

STRATEGIC PLAN
SCOPE OF OPERATIONS 2010-2012

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This Strategic Plan has been prepared by Gas Industry Company Limited (Gas Industry Co) to fulfil the requirement of sections 43ZQ to 43ZV of the Gas Act 1992. It sets the intended Scope of Operations for 2010-2012.



Rt Hon James Bolger, ONZ

CHAIR



Robin Hill

DEPUTY CHAIR

June 2009



1. INTRODUCTION

The 2008 calendar year was significant in the development of Gas Industry Co and for the gas industry.

Five gas governance arrangements were approved, three service providers were appointed and two major IT systems – the allocation system and the gas registry – were developed and implemented. Figure A sets out the Company's key achievements in the past two years. These arrangements provide the foundation for a more efficient and competitive gas market that will better meet the needs of customers.

The global economic downturn has forced all businesses to stand back and take stock. Gas Industry Co's response has been to carefully review and refine its work programme in consultation with the industry. This review, as part of the annual levy-setting process, will ensure that Gas Industry Co continues to meet the co-regulatory expectations of the industry and the new Government. As a result of the review, Gas Industry Co has re-prioritised its work programme, reducing operating expenditure by \$527,000.

Gas Industry Co has two strategic priorities for FY2010: efficient market operations; and access to transmission pipelines.

The first strategic priority is to complete the new market arrangements and move more fully into the market services phase of the Company's operations. This will involve overseeing the operation of the current set of rules and regulations, including managing the relationship with service providers, plus a variety of roles as set out in the new arrangements. Ongoing monitoring of the performance of the regulations may also result in the occasional amendment to ensure they continue to meet the regulatory objectives.

The second strategic priority for FY2010 is the continuation of work with industry participants to improve the efficiency of access arrangements for New Zealand's two transmission pipeline networks. This includes roles relating to rule change requests under the Maui Pipeline Operating Code and the Vector Transmission Code, and the Company's work on interconnection guidelines and new balancing arrangements.

The Company anticipates the completion of the joint project with the Electricity Commission for the approval of a dual-fuel consumer complaints scheme and advice on retail contract terms in FY2010. Other GPS policy work – including an assessment of the efficiency of the retail market structure, the extent to which the direct use of gas would mitigate greenhouse gas emissions, and arrangements for access to distribution networks – has been deferred to future financial years but will be progressed earlier if resources permit.

Gas Industry Co operates in a challenging environment and manages various, often competing, demands. The Company looks forward to continuing to work with the industry and Government to meet these challenges, to ensure the success of the co-regulatory model and to improve the already significant contribution of the gas sector to New Zealand's economy.



Rt Hon James Bolger, ONZ

CHAIR



Christine Southey

CHIEF EXECUTIVE

June 2009



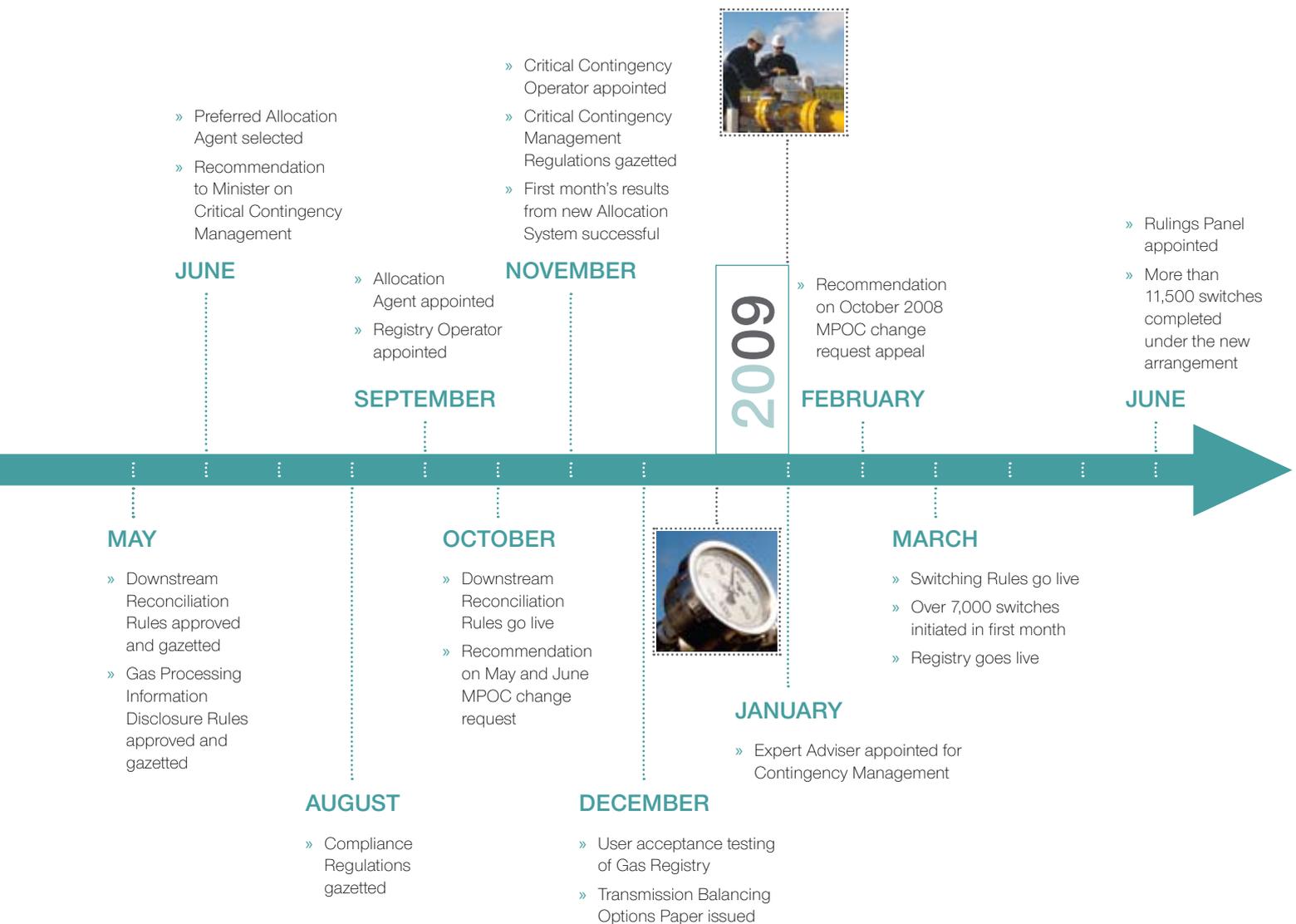
2. INDUSTRY BODY

Gas Industry Co is a special-purpose company owned by gas industry participants. It was established 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 that meet the Government's policy objectives and outcomes for the gas sector. These 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.

FIGURE A: KEY ACHIEVEMENTS 2007-2009







3. OPERATING ENVIRONMENT

Gas Industry Co operates in the context of the overall energy sector and the gas industry within New Zealand. It must comply with the framework for co-regulation set out in the Gas Act 1992.

3.1 INDUSTRY CONTEXT

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

The gas industry can be characterised as a number of segments: exploration and production; wholesale market; and retailing. These segments are connected via the high-pressure transmission systems owned by MDL and Vector, and by the distribution networks owned by Powerco, Vector, Gasnet and Nova Gas.

Changes over the last decade have seen a greater number of players in the gas industry at all levels. This has occurred mainly as a result of the reduced supply role that the Maui field has played in recent years. As Maui reserves have declined, opportunity for production from new, smaller fields has increased.

3.2 REGULATORY FRAMEWORK

Under the 2004 amendments to the Gas Act 1992, the Minister of Energy has powers to make rules, or recommend regulations, in respect of a wide range of gas governance matters. The amendments also provide for the establishment of an 'industry body' to advise the Minister on the exercise of these powers under a new 'co-regulatory' model. Gas Industry Co, a private company with shareholders from the gas industry, has been designated as the industry body.

Though the Minister has the power under the Act to make rules and recommend regulations, in some instances, the Minister must first receive a recommendation from Gas Industry Co. In respect of retail-related recommendations, the Minister must have regard to any recommendation by Gas Industry Co. In the case of wholesale market or transmission-related recommendations, the Minister can either accept or reject the recommendation but has limited ability to make any changes to it before its implementation.

The Act prescribes the procedures that Gas Industry Co must follow before making a recommendation to the Minister. These include the requirement for consultation along with the requirement to assess the costs and benefits associated with any recommendation.

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. Current requirements are set out in the GPS issued in April 2008.

3.3 GAS GOVERNANCE ARRANGEMENTS

Gas Industry Co has made six recommendations: five for rules or regulations; and one interim recommendation for wholesale market trading by way of an industry arrangement. The following rules/regulations have taken effect:

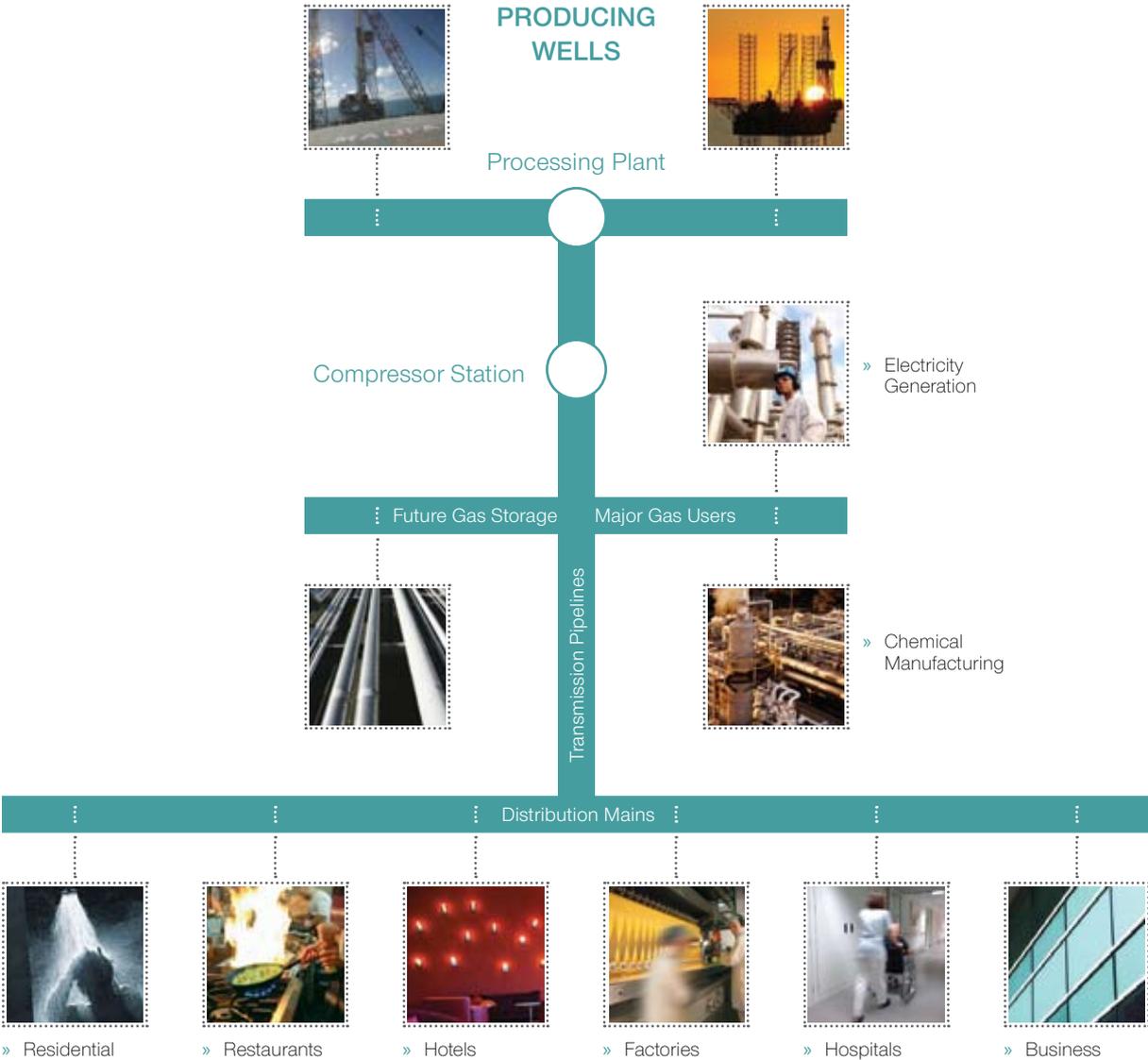
- » Gas (Switching Arrangements) Rules 2008;
- » Gas (Processing Facilities Information Disclosure) Rules 2008;
- » Gas (Downstream Reconciliation) Rules 2008;
- » Gas Governance (Critical Contingency Management) Regulations 2008; and
- » Gas Governance (Compliance) Regulations 2008.

The Minister has also approved the trial of a wholesale trading platform.

3.4 DELEGATION TO ASSOCIATE MINISTER

The Minister of Energy and Resources transferred the ministerial warrant for Gas Industry Co, including policy and implementation, to the Associate Minister of Energy and Resources on 5 March 2009.

FIGURE B: THE NEW ZEALAND GAS SYSTEM





4. SCOPE OF OPERATIONS 2010-2012

This section addresses Gas Industry Co's requirements under the Act to set out the nature and scope of its intended operations, including the activities needed to deliver the GPS, and how the Company intends to conduct its operations to achieve the required outcomes.

4.1 EFFICIENT MARKET OPERATION

The Company has recommended various arrangements (noted in section 3.3) to improve the operation of gas markets.

These arrangements require Gas Industry Co to perform a number of roles. During FY2009, it was required to appoint service providers to establish and operate the allocation system and the gas registry, to develop a wholesale market trading platform, and to fill the role of Critical Contingency Operator. With these functions established, Gas Industry Co's role is now to oversee the relevant arrangements, including the performance of the service providers appointed under them.

During the plan period, Gas Industry Co has a number of ongoing roles under the approved arrangements. These include considering exemption applications, appointing experts, and commissioning audits. It also performs the Market Administrator role under the Gas Governance (Compliance) Regulations 2008 and monitors the performance and effectiveness of the compliance and enforcement regime established by those regulations. In addition, the Company is involved in a lot of day-to-day contact with industry participants to explain the operation of the new arrangements.

Over time, it will be necessary to measure the performance of the gas governance arrangements, and to recommend amendments to the rules and regulations, as appropriate.

Switching and Gas Registry

The focus of this work stream for FY2010 will be on overseeing the operation of the Gas (Switching Arrangements) Rules 2008 (the Switching Rules), including the gas registry, which went live on 2 March 2009. This involves reviewing the performance of the registry operator, providing guidance on the operation of the Switching Rules, and considering transitional exemption applications as required.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ONGOING ACTIVITY
Switching and Registry	Effective and efficient customer switching arrangements that minimise barriers to customer switching.	Manage the Registry Operator under the service provider agreement, including performance review. Provide the interface between the Registry Operator and participants, and deal with issues surrounding the operation of the Switching Rules. Analyse registry reports and liaise with the Market Administrator in respect of alleged breaches. Monitor and assess the performance of the Switching Rules and develop a register of issues that may require rule changes at a later date. Report on the agreed indicators for the Switching Rules (once developed).

Downstream Reconciliation

The allocation system under the Gas (Downstream Reconciliation) Rules 2008 (the Reconciliation Rules) went live on 1 October 2008 as planned. The focus of this work stream for FY2010 will be on reviewing the existing exemptions granted under the Rules, considering whether any amendments to the Reconciliation Rules are required, reviewing the operation of the allocation agent, and commissioning audits as required.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ONGOING ACTIVITY
Downstream Reconciliation	Accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities.	<p>Manage the Allocation Agent under the service provider agreement, including performance review.</p> <p>Provide the interface between the Allocation Agent and participants, and deal with issues around the operation of the Reconciliation Rules.</p> <p>Analyse reconciliation reports and liaise with the Market Administrator in respect of alleged breaches.</p> <p>Monitor and assess performance of the Reconciliation Rules; develop a register of issues that may require rule changes.</p> <p>Consult on and propose minor and technical rule changes during FY2010.</p> <p>Report on the agreed indicators for the Reconciliation Rules (once developed).</p>

Wholesale Market Trading Platform

Although the Minister approved a 'trial' of the wholesale market trading platform in December 2007, it has taken time to implement due to the need to interface the proposed trading hub with the Maui Pipeline Operating Code ('MPOC'). It is anticipated that a trial of the wholesale market trading platform will commence in FY2010. Gas Industry Co has a number of roles to perform during the trial. Once the trial is completed, it will assess the results and make a recommendation to the Minister.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES
Wholesale Market	Efficient arrangements for the short-term trading of gas.	Commence trial of the wholesale market trading platform. Administer, monitor and evaluate the wholesale market platform.	'Go live' FY2010. Report to the Minister on the outcomes of the 'trial' market within 12 months of platform commencement.

Critical Contingency Management

Having appointed Vector as the Critical Contingency Operator after the Gas Governance (Critical Contingency Management) Regulations 2008 came into effect in December 2008, the focus of this work stream for FY2010 is to complete the process of approving transmission system owners' Critical Contingency Management Plans so that the Regulations can go live. It will also involve co-ordinating the handover from the existing Natural Gas Outage and Contingency Plan (NGOCP). The Company's focus will then be on oversight of the new arrangements, including reviewing incident reports provided by the Critical Contingency Operator after any critical contingency, or tests of those plans, and the operation of the critical contingency pool (for critical contingency imbalances) after an event.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ONGOING ACTIVITY
Critical Contingency Management	Sound arrangements for the management of critical gas contingencies.	<p>Oversight of critical contingency management regulations.</p> <p>Manage service provider contract and monitor results of annual exercises.</p> <p>Ad hoc appointment of Independent Expert and Expert Adviser as required under the Regulations.</p> <p>Operation of critical contingency pool following an event.</p>

Compliance & Enforcement

The purpose of the Gas Governance (Compliance) Regulations 2008 is to provide for the monitoring and enforcement of approved gas governance rules and regulations. Gas Industry Co's role is to oversee the operation of the regulations, including the Market Administrator, Investigator and Rulings Panel appointed under them, and consider any amendments to the regulations as required.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ONGOING ACTIVITY
Compliance & Enforcement	<p>Gas governance arrangements are supported by appropriate compliance and dispute resolution processes.</p> <p>Gas Governance arrangements approved by the Minister of Energy are monitored by Gas Industry Co for ongoing relevance and effectiveness.</p>	<p>Assist and enable Market Administrator, Investigator and Rulings Panel to process alleged breaches.</p> <p>Amend and review compliance regime, as required, to support new gas governance arrangements.</p> <p>Report quarterly to the Board on compliance activities.</p>

4.2 ACCESS TO INFRASTRUCTURE

The Company is required to ensure that arrangements exist for market participants to have access to transmission and distribution pipeline networks and gas processing facilities under reasonable terms. It intends to develop targeted rules or regulations where necessary. Rules providing for information disclosure about gas processing facilities have already been implemented.

Access to Gas Processing Facilities

During the period of this Strategic Plan, information supplied about surplus capacity under the Gas (Processing Facilities Information Disclosure) Rules 2008 will be collated and published on Gas Industry Co's website for the benefit of access seekers. This will enable the Company to report to the Minister on access constraints and recommend whether more extensive regulation is necessary.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ONGOING ACTIVITY
Access to Gas Processing Facilities	Gas industry participants and new entrants are able to access third-party gas processing facilities on reasonable terms and conditions.	Collect, monitor and publish disclosed information. Document any access issues that are brought to the attention of Gas Industry Co.

Following industry feedback, Gas Industry Co has prioritised transmission pipeline access over distribution pipeline access. More specifically, the Company intends to give priority in FY2010 to issues around pipeline balancing and interconnection to transmission pipelines. It will also continue its variety of industry-initiated activities (including facilitation of industry forums on contentious issues), the issue of best practice guidelines, and its rule change roles under the Maui Pipeline Operating Code and the Vector Transmission Code.

Pipeline Balancing

A problem identified early in the Company's work on access to transmission pipelines was 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 Options Paper in December 2008. This proposed a number of resolution options, including potentially recommending the establishment of an independent, regulated Balancing Agent function.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES
Pipeline Balancing	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 practical options for identified issues.	Make recommendation to the Minister by December 2009.

Interconnection

Interconnection to transmission pipelines was identified by the industry as an issue in the work that Gas Industry Co undertook on access to transmission pipelines. The ability to establish a physical connection to a transmission pipeline in an efficient and timely manner is a key element to ensuring that new sources of gas are able to be brought to market. In 2008, Gas Industry Co developed a set of guidelines for transmission pipeline owners and interconnection seekers to follow in establishing a new connection to a transmission pipeline. Following consultation with the relevant parties, it is expected that the guidelines will be released in mid-2009. Over time, transmission pipeline owners are expected to incorporate the guidelines into their transmission pipeline operating codes. Gas Industry Co will monitor the effectiveness of the guidelines in FY2010 with a view to recommending a regulatory solution if required.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES
Interconnection	Gas industry participants and new entrants are able to access transmission pipelines on reasonable terms and conditions.	Review application of interconnection guidelines.	Make recommendation to the Minister by December 2009.

Distribution Contracts

As a result of industry feedback and the recent review of Gas Industry Co's work programme, it is now anticipated that a consultation paper on distribution contracts issues will be issued in September 2010. This is significantly later than proposed in last year's Strategic Plan, which anticipated a release of a consultation paper by September 2008.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES
Distribution Contracts	Gas industry participants and new entrants are able to access distribution pipelines on reasonable terms and conditions. Consistent standards and protocols apply to the operations relating to access for all distribution pipelines.	Research and development of an Issues Report.	Release consultation paper on distribution contracts by September 2010.

4.3 GPS POLICY ADVICE

Work is under way on two projects that are designed to improve consumer outcomes. The focus of this work stream in FY2010 will be on completing the joint project with the Electricity Commission to approve a dual-fuel consumer complaints resolution scheme, and providing advice on retail contract terms, if resources permit.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES
Consumer Complaints Scheme	Domestic and small business gas consumers have effective access to a complaints resolution scheme.	Work with the Electricity Commission to recommend a scheme to the Minister.	Recommendation to the Minister by December 2009.
Retail Contract Terms	Contractual arrangements between gas retailers and small customers adequately protect the long-term interests of small customers.	Research and development of an Issues Report.	Provide advice to the Minister by December 2011.

Gas Industry Co also has a general obligation to report to the Minister on the performance of the gas industry and the achievement of Government policy objectives for the sector. The Company will undertake this work in two stages. During FY2010, it will focus its efforts on measuring the performance of the approved gas governance arrangements. In subsequent years, it intends to develop a framework for an assessment of wider industry performance.

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES
Review of Industry Performance	Good information is publicly available on the performance and present state of the gas sector.	Review and analyse public information, and undertake review of industry efficiency (if required). Develop performance indicators for each approved arrangement.	Provide report to the Minister by December 2011. Indicators developed for switching and reconciliation rules by December 2009.

In FY2011, the Company will also undertake the research required to advise the Minister on two other outstanding items in the GPS – the direct use of gas, and the efficiency of the current retail market structure (the former being one year later than anticipated in last year's Strategic Plan).

WORK STREAM AREA	ACT/GPS OBJECTIVES & OUTCOMES	ACTIVITY	MILESTONES
Direct Use of Gas	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 the direct use of gas and provide advice on suitable policies.	Provide advice to the Minister by December 2010.
Retail Market Structure	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.	Research and development of an Issues Report.	Provide advice to the Minister by June 2010.



5. FINANCIAL STATEMENTS

In accordance with section 43ZR of the Gas Act, Gas Industry Co's forecast financial statements are set out on the following pages.

These statements have been prepared using information consistent with that used for the calculation of the FY2010 Gas Industry Co levy. Further detail about the assumptions, revenue calculations and work stream expenses used to calculate the FY2010 levy can be found in the FY2010 Levy Consultation Paper on Gas Industry Co's website.

The FY2009 forecast was approved by Gas Industry Co's Board in April 2008 and includes actual results for the period June 2008 to February 2009, and an up-to-date forecast for the period March 2009 to June 2009.

We acknowledge responsibility for the forecast financial statements contained in this report and for the judgments 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 FY2010 Levy Recommendation that has been made to the Minister of Energy and Resources under section 43ZZB of the Gas Act 1992.

Rt Hon James Bolger, ONZ
CHAIR

Robin Hill
DEPUTY CHAIR

June 2009

FORECAST STATEMENT OF FINANCIAL PERFORMANCE

	BUDGET 2009/10 (\$000)	FORECAST 2008/09 (\$000)	BUDGET 2008/09 (\$000)	ACTUAL 2007/08 (\$000)
Revenue				
Wholesale Levy	2,422	2,652	2,590	3,107
Retail Levy	1,600	1,910	1,856	2,071
Levy Revenue Subtotal	4,022	4,562	4,446	5,178
Market Fees	3,168	2,206	1,665	-
Annual Fees	80	90	90	100
Interest Income	28	52	54	108
Subtotal Other Revenue	3,276	2,348	1,809	208
TOTAL REVENUE	7,298	6,910	6,255	5,386
Expenses				
Employment Expenses	2,171	2,052	2,136	1,747
Audit Fees	15	13	6	7
Premises	269	186	97	81
General Expenses	593	1,624	278	617
Board	325	262	262	265
Depreciation	532	295	267	105
Work programme expenses	3,586	1,298	2,753	1,773
TOTAL EXPENSES	7,491	5,730	5,799	4,595
SURPLUS	(193)	1,180	456	791

FORECAST STATEMENT OF MOVEMENTS IN EQUITY

	INDUSTRY RESERVES	RETAINED EARNINGS	TOTAL	INDUSTRY RESERVES	RETAINED EARNINGS	TOTAL
	BUDGET 2009/10 (\$'000)			FORECAST 2008/09 (\$'000)		
Opening Balance	2,156	190	2,346	1,066	100	1,166
Net surplus for the year	-	(193)	(193)	-	1,180	1,180
Transfer to Industry Advances Reserves	163	(163)	-	(889)	889	-
Transfer to Industry Asset Depreciation Reserve	(436)	436	-	1,979	(1,979)	-
FORECAST CLOSING BALANCE	1,883	270	2,153	2,156	190	2,346

FORECAST STATEMENT OF FINANCIAL POSITION

	BUDGET 2009/10 (\$000)	FORECAST 2008/09 (\$000)	BUDGET 2008/09 (\$000)	ACTUAL 2007/08 (\$000)
<i>Current assets</i>				
Bank	824	721	901	1,346
Debtors	139	138	29	150
Other	51	52	37	-
Total current assets	1,014	911	967	1,496
Fixed assets	1,936	2,204	1,232	178
Total assets	2,950	3,115	2,199	1,674
<i>Current liabilities</i>				
Payables and accruals	797	769	468	508
Total current liabilities	797	769	468	508
Total liabilities	797	769	468	508
Net assets	2,153	2,346	1,731	1,166
<i>Represented by</i>				
Industry Advances Reserves	1,883	2,156	-	1,066
Retained Earnings	270	190	1,731	100
TOTAL SHAREHOLDERS' FUNDS	2,153	2,346	1,731	1,166

FORECAST STATEMENT OF CASH FLOWS

	BUDGET 2009/10 (\$000)	FORECAST 2008/09 (\$000)	BUDGET 2008/09 (\$000)	ACTUAL 2007/08 (\$000)
Cash flows from operating activities				
Levy income and annual fees	7,260	6,656	6,201	5,252
Interest Income	38	52	54	109
Operating expenses	(6,932)	(4,990)	(5,359)	(4,524)
Net cash flows from operating activities	366	1,718	896	837
Cash flows from investing activities				
Capital purchases	(263)	(2,343)	(1,276)	(69)
Net cash flows from investing activities	(263)	(2,343)	(1,276)	(69)
Cash flows from financing activities				
Shareholder loan repayments	-	-	-	(400)
Net cash flows from financing activities	-	-	-	(400)
Net cash flows	103	(625)	(380)	368
Opening cash balance	721	1,346	1,281	978
CLOSING CASH BALANCE	824	721	901	1,346

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 on 1 December 2008 and expires on 30 November 2017 at an annual rental of approximately \$268,776.

Other operating lease commitments are for office equipment.

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

	BUDGET 2009/10	ACTUAL 2008/09
Operating lease commitments		
Not later than one year	268,776	73,645
Later than one year but not later than two years	268,776	-
Later than two years but not later than five years	806,328	-
Later than five years but not later than 10 years	806,328	-
TOTAL OPERATING LEASE COMMITMENTS	2,150,208	73,645
Equipment lease commitments		
Not later than one year	50,742	49,899
Later than one year but not later than two years	47,595	50,742
Later than two years but not later than five years	-	47,595
Later than five years but not later than 10 years	-	-
TOTAL EQUIPMENT COMMITMENTS	98,337	148,236

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity: Gas Industry Co is a company incorporated under the Companies Act 1993 that was 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: These financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The following particular accounting policies that 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 recognised when earned and is reported in the financial period to which it relates.
- » **Taxation:** With the exception of its interest income, Gas Industry Co's 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.
- » **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 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	4–10 years
Leasehold Improvements	Term of lease
Industry Assets	5 years

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.

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 2009:

- » These forecast financial statements comply with New Zealand 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 2010-2012 Strategic Plan. This financial information may not be appropriate for other purposes.
- » It is not intended that 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 Gas Industry Co's revenue other than through the annual levy review process.
- » 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.
- » An annual levy of \$4.022 million is assumed to be effective from 1 July 2009 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 \$2.422 million for FY2010. This is based on an estimate of 145PJ of gas being purchased from producers and a levy rate of 1.67 cents/GJ. Wholesale volumes for FY2009 were estimated at 145PJ for the purposes of levy calculation. Year to date figures submitted to Gas Industry Co as part of the levy returns indicate this volume is likely to be achieved. Given the uncertain economic outlook for FY2010, the Company considers it prudent to maintain an estimated wholesale gas volume of 145PJ for the purposes of the levy calculation. 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 \$1.6 million for FY2010. This is based on an estimate of 250,000 ICPs at a levy rate of \$6.40/ICP per annum. Historically, Gas Industry Co has assumed a total active ICP count of 250,000 for levy calculations. Following the establishment of the Switching Registry, the Company has been able to independently confirm that there are approximately 292,000 ICPs. Of these, 252,000 have the status of Active Contracted, indicating there is a customer at the ICP who has a contract with the retailer. Those are the ICPs on which the retail levy is paid. Gas Industry Co will therefore continue to assume an ICP count of 250,000 for the purposes of the levy calculation. If the actual number of ICPs is different from the estimate, there may be a material difference in the retail levy revenue.
- » A special one-off levy of \$1.052 million is assumed to be effective from the date on which the levy regulations come into force and will be paid on the 20th of the month following the levy regulations coming into force.
- » The FY2010 levy calculation is based on a work programme consistent with the Government Policy Statement on Gas Governance (GPS) released in April 2008. If, during the plan period, the current GPS is amended, there may be an impact on the Company's operating costs, resulting in the possible over- or under-recovery of levy revenue in FY2010. Any variances that do occur will be managed through adjustments to future levy rates to take into account those variances, as specified under section 43ZZC(3) of the Act.
- » Gas Industry Co's constitution allows for the Board to set an annual fee for shareholders for the financial year. The FY2010 Budget assumes the annual fee paid by each shareholder will remain at \$10,000 per annum, payable by eight Gas Industry Co shareholders.
- » The forecast equity for the year ending 30 June 2010 is approximately \$2,153K. Of this, \$340K is classified as Industry Advances Reserve and will be used to make adjustments to the levy rate in future periods, in accordance with section 43ZZC(3) of the Act; \$1,543K is classified as Industry Asset Depreciation Reserve. The remainder (\$270K) is set aside to be held as cash reserves.

- » Gas Industry Co's budget is based on a best estimate of the costs to deliver the work programme prepared for calculation of the FY2010 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.



6. OTHER INFORMATION

6.1 GAS INDUSTRY CO FUNDING AND LEVY

Gas Industry Co has three sources of funding to meet the costs expected to be incurred in FY2010 for delivering effective co-regulation and fulfilling 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; and
- » An annual shareholder fee.

Levy Funding

Section 43ZZB of the Act enables Gas Industry Co to recommend to the Minister of Energy that industry participants be required to pay a levy to cover the costs of Gas Industry Co exercising its functions as the industry body.

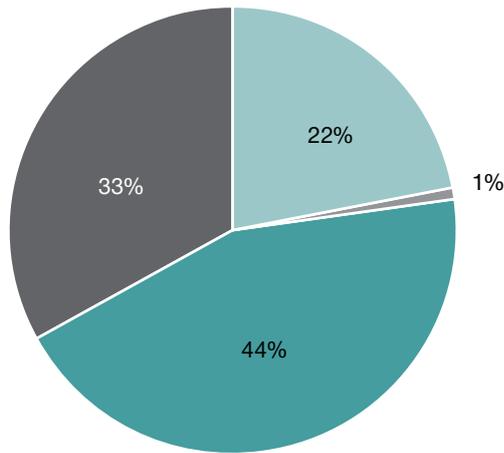
Market Fees

Section 43S of the Act enables gas governance regulations or rules to be made that provide for the funding of the operation of those regulations or rules by industry participants. The Gas (Switching Arrangements) Rules 2008, the Gas (Downstream Reconciliation) Rules 2008, the Gas Governance (Critical Contingency Management) Regulations 2008 and the Gas Governance (Compliance) Regulations 2008 contain market fee provisions.

Annual Fees

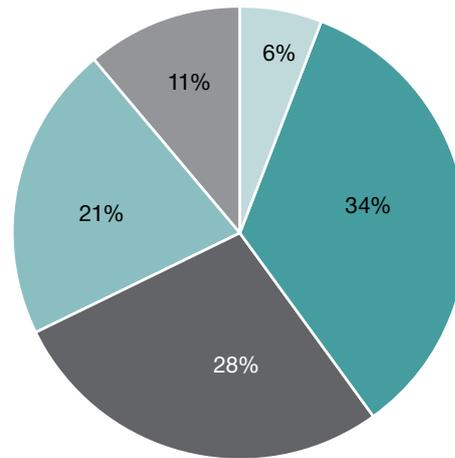
Gas Industry Co's constitution requires all shareholders to pay an annual fee to the Company, which is set by the Board. Currently, that fee is \$10,000 per shareholder per annum. The Board has resolved that these fees will be set aside to establish cash reserves.

TABLE 1: FORECAST FUNDING ALLOCATION FY2010



Market Fees
 Retail Levy
 Wholesale Levy
 Other

TABLE 2: FORECAST EXPENDITURE FY2010



Company Operations
 Market Operations
 External Service Provider Contracts
 Infrastructure
 GPS Policy Advice

Company Operations

All overhead costs of Gas Industry Co including corporate consulting, rent, depreciation, leases, administrative support and Board costs.

External Service Provider Contracts

Costs that cover agreements between Gas Industry Co and the companies that provide services to operate roles and functions specified under the respective gas governance arrangements.

Market Operations

Costs of Gas Industry Co in administering the operations of the relevant rules and regulations, including monitoring the performance of the service providers appointed under them.

Infrastructure

Costs of Gas Industry Co in improving the efficiency of access to NZ's transmission pipeline networks.

GPS Policy Advice

Costs of Gas Industry Co's policy development and industry engagement activity.

6.2 GAS INDUSTRY CO REPORTING

In addition to the requirements of the Act, specific consultation, planning and reporting requirements for Gas Industry Co are contained in the GPS.

In developing the FY2010 levy recommendation, the Company identified a set of objectives that it used to establish draft priorities for its FY2010 work. These priorities were consulted on with the industry as part of the FY2010 levy consultation required by section 43ZZD of the Act. Gas Industry Co also consulted with the industry on the projects to be included in the work programme. The Company used this input to develop its objectives and work programme for this Strategic Plan. A draft was provided to the Minister of Energy and Resources for comment, before being finalised.

Section 43ZQ(f) of the Act requires the Strategic Plan to include matters on which:

THE INDUSTRY BODY WILL CONSULT OR NOTIFY THE MINISTER BEFORE MAKING A DECISION

There are no specific matters on which Gas Industry Co is required to consult or notify the Minister. The Company Chair and Chief Executive meet with the Minister on a regular basis, and the Company provides the Minister with briefings and advice as requested or of its own volition.

THE MATTERS ON WHICH THE INDUSTRY BODY WILL REPORT TO THE MINISTER, AND THE FREQUENCY OF REPORTING

The Company provides the Minister with ad hoc reports as agreed and a Quarterly Report, which includes progress against the GPS and quarterly updates on published consultation papers and completed rule changes.

The Company also prepares an Annual Report in accordance with section 43ZW of the Act. The financial performance is audited by Grant Thornton. The Minister tables the report in Parliament. The report is then published and distributed by the Company.



7. DIRECTORY

GAS INDUSTRY
COMPANY LIMITED

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WELLINGTON 6143

Tel: +64 4 472 1800

Fax: +64 4 472 1801

Email: info@gasindustry.co.nz

Web: www.gasindustry.co.nz

Gas Industry Co Directors as at 30 June 2009

Right Honourable James (Jim) Bolger, ONZ CHAIR

Robin Hill B Comm FCA, DEPUTY CHAIR, INDEPENDENT DIRECTOR

Keith Davis PGDipBus, INDEPENDENT DIRECTOR

Mark Verbiest LLB, INDEPENDENT DIRECTOR

David Baldwin BE (CHEMICAL) MBA

Albert Brantley BSc P.Geol F.AuSIMM

Simon Mackenzie Grad Dip BS (Dist) Dip Fin NZCE

Gas Industry Co Executive

Christine Southey LLB BA (Hons), CHIEF EXECUTIVE

Ian Dempster BE (Hons) M.Com (Hons), PRINCIPAL ADVISER – MARKETS

Ian Wilson BSc (Hons) BBS MNZIGE, PRINCIPAL ADVISER – PIPELINES

Peter Davies BBS MBA CA, GENERAL MANAGER – CORPORATE SERVICES

Auditor

Grant Thornton, Wellington

Banker

Westpac Banking Corporation Limited

Gas Industry Co Shareholders as at 30 June 2009

Contact Energy Limited

Genesis Power Limited

Greymouth Gas New Zealand Limited

Mighty River Power Limited

OMV New Zealand Limited

Powerco Limited

Shell (Petroleum Mining) Limited

Vector Limited



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