

Key points in this issue:

- Casual Vacancy on Board
- Levy recommendation to Minister
- Update on progress and next steps:
 - Wholesale Market Design
 - Specification for Reticulated Natural Gas
 - Switching and Registry Arrangements
 - Compliance and Enforcement Arrangements

Coming up:

- The Company will be holding a Consumer Issues forum on 2 June 2006. The purpose of the forum is to provide an opportunity for consumer representatives to identify any concerns with current gas supply arrangements.
- Consultation is planned in the next quarter for reconciliation and open access issues. Further work will also be done on the preferred options for a central registry and short term wholesale market trading.
- The Gas Industry Co Strategic Plan will be released in July.

Casual Vacancy on Board

Dennis Clifford has resigned as a director of the Gas Industry Co effective 21 April 2006 following his appointment as a High Court Judge. The Gas Industry Co thanks Mr Clifford for the considerable contribution he has made in the establishment of the Company.

The Gas Industry Co constitution provides that the Board must, as soon as practicable, appoint a person to fill a casual vacancy on the Board. The constitution provides that any director appointed to fill a casual vacancy since the last annual meeting must retire from office at the annual meeting. He or she can then seek re-election to the Board if either recommended by the Board or proposed as a candidate by a shareholder.

We will keep you informed on the progress of this issue.

Levy Recommendation to Minister

In February Gas Industry Co released a Levy Discussion Paper which sought the views of stakeholders on a number of possible levy design options. Among the submissions received was a strong lobby of opinion that a further option, not included in the February paper, should be considered. The Gas Industry Co agreed that this additional option had merit and should have been considered. A Supplementary Levy Discussion Paper was issued in March which set out the new design option.

Following consideration of all submissions received on both papers, Gas Industry Co reached a decision which is explained in the 2006/07 Levy Decision Paper. The decision was that the new option proposed in the Supplementary Levy Discussion Paper, of a fully fixed Retail levy of \$6.30/ICP/year and a fully variable Wholesale levy of 1.78 cents/GJ, should be implemented. On 2 May Gas Industry Co issued a Recommendation to the Minister of Energy to that effect.

Copies of the Levy Decision Paper and Recommendation to the Minister are available on the Gas Industry Co website – www.gasindustry.co.nz.

Gas Industry Co thanks all stakeholders who took the time to read the discussion material and offers special thanks to those who made submissions on this matter.

Update on Progress and Next Steps

Wholesale Market Design

Responses have now been received to the consultation paper on Wholesale Market Design that was released in March 2006. The paper contained options for market design and evaluated each of these against a comprehensive set of criteria. Gas Industry Co has received a number of high-quality submissions and we thank stakeholders for their efforts in preparing these.

Specification for Reticulated Natural Gas

The Gas Industry Co, with assistance from the Wholesale Markets Working Group, commissioned a technical review of the natural gas specification to determine whether the specification continues to be appropriate in the current environment. That review concluded the specification itself continues to be appropriate for the vast majority of stakeholders although there are issues regarding compliance and accommodating rapid swings between the extremes of the specification. Gas Industry Co is currently analysing the submissions on the consultation paper with a view to making recommendations to the Minister.

Switching and Registry Arrangements

A consultation paper on a cost benefit analysis of proposed switching options was released in March. The purpose of this paper was to seek input from stakeholders on the findings of an independent cost benefit analysis regarding options for switching arrangements for the New Zealand Gas Industry. The Gas Industry Co Board has subsequently decided to pursue the development of the central registry option to allow a final proposal to be prepared in accordance with the requirements of the Gas Act. The development of this option will include the drafting of the central registry processes, the development of proposed funding and governance arrangements and the investigation of the options available for service provision. There will be at least one further round of consultation on these matters before a final decision is made by the Board.

Update on Progress and Next Steps

Compliance and Enforcement Arrangements

A consultation paper on compliance and enforcement arrangements was released in April. The purpose of this paper is to seek input from stakeholders on the Gas Industry Co proposal for a compliance and enforcement regime to support rules and arrangements developed by the industry. The paper identifies the various functions of a compliance regime and the compliance model preferred by the Gas Industry Co compared with alternative options.

The consultation document is available from the Gas Industry Co website. Submissions on the consultation document are due by 16 May.

Recruitment

We have now recruited a replacement for the current Strategy and Corporate Adviser Simon Bratt (on secondment from PWC). Mark Soper commenced employment on 1 May 2006. Mark can be contacted on (04) 494 2463 or mark.soper@gasindustry.co.nz.

We are in the process of recruiting four other positions:

- General Counsel: To provide advice on legal issues arising from the development of arrangements for the gas industry.
- Analyst: To support the senior advisers with research, modelling and analysis work.
- Team Secretaries x2.

Details of the vacancies are available on the Gas Industry Co's website (www.gasindustry.co.nz).