

# Strategic Plan

2009|11



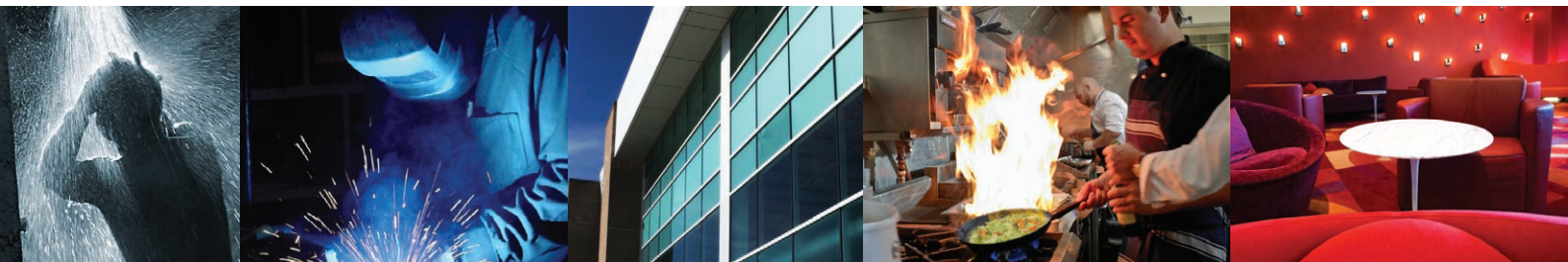
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Gas Industry Company Limited (Gas Industry Co) is a special purpose company owned by gas industry participants, which was formed to fulfil the role of the industry body under the Gas Act 1992 (the Act).

The Act requires the industry body to develop, in conjunction with industry participants and other stakeholders, new market arrangements which meet the Government's policy objectives and outcomes for the gas sector. These policy objectives and outcomes are set out in the Act and in the Government's Policy Statement on Gas Governance (GPS).

The principal objective is to ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable, and environmentally sustainable manner.

This Strategic Plan is prepared under the requirements of sections 43ZQ to 43ZV of the Act.

  
**Rt Hon James Bolger ONZ**  
Chair

  
**Robin Hill**  
Deputy Chair

April 2008





# 1

## Foreword

It is often said about the energy sector that the only constant is change. Recent changes present fresh challenges for the gas industry. Gas is well placed to meet these challenges.

Gas has a significant head start. It is a low-carbon fuel option. It is already a significant contributor towards New Zealand's energy needs, making up a fifth of New Zealand's primary energy supply<sup>1</sup>. It contributes more than solar, wind, biogas, wood and geothermal combined and is New Zealand's largest indigenous source of primary energy.

Participants in the gas sector have invested billions of dollars in infrastructure to produce, transmit, distribute, and use gas to create other products. The sector is well-positioned to contribute to the New Zealand economy through the coming decades.

The underlying level of demand for gas is expected to remain stable over the medium to long term. Residential, industrial and commercial customers will continue to need gas delivered efficiently and safely. Gas-fired electricity generation will need increasingly flexible gas supplies in order to provide a reliable and affordable source of energy, especially during dry years and at times of peak demand. The increase in global commodity prices, including methanol prices, means the petrochemicals industry may require gas in large volumes.

Add to this the prospect of further gas discoveries, and the future for gas looks positive.

At the same time it must be recognised that New Zealand's energy future is low emissions. The Government proposes legislative measures to ensure this. With innovation and technology the gas industry can play a significant part in a low emissions future.

Last year I outlined a future gas market: benefiting from new carbon capture technologies; providing a low emission fuel for export; or even finding new applications not yet fully considered, such as carbon-neutral bio-gas.

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<sup>1</sup> Primary energy is the amount of energy available for use in New Zealand for energy transformation and end use. It refers to energy as it is first obtained from natural resources: coal as it is mined, indigenous oil and natural gas as they are extracted from wells; crude oil and oil products as they are imported, and renewable fuels as they are used for electricity generation.





While such a market may be some time away it is probably not as far away as we would think. We know that where there is a need, innovation is never far behind. The pace of change in the energy sector over recent years proves this. As the industry innovates, the challenge for us as the industry regulator is to ensure what we do matches and promotes that innovation.

To this end we will continue to work within the framework of competitive markets. We will continue to facilitate industry efficiency, and improve infrastructure access and market mechanisms. These are the foundations for innovation and are the continuing objectives of the Company.

The co-regulatory model provides a unique opportunity for Government and industry to work together on market regulation. This, the fourth Strategic Plan prepared by the Company since it was formed in December 2004, outlines what the Company intends to accomplish specifically for the 2008/09 financial year and more broadly over the coming three year period. The work programme set out in this plan is extensive. Gas Industry Co requires the ongoing support of all stakeholders in delivering it.

**Right Honourable James Bolger, ONZ**  
Chairman





# 2

## Strategic Overview

### Introduction

The role of Gas Industry Co is evolving. The last three years have given the Company significant policy development experience. Figure A sets out some of its key achievements. Over the next three years Gas Industry Co will transition from being focused predominantly on policy development to an increased focus on implementation. This represents a significant shift in the operations of the Company.

### New GPS, same objectives

In April 2008 the Government issued a new GPS. The new GPS re-confirms existing policy objectives and the continuing need “to develop the fundamental elements of a well-functioning gas market”.<sup>2</sup> Developing these fundamental elements remains the core focus of Gas Industry Co’s work programme over the next three years.

### From policy development to implementation

For the period of this plan, Gas Industry Co has set itself the strategic goal of obtaining Ministerial approval for at least six gas governance arrangements and being well advanced on the implementation of these arrangements by the beginning of 2009.

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<sup>2</sup> Allen Consulting Group, The New Zealand gas industry in 2006: Review of its state and performance, 15 November 2006, page xi.



Christine Southey, CEO



#### Over the plan period the Company will:

- work closely with the industry in the implementation of new **switching arrangements** for a 'go-live date' of 1 March 2009;
- oversee compliance with rules for the disclosure of information in respect of access to **gas processing facilities**;
- run a trial of a new **wholesale market** trading platform in the second half of 2008;
- implement new arrangements for downstream **gas allocation and reconciliation**;
- implement mandatory arrangements for **critical gas contingencies** in 2009;
- complete the policy development phase and be moving into implementation on **terms for transmission access** in 2009;
- have in place a **compliance and dispute resolution** regime providing for enforcement of new gas governance arrangements; and
- make a recommendation to the Minister of Energy on a **complaints resolution system** for domestic and small business gas users following a joint project with the Electricity Commission.



**The benefits of these new arrangements will include:**

- enhanced retail competition through improved systems for the timely and accurate switching of customers between retailers;
- improved transparency of information relating to the availability of surplus capacity at gas processing facilities;
- reduced transaction costs and improved transparency in the market for short term wholesale gas sales;
- more efficient arrangements for the allocation and reconciliation of gas transported on downstream networks;
- greater confidence in the arrangements for the management of critical gas contingencies;
- transmission arrangements which ensure new and existing shippers can access transmission pipelines on reasonable terms;
- enhanced market confidence that the new gas governance arrangements will be complied with by all gas industry participants; and
- all domestic and small business gas consumers will have effective access to an independent complaints resolution system.

These arrangements are our first priority. Gas Industry Co also aims to complete the policy development phase for all other matters included in the GPS by 2010 and then to move these into the implementation phase.



## Funding

The majority of Gas Industry Co's funding comes from a levy which is set annually in regulations made by the Governor-General, following a recommendation from Gas Industry Co. Prior to making this recommendation, the Company consults with affected stakeholders on its proposed levy and work programme.

As more of the Company's work programme shifts into implementation, it is expected an increasing share of the Company's funding will come from market fees set under rules or regulations rather than the annual levy. Market fees provide stability of funding and the flexibility to enter into long-term arrangements with service providers. The design of market fees is consulted on during the rule development process although the actual fees are set later once the costs of service providers is known.

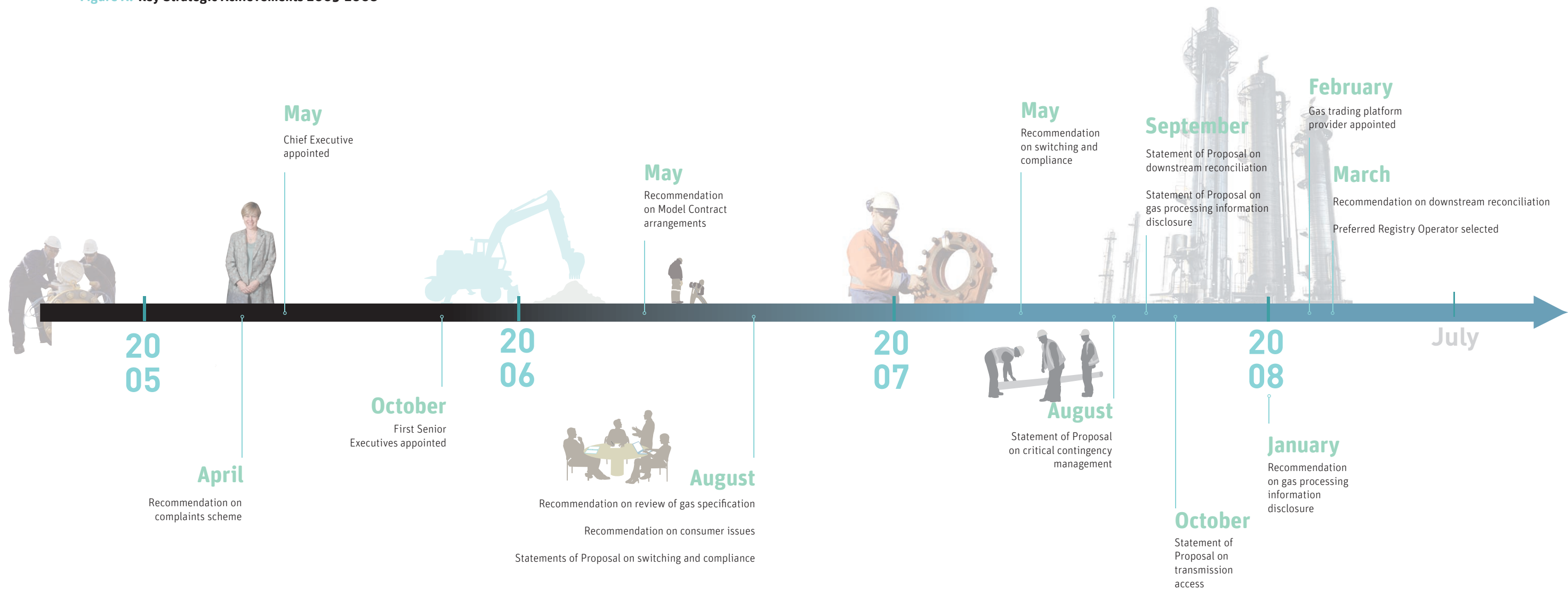
For the 2008/09 financial year \$4.446M revenue is forecast to come from the annual levy and \$1.665M revenue is forecast to come from market fees.

## Conclusion

This Strategic Plan outlines an extensive work programme. It sets the goal of transitioning a number of policy projects into implementation. The work of Gas Industry Co in developing the fundamental elements of a well-functioning gas market will ensure that the gas industry continues to be well placed to meet New Zealand's energy needs.



Figure A: Key Strategic Achievements 2005-2008







# 3

## Industry Context

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### 3.1 Introduction

Gas Industry Co operates in the context of the overall energy sector and the gas industry within New Zealand. This section of the Strategic Plan provides a brief explanation of its operating environment.

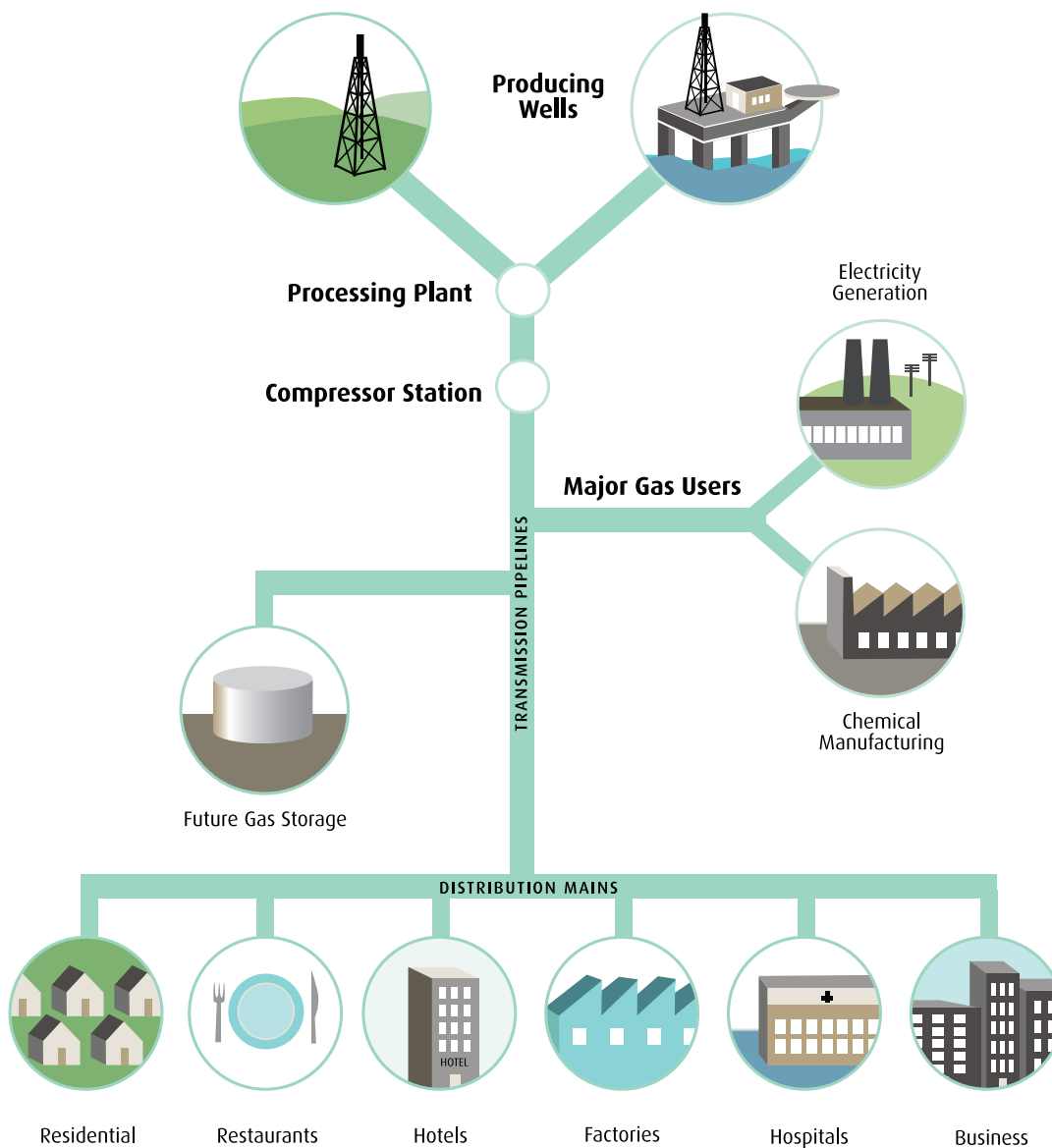
Natural gas plays a large role in the New Zealand economy. It contributes to employment, it is used by homes for heating and cooking, by businesses for manufacturing, and it plays a vital role in electricity generation.

In February 2003, the re-determination of the Maui gas field revealed that the quantity of gas economically recoverable from the field was much less than originally envisaged. This forced a transformation in the industry.

Following the Maui re-determination, gas prices rose significantly, New Zealand's biggest gas user (Methanex) withdrew from the market, the Pohokura gas field was brought to market, development of the Kupe gas field commenced, exploration activity increased, a number of smaller gas fields were discovered and new gas-fired electricity generation was commissioned.

The gas industry now looks much different. It has a more diverse range of gas fields, more players in the market, plans for gas storage to provide flexibility, and a reasonable supply outlook.



**Figure B: The New Zealand Gas System**

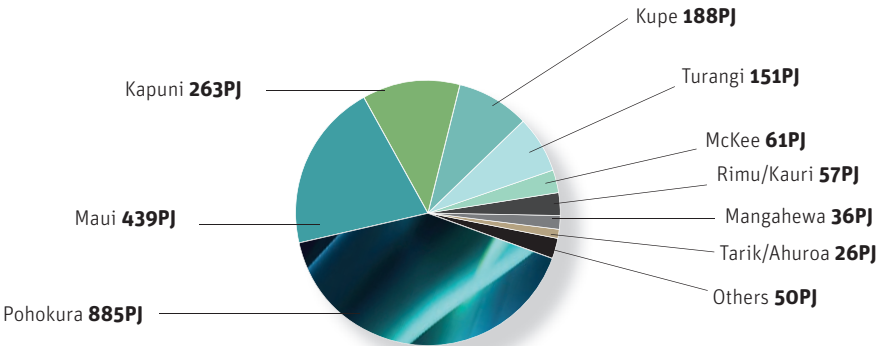


### 3.2 Gas Exploration, Production and Processing

Gas exploration, production and processing provide the base for the gas industry in New Zealand. In the absence of gas imports, exploration sustains the production and processing sectors – and the rest of the gas industry.

Over the last five years the gas industry has moved from dependency on the giant and flexible Maui gas field to a more diversified combination of suppliers and reservoirs. It has been estimated that over 1,300 PJ<sup>3</sup> has been added to reserves since 2003, outpacing consumption of gas by a factor of 2:1.<sup>4</sup> Proven and probable reserves were estimated to be over 2000 PJ as at 1 January 2007 (see Figure C) with the prospect of more gas being available from Maui, Pohokura, Kupe and other gas fields. At recent consumption rates (150 PJ per annum), proven and probable reserves now provide for 14.5 years of coverage.<sup>5</sup>

**Figure C: Proven and probable Gas Reserves** (1 January 2007)



Source: McDouall Stuart – New Zealand Energy Sector Report March 2008

Gas supplies continue to be dominated by reserves in the Taranaki region, with the Maui field still expected to play an important role in the short-term. Maui production is now supported by Pohokura and supplemented by a range of smaller fields including Kapuni, Turangi, McKee, Rimu/Kauri, Mangahewa, and Tariki/Ahuroa.

<sup>3</sup> Petajoule (PJ) is a unit of power corresponding to 31.6 million m3 of natural gas. One gigajoule (GJ) corresponds to 31.6 m3 of natural gas.

<sup>4</sup> On Firmer Ground – New Zealand Energy Sector Report; McDouall Stuart; March 2008

<sup>5</sup> Ibid 2., at 6



The Taranaki gas fields supply a range of processing facilities, often as part of a vertically integrated operation. Ownership of gas fields and processing facilities tends to be closely aligned.

The firming of gas supplies in recent years has left some wholesale buyers with gas that is surplus to their immediate requirements and improved liquidity in the re-seller market. In combination with the demands of electricity generation, this is creating pressure for more flexible gas production and supply arrangements. In this context, it is interesting to observe Contact Energy's recent acquisition of the Ahuroa reservoir for use as an underground gas storage facility.

### 3.3 Delivery Infrastructure

Natural gas is reticulated through 3,400 km of high-pressure transmission pipelines and 11,600 km of distribution pipelines in the North Island. The location of transmission pipelines connecting major locations of gas supply and demand in the North Island is shown in Figure D. (overleaf)

Transmission pipelines transport large volumes of natural gas under high pressure from production fields to distribution networks, or to large customers along the pipeline. New Zealand has two major transmission pipeline systems, one owned by Vector Limited and the other by Maui Development Limited (MDL, a joint venture between Shell, Todd and OMV).

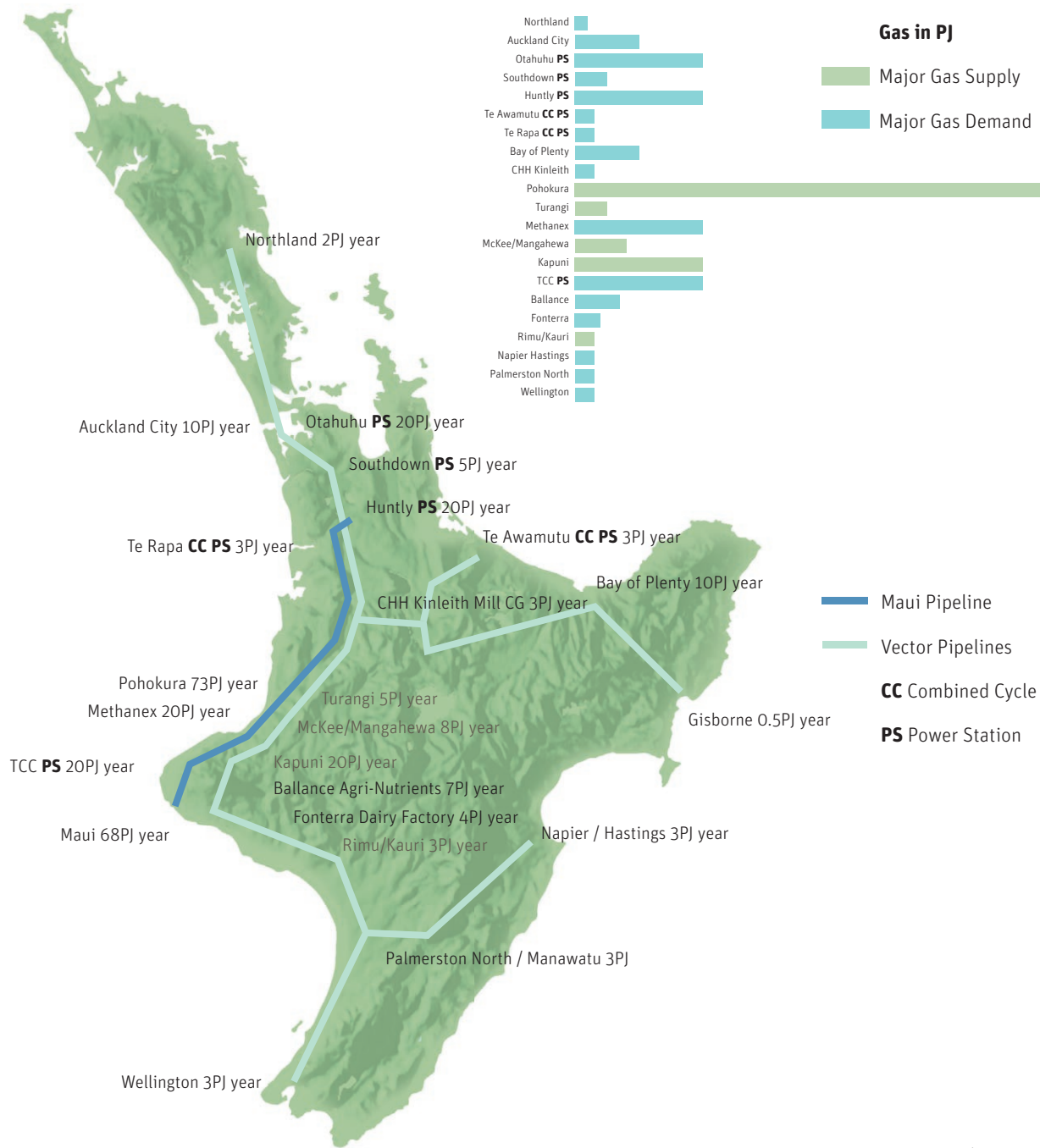
Access to the high pressure pipeline networks is important for the various producers, large users and retailers to ship gas to markets within the North Island.

Distribution pipelines reticulate gas from points on the high pressure transmission system into local areas to supply houses, offices, hospitals, factories and other commercial operations. There are 12 distribution pipeline networks that interconnect with the high pressure pipelines to deliver gas to consumer premises. Four companies (Vector, Powerco, GasNet and Nova Gas) provide gas distribution services.

Access to the distribution pipeline networks is important for the retailers to distribute gas to end-use customers.



Figure D: Projected 2008 Gas Supply and Demand



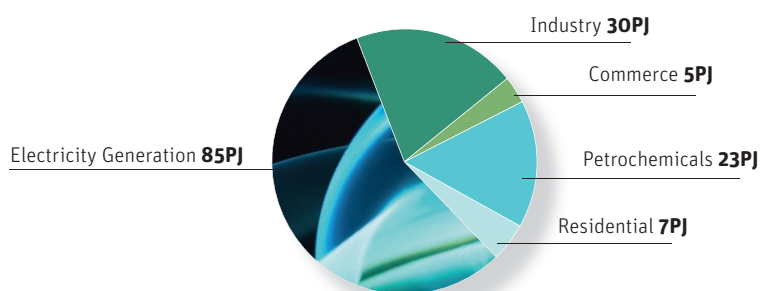
Source: Gas Industry Co



## 3.4 Demand for Gas

The underlying demand for gas is relatively stable at around 150 PJ per annum, supplying a combination of electricity generation, petrochemical feedstock, industry, commercial and residential consumers. Figure E breaks underlying demand into these components.

**Figure E: Gas Consumption by Sector** (2006)



Source: Ministry of Economic Development – Energy Data File June 2007

Approximately 250,000 residential consumers in the North Island use natural gas for water heating, space heating and cooking. The existing infrastructure could sustain more residential customers, but growth of this segment has been slow as a result of rising prices and misplaced concerns about the sustainability of future gas supplies. The proportion of gas use by residential consumers is very small at about 7 PJ per annum.

Industrial and commercial users of gas, across horticulture, manufacturing and hospitality, consume 35 PJ per annum. It is the fuel of choice for a range of industrial applications including process heating and steam raising, because of its low environmental impact, competitive price, and ease of delivery and use.

Three industries also use gas as a process feedstock for petrochemical production: The Waitara and Motunui methanol plants in Taranaki, an ammonia-urea plant in Taranaki, and a hydrogen peroxide plant close to Morrinsville. Although the petrochemical sector has the potential to consume up to 100 PJ per annum, the high cost and reduced gas availability in recent years has limited consumption to 20-25 PJ per annum.



Methanol production has tended to be limited by the availability of gas at prices that make production profitable. The Motunui plant was closed following the Maui re-determination, but operations were maintained at the Waitara plant, with gas supplies sourced on a short-term opportunistic basis. More recently, high international methanol prices and better gas availability have resulted in the decision to re-commission the larger Motunui plant in August 2008, at which point operations at the Waitara plant may be discontinued.

Alongside methanol production another major uncertain demand factor is the potential gas use by the dual-fuel Huntly power station.

Electricity generation is now the biggest gas user with gas playing a key role in delivering secure, reliable and affordable electricity supplies. Electricity generation consumed 85 PJ in 2006, meeting over 20% of electricity demand. The commissioning of the Genesis e3p plant, and the expansion of the Mighty River Power Southdown plant, adds to this contribution and could push gas consumption for electricity generation towards 100 PJ per annum.

The availability of flexible thermal generation is important to New Zealand's electricity supply security. When inflows to hydro catchments are low, thermal power stations are required to boost output to make up the deficit. One impact of the New Zealand Energy Strategy (NZES) and the Emissions Trading Scheme will be to increase the competitiveness of gas as against coal. For this reason, flexible gas supplies will play an important role in firming the electricity supply system.

### 3.5 Projected Supply and Demand

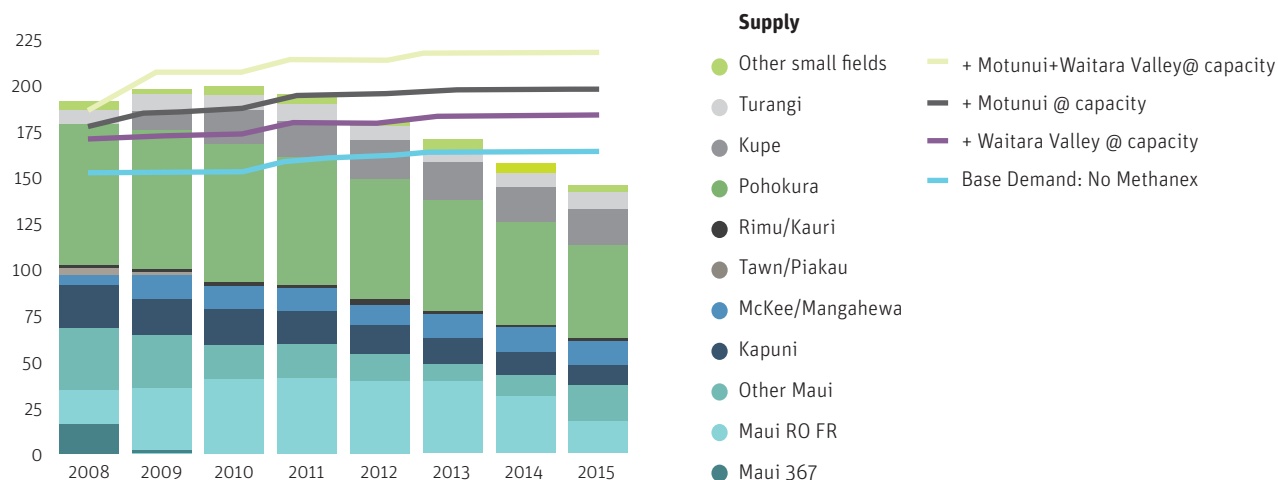
Projecting forward supply and demand is difficult. The main uncertainties on the demand-side relate to the scope for increased methanol production, the extent to which supplies to electricity generation will fluctuate from year to year with hydro inflows, and the impact of the NZES 90% renewable target and the associated moratorium on new base-load fossil-fired electricity generation for the next ten years.

Figure F forecasts the balance between supply and demand for the period to 2015, and highlights the medium-term uncertainty by projecting different levels of consumption from methanol production.

The key observation is that supplies are likely to exceed a base level of demand (about 150 PJ per annum) for a number of years. The extent to which surplus gas supplies can be carried forward to future years will depend upon whether Methanex is able to access gas in volumes sufficient to run both its Waitara and Motunui plants.

In terms of electricity generation, the NZES has established a goal of 90% of New Zealand's electricity generated from renewable resources by 2025. In order to support this goal, the Government has also announced a moratorium on the construction of any new base-load fossil-fired generation for a period of ten years. The moratorium provides exemptions where a particular development is important for security of supply.



**Figure F: Projected Gas Supply and Demand**

Source: McDouall Stuart – New Zealand Energy Sector Report March 2008

The NZES developments pose a number of challenges for both the electricity sector and the gas sector. With new electricity supply expected to come predominantly from geothermal (base-load) and wind (intermittent supply), gas could become the preferred fuel to firm electricity supplies to meet peak demands in all years and to supply additional bulk energy in dry years. This raises the prospect that existing base-load thermal plant could be forced into a very different role as new renewable supplies come into production.

In the medium term, Pohokura, Kupe and Turangi will fill the gap created on the supply-side by the decline of Maui. Similar discoveries and developments will be required to maintain gas supplies in the long term. The level of exploration activity has increased markedly in recent years, leading to some optimism about future discoveries. However there is considerable uncertainty about gas supplies beyond 2015.

## 3.6 Conclusion

The newly developed diversity of the gas sector, coupled with the increased need for gas to provide flexible supply for electricity generation support Gas Industry Co's focus on new market arrangements. These include developing the transmission access arrangements, developing a wholesale gas market, and putting robust contingency planning arrangements in place.





# 4

## Regulatory Framework

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### 4.1 Gas Act

In 2004 the Act was amended to provide the Minister of Energy with new powers to make rules, or recommend regulations, in relation to: consumer outcomes and retail arrangements; the wholesaling of gas; infrastructure access; contingency management; and other gas governance matters. The amendment also provided for the establishment of an “industry body” to give the Minister advice on the exercise of these powers under a new “co-regulatory” model.

### 4.2 Gas Industry Co

Gas Industry Co is a special purpose company which was formed by industry participants to be the co-regulator under the amended Act. The Act requires the Board of Gas Industry Co to have a majority of independent directors and a constitution which states the purpose of the company is to perform the functions and duties, and exercise the powers, of the industry body under Part 4A of the Act.

Gas Industry Co was approved by Order-in-Council as the co-regulator of the gas industry on 22 December 2004. Approval gives it the power to recommend gas governance arrangements to the Minister of Energy. Approval also gives it the power to recover its policy development costs by way of levies on industry participants.



Gas Industry Co Board is:

Name	Role
Right Hon. James Bolger ONZ	Independent Chair
Robin Hill	Independent Deputy Chair
Mark Verbiest	Independent Director
Keith Davis	Independent Director
Murray Jackson	Non-independent Director
David Baldwin	Non-independent Director
Simon Mackenzie	Non-independent Director

Gas Industry Co has a small team of experienced staff to advise on and implement the work programme described in this plan. It also relies on external advisers and working groups to support this core team.



### 4.3 Co-regulation

The co-regulatory model is unusual. It stems from the Government’s desire for industry involvement in developing new policy settings for the gas sector. The key features of the model are:

**Figure G: Co-regulatory model**

- The Minister has the power under the Act to make rules and recommend regulations to the Governor-General on a wide range of matters affecting the gas supply chain.
- In some areas the Minister must first receive a recommendation from Gas Industry Co on the form of those rules or regulations. The Minister must always have regard to any recommendation made by Gas Industry Co.
- Gas Industry Co is required to follow certain process requirements and to have regard to the objectives in the Gas Act and GPS when making recommendations to the Minister.

The process requirements in the Act include undertaking consultation, identifying all reasonably practicable options (including non-regulatory arrangements), and assessing the costs and benefits of those options.



The policy objectives set in the Act for Gas Industry Co when making recommendations under section 43F, are set out in Figure H below.

**Figure H: Gas Act objectives**

Principal objective
<b>To ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner.</b>
Other objectives
<ul style="list-style-type: none"><li>• The facilitation and promotion of the ongoing supply of gas to meet New Zealand’s energy needs, by providing access to essential infrastructure and competitive market arrangements.</li><li>• Barriers to competition in the gas industry are minimised.</li><li>• Incentives for investment in gas processing facilities, transmission, and distribution are maintained or enhanced.</li><li>• Delivered gas costs and prices are subject to sustained downward pressure.</li><li>• Risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties.</li><li>• Consistency with the Government’s gas safety regime is maintained.</li></ul>



## 4.4 Government Policy Statements

The Act also permits the Minister to add new objectives and outcomes which the industry body must report on and have regard to when making recommendations. This is done by the issue of a Government Policy Statement (GPS). The current GPS was issued in April 2008. It adds fairness and environmental sustainability to the principal objective in the Act, and extends this objective to all of Gas Industry Co's recommendations.

The GPS also adds other objectives and sets out a list of outcomes the Government wants Gas Industry Co to pursue and report against. These amount to a very clear statement of work priorities for the Company and are outlined in Figure I. Gas Industry Co's proposed work programme is set out in section 5 of this plan.

## 4.5 Advice to the Minister

**The Act requires Gas Industry Co to report regularly to the Minister on:**

- the performance and present state of the New Zealand gas industry;
- Gas Industry Co's performance and achievement of its objectives; and
- any other matters Gas Industry Co thinks fit or the Minister requests in writing.

The Company's plans to meet these requirements are also discussed in section 5 of this plan.

## 4.6 Compliance Regulations

Gas Industry Co has recommended to the Minister regulations for the enforcement of gas governance regulations ('the Compliance Regulations'). The Compliance Regulations will initially apply to the Gas (Switching Arrangements) Rules 2008, the Gas Processing Facilities Information Disclosure Rules and the Downstream Reconciliation Rules. The Compliance Regulations are also likely to be extended to other gas governance arrangements such as those relating to critical contingency management and access to transmission. Central to the new Compliance Regulations is the establishment of a Rulings Panel which approves and rejects settlements and determines unresolved breaches.



**The Rulings Panel may make certain orders specified under section 43X(1) of the Act including:**

- doing nothing;
- issuing a private or public warning;
- imposing extra record keeping or reporting requirements;
- ordering participants to pay compensation up to the amount of any relevant liability caps;
- making suspension or termination orders;
- ordering participants to take any action that is necessary to restore it to a position of compliance; and
- making cost orders.

The Rulings Panel may impose a civil pecuniary penalty of up to \$20,000.

## 4.7 Other Gas Sector Regulation

Gas Industry Co is primarily concerned with market regulation. The Commerce Commission enforces legislation that prohibits anti-competitive, and misleading and deceptive, conduct. The Commerce Commission is also responsible for the regulation of companies that face limited competition (such as gas pipeline companies).

The Government's policy concerning the allocation of rights in respect of gas exploration and production are set out in the Crown Minerals Act 1991 and the 2005 Minerals Programme for Petroleum respectively. Gas safety is governed by the Health and Safety in Employment Act 1992, the Hazardous Substances and New Organisms Act 1996, the Gas Act 1992 and the Plumbers', Gasfitters' and Drainlayers' Act 2006.



Figure I: GPS Objectives and Outcomes

Overall Objective	“to ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable, and environmentally sustainable manner.”										
Objectives	The facilitation and promotion of the ongoing supply of gas to meet New Zealand’s energy needs, by providing access to essential infrastructure and competitive market arrangements	Energy and other resources used to deliver gas to consumers are used efficiently	Barriers to competition in the gas industry are minimised	Incentives for investment in gas processing facilities, transmission and distribution, energy efficiency and demand-side management are maintained or enhanced	The full costs of producing and transporting gas are signalled to consumers	Delivered gas costs and prices are subject to sustained downward pressure	Competition is facilitated in upstream and downstream gas markets by minimising barriers to access to essential infrastructure to the long-term benefit of end users	The quality of gas services and in particular trade-offs between quality and price, as far as possible, reflects customers’ preferences	Risks relating to security of supply, including transport arrangements are properly and efficiently managed by all parties	Consistency with Government’s gas safety regime is maintained	The gas sector contributes to achieving the Government’s climate change objectives as set out in the NZES, by minimising gas losses and promoting demand-side management and energy efficiency
Specific Outcomes	All small gas consumers have effective access to a complaints resolution system	Contractual arrangements between gas retailers and small consumers adequately protect the long-term interests of small consumers	Effective and efficient customer switching arrangements that minimise barriers to customer switching	Accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities	An efficient market structure for the provision of gas metering, pipeline and energy services	The respective roles of gas metering, pipeline and gas retail participants are able to be clearly understood	Efficient arrangements for the short term trading of gas	Accurate, efficient and timely arrangements for the allocation and reconciliation of upstream gas quantities	Access to: third party gas processing facilities; transmission pipelines; and distribution pipelines; on reasonable terms and conditions	Consistent standards and protocols apply to the operations relating to access to all distribution pipelines	Sound arrangements for the management of critical gas contingencies
	Gas governance arrangements are supported by appropriate compliance and dispute resolution processes	Gas governance arrangements approved by the Minister of Energy are monitored by Gas Industry Co for ongoing relevance and effectiveness	Good information is publicly available on the performance and present state of the gas sector	Advise on the extent to which policies to enhance the direct use of gas in industrial, commercial and residential applications would mitigate greenhouse gas emissions and the likely cost of implementing those policies							





# 5

## Scope of operations 2009 - 2011

The Act requires Gas Industry Co to set out in its Strategic Plan: the nature and scope of its intended operations; the specific impacts, outcomes, or objectives that it seeks to achieve, and how these relate to the Act or GPS; and how the Company intends to conduct its operations to achieve these. The Act also requires Gas Industry Co to describe the main financial and non-financial measures and standards by which the future performance of the Company may be judged. This section addresses these requirements. A diagram setting out key milestones for the plan period is set out in Figure L at the end of the section.

Figure J: Gas Industry Co policy development process

The stages and steps involved in the policy development process	1	2	3	4	5	6	7	8	9
	Concept development	Development of options	Initial MED review	Statement of proposal	MED/PCO review of preferred option	Additional consultation (if required)	Recommendation to Minister	Ministerial approval	Implementation
	<b>1</b> Establish context <b>2</b> Definition of problem <b>3</b> GPS outcomes	<b>4</b> Policy options <b>5</b> Discussion paper <b>6</b> Second discussion paper <b>7</b> Analysis of submissions	<b>8</b> Initial MED review of proposed approach	<b>9</b> Cost Benefit Analysis <b>10</b> Statement of proposal	<b>11</b> MED /PCO review of preferred option	<b>12</b> Additional consultation (if required)	<b>13</b> Analysis of submissions <b>14</b> Formal recommendation	<b>15</b> Approval by Minister <b>16</b> Gazetting of the rules	<b>17</b> Project plan <b>18</b> Implementation begins

### 5.1 Performance measures

The timely and efficient delivery of the policy outcomes described in the GPS is a key performance measure for Gas Industry Co. However, as noted in previous plans, caution should be taken in measuring the performance of policy initiatives solely by reference to output timeliness, milestones or cost-effectiveness. Gas Industry Co is also committed to rigorous analysis of problems, practical solutions, and meaningful consultation with all parties likely to be affected by its proposals. On complex matters, this can be a time intensive process.

Gas Industry Co acknowledges that focusing on the desired outcome of a policy initiative is a more meaningful performance measure than merely focusing on output measures such as the delivery of reports, recommendations, and total costs of work streams. Once implementation is complete the Company will develop performance measures designed to consider the achievement of the desired industry outcomes.

### 5.2 Policy development process

In addition to the requirements in the Act, Gas Industry Co has developed a policy development process which is consistent with best regulatory practice. This is described in a paper titled “Information Paper on Gas Industry Co’s Gas Governance Policy Development Process” which can be found on the Company’s website. The key steps in the policy development process are summarised in the diagram below.



### 5.3 Reporting

During the plan period, Gas Industry Co intends to assess its progress on achieving the GPS objectives and outcomes by the performance measures and delivery of the milestones set out in this Strategic Plan. Gas Industry Co will report quarterly to the Minister and will also regularly advise the industry on progress through regular industry updates and Gas Industry Co's Annual Report.

### 5.4 Work Streams

This section describes the key activities and milestones for the 2008/09 year for each of Gas Industry Co's seventeen work streams. Where relevant, it shows how each work stream relates to the objectives and outcomes in the Act and GPS.

The following table sets out Gas Industry Co's seventeen work streams and shows how these relate to the Company's strategic priority areas.

Figure K: Work streams

Strategic Priorities	Work Streams
Effective operation of the co-regulatory model	<ul style="list-style-type: none"><li>• Corporate Services</li><li>• Compliance &amp; Enforcement</li><li>• Legal Services</li><li>• Co-regulatory Framework</li></ul>
Strategic issues for the gas industry	<ul style="list-style-type: none"><li>• Advice on the direct use of gas</li><li>• Other advice on matters relating to the performance of the gas industry</li></ul>
Improving consumer outcomes	<ul style="list-style-type: none"><li>• Consumer complaints scheme</li><li>• Retail contract terms and conditions</li></ul>
Improvements to the retail market	<ul style="list-style-type: none"><li>• Switching and registry</li><li>• Downstream reconciliation</li></ul>
Development of wholesale market arrangements	<ul style="list-style-type: none"><li>• Wholesale market</li><li>• Critical contingency management</li></ul>
Review of infrastructure access arrangements	<ul style="list-style-type: none"><li>• Access to gas processing facilities</li><li>• Transmission access</li><li>• Pipeline balancing</li><li>• Upstream reconciliation</li><li>• Distribution contracts</li></ul>



### a) Effective operation of the co-regulatory model

This strategic priority includes the following work streams:

- Corporate Services;
- Compliance & Enforcement;
- Legal Services; and
- Co-regulatory Framework.

#### Corporate Services

The Corporate Services work stream encompasses Gas Industry Co's statutory reporting requirements and the 'back office' functions of the Company, including finance, human resources, IT infrastructure, office management, levy development, website development and other overheads.

Reflecting the growing scope and scale of the Company, industry participants have called for greater transparency around its activities. In addition, the Company has identified the need to improve internal reporting and project management practices.

Work Stream Area	Act/GPS objectives & outcomes	Activity	Milestone
<b>Corporate Services</b>	Compliance with accountability framework set out in the Act, GPS, and the Companies Act.	Prepare Quarterly Reports to Minister on performance and achievement of objectives.	Provide Quarterly Reports within 60 days of the end of each quarter.
		Develop and consult on 2009/10 Levy	Recommendation on 2009/10 Levy to Minister by 31 March 2009.
		Prepare 2007/08 Annual Report	Deliver to Minister and shareholders by September 2008.
		AGM	Hold AGM by 31 December 2008.
		Prepare 2010 – 2012 Strategic Plan.	Deliver Plan to Minister by May 2009.



Compliance & Enforcement

In addition to developing gas governance arrangements, Gas Industry Co needs to ensure that there are systems in place to ensure the new arrangements are complied with and can be enforced.

Work Stream Area	Act/GPS objectives & outcomes	Activity	Milestone
Compliance & Enforcement	Gas governance arrangements are supported by appropriate compliance and dispute resolution processes.	Implement compliance arrangements.	Compliance regime 'go live' by 1 October 2008.
		Amend compliance regime.	As required, regime amended to support new gas governance arrangements.

Legal Services

The Legal Services work stream provides internal, non-work stream related legal advice and company secretarial services to the organisation.

Shareholders have requested a review of the Company's constitution and it is intended to complete this task in the plan year.

Work Stream Area	Act/GPS objectives & outcomes	Activity	Milestone
Legal Services	Compliance with accountability framework set out in the Act, GPS, the Companies Act and the Company's constitution.	Provide legal advice.	As required, provide advice to Gas Industry Co.
		Review the Company's constitution.	Implement any agreed changes by December 2008.



## Co-regulatory Framework

The policy development framework in the Gas Act is complex and Gas Industry Co has received a number of submissions on its process for implementing gas governance arrangements. The Company is constantly reviewing its processes to ensure their efficiency, internal consistency and compliance with best regulatory practice.

Work Stream Area	Act/GPS objectives & outcomes	Activity	Milestone
<b>Co-regulatory Framework</b>	Comply with Gas Act processes.	Develop a general framework for policy development (including approach to cost benefit, cost allocation and consultation).	Publish framework by December 2008.
		Develop guidelines for annual levy.	Publish guidelines by December 2008.



**b) Strategic Issues for the Gas Industry**

**Gas Industry Co is obliged to provide advice to the Minister of Energy on:**

- the performance and present state of the gas industry; and
- any other matters Gas Industry Co thinks fit or the Minister requests in writing.

In addition, the Government has adopted a new policy framework in the NZES. The new GPS on gas governance reflects the policy directions set out in the NZES. Specifically, it tasks Gas Industry Co with providing advice on the extent to which the direct use of gas would mitigate greenhouse gas emissions and the likely cost of implementing those policies.

In view of these factors, a new work stream has been created to encompass all the activities Gas Industry Co undertakes in relation to Strategic Issues for the gas industry.

Work Stream Area	Act/GPS objectives & outcomes	Activity	Milestone
<b>Strategic Issues</b>	Good information is publicly available on the performance and present state of the gas sector.	Update baseline report and give advice on any other matters requested by the Minister.	Deliver by date agreed with the Minister (depends on implementation of new arrangements).
	Provide advice on the extent to which policies to enhance the direct use of gas would mitigate greenhouse gas emissions and the likely costs of implementing those policies.	Research issues relating to direct use of gas and provide advice on suitable policies.	Provide advice to Minister by December 2009.

**c) Improving Consumer Outcomes**

A key expectation of the Minister of Energy, and Government, of the co-regulatory model is that it delivers improved outcomes for gas consumers. The Gas Act provides for the regulation of a range of consumer issues and the Minister has requested advice from Gas Industry Co on a number of these matters.



**This work stream includes activities in relation to:**

- a consumer complaints resolution system;
- retail contract terms and conditions; and
- other consumer outcomes (including those set out in the GPS).

**The focus of this work stream over 2008/09 will be to:**

- work with the Electricity Commission on a joint governance approach to approval and monitoring of a multi-fuel complaints resolution scheme;
- reconsider recommendations on model contracts in the light of difficulties experienced in progressing code of practice changes and making the code mandatory.

Work Stream Area	Act/GPS objectives & outcomes	Activity	Milestone
<b>Improving Consumer Outcomes</b>	Domestic and small business gas consumers have effective access to complaints resolution scheme.	Work with the Electricity Commission, to recommend a scheme to the Minister.	Recommendation to Minister by December 2008.
	Contractual arrangements adequately protect the long-term interests of domestic and small business consumers.  The respective roles of gas metering, pipeline and gas retail participants are able to be clearly understood.	Analyse whether the current arrangements are meeting gas consumers' needs and propose policy solutions.	New arrangements recommended by June 2009.



**d) Improvements to the Retail Market**

The primary discipline on retail prices is competition amongst retailers. Therefore, a focus for the Company over the past two years has been the development of retail market systems to promote competition. This work is expected to come to fruition in the coming financial year with the implementation of new governance arrangements for switching customers and the allocation of downstream gas quantities.

Switching and Registry

The focus of this work stream for 2008/09 will be on the implementation of the Gas (Switching Arrangements) Rules 2008 which came into effect on 13 March 2008.

Work Stream Area	Act/GPS objectives & outcomes	Activity	Milestone
<b>Switching and Registry</b>	Effective and efficient customer switching arrangements that minimise barriers to customer switching.	Implement switching arrangements.	Registry ‘go live’ by March 2009.

Downstream Reconciliation

In May 2008 the Minister approved and gazetted Gas Industry Co’s recommended downstream reconciliation and allocation arrangements. Gas Industry Co is working towards a “go live” date of 1 October 2008 to coincide with the beginning of the gas year.

Work Stream Area	Act/GPS objectives & outcomes	Activity	Milestone
<b>Downstream Reconciliation</b>	Accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities.	Implement new rules.	Appointment of Allocation Agent by August 2008. Arrangements ‘go live’ by October 2008.



e) Development of Wholesale Market Arrangements

This strategic priority includes the following work streams:

- Wholesale Market Trading Platform; and
- Critical Contingency Management.

Wholesale Market Trading Platform

The focus of this work stream for 2008/09 will be on administering, monitoring and evaluating the proposed trial of a voluntary wholesale market trading platform. The work programme anticipates an evaluation of the effectiveness of the trial market 6 to 9 months after its inception. Following that review, a formal recommendation will be made to the Minister of Energy about whether it should be continued. If it is decided that the platform should continue, any amendments to the platform identified through the trial will be assessed and incorporated on their merits.

Work Stream Area	Act/GPS objectives & outcomes	Activity	Milestone
Wholesale Market	Efficient arrangements for the short-term trading of gas.	Administer, monitor and evaluate wholesale market platform.	Report to the Minister on the outcomes of “trial” market within 12 months of platform commencement.



Critical Contingency Management

The Work Programme for 2008/09 will primarily be focused on implementing the proposed critical contingency management regulations which are expected to be recommended to the Minister in June 2008.

The work will include:

- appointing the “Critical Contingency Operator”;
- arranging and holding industry seminars and/or training to introduce the new systems;
- co-ordinating the handover between the existing Natural Gas Outage and Contingency Plan (NGOCP) and the proposed critical contingency management regulations;
- managing any change processes required in the light of experience with the new arrangements; and
- oversight of the new arrangements including incident reports.

Work Stream Area	Act/GPS objectives & outcomes	Activity	Milestone
<b>Critical Contingency Management</b>	Sound arrangements for the management of critical gas contingencies.	Implement critical contingency management regulations.	Appoint Critical Contingency Operator by January 2009  New arrangements ‘go live’ by March 2009.

f) Review of Infrastructure Access Arrangements

This strategic priority includes the following work streams:

- Access to Gas Processing Facilities;
- Transmission Access;
- Upstream Reconciliation;
- Pipeline Balancing; and
- Distribution Access.

Access to Gas Processing Facilities

In order to ensure there are no barriers to industry participants accessing gas processing facilities for green field developments, Gas Industry Co recommended new rules for the disclosure of information about surplus gas processing capacity, and responses to requests for third party access. These rules were approved and gazetted by the Minister in May 2008.



During the period of the plan, information supplied about surplus capacity under the new rules will be collated and published on Gas Industry Co's website for the benefit of access seekers. This information will enable the Company to report to the Minister on any access constraints and whether more extensive regulation is necessary.

Work Stream Area	Act/GPS objectives & outcomes	Activity	Milestone
<b>Access to Gas Processing Facilities</b>	Gas industry participants and new entrants are able to access third party gas processing facilities on reasonable terms and conditions.	Collect and monitor disclosed information.	Publish collated information by August 2008.

### Transmission Access

The purpose of this work stream is to ensure that shippers and new entrants are able to access New Zealand's two transmission networks on reasonable terms and conditions. Progressing this work stream involves three broad phases:

- **Phase 1** - Identification and definition of problems in the transmission access area;
- **Phase 2** - Identification of high level options to address problems; and
- **Phase 3** - Refinement of options to develop a specific preferred approach for moving forward.

Phase 3 is now underway. Gas Industry Co anticipates preparing a further Statement of Proposal to be released for consultation by December 2008. It is now expected that a recommendation to the Minister of Energy will be made in April 2009.

Work Stream Area	Act/GPS objectives & outcomes	Activity	Milestone
<b>Transmission Access</b>	Gas industry participants and new entrants are able to access transmission pipelines on reasonable terms and conditions.	Prepare further Statement of Proposal on new access regulations.	Release further Statement of Proposal by December 2008.
		Prepare recommendation on access regulations.	Recommendation to Minister by 30 April 2009.



Pipeline Balancing

A problem identified in Phase 1 which warranted a separate work stream is pipeline balancing. Balancing refers to the management of the inventory of gas in a pipeline within acceptable limits. Effective balancing arrangements are a necessary component of open access.

Although industry participants have recognised that the Maui and Vector pipeline balancing regimes are not operating as intended, they have found it difficult to unravel the issues. To help the industry resolve the balancing problems, Gas Industry Co issued a Transmission Pipeline Balancing Research Paper in April 2008. The research paper describes the current balancing arrangements in detail and measures these against best practice guidelines issued by European regulators. Gas Industry Co will use this paper as a resource to help it build industry consensus on the problems, and to scope possible solutions.

Work Stream Area	Act/GPS objectives & outcomes	Activity	Milestone
<b>Pipeline Balancing</b>	Gas industry participants and new entrants are able to access transmission pipelines on reasonable terms and conditions.	Review balancing operations on Vector and Maui pipelines and develop practicable options for identified issues.	Release consultation paper by October 2008.

Upstream Reconciliation

Gas Industry Co is not aware of any immediate issues related to upstream reconciliation. The work stream has therefore not had a high priority. However, upstream reconciliation is a key element of many settlement processes in the industry and will be increasingly important as the gas trading platform and improvements to downstream reconciliation are introduced. A consultation paper on upstream reconciliation will be developed by November 2008.

Work Stream Area	Act/GPS objectives & outcomes	Activity	Milestone
<b>Upstream Reconciliation</b>	Accurate, efficient and timely arrangements for the allocation and reconciliation of upstream gas quantities.	Review issues.	Release consultation paper by November 2008.



Distribution Contracts

Now that the approach to the economic regulation of distribution networks by the Commerce Commission is becoming clearer, it is timely to consider whether there is any need for regulation of distribution network access and, if so, what form that regulation should take. This issue will be informed to some extent by work Gas Industry Co has undertaken on consumer issues. Also, since distribution networks are interconnected with transmission pipelines, there will be some cross over of issues related to transmission access.

Work Stream Area	Act/GPS objectives & outcomes	Activity	Milestone
<b>Distribution Contracts</b>	<p>Gas industry participants and new entrants are able to access distribution pipelines on reasonable terms and conditions.</p> <p>Consistent standards and protocols apply to the operations relating to access to all distribution pipelines.</p>	Prepare recommendation on distribution contract arrangements.	<p>Release consultation paper on distribution contracts by September 2008.</p> <p>Release statement of proposal on distribution contracts by April 2009 if required.</p> <p>Recommendation to Minister on distribution contracts by December 2009.</p>



Figure L: Key Strategic Plan Milestones 2009-2011





# 6

## Financial Overview

### 6.1 Funding

Gas Industry Co has four sources of funding to meet the costs incurred to deliver effective co-regulation and fulfil its GPS obligations. They are:

- a levy on industry participants pursuant to the Act;
- market fees imposed pursuant to various rules or regulations made under the Act to meet the costs of new gas market arrangements;
- fees under contracts entered into with industry participants; and
- an annual shareholder fee.

#### **a) Levy Funding**

Section 43ZZB of the Act enables Gas Industry Co to recommend to the Minister of Energy industry participants be required to pay a levy to cover the costs of Gas Industry Co exercising its functions as the industry body. In May 2008, the Minister approved Gas Industry Co's recommendation that:

- every person who is an industry participant on the first day of each month pays a wholesale levy of 1.79 cents on each gigajoule of gas purchased by the industry participant directly from gas producers during the previous month; and
- every gas retailer who is an industry participant on the last day of each month pays a retail levy of \$7.42 per annum for each ICP for each retail customer.

Regulations imposing these new levies are expected to come into effect on 1 July 2008.



## b) Market Fees

Section 43S of the Act enables Gas Industry Co to collect from industry participants fees relating to the implementation of gas market rules and regulations. The 2008/09 financial year sees the first of these market fees being applied to Gas Industry Co's budget.

It is anticipated that as Gas Industry Co moves progressively away from policy development towards policy implementation, a greater proportion of its funding will be derived from these fees. As a consequence, it is expected the proportion of funding derived from the annual levy will decline over time.

The following table estimates the market fees planned for 2008/09:

Project	Total Fees	Classification	Invoiced From
Reconciliation	\$300,000	Annual operating costs	October 2008
Switching	\$1,000,000	Establishment costs	September 2008
Switching	\$100,000	Annual operating costs	March 2009
Compliance Regime	\$265,000	Annual operating costs	July 2008
<b>Total Market Fees</b>	<b>\$1,665,000</b>		

The fees disclosed above are significantly different to those disclosed in the Levy consultation paper (\$147,325), released in December 2007 to industry participants. The figures contained within that document were based on Gas Industry Co's best estimates at the time. Since then, the switching estimates have been revised with prospective service providers and now more accurately reflect the cost of implementing registry rules. The reconciliation and compliance costs are initial estimates.



**c) Contract Fees**

Gas Industry Co has the ability to collect fees under the Maui Pipeline Open Access Code (MPOC). Collection of such fees has not been anticipated in the 2008/09 budget. Gas Industry Co may enter into other gas governance arrangements with industry participants, such as the wholesale market trading platform, which provide for it to pay and receive fees. In the attached financial statements no allowance has been made for the collection of fees under those arrangements given the degree of uncertainty.

**d) Annual Fees**

Gas Industry Co's constitution requires all shareholders to pay an annual fee to the Company, which is set by the Board. Currently that fee is set at \$10,000 per shareholder per annum.

## 6.2 Establishment of Reserve

The Board has decided to use the shareholders' annual fees to accumulate a capital base sufficient for the Company to deal with any likely contingencies that may arise, such as legal challenges, unplanned activities or revenue shortfalls. Independent advice to the Board has recommended a capitalisation level of at least \$360,000.

## 6.3 Financial Result

A surplus of \$457K is anticipated for the 2008/09 year. This is partially driven by timing differences arising from the introduction of market fees, particularly where those fees have been used for the purchase of capital assets.





# 7

## Financial Statements

In accordance with section 43ZR of the Gas Act, Gas Industry Co's forecast financial statements are set out below. These statements have been prepared using information consistent with that used for the calculation of the 2008/09 Gas Industry Co levy. Further detail about the assumptions, revenue calculations and work stream expenses used to calculate the 2008/09 levy can be found in the December 2007 Levy Discussion Paper on Gas Industry Co's website.

The 2007/08 forecast was approved by Gas Industry Co's Board in April 2008 and includes actual results for the period June 2007 to March 2008, and an up-to-date forecast for the period April 2008 to June 2008.

We acknowledge responsibility for the forecast financial statements contained in this report and for the judgements used in their preparation.

We certify that the information contained in this report is, except where noted, consistent with the budget estimates contained in Gas Industry Co's 2008/09 Levy Recommendation that has been made to the Minister of Energy under section 43ZZB of the Gas Act 1992.



**Rt Hon James Bolger ONZ**  
Chair



**Robin Hill**  
Deputy Chair




## 8 Forecast Statement of Financial Performance

	Budget	Forecast	Budget	Actual
	2008/9	2007/8	2007/8	2006/7
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>Revenue</b>				
Wholesale Levy	2,590	3,234	2,799	2,634
Retail Levy	1,856	2,069	2,045	1,570
<b>Levy Revenue Subtotal</b>	<b>4,446</b>	<b>5,303</b>	<b>4,844</b>	<b>4,204</b>
Market Fees	1,665	-	-	-
Annual Fees	90	100	90	100
Interest Income	54	113	19	63
<b>Subtotal Other Revenue</b>	<b>1,809</b>	<b>213</b>	<b>109</b>	<b>163</b>
<b>Total Revenue</b>	<b>6,255</b>	<b>5,516</b>	<b>4,953</b>	<b>4,367</b>
<b>Expenses</b>				
Employment Expenses	2,136	1,815	1,954	1,331
Audit Fees	6	6	7	6
Premises	97	80	90	84
General Expenses	278	376	292	321
Board	262	267	250	237
Depreciation	267	80	88	67
Work programme expenses	2,752	1,998	1,963	1,589
<b>Total Expenses</b>	<b>5,798</b>	<b>4,622</b>	<b>4,644</b>	<b>3,635</b>
<b>Surplus</b>	<b>457</b>	<b>894</b>	<b>309</b>	<b>732</b>



9 Forecast Statement of Movements in Equity

	Share Capital	Equity	Share Capital	Equity	Share Capital	Equity
	Budget	Budget	Forecast	Forecast	Budget	Budget
	2008/9	2008/9	2008/9	2007/8	2007/8	2007/8
		(\$000)		(\$000)		(\$000)
Opening Balance	9	1,274	9	380	10	(218)
Net surplus for the year		457		894		308
Forecast Balance	9	1,731	9	1,274	10	90



10 Forecast Statement of Financial Position

	Budget	Forecast	Budget	Actual
	2008/9	2007/8	2007/8	2006/7
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Current assets				
Bank	901	1,281	613	978
Debtors	29	29	3	11
Other	37	37	-	-
Total current assets	967	1,347	616	989
Fixed assets	1,232	223	197	208
Total assets	2,199	1,570	813	1,197
Current liabilities				
Payables and accruals	468	297	385	480
Total current liabilities	468	297	385	480
Shareholders' loans	-	-	338	338
Total liabilities	468	297	723	818
Net assets	1,731	1,273	90	379
Represented by				
Share capital				
Retained earnings (losses)	1,731	1,273	90	379
Total shareholders' funds	1,731	1,273	90	379



## 11 Forecast Statement of Cash Flows

	Budget	Forecast	Budget	Actual
	2008/9	2007/8	2007/8	2006/7
	(\$000)	(\$000)	(\$000)	(\$000)
Cash flows from operating activities				
Levy income and annual fees	6,201	5,384	4,934	4,322
Interest Income	54	76	18	44
Operating expenses	(5,360)	(4,657)	(4,540)	(3,702)
<b>Net cash flows from operating activities</b>	<b>895</b>	<b>803</b>	<b>412</b>	<b>664</b>
Cash flows from investing activities				
Capital purchases	(1,276)	(100)	(56)	(30)
<b>Net cash flows from investing activities</b>	<b>(1,276)</b>	<b>(100)</b>	<b>(56)</b>	<b>(30)</b>
Cash flows from financing activities				
Shareholder loan repayments	-	(400)	-	(400)
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>(400)</b>	<b>-</b>	<b>(400)</b>
<b>Net cash flows</b>	<b>(381)</b>	<b>303</b>	<b>356</b>	<b>234</b>
Opening cash balance	1,281	978	257	744
<b>Closing cash balance</b>	<b>901</b>	<b>1,281</b>	<b>613</b>	<b>978</b>



## 12 Statement of Contingent Liabilities and Commitments

Gas Industry Co has no known contingent liabilities or assets.

Gas Industry Co’s lease commitment in relation to its premises commenced 1 July 2005 and expires 30 May 2009 at an annual rental of approximately \$82,680.

Other operating lease commitments are for office equipment.

Gas Industry Co has various ongoing commitments for the operation of the Company.

	Activity 2008	Forecast 2009
<b>Operating lease commitments</b>		
Not later than one year	82,680	75,955
Later than one year but not later than two years	75,955	-
Later than two years but not later than five years	-	-
Later than five years but not later than ten years	-	-
<b>Total operating lease commitments</b>	158,635	75,955

<b>Equipment lease commitments</b>		
Not later than one year	9,818	9,576
Later than one year but not later than two years	9,576	9,576
Later than two years but not later than five years	27,132	17,556
Later than five years but not later than ten years	-	
<b>Total equipment commitments</b>	46,526	36,708



## 13 Statement of Accounting Policies

**Reporting Entity:** Gas Industry Co is a company incorporated under the Companies Act 1993 which has been approved as the co-regulator of the gas industry by Order in Council on 22 December 2004. These prospective financial statements have been prepared in accordance with section 43ZR of the Gas Act 1992 and the Financial Reporting Act 1993.

**Measurement Base:** These financial statements have been prepared on the historical cost basis.

**Particular Accounting Policies:** The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The following particular accounting policies which materially affect the measurement of financial performance, financial position and cash flows, have been applied consistently:

- **Revenue:** Revenue is derived from Gas Industry Co's levies and market fees imposed under Subpart 2 of Part 4A of the Gas Act 1992, from annual fees charged to shareholders and from interest on deposits. Such revenue is recognized when earned and is reported in the financial period to which it relates.
- **Taxation:** Gas Industry Co's levy revenue is not regarded as gross income in terms of section CB 1 of the Income Tax Act 2004.
- **Goods and Services Tax (GST):** The statement of financial performance and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST.
- **Accounts receivable:** Accounts receivable are carried at estimated realisable value after providing for debts where collection is doubtful.
- **Employee entitlements:** Employee entitlements to salaries and wages, annual leave, long service leave and other benefits are recognised when they accrue to employees.
- **Financial Instruments:** Financial instruments carried on the statement of financial position include cash and bank balances, investments, receivables, trade creditors and borrowings. Except for those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.
- **Depreciation:** Depreciation of fixed assets is provided on a straight line basis, so as to allocate the depreciable amount of assets over their useful lives. The depreciable amount is the historical cost. The estimated useful lives are:

Category	Estimated Useful Life
IT – Hardware & Software	3 – 5 Years
Office Equipment	4 – 6 years
Leasehold Improvements	Term of Lease

**Statement of cash flows:** The following are the definitions of the terms used in the statement of cash flows:

- Operating activities include all transactions and other events that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments can include securities not falling within the definition of cash.
- Financing activities are those activities that result in changes in the size and composition of the capital structure of the company. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.



## 14 Statement of Significant Underlying Assumptions

The following assumptions have been made in the development of the forecast financial statements. These assumptions were adopted on 1 April 2008:

- These forecast financial statements comply with generally accepted accounting practice. The measurement base applied is historical cost.
- Accrual accounting has been used to prepare these financial statements.
- These statements have been prepared on a going-concern basis.
- The forecast financial statements have been presented for the purpose of providing financial information that underlies the work programme as set out in the 2009 - 2011 Strategic Plan. This financial information may not be appropriate for other purposes.
- It is not intended these financial forecasts will be re-issued.
- Actual financial results achieved for the period covered are likely to vary from the information presented and the variations may be material.
- There is limited ability to alter the Company's revenue other than through the annual levy review process.
- The annual levy of \$4.4 million plus GST is assumed to be effective from 1 July 2008 and is paid monthly. Any monthly levy not payable due to the date on which the levy regulations come into force will be paid on the 20th of the month following the levy regulations coming into force.
- The wholesale levy revenue is budgeted to be \$2.590 million plus GST for the 2008/09 year. This is based on an estimate of 145PJ of gas being purchased from producers and a levy rate of 1.79 cents/GJ. If the actual wholesale gas volumes are different from the estimate, there may be a material difference in the wholesale levy revenue.
- The retail levy revenue is budgeted to be \$1.856 million plus GST for the 2008/09 year. This is based on an estimate of 250,000 ICPs at a levy rate of \$7.42/ICP per annum. If the actual number of ICPs is different from the estimate, there may be a material difference in the retail levy revenue.
- The 2008/09 levy calculation is based on a work program consistent with the draft Government Policy Statement on Gas Governance (GPS) issued in December 2007. The revised and updated GPS was released in April 2008, containing material changes to the draft document. The impact of the new GPS has been the removal of a number of the activities which Gas Industry Co, as the approved industry body, was intending to pursue and report against. As a result of these changes, the cost base for Gas Industry Co, upon which the levy calculation is based, has decreased to the extent where there will be a small impact on our operating costs, resulting in the possible over-recovery of levy revenue in the 2008/09 financial year. Any over-recoveries that do occur will be managed through adjustments to future levy rates to take into account those over-recoveries.
- Gas Industry Co's constitution allows for the Board to set an annual fee for shareholders for the financial year. The 2008/09 Budget assumes the annual fee paid by each shareholder will remain at \$10,000 per annum payable by nine Gas Industry Co shareholders. It is intended the annual fees are retained over four years to create reserves of \$360,000.
- The forecast equity for the year ending 30 June 2009 is an amount of \$1.731 million. This is the result of material differences primarily in wholesale levy revenue arising from wholesale gas volumes being different from the estimate over the last two years. Gas Industry Co will be looking to reduce this level of equity to a more appropriate level over the medium term, mainly through adjustments to the levy rate to take into account past over-recoveries.
- Another factor affecting the level of equity is the payment of market fees by industry participants and used by Gas Industry Co for the purchase of capital assets. Timing differences between recognising the market fees as revenue, physically paying for the asset and expensing that asset over the term of its economic life will lead to variations in the net surplus reported by Gas Industry Co.
- Shareholder loans are assumed to have been repaid in full in 2007/08.
- The current premises lease expires in May 2009. Although it is likely Gas Industry Co will face increased premises costs after this date, the quantum of that increase is too uncertain to predict with any degree of accuracy until lease negotiations have been completed. Consequently, this budget assumes no increase other than what is allowed for under the current lease. Any variation to the budget estimate will be incorporated into future financial forecasts.
- Gas Industry Co's budget is based on a best estimate of the costs to deliver the work programme prepared for calculation of the 2008/09 levy. Budgets are set significantly in advance of consultation on proposed new policy initiatives. Accordingly, actual expenditure may vary from budgeted expenditure as policy design is revised to reflect changes that may be required as a result of submissions received and further analysis.
- Expenses for work streams include the cost of:
  - consultancy;
  - legal advice; and
  - technical advice to working groups.



# Directory

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## Gas Industry Company Directors

as at 31 March 2008

**Right Honourable  
James (Jim) Bolger ONZ,**  
Chairman

**Robin Hill** B Comm FCA,  
Deputy Chairman,  
Independent Director

**Mark Verbiest** LLB,  
Independent Director

**Keith Davis** PGDipBus,  
Independent Director

**Murray E Jackson** BEc MBA FTSE FIEAust

**David Baldwin** BE MBA (Chemical)

**Simon Mackenzie** Grad Dip BS (Dist)  
Dip Fin NZCE

## Gas Industry Company Executive

**Christine Southey** LLB BA (Hons),  
Chief Executive

**Nicole MacFarlane** LLB (Hons) BA,  
General Counsel

**Dr Bas Walker** BE (Hons) PhD  
(Cantab) DistFIPENZ MChemE,  
Senior Adviser - Retail & Projects

**Ian Dempster** BE (Hons) M.Com (Hons),  
Senior Adviser - Wholesale Markets

**Ian Wilson** BSc (Hons) BBS MNZIGE,  
Senior Adviser - Pipelines

**Peter Davies** BBS MBA CA,  
Corporate Services Manager

## Auditors:

**Grant Thornton, Wellington**

## Bankers:

**Westpac Banking Corporation Limited**

## Gas Industry Company Shareholders

as at 31 March 2008

**Contact Energy Limited**

**Genesis Power Limited**

**Mighty River Power Limited**

**Greymouth Gas New Zealand Limited**

**OMV New Zealand Limited**

**Powerco Limited**

**Shell (Petroleum Mining) Limited**

**Vector Limited**

**Wanganui Gas Limited**





**Gas Industry Company Limited**

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