

Update

10 June 2010 — New Director, Andrew Brown appointed

16 July 2010 — Submissions close MPOC Change Request 17 December 2009 Final Recommendation

New Director

Andrew Brown, has joined the Gas Industry Co Board as an Independent Director

Andrew is recognised as one of New Zealand's leading corporate lawyers. He has particular expertise and experience in advising energy sector companies.

He worked at Bell Gully since graduating in 1985 — in both its Auckland and Wellington Offices. In 1987 and 1988 Andrew worked in Canada with Toronto law firm, Goodman Phillips & Vineburg. He became a senior Corporate/Commercial Partner of Bell Gully in 1992. He retired from the partnership in December 2009. He is currently undertaking a year of study for a MCA (thesis on SOEs) at Victoria University. Andrew continues as a consultant at Bell Gully.



Retail Gas Contracts Benchmarks

On 12 May 2010, the Associate Minister of Energy and Resources endorsed the oversight arrangements set out in Gas Industry Co's Recommendation to the Associate Minister of Energy and Resources on the endorsement of arrangements for the oversight of gas retail contracts dated March 2010 (the Recommendation). The Independent Assessor, Elwood Law, has undertaken the 'baseline review' of gas supply arrangements as at 15 June 2010 (the Baseline Review) and, on 14 July, circulated draft assessments to retailers for comment. Retailers have also been provided a draft document setting out Gas Industry Co's guidelines to the Assessor on how the retail contract terms benchmarks should be interpreted.

Gas Industry Co's interpretation of the benchmarks addresses the following types of issue:

- Clarity – What do the benchmarks mean in practice?
- Structure – What order and arrangement of the benchmarks is easiest for assessment purposes?
- Duplication – Where benchmarks effectively address the same issue, should one be deleted?
- Application – How the benchmarks should be applied to specific contract wording?

Gas Industry Co's interpretation does not address whether the benchmarks are sufficient to meet the Benchmark Objectives and support the Government Objectives. Effectively the benchmarks have been taken at 'face value' and their plain meaning interpreted. In other words, Gas Industry Co's interpretation does not seek to amend the benchmarks. Gas Industry Co will review the Baseline Review process and report by the end of the year on whether any changes should be made to the scheme before the next assessment in June 2011.

Retailers will have until 5 August 2010 to respond to the Independent Assessor's draft report. Gas Industry Co expects to publish the consolidated industry assessment by the end of August 2010.

Wholesale Market

Gas exchange ready for trading

At the end of June, MDL approved Gas Industry Co's application for interconnection of the two notional welded points that facilitate trading of gas quantities. This coincided with the release of the finalised governance documents for admittance to, and trading on, the wholesale market. With these final pieces in place, the market is now ready to begin trading. It remains for parties to submit the necessary documentation to sign up. One participant has already been admitted and we understand that several others are close to completing applications.

Switching & Registry

Minor and technical amendments

Gas Industry Co is proposing that several minor and technical amendments be made to the switching rules. The amendments were outlined to the industry at a recent forum and will be put out for formal consultation in a short-form statement of proposal, which will include a marked-up version of the amended rules.

Downstream reconciliation

Annual UFG factors

On 1 July 2010 the allocation agent published the annual UFG factors that will be applied from the start of the next gas year (1 October 2010). The annual UFG factor for a gas gate is an indicator of the average level of UFG at that gas gate over the course of a year, and is used to determine the amount of UFG apportioned between TOU and non TOU allocation groups.

The results for next year show improvement (that is, a decrease) in annual UFG at over 50 gas gates, although this is offset to some extent by the removal of the cap and floor which was applied to annual UFG factors in the transitional period. That transitional period expires on 30 September 2010.

Policy review of downstream reconciliation rules

Work continues on the rules review, with several avenues being explored, some of which arose from the findings of the Strata report published in May 2010. Gas Industry Co is currently pursuing possible alternatives to the initial allocation with the aim of developing a methodology which allocates UFG to retailers based on the accuracy of

their consumption estimation in recent months. This approach will be discussed in a forthcoming options paper on the policy review. Feedback will be sought from the industry on the options in that paper. It is also intended that the alternative allocation process will be modelled using existing data and results reported to participants over coming months.

Audit programme

The performance audits of E-Gas and Contact are nearing completion, with draft audit reports for each audit expected to be released for comment in the next few weeks. Gas Industry Co has received positive feedback from other retailers regarding audits, in response to the request that a baseline audit of all retailers be conducted within the next year. An updated guideline on audits will be put out for consultation shortly, which will set out, amongst other things, the process for appointing an auditor.

Transmission Pipeline Capacity

In December 2009, the Associate Minister of Energy and Resources requested that Gas Industry Co complete a paper exploring transmission capacity issues.

In late May, Gas Industry Co published the *Options for Vector Transmission Capacity* paper for consultation. The paper considers Vector's options for changing its commercial arrangements for transporting gas on its transmission pipelines.

On 9 June, Gas Industry Co held a workshop in Auckland to discuss the paper. Dave Smith, from Creative Energy Consulting, gave a presentation. A general discussion on capacity issues followed. Over 30 industry participants attended.

Submissions on the options paper closed on 9 July 2010. Eleven submissions were received.

Gas Industry Co is currently reviewing submissions and will publish an analysis of submissions.

For more information on this work stream and to view the workshop presentation and industry submissions, please visit:

<http://www.gasindustry.co.nz/work-programme/transmission-pipeline-capacity?tab=1733>

Gas Processing Facilities Information Disclosures – Public Disclosures

The Gas (Processing Facilities Information Disclosure) Rules 2008 (the Rules) provide a process for determining if there is a need for regulation of third party access to gas processing facilities.

Under Part 2 of the Rules (Disclosing public information), facility owners must disclose to Gas Industry Co, for each gas processing facility:

- the ownership share and contact details of all the facility owners;
- forecasts of spare gas processing capacity; and
- technical information on the capacity of gas processing facilities.

For the majority of facility owners, the disclosure of this information (covering the period from 2 August 2009 to 1 August 2010) is due to be submitted by 5pm on Friday 6 August 2010.

For more information on this work stream or to download a disclosure form, please visit:

<http://www.gasindustry.co.nz/work-programme/gas-processing-facilities-information-disclosure?tab=389>

MPOC 17 December 2009 Change Request

Gas Industry Co has considered submissions on the draft recommendation and has prepared a draft Final Recommendation.

Because the final recommendation differs from the draft, and in accordance with the MOU between Gas Industry Co and Maui Development Limited (MDL), we invite submissions on this draft Final Recommendation.

We will consider whether any issues raised in submissions cause us to reconsider our draft Final Recommendation. If submissions do not change this determination, we will finalise the recommendation and submit it to MDL. Alternatively, if after considering submissions we wish to alter our draft final recommendation, we will revise the draft and consult on it one last time before finalising.

Submissions are due by **5pm Friday 16 July**.

For more information on this work stream and to view the draft Final Recommendation, please visit:

<http://www.gasindustry.co.nz/work-programme/mpoc-change-request-17-december-2009?tab=1780>

Strategic Plan

The Gas Industry Co Strategic Plan has been published and sent to the Associate Minister of Energy and Resources. To view the Strategic Plan, please click on the following link:

http://www.gasindustry.co.nz/sites/default/files/publications/GIC_StrategicPlan_2011-13.pdf

Gas Industry Co Levy

The Gas (Levy of Industry participants) Regulations 2010 were gazetted on 24 June 2010, and have been published on our website at http://www.gasindustry.co.nz/sites/default/files/publications/Gas_Levy_of_Participants_Regulations_2010.pdf

- The retail levy rate is unchanged at \$6.40 per annum payable on each ICP.
- The wholesale levy is 1.84c per GJ of gas purchased directly from gas producers.
- These levy rates take effect from 1 July 2010.

Staff

Christine Southey has announced that she will be leaving the Company at the end of September after five years as Chief Executive. During her time with Gas Industry Co, Christine has overseen the development of new market regulations for switching customers, reconciling downstream quantities of gas, managing critical contingencies, resolving rule breaches, and the approval of a customer complaint resolution scheme, the establishment of benchmarks for retail contracts, and guidelines for transmission pipeline interconnection. Christine Southey said she had enjoyed the opportunity to pioneer a new model for industry specific regulation.

Kerridge & Partners have been engaged to assist with the search for a new Chief Executive.

Tim Herbert has commenced with Gas Industry Co as Team Admin Support to the Market Operations Group.

Kirsten West has moved from her position as receptionist/team secretary to Team Admin Support with the Infrastructure Access Group.

Sarah Greathead will be leaving Gas Industry Co on 13 August to further her studies in America.

Please note, as from 1 July 2010, the reception desk is no longer manned.