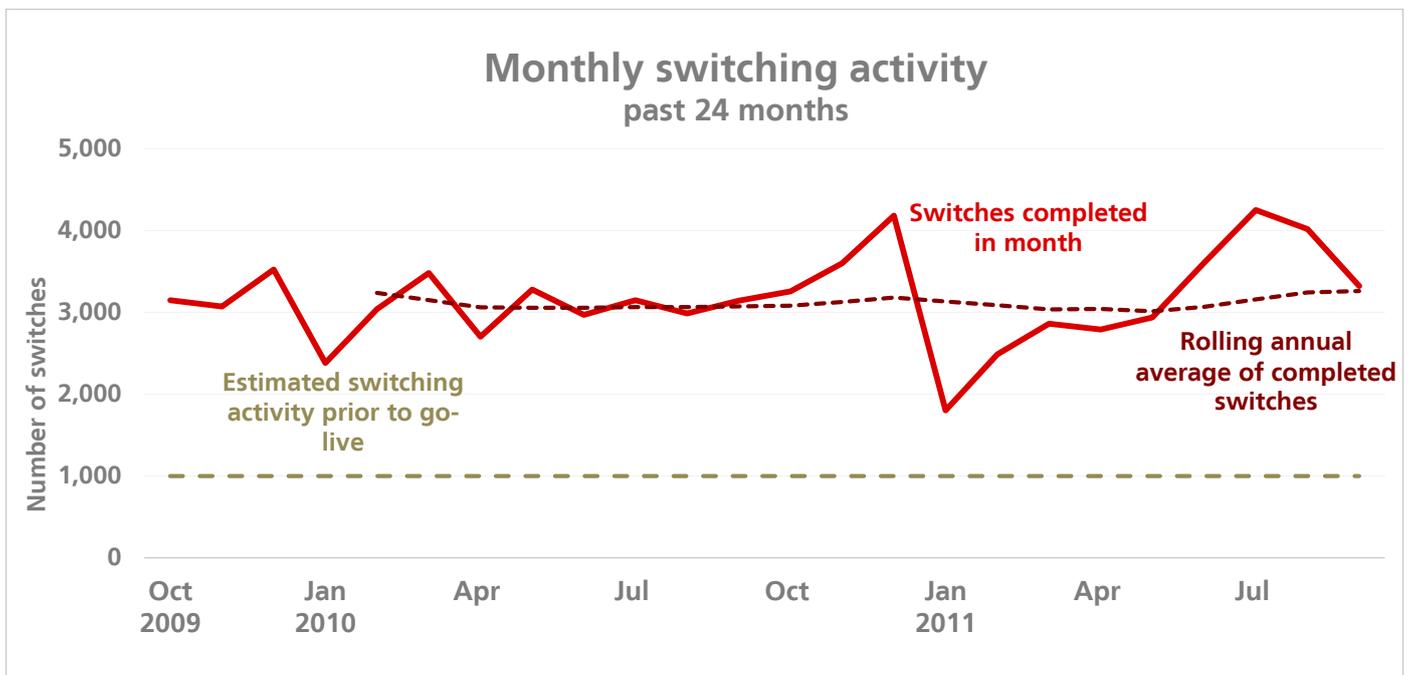
The outcome is the significantly reduced volumes of gas needed to balance the Maui pipeline, as can be seen in the chart above. In each of the calendar years 2006, 2007, and 2008, over 4,600,000 GJ of balancing gas were bought and sold by MDL. In 2009, balancing gas volumes totalled less than

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 have totalled just over 330,000 GJ in the nine months ending September, compared with over 535,000 GJ during the same months in 2010.

### 3 Switching performance measures

#### Monthly switching activity

Switching activity was boosted the past several months by the Electricity Authority’s switching campaign, while switches for the month of September are in line with long term trends. The annual rate of switching for the year ending September is about 15.5%. In comparison, the annual churn rate for electricity is about 20% as at the end of September. 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%.

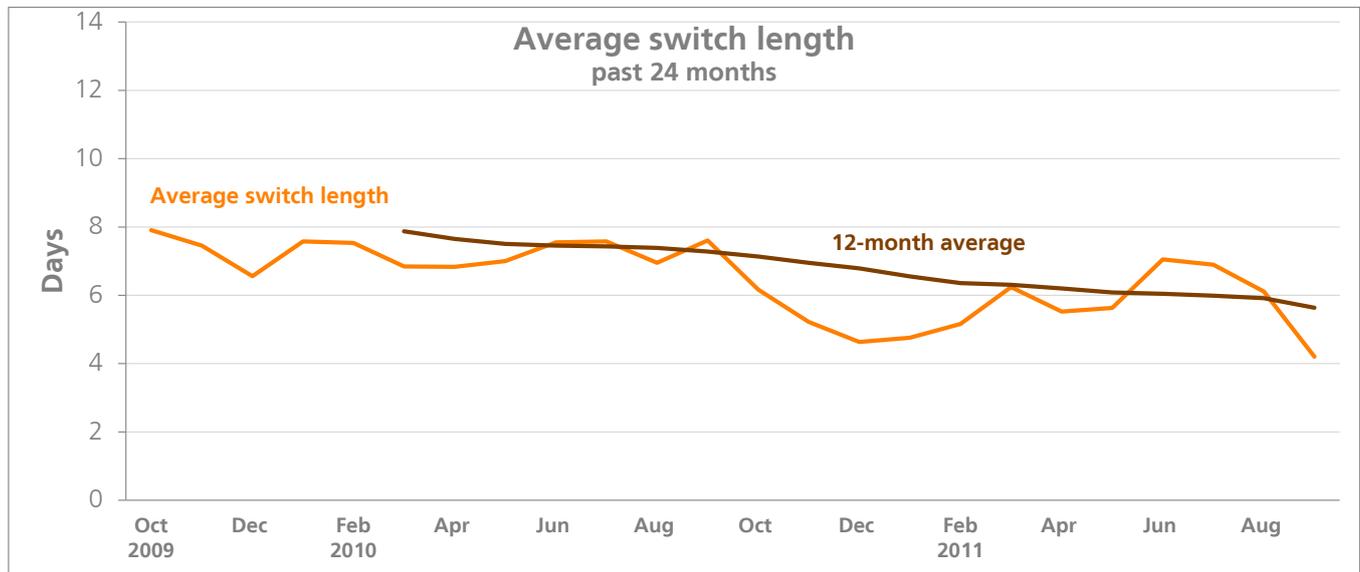


June 2011 in the chart above has been adjusted to remove the 2,243 transfers from the Auckland Gas retailer code to Nova Energy that were processed in that month, as both retailers are part of the Todd group and the transfers were related to a re-branding rather than being “switches”. Likewise, the chart also excludes the transfer of about 6,350 E-Gas customers to Nova Energy in November 2010 as a result of Nova purchasing the customer base from BDO, E-Gas’s liquidator.

Additionally, the 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 dipped again in September to 4.2 days, and the annual average is now slightly over 5.5 days. In comparison, switches could take weeks or even months to process prior to the inception of the switching registry.

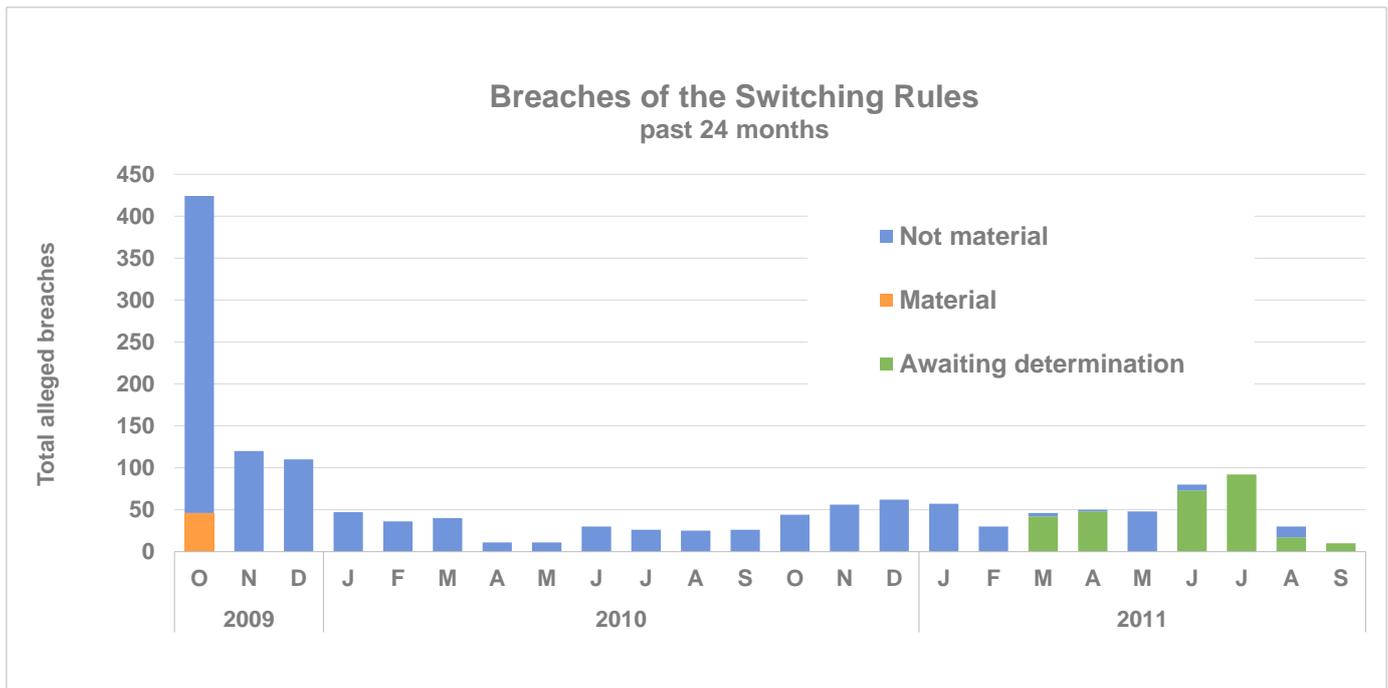


Note that the chart above excludes the transfers from E-Gas to Nova and from Auckland Gas to Nova, all of which went through in less than a day.

## Number and severity of breaches to the Switching Rules

The number of switching breaches has fallen significantly since the inception of the Switching Rules, as has the severity of the breaches. The Market Administrator has not determined a breach of the Switching Rules to be material since October 2009.

Many of the breaches awaiting determination relate to a single retailer who has now upgraded its systems to comply with the amendments to the Switching Rules that went into effect in February.



## 4 Allocation and reconciliation performance measures

### Volumes of Unaccounted-for Gas

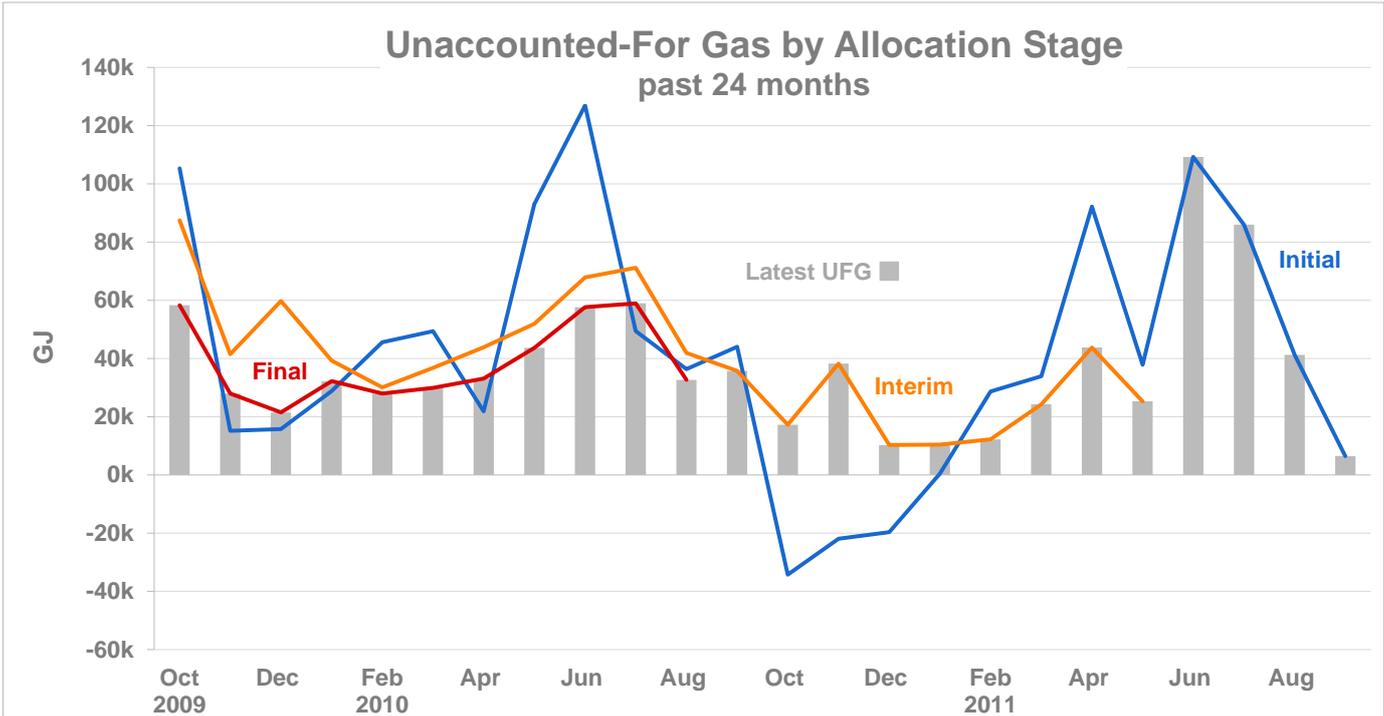
Under the Reconciliation Rules, the amounts of gas that retailers estimate their customers have used are subtracted from the amounts of gas leaving the transmission system. The difference is UFG, which arises from technical losses on the system, metering inaccuracies, and retailer estimation errors. 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.

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.

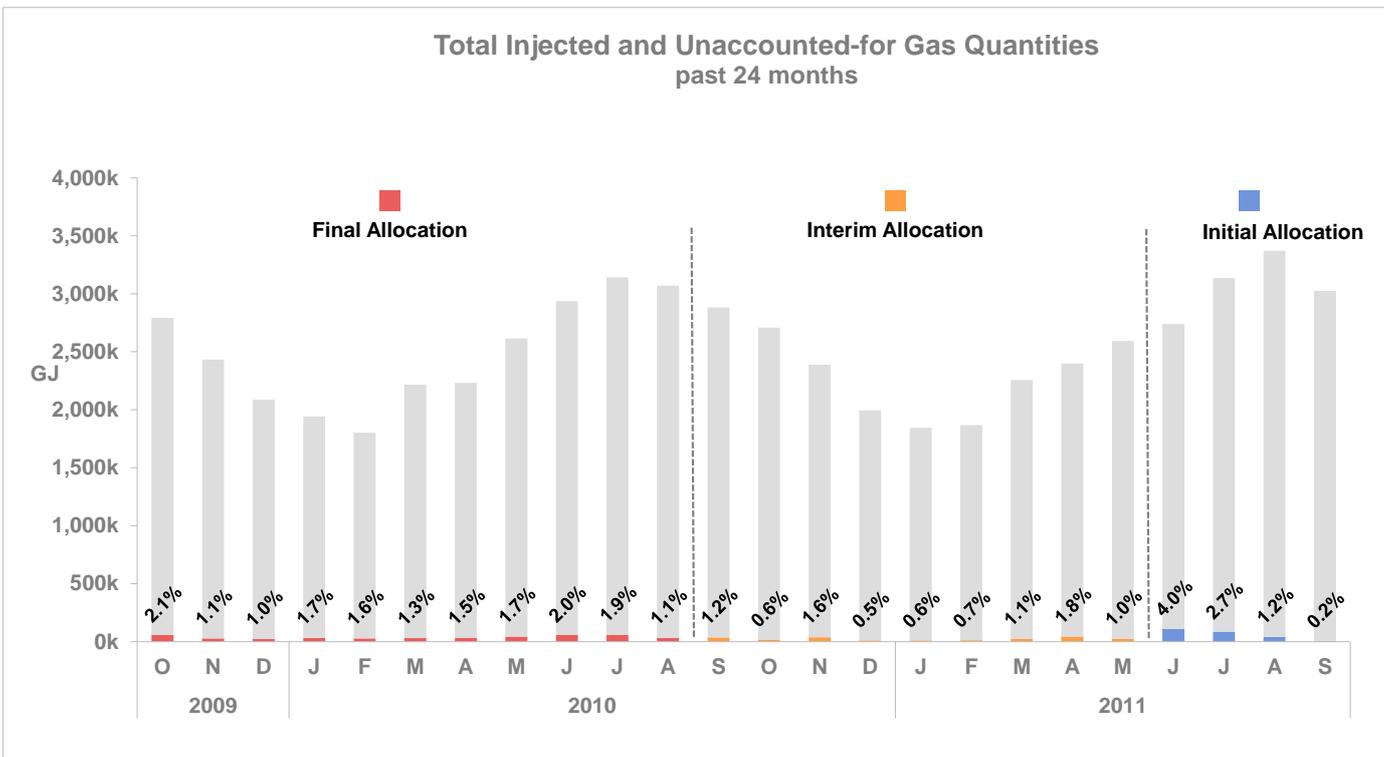
UFG showed a peak over the winter months of 2011, consistent with previous winters. UFG recorded in the months of April, May, June, and July 2011 was 325,000 GJ, which is comparable to the 291,000 GJ recorded at the initial stage for the same months in 2010. In comparison, 875,000 GJ of UFG were allocated at the initial allocation stage during the same months of 2009.

Also consistent with previous winter patterns, UFG has fallen at the interim allocation stage for April and May 2011. Similar drops in UFG are expected for the other winter months of 2011, when retailers submit consumption data based on more complete meter reading data.

Conversely, the UFG for September seems unseasonably low and is caused by negative UFG at a number of gas gates. It is likely that actual UFG for that month will increase once more accurate consumption volumes are used in the interim and final allocation stages.

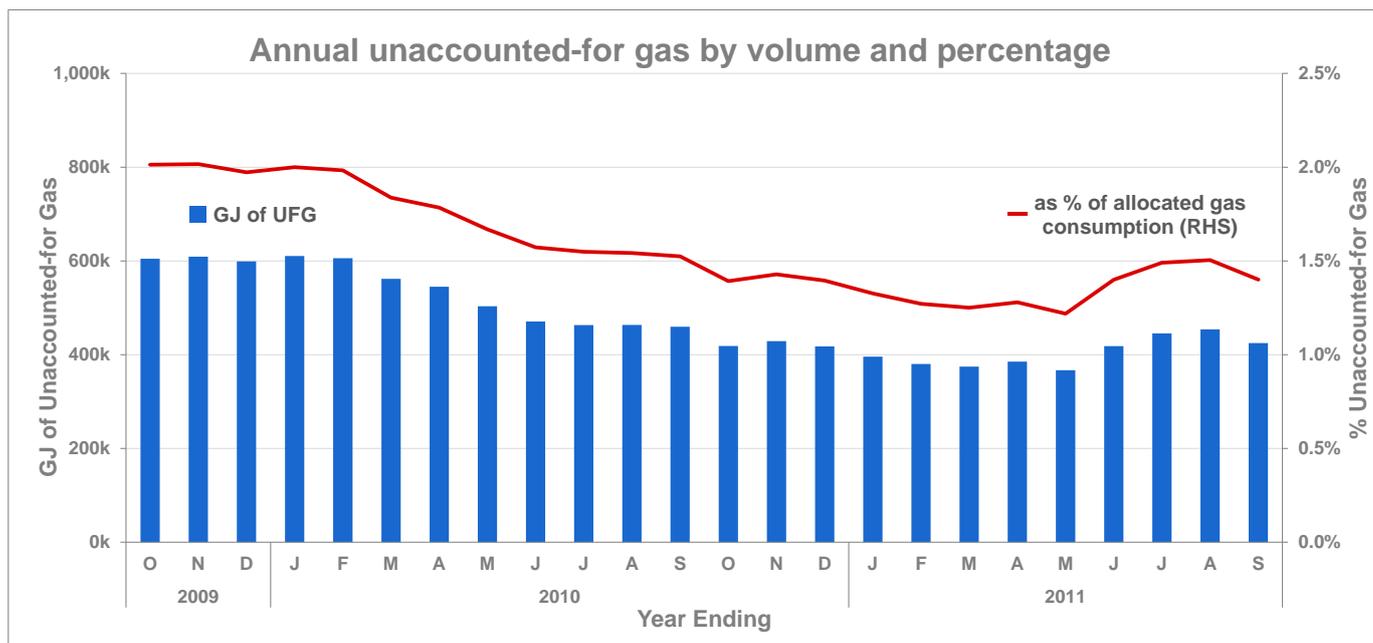


The chart below shows the amount of unaccounted-for gas in comparison to the total amount of allocated gas consumed each month. The grey bars show gas consumption at allocated gas gates, which follows a seasonal pattern: higher in winter and lower in summer. UFG as a percentage of volume follows a similar 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 September 2011 total is based on 4 initial allocation results and 8 interim results, while the September 2010 total is based on one interim and eleven final allocation runs.

The chart shows that annual UFG has declined from over 2% of annual consumption at allocated gas gates to less than 1.5% as of earlier this year. The annual average UFG as of September 2011 is 1.4%.

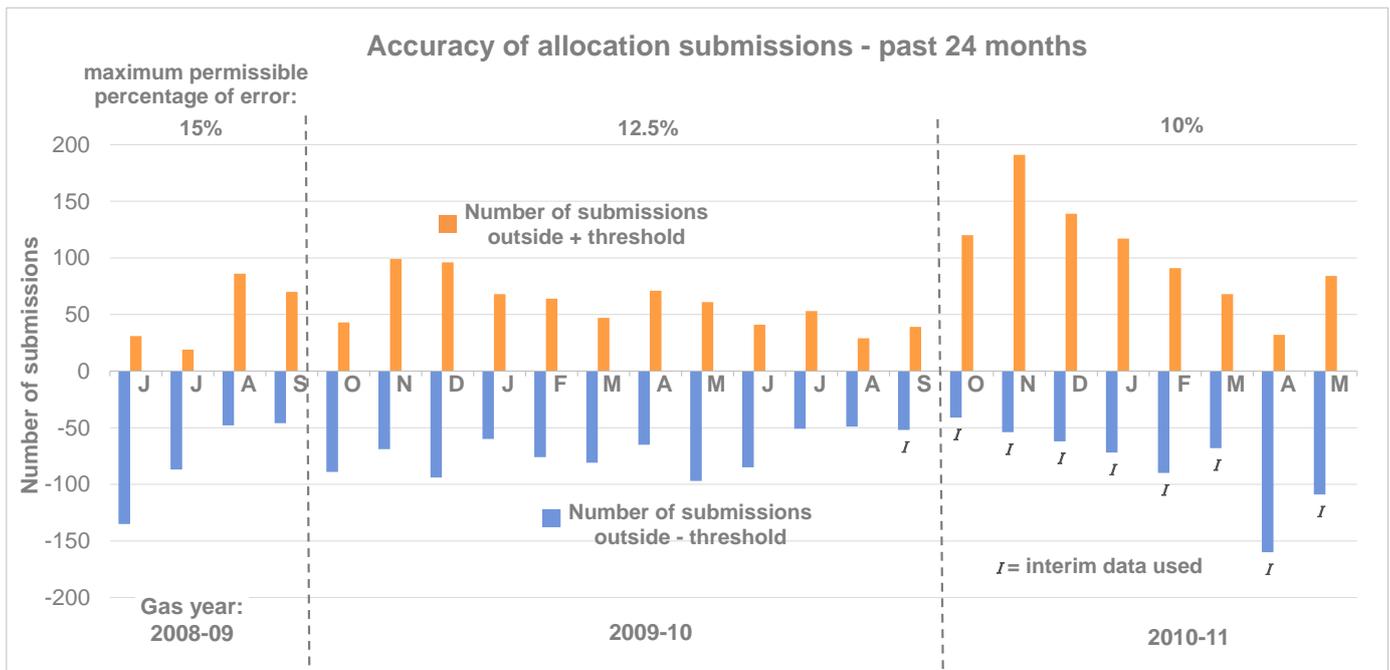


### Accuracy of submission data

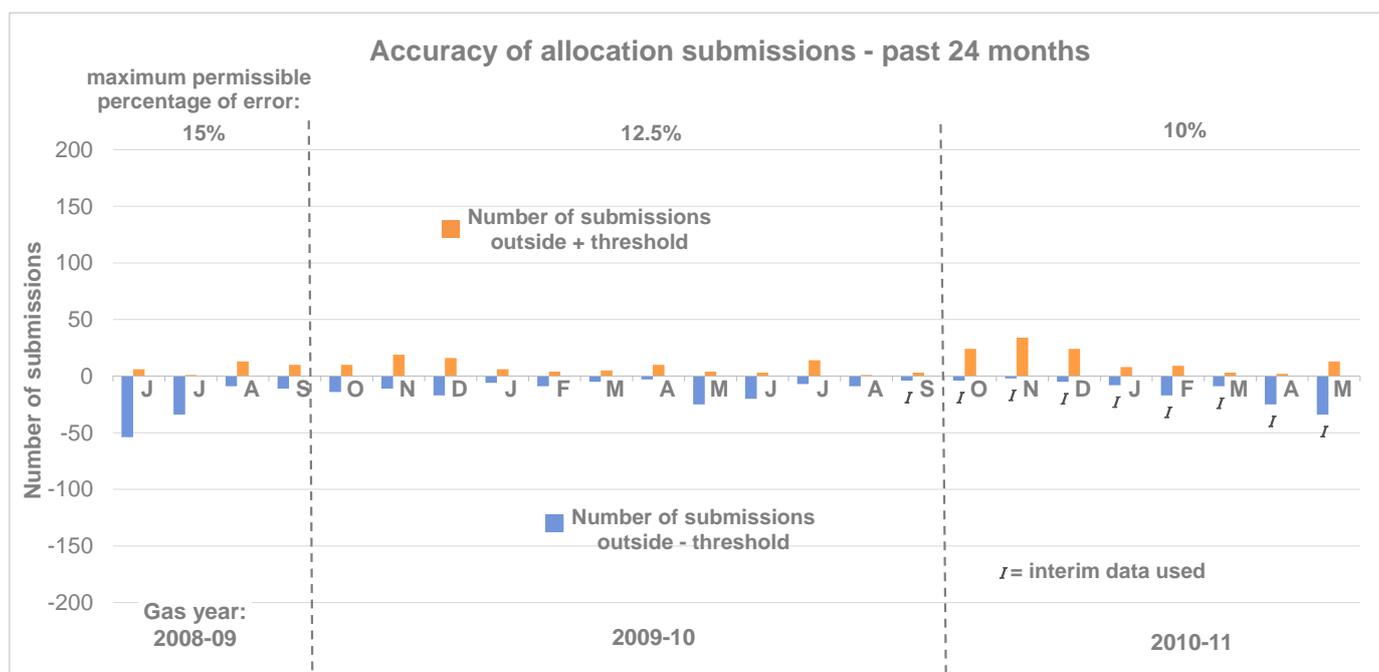
The accuracy of initial submissions is important, as balancing and peaking charges on the Vector transmission system are levied on the basis of initial allocation results and are not subsequently washed up. This means that the balancing costs of the UFG created through inaccurate initial consumption 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 (June 09 – August 10). 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: 15% in the 2008-09 gas year, 12.5% in 2009-10, and 10% in 2010-11.

There has been an increase in the number of submissions outside the accuracy threshold since October, when a lower percentage accuracy threshold came into effect. It appears that the issue is common to all the large mass market retailers. Interestingly, although this effect is due partially to the tightened accuracy threshold that went into effect in October, the lower threshold is only part of the answer, as a large number of potential breaches would also have occurred if the threshold had remained at 12.5% or even 15%.



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.

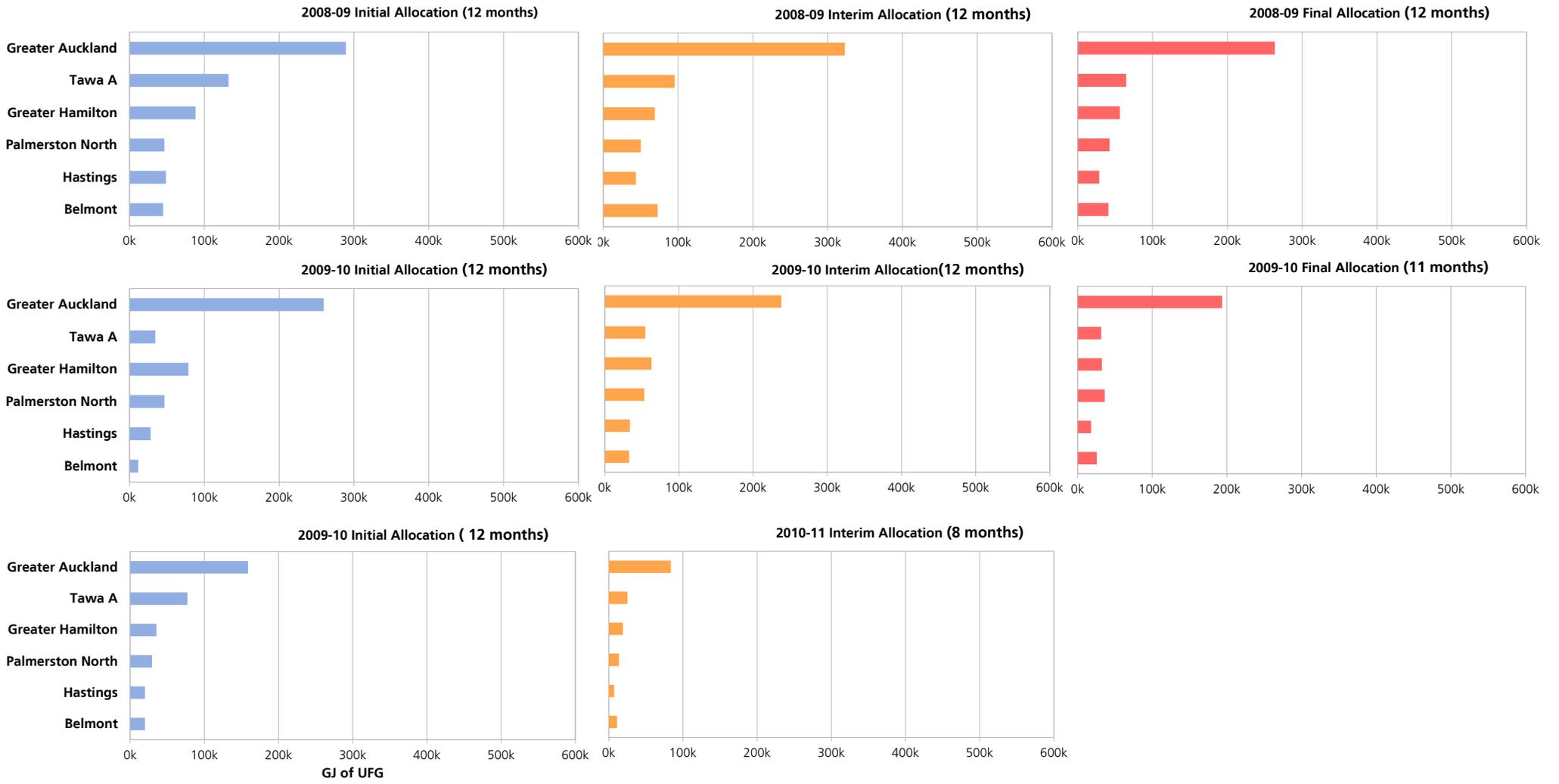


### Gas gates where UFG is the highest

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.

All allocations have now been performed for the 2008-09 gas year and are shown in the top row below. For the 2009-10 year, shown in the middle row, initial and interim allocations have been done for all 12 months; as well as the final allocations for October through August 2010. Comparing the 2008-09 initial and interim allocations with those for 2009-10 shows a trend of decreasing UFG.

For the 2010-11 gas year, the charts below include initial allocation information through September 2011 and interim information through May 2011. No final allocations have yet been performed for the 2010-11 gas year.



## **Audits commissioned**

### **Event audits**

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

### **Performance audits of retailers**

The baseline performance audits of Nova Energy, Energy Online, and Greymouth Gas under the Reconciliation Rules were completed this quarter and are available on the Gas Industry Co website.

The performance audits have highlighted some of the same factors found in the event audits; particularly the use of inaccurate factors in converting meter readings into energy. Some of these inaccuracies appear to arise from poor data management by distributors, meter owners, and retailers in the gas registry. Gas Industry Co is considering ways to improve the quality of registry data in order to address these data weaknesses. Gas Industry Co has also consulted a guideline note on energy conversion factors. Once finalised, this guideline note will serve as a consistent point of reference for all retailers in achieving best practice in their energy conversion calculations.

A performance audit of the allocation agent is in progress.

Gas Industry Co is in the process of liaising with meter owners regarding the obligation to audit meter owners.

## Number and severity of breaches of the Reconciliation Rules

The marked increase in alleged breaches from December 2009 onwards represents breaches of rule 37. This is 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.

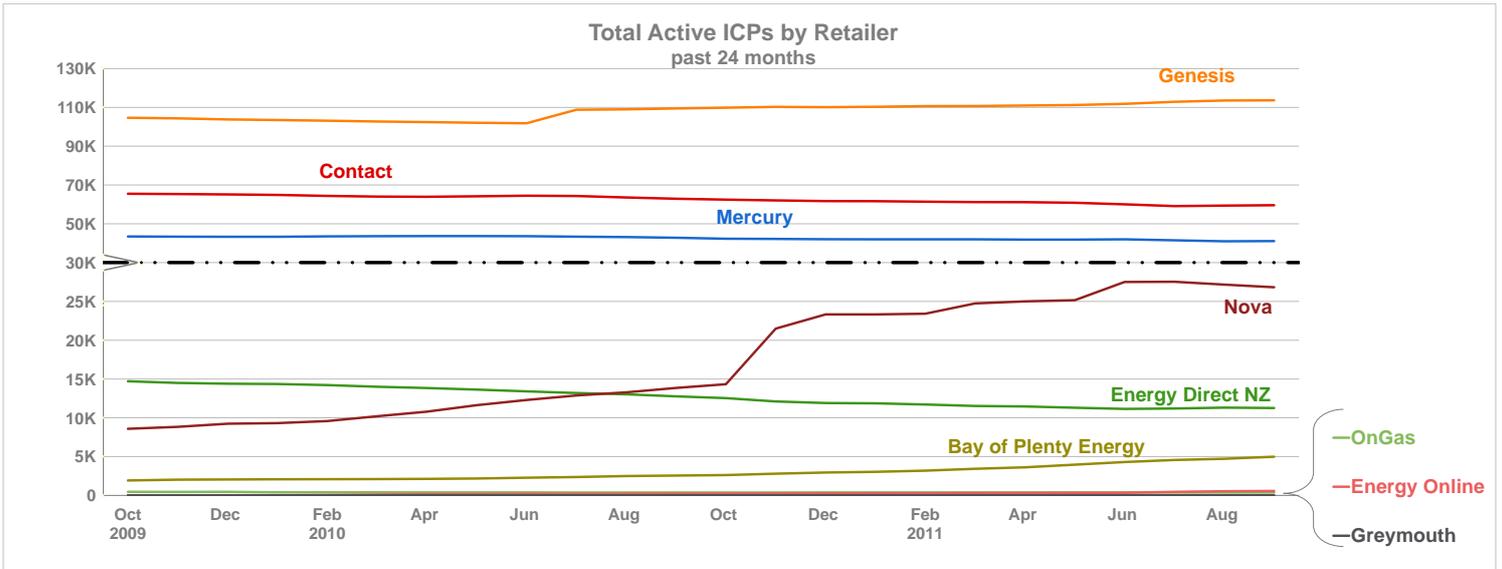
In the past quarter, the Market Investigator has effected a settlement of numerous breaches of rule 37 spanning the consumption months of October 2008 to November 2009. The Market Administrator is reflecting on the Investigator's settlement of previous rule 37 breaches to see if it alters the Market Administrator's view on materiality of rule 37 breaches going forward.



## 5 Market competition performance measures

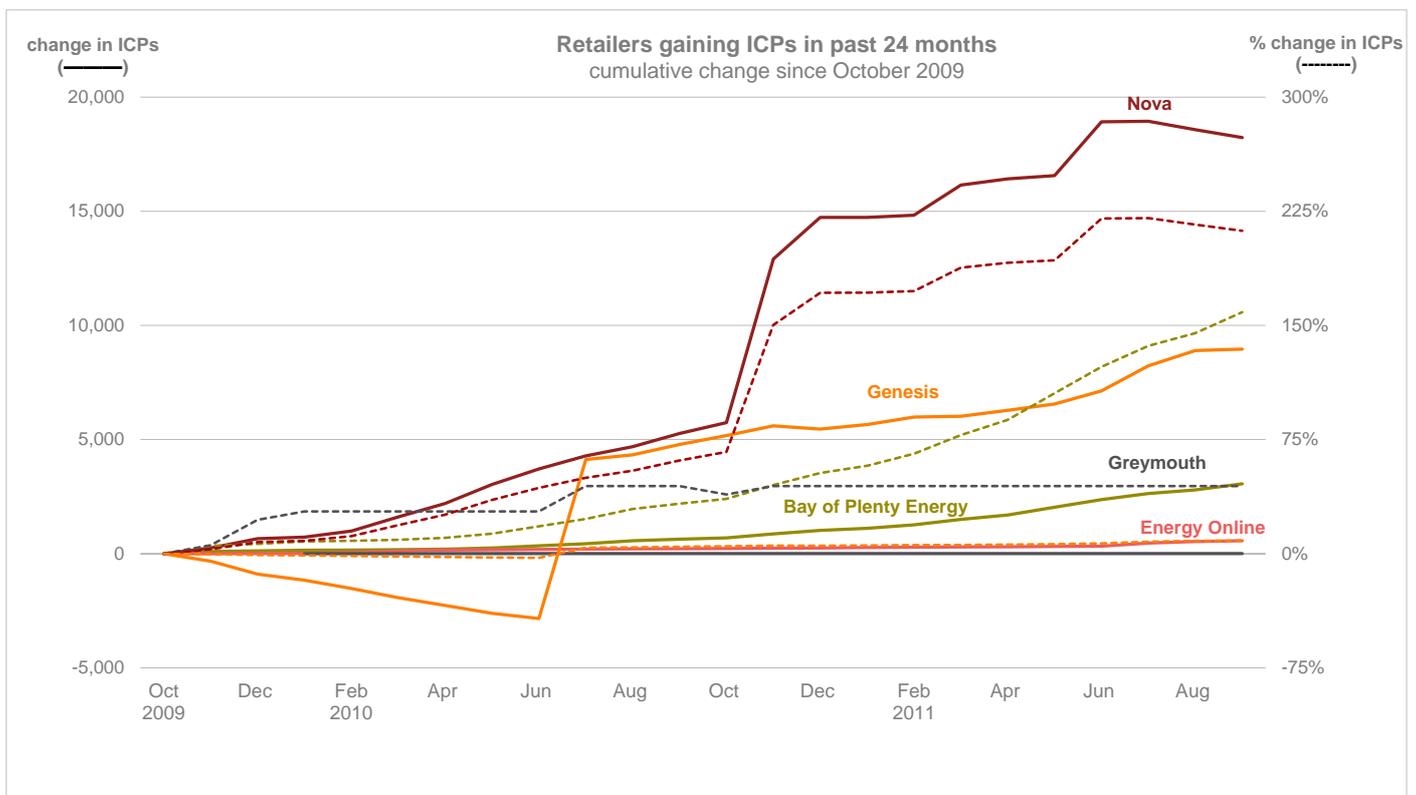
### Market share of ICPs by retailer

Market share of ICPs has been relatively constant over the past quarter, as illustrated by the chart below. Nova Energy has increased by step changes as 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.

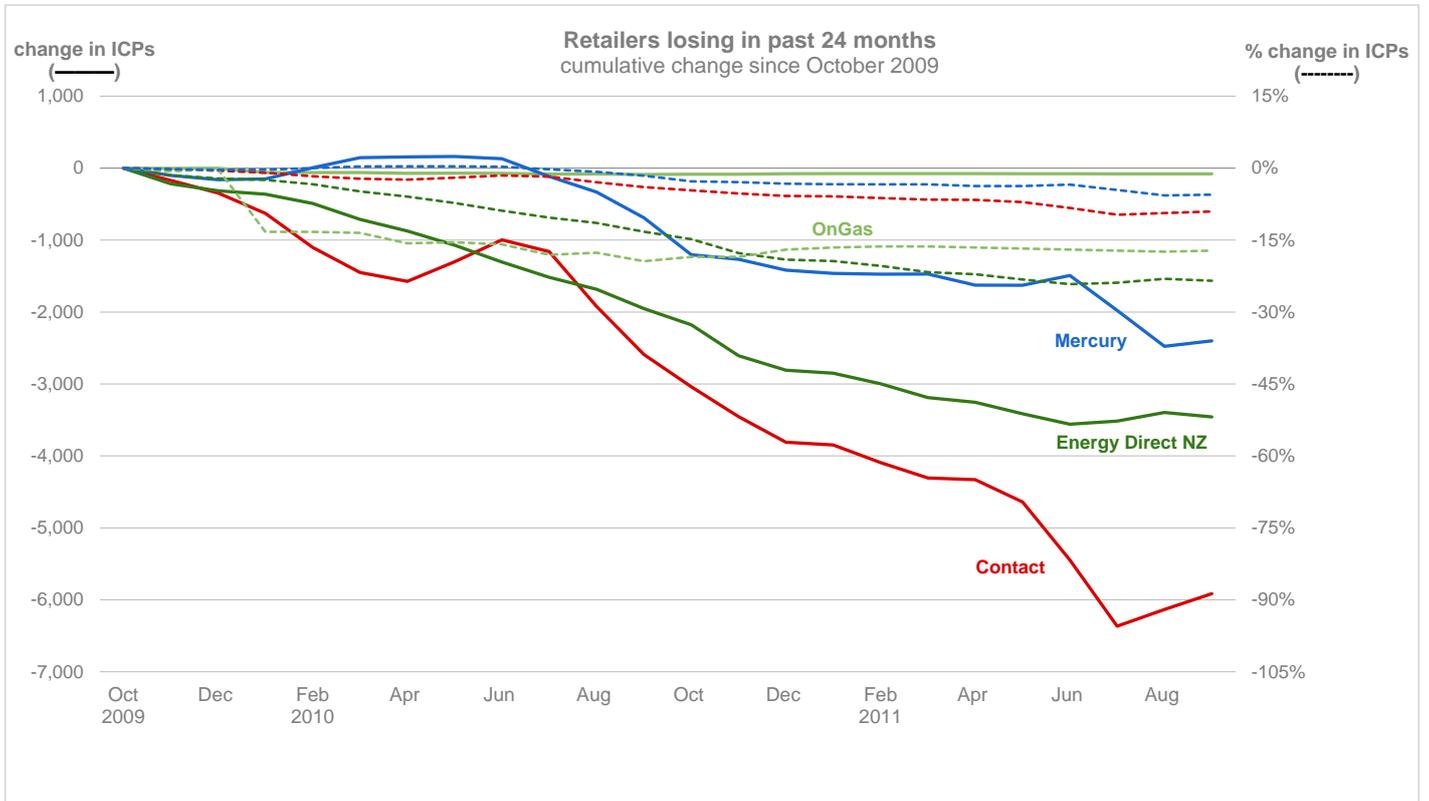


The two charts below are drawn from the same data set. The solid lines represent the change in numbers of ICPs, and the dashed lines show the percentage change in ICPs relative to October 2009. The first chart includes retailers who have experienced net gains in ICPs in the past two years, and the second includes retailers who overall have lost ICPs in the same timeframe.

In percentage terms, Bay of Plenty Energy has grown over 150% in the past 2 years. Energy Online, a retail brand of Genesis Energy, has grown from zero customers in October 2009 to over 570 customers today. Genesis itself has also grown in customer numbers. Its apparent decline in active customers was found to be a misclassification of ICPs, which was corrected in July 2010; overall, Genesis has gained nearly 2,600 ICPs since registry go-live.



The chart below shows the retailers who have lost market share in ICP numbers in the past two years. As discussed above, Auckland Gas's customers have been transferred to the Nova Gas retailer code and are no longer shown on this chart.



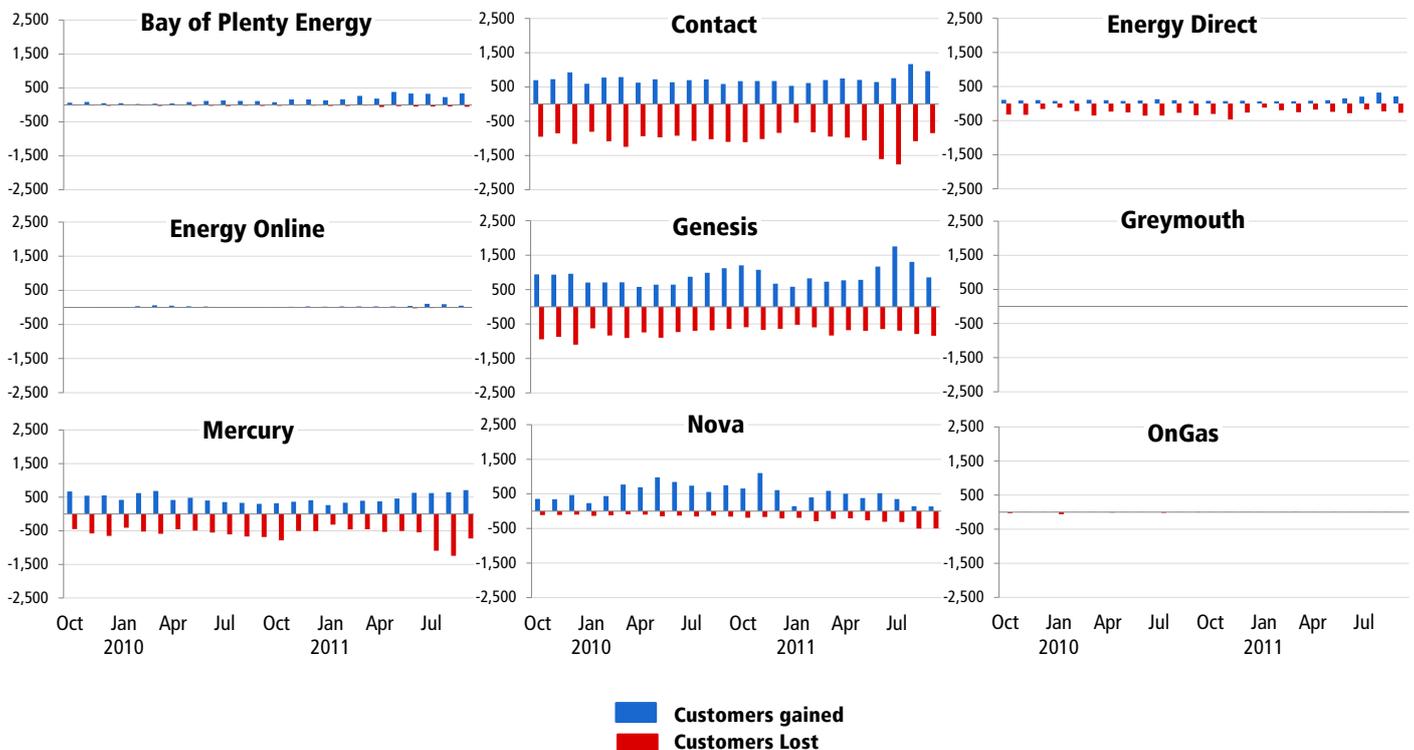
Note that all three of the ICP share charts above include data from ICPs on open-access distribution networks only; information about ICPs on bypass networks is not available in the Gas Registry.

## 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.

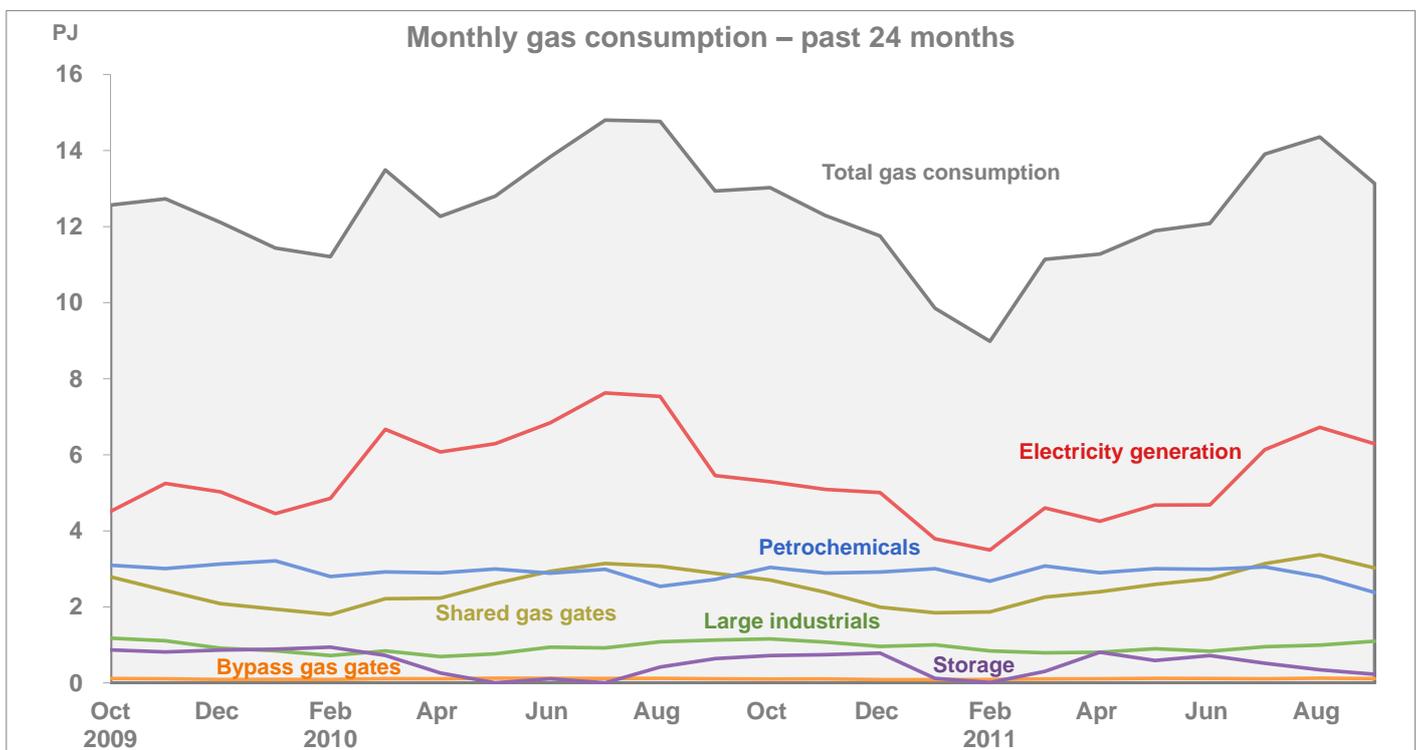
## Switching activity by retailer



## 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.

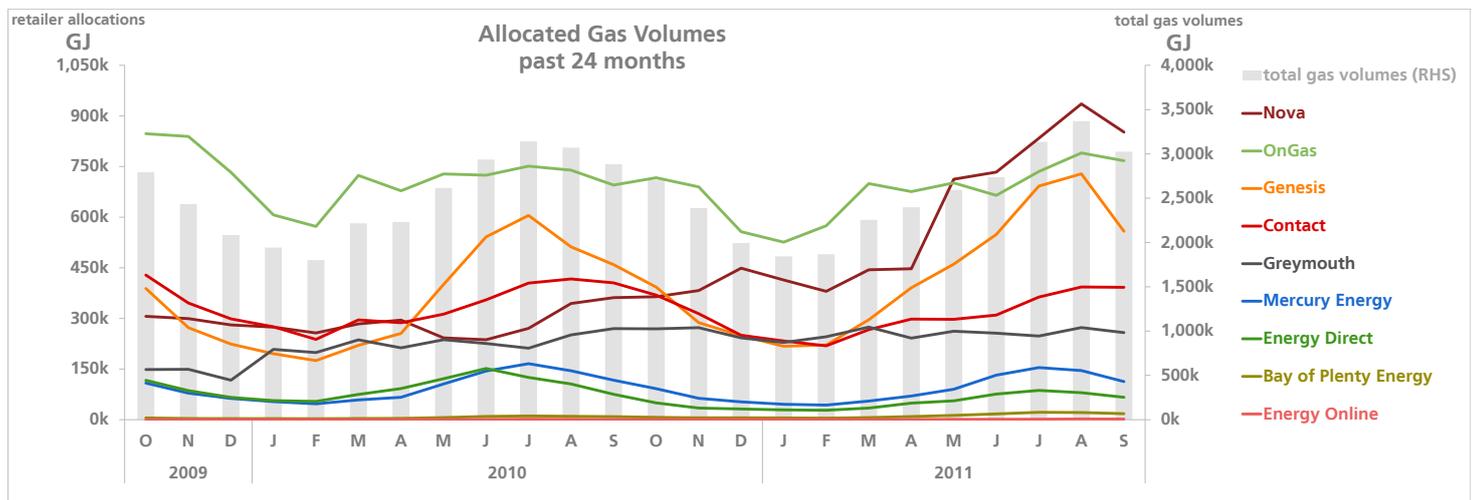
- The red line shows the seasonal peaks and troughs in gas used for thermal electricity generation.
- Consumption for petrochemicals, in blue, is relatively constant, as is usage by large industrials (in green).
- The purple storage line also shows a seasonal trend: gas is used for storage during the summer and shoulder seasons, although there were also volumes of gas going to storage this past winter.
- 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 this 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 acquisition of E-Gas, amalgamation of Auckland Gas, and organic growth. OnGas is the next largest retailer in terms of gas volumes, with its large proportion of high-consuming commercial and industrial customers. Genesis also showed an increase in gas volumes over the winter and a decrease in volume in September, consistent with its winter peaking pattern in previous years.

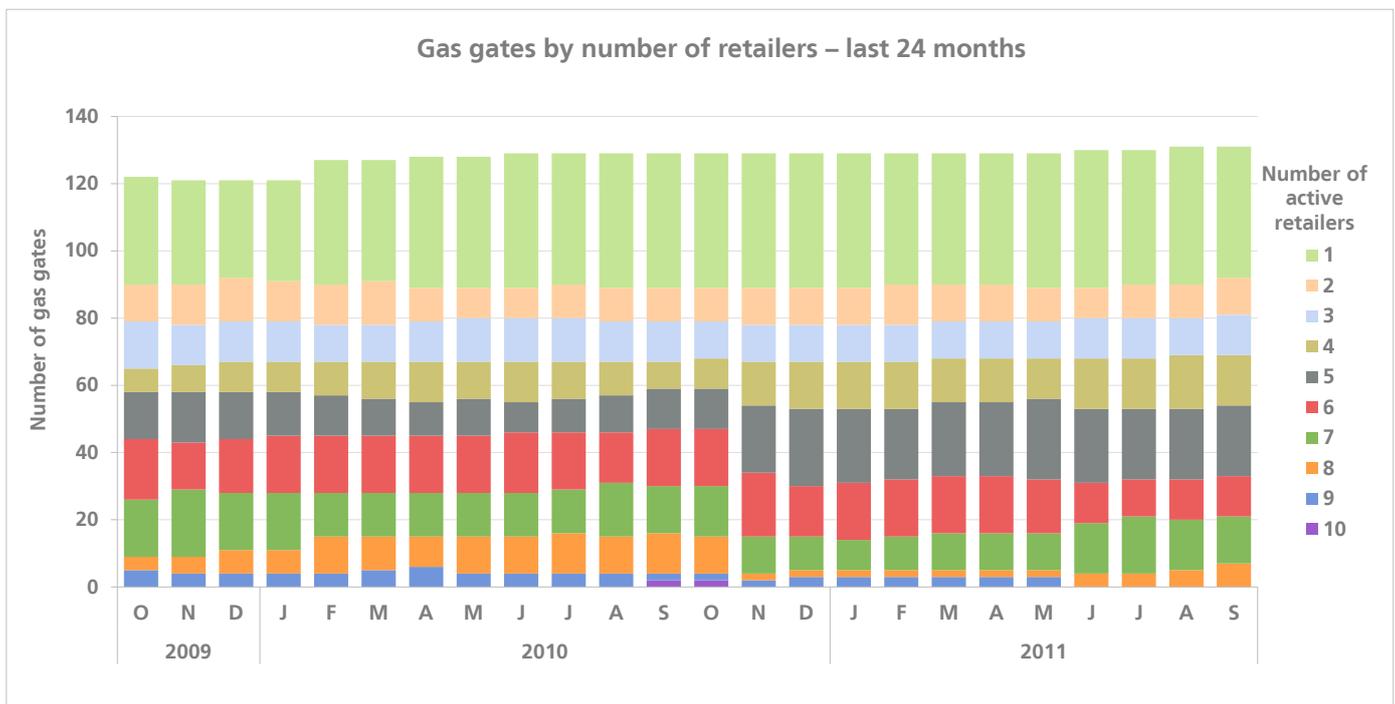


The data are from a mix of allocation stages: Final through August 2010; Interim for September 2010 through May 2011; and Initial for June through September 2011.

## 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.

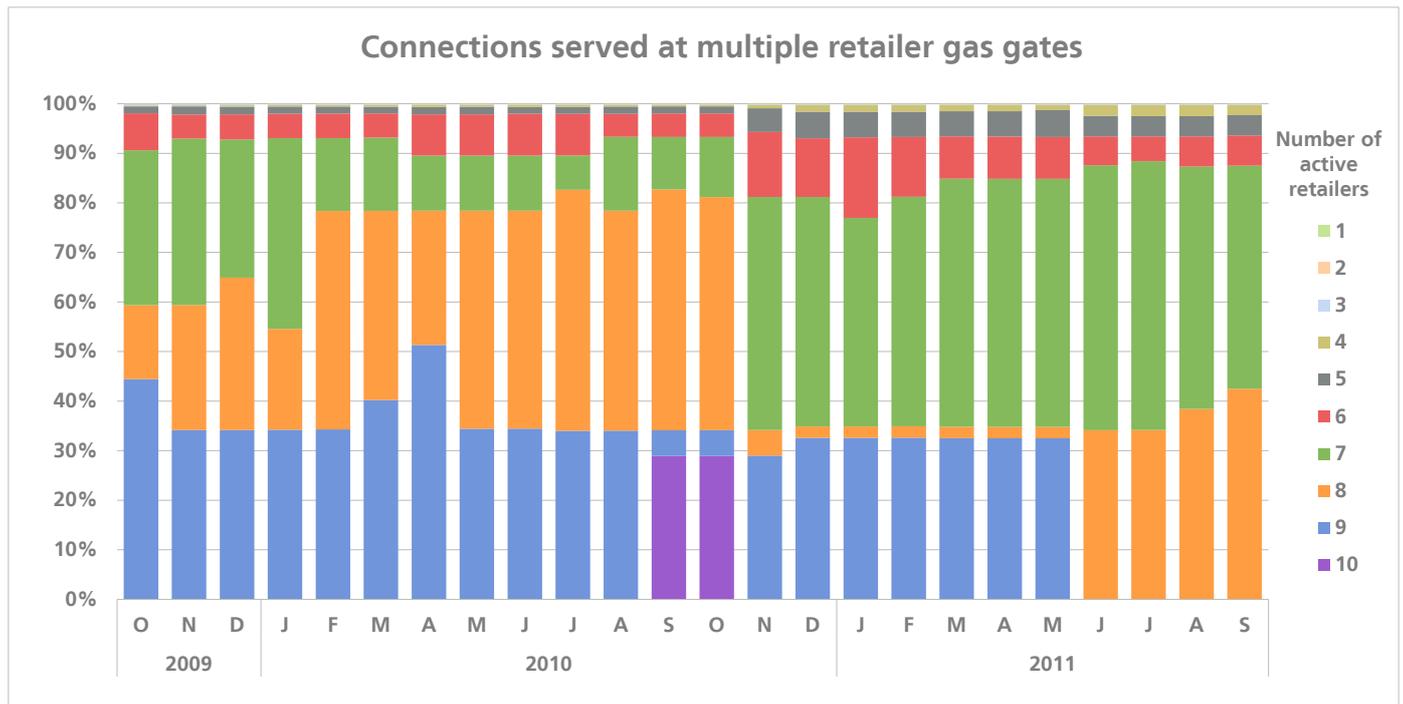
There have been two step-changes in the data over the past year: the acquisition by Nova Gas of the E-Gas customer base in November last year, and the amalgamation of Auckland Gas into the Nova Gas brand in June of this year. In spite of these decreases in the number of retail brands, the number of gas gates at which three or more retailers trade has remained about the same in the past two years. As of September 2011, there are 81 such gas gates.



## 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 the majority of gas customers – over 93% -- could potentially be served by at least six retailers. This provides some indication of the amount of competition in the retail market.



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 have been no critical contingency events since the last Quarterly Report.

# Strategic Progress: Quarterly Report July – September 2011

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>Watching brief. Transmission balancing is the subject of a Maui Pipeline Operating Code (MPOC) change request currently under evaluation by Gas Industry Co.</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>
<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>

Project	Rationale	Activity	Status
<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> </ul>	<ul style="list-style-type: none"> <li>Preparation of options paper for changes to the downstream reconciliation rules in progress.</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>Report in progress.</li> <li>Retailers establishing information exchange protocol to be able to demonstrate compliance with gas quality requirements.</li> </ul>
<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>Awaiting Electricity Authority issuing its first paper on this subject.</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> </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. Currently, one MPOC change request under evaluation (see Transmission Pipeline Balancing above).</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>• Breach levels for the Downstream Reconciliation Rules and Switching Rules remain consistent with previous quarters.</li> <li>• Gas Industry Co continues to fulfil its role as Market Administrator under the Compliance Regulations.</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>• Liaised with EGCC to include gas-related inquiries and complaints statistics 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>
<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>• 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 assembled, and Panel of Strategic Advisers appointed.</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> </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>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> </ul>

Project	Rationale	Activity	Status
<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 being prepared for consultation.</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>