Information disclosure for the gas distribution business

Year ending 30 September 2020

First Gas Limited
17 February 2021

Introduction

First Gas Limited (Firstgas) operates 2,500km of gas transmission pipelines (including the Maui pipeline), and more than 4,800km of gas distribution pipelines across the North Island. These gas infrastructure assets transport gas from Taranaki to major industrial gas users, electricity generators, businesses and homes, and transport around 20 percent of New Zealand's primary energy supply.

For further information on First Gas, please visit our website www.firstgas.co.nz.

Firstgas is part of the wider Firstgas Group. The Firstgas Group owns energy infrastructure assets across New Zealand through our affiliate Gas Services NZ Limited (GSNZ), a separate business with common shareholders that owns Rockgas and the Ahuroa gas storage facility.

Rockgas has over 80 years' experience and provides LPG to 100,000 customers throughout New Zealand. It is New Zealand's largest LPG retail business and supplies its customers with LPG from both domestic and imported sources. Visit the website www.rockgas.co.nz. The Ahuroa gas storage facility (trading as Flexgas Limited) is New Zealand's only open access gas storage facility. Visit the website www.flexgas.co.nz.

Information disclosure

This document contains Firstgas' annual information disclosure for the gas distribution business, for the year ending on 30 September 2020, as required by the *Gas Distribution Information Disclosure Determination 2012* consolidating all amendments as of 3 April 2018 ("the Determination") issued by the Commerce Commission.

The following documents are provided with this compliance statement:

- Schedules 1-10: Financial and technical schedules
- Schedules 14-15: Mandatory and voluntary explanatory notes, including information on related party transactions
- Schedule 19: Director Certification
- KPMG assurance report

This information disclosure was prepared on 17 February 2021.

Further information

For further information regarding this compliance statement, please contact:

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Disclaimer

For presentation purposes, some numbers in the information disclosure schedules have been rounded. This may cause small discrepancies or rounding inconsistencies when aggregating some of the information presented in the information disclosure schedules. These discrepancies do not affect the overall compliance calculations which are based on the more detailed information.

Disclosures by Sub-Network

Schedules 8, 9a, 9b, 9c, 9d, 10a and 10b must be completed for the network and for each sub-network. A copy of the schedule worksheet(s) must be made for each subnetwork and named accordingly.

Schedule References

The references labelled 'sch ref' in the leftmost column of each template are consistent with the row references in the Gas Distribution ID Determination 2012 (as issued on 21 December 2017). They provide a common reference between the rows in the determination and the template.

Description of Calculation References

Calculation cell formulas contain links to other cells within the same template or elsewhere in the workbook. Key cell references are described in a column to the right of each template. These descriptions are provided to assist data entry. Cell references refer to the row of the template and not the schedule reference.

Worksheet Completion Sequence

Calculation cells may show an incorrect value until precedent cell entries have been complated. Data entry may be assisted by completing the schedules in the following order:

1. Coversheet
2. Schedules 5a–5e
3. Schedules 6a–6b
4. Schedule 8
5. Schedule 3
6. Schedule 4
7. Schedule 2
8. Schedule 7
9. Schedules 9a–9d
10. Schedules 10a and 10b

COMMERCE COMMISSION
NEW ZEALAND

GDB Information Disclosure Requirements
Information Templates
for
Schedules 1–10

Company Name	First Gas Limited (Distribution)
Disclosure Date	31 March 2021
Disclosure Year (year ended)	30 September 2020

Templates for Schedules 1–10 excluding 5f–5g

Template Version 4.1. Prepared 21 December 2017

Table of Contents

Company Name	**First Gas Limited (Distribution)**
For Year Ended	**30 September 2020**

SCHEDULE 1: ANALYTICAL RATIOS

This schedule calculates expenditure, revenue and service ratios from the information disclosed. The disclosed ratios may vary for reasons that are company specific and, as a result, must be interpreted with care. The Commerce Commission will publish a summary and analysis of information disclosed in accordance with the ID determination. This will include information disclosed in accordance with this and other schedules, and information disclosed under the other requirements of the determination.

This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref

1(i): Expenditure Metrics

	Expenditure per TJ energy delivered to ICPs ($/TJ)	Expenditure per average no. of ICPs ($/ICP)	Ratio of expenditure to maximum monthly load ($ per GJ/month)	Expenditure per km of pipeline for supply ($/km)
Operational expenditure	889	129	8	1,722
Network	399	58	4	772
Non-network	490	71	4	950
Expenditure on assets	1,649	239	15	3,195
Network	1,575	228	14	3,051
Non-network	74	11	1	144

1(ii): Revenue Metrics

	Revenue per TJ energy delivered to ICPs ($/TJ)	Revenue per average no. of ICPs ($/ICP)
Total line charge revenue	2,628	381
Standard consumer line charge revenue	5,275	364
Non-standard consumer line charge revenue	226	65,649

1(iii): Service Intensity Measures

Demand density	215	*Maximum monthly load (GJ per month) per system length*
Volume density	2	*Quantity of gas delivered per km of system length (TJ/km)*
Connection point density	13	*Average number of ICPs in disclosure year per system length*
Energy intensity	145	*Total GJ delivered to ICPs per average number of ICPs in disclosure year*

1(iv): Composition of Revenue Requirement

	($000)	% of revenue
Operational expenditure	8,364	32.91%
Pass-through and recoverable costs excluding financial incentives and wash-ups	635	2.50%
Total depreciation	6,609	26.01%
Total revaluations	2,368	9.32%
Regulatory tax allowance	2,866	11.28%
Regulatory profit/(loss) including financial incentives and wash-ups	9,308	36.63%
Total regulatory income	25,414	

1(v): Reliability

Interruption rate	10.54	*Interruptions per 100km of system length*

Company Name	**First Gas Limited (Distribution)**
For Year Ended	**30 September 2020**

SCHEDULE 2: REPORT ON RETURN ON INVESTMENT

This schedule requires information on the Return on Investment (ROI) for the GDB relative to the Commerce Commission's estimates of post tax WACC and vanilla WACC. GDBs must calculate their ROI based on a monthly basis if required by clause 2.3.3 of the ID Determination or if they elect to. If a GDB makes this election, information supporting this calculation must be provided in 2(iii).

GDBs must provide explanatory comment on their ROI in Schedule 14 (Mandatory Explanatory Notes).

This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref				
7	**2(i): Return on Investment**	**CY-2**	**CY-1**	**Current Year CY**
8	for year ended	**30 Sep 18**	**30 Sep 19**	**30 Sep 20**
9	**ROI – comparable to a post tax WACC**	**%**	**%**	**%**
10	Reflecting all revenue earned	4.23%	5.81%	5.54%
11	Excluding revenue earned from financial incentives	4.23%	5.81%	5.54%
12	Excluding revenue earned from financial incentives and wash-ups	4.23%	5.78%	5.50%
13				
14	**Mid-point estimate of post tax WACC**	5.18%	4.88%	4.07%
15	25th percentile estimate	4.47%	4.17%	3.36%
16	75th percentile estimate	5.89%	5.58%	4.78%
17				
18				
19	**ROI – comparable to a vanilla WACC**			
20	Reflecting all revenue earned	4.75%	6.28%	5.87%
21	Excluding revenue earned from financial incentives	4.75%	6.28%	5.87%
22	Excluding revenue earned from financial incentives and wash-ups	4.75%	6.24%	5.83%
23				
24	**WACC rate used to set regulatory price path**	6.41%	6.41%	6.41%
25				
26	**Mid-point estimate of vanilla WACC**	5.71%	5.34%	4.40%
27	25th percentile estimate	5.00%	4.64%	3.70%
28	75th percentile estimate	6.41%	6.05%	5.11%
29				
30	**2(ii): Information Supporting the ROI**		**($000)**	
31				
32	Total opening RAB value	164,081		
33	*plus* Opening deferred tax	(7,675)		
34	**Opening RIV**		156,406	
35				
36	**Line charge revenue**		24,730	
37				
38	Expenses cash outflow	8,999		
39	*plus* Assets commissioned	14,566		
40	*less* Asset disposals	-		
41	*plus* Tax payments	1,634		
42	*less* Other regulated income	684		
43	**Mid-year net cash flows**		24,514	
44				
45	**Term credit spread differential allowance**		-	
46				
47	Total closing RAB value	174,405		
48	*less* Adjustment resulting from asset allocation	0		
49	*less* Lost and found assets adjustment	-		
50	*plus* Closing deferred tax	(8,907)		
51	**Closing RIV**		165,498	
52				
53	**ROI – comparable to a vanilla WACC**			5.87%
54				
55	Leverage (%)			42%
56	Cost of debt assumption (%)			2.82%
57	Corporate tax rate (%)			28%
58				
59	**ROI – comparable to a post tax WACC**			5.54%
60				

Company Name	**First Gas Limited (Distribution)**
For Year Ended	**30 September 2020**

SCHEDULE 2: REPORT ON RETURN ON INVESTMENT

This schedule requires information on the Return on Investment (ROI) for the GDB relative to the Commerce Commission's estimates of post tax WACC and vanilla WACC. GDBs must calculate their ROI based on a monthly basis if required by clause 2.3.3 of the ID Determination or if they elect to. If a GDB makes this election, information supporting this calculation must be provided in 2(iii).

GDBs must provide explanatory comment on their ROI in Schedule 14 (Mandatory Explanatory Notes).

This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref

2(iii): Information Supporting the Monthly ROI

Opening RIV	N/A

	Line charge revenue	Expenses cash outflow	($000) Assets commissioned	Asset disposals	Other regulated income	Monthly net cash outflows
Month 1						-
Month 2						-
Month 3						-
Month 4						-
Month 5						-
Month 6						-
Month 7						-
Month 8						-
Month 9						-
Month 10						-
Month 11						-
Month 12						-
Total	-	-	-	-	-	-

Tax Payments	N/A
Term credit spread differential allowance	N/A
Closing RIV	N/A
Monthly ROI – comparable to a vanilla WACC	N/A
Monthly ROI – comparable to a post tax WACC	N/A

2(iv): Year-End ROI Rates for Comparison Purposes

Year-end ROI – comparable to a vanilla WACC	5.64%
Year-end ROI – comparable to a post tax WACC	5.31%

** these year-end ROI values are comparable to the ROI reported in pre 2012 disclosures by GDBs and do not represent the Commission's current view on ROI.*

2(v): Financial Incentives and Wash-Ups

Financial incentives		-
Impact of financial incentives on ROI		-
Input methodology claw-back	-	
CPP application recoverable costs	-	
Catastrophic event allowance	-	
Capex wash-up adjustment	76	
Other wash-ups	-	
Wash-up costs		76
Impact of wash-up costs on ROIs		0.04%

Company Name	**First Gas Limited (Distribution)**
For Year Ended	**30 September 2020**

SCHEDULE 3: REPORT ON REGULATORY PROFIT

This schedule requires information on the calculation of regulatory profit for the GDB for the disclosure year. GDBs must complete all sections and must provide explanatory comment on their regulatory profit in Schedule 14 (Mandatory Explanatory Notes).
This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref				
7	**3(i): Regulatory Profit**			**($000)**
8		**Income**		
9		Line charge revenue		24,730
10	*plus*	Gains / (losses) on asset disposals		-
11	*plus*	Other regulated income (other than gains / (losses) on asset disposals)		684
13		**Total regulatory income**		25,414
14		**Expenses**		
15	*less*	Operational expenditure		8,364
17	*less*	Pass-through and recoverable costs excluding financial incentives and wash-ups		635
19		**Operating surplus / (deficit)**		16,415
21	*less*	Total depreciation		6,609
23	*plus*	Total revaluations		2,368
25		**Regulatory profit / (loss) before tax**		12,174
27	*less*	Term credit spread differential allowance		-
29	*less*	Regulatory tax allowance		2,866
31		**Regulatory profit/(loss) including financial incentives and wash-ups**		9,308
33	**3(ii): Pass-through and recoverable costs excluding financial incentives and wash-ups**		**($000)**	
34		**Pass through costs**		
35		Rates	485	
36		Commerce Act levies	113	
37		Industry Levies	36	
38		CPP specified pass through costs	-	
39		**Recoverable costs excluding financial incentives and wash-ups**		
40		Urgent project allowance	-	
41		Other recoverable costs excluding financial incentives and wash-ups	-	
42		**Pass-through and recoverable costs excluding financial incentives and wash-ups**		635
46	**3(iv): Merger and Acquisition Expenditure**			
47				**($000)**
48		Merger and acquisition expenditure		-
50		*Provide commentary on the benefits of merger and acquisition expenditure to the gas distribution business, including required disclosures in accordance with section 2.7, in Schedule 14 (Mandatory Explanatory Notes)*		
51				**($000)**
52	**3(v): Other Disclosures**			
53				**($000)**
54		Self-insurance allowance		-

Company Name	First Gas Limited (Distribution)
For Year Ended	30 September 2020

SCHEDULE 4: REPORT ON VALUE OF THE REGULATORY ASSET BASE (ROLLED FORWARD)

This schedule requires information on the calculation of the Regulatory Asset Base (RAB) value to the end of this disclosure year. This informs the ROI calculation in Schedule 2. GDBs must provide explanatory comment on the value of their RAB in Schedule 14 (Mandatory Explanatory Notes). This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref							
7	**4(i): Regulatory Asset Base Value (Rolled Forward)**		**RAB**	**RAB**	**RAB**	**RAB**	**RAB**
8		for year ended	**30 Jun 16**	**30 Sep 17**	**30 Sep 18**	**30 Sep 19**	**30 Sep 20**
9			**($000)**	**($000)**	**($000)**	**($000)**	**($000)**
10	**Total opening RAB value**		131,352	131,884	147,907	153,499	164,081
11							
12	*less* **Total depreciation**		5,041	6,328	5,970	6,205	6,609
13							
14	*plus* **Total revaluations**		547	2,958	2,811	2,248	2,368
15							
16	*plus* **Assets commissioned**		5,820	19,132	8,561	14,445	14,566
17							
18	*less* **Asset disposals**		9	24	2	-	-
19							
20	*plus* **Lost and found assets adjustment**		-	-	-	-	-
21							
22	*plus* **Adjustment resulting from asset allocation**		(786)	285	192	93	0
23							
24	**Total closing RAB value**		131,884	147,907	153,499	164,081	174,405
25							

26	**4(ii): Unallocated Regulatory Asset Base**				
27		**Unallocated RAB ***		**RAB**	
28		**($000)**	**($000)**	**($000)**	**($000)**
29	**Total opening RAB value**		172,169		164,081
30	*less*				
31	**Total depreciation**		9,820		6,609
32	*plus*				
33	**Total revaluations**		2,471		2,368
34	*plus*				
35	Assets commissioned (other than below)	6,377		510	
36	Assets acquired from a regulated supplier				
37	Assets acquired from a related party	14,056		14,056	
38	**Assets commissioned**		20,433		14,566
39	*less*				
40	Asset disposals (other than below)	-		-	
41	Asset disposals to a regulated supplier	-		-	
42	Asset disposals to a related party	-		-	
43	**Asset disposals**		-		-
44					
45	*plus* **Lost and found assets adjustment**				
46					
47	*plus* **Adjustment resulting from asset allocation**				0
48					
49	**Total closing RAB value**		185,253		174,405

50 ** The 'unallocated RAB' is the total value of those assets used wholly or partially to provide gas distribution services without any allowance being made for the allocation of costs to services provided by the supplier that are not gas distribution services. The RAB value represents the value of these assets after applying this cost allocation. Neither value includes works under construction.*

Company Name	**First Gas Limited (Distribution)**
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SCHEDULE 4: REPORT ON VALUE OF THE REGULATORY ASSET BASE (ROLLED FORWARD)

This schedule requires information on the calculation of the Regulatory Asset Base (RAB) value to the end of this disclosure year. This informs the ROI calculation in Schedule 2. GDBs must provide explanatory comment on the value of their RAB in Schedule 14 (Mandatory Explanatory Notes). This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref						
51						
52	**4(iii): Calculation of Revaluation Rate and Revaluation of Assets**					
53						
54	CPI_4					1,054
55	CPI_4^{-4}					1,039
56	Revaluation rate (%)					1.44%
57						
58		**Unallocated RAB ***		**RAB**		
59		**($000)**	**($000)**	**($000)**	**($000)**	
60	Total opening RAB value	172,169		164,081		
61	*less* Opening value of fully depreciated, disposed and lost assets	995		92		
62						
63	Total opening RAB value subject to revaluation	171,174		163,989		
64	**Total revaluations**		2,471		2,368	
65						
66	**4(iv): Roll Forward of Works Under Construction**					
67		**Unallocated works under construction**		**Allocated works under construction**		
68	**Works under construction—preceding disclosure year**		12,521		3,687	
69	*plus* Capital expenditure	25,599		14,840		
70	*less* Assets commissioned	20,433		14,566		
71	*plus* Adjustment resulting from asset allocation					
72	**Works under construction - current disclosure year**		17,688		3,961	
73						
74	Highest rate of capitalised finance applied				4.11%	
75						

Company Name **First Gas Limited (Distribution)**
For Year Ended **30 September 2020**

SCHEDULE 4: REPORT ON VALUE OF THE REGULATORY ASSET BASE (ROLLED FORWARD)

This schedule requires information on the calculation of the Regulatory Asset Base (RAB) value to the end of this disclosure year. This informs the ROI calculation in Schedule 2. GDBs must provide explanatory comment on the value of their RAB in Schedule 14 (Mandatory Explanatory Notes). This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref

76 4(v): Regulatory Depreciation

sch ref		Unallocated RAB * ($000)	($000)	RAB ($000)	($000)
79	Depreciation - standard	5,632		5,632	
80	Depreciation - no standard life assets	4,188		977	
81	Depreciation - modified life assets				
82	Depreciation - alternative depreciation in accordance with CPP	-		-	
83	**Total depreciation**		9,820		6,609

84

85 4(vi): Disclosure of Changes to Depreciation Profiles

($000 unless otherwise specified)

sch ref	Asset or assets with changes to depreciation	Reason for non-standard depreciation (text entry)	Depreciation charge for the period (RAB)	Closing RAB value under 'non-standard' depreciation	Closing RAB value under 'standard' depreciation
87					
88					
89					
90					
91					
92					
93					
94					

95 ** include additional rows if needed*

96 4(vii): Disclosure by Asset Category

97 ($000 unless otherwise specified)

sch ref			Intermediate pressure main pipelines	Medium pressure main pipelines	Low pressure main pipelines	Service pipe	Stations	Line valve	Special crossings	Other network assets	Non-network assets	Total
99		**Total opening RAB value**	21,281	96,419	1,438	28,208	6,089	1,643	3,374	3,707	1,922	164,081
100	*less*	Total depreciation	562	3,060	36	1,373	213	37	140	283	905	6,609
101	*plus*	Total revaluations	307	1,392	21	407	88	24	49	53	27	2,368
102	*plus*	Assets commissioned	-	6,276	0	7,630	23	6	-	17	614	14,566
103	*less*	Asset disposals	-	-	-	-	-	-	-	-	-	-
104	*plus*	Lost and found assets adjustment	-	-	-	-	-	-	-	-	-	-
105	*plus*	Adjustment resulting from asset allocation	-	-	-	-	-	-	-	-	-	-
106	*plus*	Asset category transfers	-	-	-	-	-	-	-	-	-	-
107		**Total closing RAB value**	21,026	101,027	1,423	34,872	5,986	1,636	3,283	3,495	1,658	174,405
108												
109		**Asset Life**										
110		Weighted average remaining asset life	44.8	37.5	45.5	38.2	29.0	51.5	26.2	23.1	18.4	(years)
111		Weighted average expected total asset life	70.2	60.1	60.0	63.7	35.0	58.3	60.0	37.3	50.0	(years)

Company Name	**First Gas Limited (Distribution)**
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SCHEDULE 5a: REPORT ON REGULATORY TAX ALLOWANCE

This schedule requires information on the calculation of the regulatory tax allowance.This information is used to calculate regulatory profit/loss in Schedule 3 (regulatory profit). GDBs must provide explanatory commentary on the information disclosed in this schedule, in Schedule 14 (Mandatory Explanatory Notes).

This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref

5a(i): Regulatory Tax Allowance

				($000)
	Regulatory profit / (loss) before tax			12,174
plus	Income not included in regulatory profit / (loss) before tax but taxable	-	*	
	Expenditure or loss in regulatory profit / (loss) before tax but not deductible	(556)	*	
	Amortisation of initial differences in asset values	1,683		
	Amortisation of revaluations	1,129		
				2,255
less	Total revaluations	2,368		
	Income included in regulatory profit / (loss) before tax but not taxable	-	*	
	Expenditure or loss deductible but not in regulatory profit / (loss) before tax	-	*	
	Notional deductible interest	1,827		
				4,194
	Regulatory taxable income			10,234
less	Utilised tax losses	-		
	Regulatory net taxable income			10,234
	Corporate tax rate (%)	28%		
	Regulatory tax allowance			2,866

* Workings to be provided in Schedule 14

5a(ii): Disclosure of Permanent Differences

In Schedule 14, Box 5, provide descriptions and workings of items recorded in the asterisked categories in Schedule 5a(i).

5a(iii): Amortisation of Initial Difference in Asset Values

			($000)
	Opening unamortised initial differences in asset values	55,527	
less	Amortisation of initial differences in asset values	1,683	
plus	Adjustment for unamortised initial differences in assets acquired	-	
less	Adjustment for unamortised initial differences in assets disposed	-	
	Closing unamortised initial differences in asset values		53,844
	Opening weighted average remaining useful life of relevant assets (years)		33

Company Name	**First Gas Limited (Distribution)**
For Year Ended	**30 September 2020**

SCHEDULE 5a: REPORT ON REGULATORY TAX ALLOWANCE

This schedule requires information on the calculation of the regulatory tax allowance.This information is used to calculate regulatory profit/loss in Schedule 3 (regulatory profit). GDBs must provide explanatory commentary on the information disclosed in this schedule, in Schedule 14 (Mandatory Explanatory Notes).
This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref				
44	**5a(iv): Amortisation of Revaluations**			**($000)**
45				
46		Opening sum of RAB values without revaluations	150,921	
47				
48		Adjusted depreciation	5,480	
49		Total depreciation	6,609	
50		Amortisation of revaluations		1,129
51				
52	**5a(v): Reconciliation of Tax Losses**			**($000)**
53				
54		**Opening tax losses**	-	
55	*plus*	Current period tax losses	-	
56	*less*	Utilised tax losses	-	
57		**Closing tax losses**		-
58	**5a(vi): Calculation of Deferred Tax Balance**			**($000)**
59				
60		**Opening deferred tax**	(7,675)	
61				
62	*plus*	Tax effect of adjusted depreciation	1,535	
63				
64	*less*	Tax effect of tax depreciation	2,336	
65				
66	*plus*	Tax effect of other temporary differences*	40	
67				
68	*less*	Tax effect of amortisation of initial differences in asset values	471	
69				
70	*plus*	Deferred tax balance relating to assets acquired in the disclosure year	-	
71				
72	*less*	Deferred tax balance relating to assets disposed in the disclosure year	-	
73				
74	*plus*	Deferred tax cost allocation adjustment	(0)	
75				
76		**Closing deferred tax**		(8,907)
77				
78	**5a(vii): Disclosure of Temporary Differences**			
79		*In Schedule 14, Box 6, provide descriptions and workings of items recorded in the asterisked category in Schedule 5a(vi) (Tax effect of other temporary differences).*		
80				
81	**5a(viii): Regulatory Tax Asset Base Roll-Forward**			
82				**($000)**
83		**Opening sum of regulatory tax asset values**	65,279	
84	*less*	Tax depreciation	8,342	
85	*plus*	Regulatory tax asset value of assets commissioned	14,244	
86	*less*	Regulatory tax asset value of asset disposals	-	
87	*plus*	Lost and found assets adjustment	-	
88	*plus*	Adjustments resulting from asset allocation	-	
89	*plus*	Other adjustments to the RAB tax value	-	
90		**Closing sum of regulatory tax asset values**		71,182

	Company Name	First Gas Limited (Distribution)	
	For Year Ended	30 September 2020	

SCHEDULE 5b: REPORT ON RELATED PARTY TRANSACTIONS

This schedule provides information on the valuation of related party transactions, in accordance with clause 2.3.6 of the ID determination.
This information is part of audited disclosure information (as defined in clause 1.4 of the ID determination), and so is subject to the assurance report required by clause 2.8.

sch ref	5b(i): Summary—Related Party Transactions	($000)	($000)
8	**Total regulatory income**		2,406
9			
10	**Market value of asset disposals**		
11			
12	Service interruptions, incidents and emergencies	2,815	
13	Routine and corrective maintenance and inspection	936	
14	Asset replacement and renewal (opex)	-	
15	**Network opex**		3,751
16	Business support	-	
17	System operations and network support	2,029	
18	**Operational expenditure**		5,779
19	Consumer connection	8,316	
20	System growth	1,284	
21	Asset replacement and renewal (capex)	4,199	
22	Asset relocations	1,016	
23	Quality of supply	-	
24	Legislative and regulatory	-	
25	Other reliability, safety and environment	2	
26	**Expenditure on non-network assets**		20
27	**Expenditure on assets**		14,838
28	Cost of financing		
29	Value of capital contributions		
30	Value of vested assets		
31	**Capital expenditure**		14,838
32	**Total expenditure**		20,617
33			
34	**Other related party transactions**		–

35 5b(iii): Total Opex and Capex Related Party Transactions

sch ref	Name of related party	Nature of opex or capex service provided	Total value of transactions ($000)
37	First Gas Transmission	System operations and network support	201
38	Gas Services NZ	Service interruptions, incidents and emergencies	2,815
39	Gas Services NZ	Routine and corrective maintenance and inspection	936
40	Gas Services NZ	System operations and network support	1,827
41	Gas Services NZ	Consumer connection	8,316
42	Gas Services NZ	System growth	1,284
43	Gas Services NZ	Asset replacement and renewal (capex)	4,199
44	Gas Services NZ	Asset relocations	1,016
45	Gas Services NZ	Other reliability, safety and environment	2
46	Gas Services NZ	Expenditure on non-network assets	20
47			
48			
49			
50			
51			
52	**Total value of related party transactions**		20,617
53	** include additional rows if needed*		
54			

Company Name **First Gas Limited (Distribution)**
For Year Ended **30 September 2020**

SCHEDULE 5c: REPORT ON TERM CREDIT SPREAD DIFFERENTIAL ALLOWANCE

This schedule is only to be completed if, as at the date of the most recently published financial statements, the weighted average original tenor of the debt portfolio (both qualifying debt and non-qualifying debt) is greater than five years. This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref										
7										
8	**5c(i): Qualifying Debt (may be Commission only)**									
9										
10	**Issuing party**	**Issue date**	**Pricing date**	**Original tenor (in years)**	**Coupon rate (%)**	**Book value at issue date (NZD)**	**Book value at date of financial statements (NZD)**	**Term Credit Spread Difference**	**Debt issue cost readjustment**
11									
12									
13									
14									
15									
16	** include additional rows if needed*						-	-	-
17									
18	**5c(ii): Attribution of Term Credit Spread Differential**								
19									
20	**Gross term credit spread differential**			-					
21									
22	Total book value of interest bearing debt								
23	Leverage		42%						
24	Average opening and closing RAB values								
25	**Attribution Rate (%)**			-					
26									
27	**Term credit spread differential allowance**			-					

Company Name	First Gas Limited (Distribution)
For Year Ended	30 September 2020

SCHEDULE 5d: REPORT ON COST ALLOCATIONS

This schedule provides information on the allocation of operational costs. GDBs must provide explanatory comment on their cost allocation in Schedule 14 (Mandatory Explanatory Notes), including on the impact of any reclassifications.
This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref						
7	**5d(i): Operating Cost Allocations**					
8			**Value allocated ($000s)**			
9		**Arm's length deduction**	**Gas distribution services**	**Non-gas distribution services**	**Total**	**OVABAA allocation increase ($000s)**
10	**Service interruptions, incidents and emergencies**					
11	Directly attributable		2,815			
12	Not directly attributable			-	-	
13	**Total attributable to regulated service**		2,815			
14	**Routine and corrective maintenance and inspection**					
15	Directly attributable		936			
16	Not directly attributable			-	-	
17	**Total attributable to regulated service**		936			
18	**Asset replacement and renewal**					
19	Directly attributable					
20	Not directly attributable				-	
21	**Total attributable to regulated service**		-			
22	**System operations and network support**					
23	Directly attributable		2,007			
24	Not directly attributable	-		-	-	
25	**Total attributable to regulated service**		2,007			
26	**Business support**					
27	Directly attributable		1,120			
28	Not directly attributable	398	1,487	14,256	16,140	
29	**Total attributable to regulated service**		2,606			
30						
31	**Operating costs directly attributable**		6,877			
32	**Operating costs not directly attributable**	398	1,487	14,256	16,140	-
33	**Operational expenditure**		8,364			
34						

Company Name	**First Gas Limited (Distribution)**
For Year Ended	**30 September 2020**

SCHEDULE 5d: REPORT ON COST ALLOCATIONS

This schedule provides information on the allocation of operational costs. GDBs must provide explanatory comment on their cost allocation in Schedule 14 (Mandatory Explanatory Notes), including on the impact of any reclassifications.
This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref		Value allocated ($000s)				
35	**5d(ii): Other Cost Allocations**	**Arm's length deduction**	**Gas distribution services**	**Non-gas distribution services**	**Total**	**OVABAA allocation increase ($000s)**
36	**Pass through and recoverable costs**					
37	**Pass through costs**					
38	Directly attributable		685			
39	Not directly attributable			-	-	
40	**Total attributable to regulated service**		685			
41	**Recoverable costs**					
42	Directly attributable					
43	Not directly attributable				-	
44	**Total attributable to regulated service**		-			

				($000)	
45	**5d(iii): Changes in Cost Allocations* †**				
46					
47	**Change in cost allocation 1**			**CY-1**	**Current Year (CY)**
48	Cost category		Original allocation		
49	Original allocator or line items		New allocation		
50	New allocator or line items		Difference	-	-
51					
52	Rationale for change				
53					
54					
55				($000)	
56	**Change in cost allocation 2**			**CY-1**	**Current Year (CY)**
57	Cost category		Original allocation		
58	Original allocator or line items		New allocation		
59	New allocator or line items		Difference	-	-
60					
61	Rationale for change				
62					
63					
64				($000)	
65	**Change in cost allocation 3**			**CY-1**	**Current Year (CY)**
66	Cost category		Original allocation		
67	Original allocator or line items		New allocation		
68	New allocator or line items		Difference	-	-
69					
70	Rationale for change				
71					
72					

73 ** a change in cost allocation must be completed for each cost allocator change that has occurred in the disclosure year. A movement in an allocator metric is not a change in allocator or component.*
74 *† include additional rows if needed*

Company Name	**First Gas Limited (Distribution)**
For Year Ended	**30 September 2020**

SCHEDULE 5e: REPORT ON ASSET ALLOCATIONS

This schedule requires information on the allocation of asset values. This information supports the calculation of the RAB value in Schedule 4. GDBs must provide explanatory comment on their cost allocation in Schedule 14 (Mandatory Explanatory Notes), including on the impact of any changes in asset allocations. This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref

5e(i): Regulated Service Asset Values

	Value allocated ($000s) Gas distribution services
Main pipe	
Directly attributable	123,475
Not directly attributable	
Total attributable to regulated service	123,475
Service pipe	
Directly attributable	34,872
Not directly attributable	
Total attributable to regulated service	34,872
Stations	
Directly attributable	5,986
Not directly attributable	
Total attributable to regulated service	5,986
Line valve	
Directly attributable	1,636
Not directly attributable	
Total attributable to regulated service	1,636
Special crossings	
Directly attributable	3,283
Not directly attributable	
Total attributable to regulated service	3,283
Other network assets	
Directly attributable	3,495
Not directly attributable	
Total attributable to regulated service	3,495
Non-network assets	
Directly attributable	715
Not directly attributable	943
Total attributable to regulated service	1,658
Regulated service asset value directly attributable	173,462
Regulated service asset value not directly attributable	943
Total closing RAB value	174,405

5e(ii): Changes in Asset Allocations* †

Change in asset value allocation 1

			($000)	
			CY-1	**Current Year (CY)**
Asset category		Original allocation		
Original allocator or line items		New allocation		
New allocator or line items		Difference	-	-

Rationale for change

Change in asset value allocation 2

			($000)	
			CY-1	**Current Year (CY)**
Asset category		Original allocation		
Original allocator or line items		New allocation		
New allocator or line items		Difference	-	-

Rationale for change

Change in asset value allocation 3

			($000)	
			CY-1	**Current Year (CY)**
Asset category		Original allocation		
Original allocator or line items		New allocation		
New allocator or line items		Difference	-	-

Rationale for change

component.

† include additional rows if needed

Company Name	**First Gas Limited (Distribution)**
For Year Ended	**30 September 2020**

SCHEDULE 6a: REPORT ON CAPITAL EXPENDITURE FOR THE DISCLOSURE YEAR

This schedule requires a breakdown of capital expenditure on assets incurred in the disclosure year, including any assets in respect of which capital contributions are received, but excluding assets that are vested assets. Information on expenditure on assets must be provided on an accounting accruals basis and must exclude finance costs.
GDBs must provide explanatory comment on their expenditure on assets in Schedule 14 (Explanatory notes to templates).
This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref				
7		**6a(i): Expenditure on Assets**	**($000)**	**($000)**
8		Consumer connection		8,316
9		System growth		1,284
10		Asset replacement and renewal		4,199
11		Asset relocations		1,016
12		Reliability, safety and environment:		
13		Quality of supply	-	
14		Legislative and regulatory	-	
15		Other reliability, safety and environment	2	
16		**Total reliability, safety and environment**		2
17		**Expenditure on network assets**		14,817
18		Expenditure on non-network assets		700
19				
20		**Expenditure on assets**		15,517
21	*plus*	Cost of financing		21
22	*less*	Value of capital contributions		698
23	*plus*	Value of vested assets		-
24				
25		**Capital expenditure**		14,840
26		**6a(ii): Subcomponents of Expenditure on Assets (where known)**		**($000)**
27		Research and development		
28		**6a(iii): Consumer Connection**		
29		*Consumer types defined by GDB**	**($000)**	**($000)**
30		Mains Extensions	2,522	
31		Service Connections - Residential	4,326	
32		Service Connections - Commercial	1,469	
33				
34				
35		** include additional rows if needed*		
36		**Consumer connection expenditure**		8,316
37				
38	*less*	Capital contributions funding consumer connection expenditure	231	
39		**Consumer connection less capital contributions**		8,085

Company Name **First Gas Limited (Distribution)**
For Year Ended **30 September 2020**

SCHEDULE 6a: REPORT ON CAPITAL EXPENDITURE FOR THE DISCLOSURE YEAR

This schedule requires a breakdown of capital expenditure on assets incurred in the disclosure year, including any assets in respect of which capital contributions are received, but excluding assets that are vested assets. Information on expenditure on assets must be provided on an accounting accruals basis and must exclude finance costs.
GDBs must provide explanatory comment on their expenditure on assets in Schedule 14 (Explanatory notes to templates).
This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref		System Growth ($000)	Asset Replacement and Renewal ($000)
40			
41	**6a(iv): System Growth and Asset Replacement and Renewal**		
42			
43			
44	**Intermediate pressure**		
45	Main pipe	41	174
46	Service pipe		
47	Stations		
48	Line valve		
49	Special crossings		
50	**Intermediate pressure -total**	41	174
51	**Medium pressure**		
52	Main pipe	640	3,768
53	Service pipe		2
54	Stations		
55	Line valve		38
56	Special crossings		
57	**Medium pressure - total**	640	3,809
58	**Low pressure**		
59	Main pipe		
60	Service pipe		
61	Line valve		
62	Special crossings		
63	**Low pressure - total**	-	-
64	**Other network assets**		
65	Monitoring and control systems		
66	Cathodic protection systems		6
67	Other assets (other than above)	603	209
68	**Other network assets - total**	603	215
69			
70	**System growth and asset replacement and renewal expenditure**	1,284	4,199
71	*less* Capital contributions funding system growth and asset replacement and renewal	2	
72	**System growth and asset replacement and renewal less capital contributions**	1,283	4,199

73	**6a(v): Asset Relocations**		
74	*Project or programme**	**($000)**	**($000)**
75	Waikato Expressway, Matangi-Hamilton Section	4	
76	SH1 Tarewa Road Intersection Upgrade	28	
77	Wairere Drive relocation, DRS101 & 103	748	
	Peka Peka to Otaki Expressway	62	
	Rotokauri Road Relocation	52	
78		-	
79		-	
80	** include additional rows if needed*		
81	All other projects or programmes - asset relocations	122	
82	**Asset relocations expenditure**		1,016
83	*less* Capital contributions funding asset relocations	465	
84	**Asset relocations less capital contributions**		551

Company Name	**First Gas Limited (Distribution)**
For Year Ended	**30 September 2020**

SCHEDULE 6a: REPORT ON CAPITAL EXPENDITURE FOR THE DISCLOSURE YEAR

This schedule requires a breakdown of capital expenditure on assets incurred in the disclosure year, including any assets in respect of which capital contributions are received, but excluding assets that are vested assets. Information on expenditure on assets must be provided on an accounting accruals basis and must exclude finance costs.
GDBs must provide explanatory comment on their expenditure on assets in Schedule 14 (Explanatory notes to templates).
This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref

6a(vi): Quality of Supply

	*Project or programme**	($000)	($000)
	** include additional rows if needed*		
	All other projects or programmes - quality of supply		
	Quality of supply expenditure		-
less	Capital contributions funding quality of supply		
	Quality of supply less capital contributions		-

6a(vii): Legislative and Regulatory

	*Project or programme**	($000)	($000)
	** include additional rows if needed*		
	All other projects or programmes - legislative and regulatory		
	Legislative and regulatory expenditure		-
less	Capital contributions funding legislative and regulatory		
	Legislative and regulatory less capital contributions		-

6a(viii): Other Reliability, Safety and Environment

	*Project or programme**	($000)	($000)
	** include additional rows if needed*		
	All other projects or programmes - other reliability, safety and environment	2	
	Other reliability, safety and environment expenditure		2
less	Capital contributions funding other reliability, safety and environment		
	Other reliability, safety and environment less capital contributions		2

6a(ix): Non-Network Assets

Routine expenditure

*Project or programme**	($000)	($000)
ICT	221	
Plant & Equipment	20	
Building Refurbishment	102	
Vehicles	45	
Right-of-use Assets	312	
** include additional rows if needed*		
All other projects or programmes - routine expenditure		
Routine expenditure		700

Atypical expenditure

*Project or programme**	($000)	($000)
** include additional rows if needed*		
All other projects or programmes - atypical expenditure		
Atypical expenditure		-
Expenditure on non-network assets		700

Company Name	**First Gas Limited (Distribution)**
For Year Ended	**30 September 2020**

SCHEDULE 6a: REPORT ON CAPITAL EXPENDITURE FOR THE DISCLOSURE YEAR

This schedule requires a breakdown of capital expenditure on assets incurred in the disclosure year, including any assets in respect of which capital contributions are received, but excluding assets that are vested assets. Information on expenditure on assets must be provided on an accounting accruals basis and must exclude finance costs.
GDBs must provide explanatory comment on their expenditure on assets in Schedule 14 (Explanatory notes to templates).
This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref

Company Name	**First Gas Limited (Distribution)**
For Year Ended	**30 September 2020**

SCHEDULE 6b: REPORT ON OPERATIONAL EXPENDITURE FOR THE DISCLOSURE YEAR

This schedule requires a breakdown of operational expenditure incurred in the current disclosure year. GDBs must provide explanatory comment on their operational expenditure in Schedule 14 (Explanatory notes to templates). This includes explanatory comment on any atypical operational expenditure and assets replaced or renewed as part of asset replacement and renewal operational expenditure, and additional information on insurance.

This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref			
7	**6b(i): Operational Expenditure**	**($000)**	**($000)**
8	Service interruptions, incidents and emergencies	2,815	
9	Routine and corrective maintenance and inspection	936	
10	Asset replacement and renewal	-	
11	**Network opex**		3,751
12	System operations and network support	2,007	
13	Business support	2,606	
14	**Non-network opex**		4,613
15			
16	**Operational expenditure**		8,364
17	**6b(ii): Subcomponents of Operational Expenditure (where known)**		
18	Research and development		
19	Insurance		

Company Name	**First Gas Limited (Distribution)**
For Year Ended	**30 September 2020**

SCHEDULE 7: COMPARISON OF FORECASTS TO ACTUAL EXPENDITURE

This schedule compares actual revenue and expenditure to the previous forecasts that were made for the disclosure year. Accordingly, this schedule requires the forecast revenue and expenditure information from previous disclosures to be inserted.

GDBs must provide explanatory comment on the variance between actual and target revenue and forecast expenditure in Schedule 14 (Mandatory Explanatory Notes). This information is part of the audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8. For the purpose of this audit, target revenue and forecast expenditures only need to be verified back to previous disclosures.

sch ref				
8	**7(i): Revenue**	**Target ($000) [1]**	**Actual ($000)**	**% variance**
9	Line charge revenue	23,000	24,730	8%
10	**7(ii): Expenditure on Assets**	**Forecast ($000) [2]**	**Actual ($000)**	**% variance**
11	Consumer connection	7,612	8,316	9%
12	System growth	1,928	1,284	(33%)
13	Asset replacement and renewal	4,075	4,199	3%
14	Asset relocations	724	1,016	40%
15	Reliability, safety and environment:			
16	Quality of supply	-	-	-
17	Legislative and regulatory	-	-	-
18	Other reliability, safety and environment	-	2	-
19	**Total reliability, safety and environment**	-	2	-
	Expenditure on network assets	14,340	14,817	3%
21	Expenditure on non-network assets	199	700	252%
22	**Expenditure on assets**	14,539	15,517	7%
23	**7(iii): Operational Expenditure**	AMP Forecast	Actual ($000)	
24	Service interruptions, incidents and emergencies	3,093	2,815	(9%)
25	Routine and corrective maintenance and inspection	1,953	936	(52%)
26	Asset replacement and renewal	-	-	-
27	**Network opex**	5,046	3,751	(26%)
28	System operations and network support	1,650	2,007	22%
29	Business support	1,800	2,606	45%
30	**Non-network opex**	3,450	4,613	34%
31	**Operational expenditure**	8,496	8,364	(2%)
32	**7(iv): Subcomponents of Expenditure on Assets (where known)**			
33	Research and development	-	-	-
34	**7(v): Subcomponents of Operational Expenditure (where known)**			
35	Research and development	-	-	-
36	Insurance	-	-	-

37 *1 From the nominal dollar target revenue for the pricing year disclosed under clause 2.4.3(3) of this determination*

38 *2 From the CY+1 nominal dollar expenditure forecasts disclosed in accordance with clause 2.6.6 for the forecast period starting at the beginning of the disclosure year (the second to last disclosure of Schedules 11a and 11b)*

Company Name	First Gas Limited (Distribution)
For Year Ended	30 September 2020
Network / Sub-Network Name	

SCHEDULE 8: REPORT ON BILLED QUANTITIES AND LINE CHARGE REVENUES

This schedule requires the billed quantities and associated line charge revenues for the disclosure year for each consumer group or price category code used by the GDB in its pricing schedules. Information is also required on the number of ICPs that are included in each consumer group or price category code, and the energy delivered to these ICPs.

sch ref

8 **8(i): Billed quantities by price component**

sch ref	Consumer group name or price category code	Consumer type or types (eg, residential, commercial, etc.)	Standard or non-standard consumer group (specify)	Average no. of ICPs in disclosure year	Quantity of gas delivered (TJ)	Billed quantities by price component				
9-10					Price component	Fixed	Variable			
11					Unit charging basis (eg, days, GJ, etc.)	Days	kWh			
12										
13	GN0R	Residential	Standard	60,705	1,293	22,184,422	359,168,711			
14	GN0V	Residential	Standard	-	-	-	-			
15	GN01	Business/Commercial	Standard	2,089	168	762,635	46,617,207			
16	GN02	Commercial	Standard	1,494	442	545,721	122,811,496			
17	GN03	Commercial	Standard	514	870	187,740	241,707,586			
18	GN04	Commercial/Industrial	Standard	70	782	25,570	217,180,249			
19	GN05	Large Industrial	Standard	9	921	3,407	255,939,726			
20	Non-Standard (NG60)	Large Industrial	Non-standard	17	4,934	5,732	1,370,577,957			
21										
22										
23										
24										
25	*Add extra rows for additional consumer groups or price category codes as necessary*									
26			**Standard consumer totals**	64,881	4,476	23,709,495	1,243,424,975	-	-	-
27			**Non-standard consumer totals**	17	4,934	5,732	1,370,577,957	-	-	-
28			**Total for all consumers**	64,898	9,410	23,715,227	2,614,002,932	-	-	-
29										

Add extra columns for additional billed quantities by price component as necessary

Company Name	First Gas Limited (Distribution)
For Year Ended	30 September 2020
Network / Sub-Network Name	

SCHEDULE 8: REPORT ON BILLED QUANTITIES AND LINE CHARGE REVENUES

This schedule requires the billed quantities and associated line charge revenues for the disclosure year for each consumer group or price category code used by the GDB in its pricing schedules. Information is also required on the number of ICPs that are included in each consumer group or price category code, and the energy delivered to these ICPs.

30

31 ### 8(ii): Line charge revenues ($000) by price component

Row	Consumer group name or price category code	Consumer type or types (eg, residential, commercial, etc.)	Standard or non-standard consumer group (specify)	Total line charge revenue in disclosure year	Notional revenue foregone from posted discounts (if applicable)		Line charge revenues ($000) by price component				
33						Price component	Fixed	Variable			
34						Rate (eg, $ per day, $ per GJ, etc.)	Days	kWh			
35											
36	GN0R	Residential	Standard	$15,529	-		7,986	7,543			
37	GN0V	Residential	Standard	-	-		-	-			
38	GN01	Business/Commercial	Standard	$867	-		503	364			
39	GN02	Commercial	Standard	$1,555	-		622	933			
40	GN03	Commercial	Standard	$2,631	-		939	1,692			
41	GN04	Commercial/Industrial	Standard	$1,804	-		371	1,433			
42	GN05	Large Industrial	Standard	$1,227	-		818	410			
43	Non-Standard (NG60)	Large Industrial	Non-standard	$1,116	-		878	238			
44				-							
45				-							
46				-							
47				-							
48	*Add extra rows for additional consumer groups or price category codes as necessary*										
49			**Standard consumer totals**	$23,614	-		$11,239	$12,375	-	-	-
50			**Non-standard consumer totals**	$1,116	-		$878	$238	-	-	-
51			**Total for all consumers**	$24,730	-		$12,117	$12,613	-	-	-

Add extra columns for additional line charge revenues by price component as necessary

Company Name	First Gas Limited (Distribution)
For Year Ended	30 September 2020
Network / Sub-network Name	North Island Network

SCHEDULE 9a: ASSET REGISTER

This schedule requires a summary of the quantity of assets that make up the network, by asset category and asset class.

sch ref

8	Operating Pressure	Asset Category	Asset Class	Units	Items at start of year (quantity)	Items at end of year (quantity)	Net change	Data accuracy (1–4)
9	Intermediate Pressure	Main pipe	IP PE main pipe	km	-	-	-	N/A
10	Intermediate Pressure	Main pipe	IP steel main pipe	km	195	195	-	3
11	Intermediate Pressure	Main pipe	IP other main pipe	km	-	-	-	N/A
12	Intermediate Pressure	Service pipe	IP PE service pipe	km	-	-	-	N/A
13	Intermediate Pressure	Service pipe	IP steel service pipe	km	2	2	-	3
14	Intermediate Pressure	Service pipe	IP other service pipe	km	-	-	-	N/A
15	Intermediate Pressure	Stations	Intermediate pressure DRS	No.	101	102	1	3
16	Intermediate Pressure	Line valve	IP line valves	No.	253	242	(11)	3
17	Intermediate Pressure	Special crossings	IP crossings	No.	17	17	-	2
18	Medium Pressure	Main pipe	MP PE main pipe	km	3,046	3,094	48	3
19	Medium Pressure	Main pipe	MP steel main pipe	km	130	130	-	3
20	Medium Pressure	Main pipe	MP other main pipe	km	-	-	-	N/A
21	Medium Pressure	Service pipe	MP PE service pipe	km	1,344	1,352	8	3
22	Medium Pressure	Service pipe	MP steel service pipe	km	12	12	-	3
23	Medium Pressure	Service pipe	MP other service pipe	km	1	1	-	3
24	Medium Pressure	Stations	Medium pressure DRS	No.	24	26	2	3
25	Medium Pressure	Line valve	MP line valves	No.	1,113	1,286	173	3
26	Medium Pressure	Special crossings	MP special crossings	No.	75	75	-	2
27	Low Pressure	Main pipe	LP PE main pipe	km	41	41	-	3
28	Low Pressure	Main pipe	LP steel main pipe	km	-	-	-	N/A
29	Low Pressure	Main pipe	LP other main pipe	km	-	-	-	N/A
30	Low Pressure	Service pipe	LP PE service pipe	km	30	30	-	3
31	Low Pressure	Service pipe	LP steel service pipe	km	-	-	-	N/A
32	Low Pressure	Service pipe	LP other service pipe	km	-	-	-	N/A
33	Low Pressure	Line valve	LP line valves	No.	11	14	3	3
34	Low Pressure	Special crossings	LP special crossings	No.	-	-	-	N/A
35	All	Monitoring and control systems	Remote terminal units	No.	-	-	-	N/A
36	All	Cathodic protection systems	Cathodic protection	No.	43	43	-	2

Company Name	**First Gas Limited (Distribution)**
For Year Ended	**30 September 2020**
Network / Sub-network Name	**North Island Network**

SCHEDULE 9b: ASSET AGE PROFILE

This schedule requires a summary of the age profile (based on year of installation) of the assets that make up the network, by asset category and asset class.

sch ref

8 **Disclosure Year (year ended)** 30 September 2020 — **Number of assets at disclosure year end by installation date**

sch ref	Operating Pressure	Asset Category	Asset Class	Units	pre-1970	1970 –1974	1975 –1979	1980 –1984	1985-1989	1990 –1994	1995 –1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	No. with age unknown	Items at end of year (quantity)	No. with default dates	Data accuracy (1–4)
9																																				
10	Intermediate Pressure	Main pipe	IP PE main pipe	km	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	N/A
11	Intermediate Pressure	Main pipe	IP steel main pipe	km	1	17	1	108	52	8	0	-	0	0	0	0	1	-	0	0	0	0	0	1	0	1	0	0	1	1	2	0	-	195	-	3
12	Intermediate Pressure	Main pipe	IP other main pipe	km	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	N/A
13	Intermediate Pressure	Service pipe	IP PE service pipe	km	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	N/A
14	Intermediate Pressure	Service pipe	IP steel service pipe	km	-	-	-	1	1	0	0	-	-	-	-	-	-	-	-	-	-	0	0	-	-	-	-	-	0	0	-	-	-	2	-	3
15	Intermediate Pressure	Service pipe	IP other service pipe	km	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	N/A
16	Intermediate Pressure	Stations	Intermediate pressure DR!	No.	-	1	-	33	22	7	1	-	3	1	2	2	1	-	-	1	1	3	1	-	2	3	4	1	8	2	2	1	-	102	-	3
17	Intermediate Pressure	Line valve	IP line valves	No.	2	9	3	45	50	15	5	1	2	-	1	6	8	-	5	5	-	4	4	11	4	12	7	7	14	11	10	1	-	242	-	3
18	Intermediate Pressure	Special crossings	IP crossings	No.	-	1	-	8	7	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17	-	2
19	Medium Pressure	Main pipe	MP PE main pipe	km	0	25	139	188	722	522	431	63	56	46	69	90	83	59	61	59	26	16	14	16	32	44	34	42	75	67	70	46	-	3,094	-	3
20	Medium Pressure	Main pipe	MP steel main pipe	km	8	75	29	16	2	0	0	0	0	0	-	0	0	-	0	-	0	0	0	0	0	0	0	0	0	0	0	0	-	130	-	3
21	Medium Pressure	Main pipe	MP other main pipe	km	-	0	-	0	0	0	-	-	-	-	-	-	-	-	-	-	-	-	0	-	0	0	-	0	-	-	-	-	-	-	-	N/A
22	Medium Pressure	Service pipe	MP PE service pipe	km	0	22	86	60	170	220	240	46	43	37	43	40	35	37	34	29	15	17	16	13	18	21	16	15	18	20	22	20	-	1,352	-	3
23	Medium Pressure	Service pipe	MP steel service pipe	km	0	10	1	0	0	0	0	-	-	-	0	0	-	0	0	0	-	0	0	0	0	0	0	0	0	0	0	0	-	12	-	3
24	Medium Pressure	Service pipe	MP other service pipe	km	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	3
25	Medium Pressure	Stations	Medium pressure DRS	No.	-	3	1	2	1	1	2	-	-	-	-	1	-	-	-	-	1	2	-	8	-	2	-	-	-	-	2	-	-	26	-	3
26	Medium Pressure	Line valve	MP line valves	No.	22	129	83	189	115	41	35	6	7	5	8	18	17	4	8	12	12	10	16	26	16	33	41	40	57	77	99	160	-	1,286	-	3
27	Medium Pressure	Special crossings	MP special crossings	No.	-	-	-	8	26	8	6	1	1	-	-	1	-	-	-	1	-	-	-	-	1	2	-	-	3	3	2	-	12	75	-	2
28	Low Pressure	Main pipe	LP PE main pipe	km	-	4	18	2	3	3	2	0	0	0	0	0	0	0	0	0	0	0	0	2	4	0	0	0	0	0	0	1	-	41	-	3
29	Low Pressure	Main pipe	LP steel main pipe	km	0	0	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	N/A
30	Low Pressure	Main pipe	LP other main pipe	km	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	N/A
31	Low Pressure	Service pipe	LP PE service pipe	km	0	2	6	3	3	3	3	0	0	0	0	0	0	0	1	0	0	0	0	2	1	0	0	0	0	0	0	0	-	30	-	3
32	Low Pressure	Service pipe	LP steel service pipe	km	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	N/A
33	Low Pressure	Service pipe	LP other service pipe	km	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	N/A
34	Low Pressure	Line valve	LP line valves	No.	3	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	4	3	-	-	-	-	-	-	3	-	14	-	3
35	Low Pressure	Special crossings	LP special crossings	No.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	N/A
36	All	Monitoring and control systems	Remote terminal units	No.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	N/A
37	All	Cathodic protection systems	Cathodic protection	No.	-	1	-	6	18	8	-	1	1	-	-	-	-	-	-	-	1	-	-	1	2	-	-	-	-	3	1	-	-	43	-	2

Company Name	**First Gas Limited (Distribution)**
For Year Ended	**30 September 2020**
Network / Sub-network Name	**North Island Network**

SCHEDULE 9c: REPORT ON PIPELINE DATA

This schedule requires a summary of the key characteristics of the pipeline network.

sch ref

sch ref		Length (km)	%
8	**Network Information (end of year)**		
9	**System length by material (defined by GDB)**	**Length (km)**	**%**
10	Steel	339	6.98%
11	PE	4,517	93.00%
12	Other	1	0.02%
13			-
14			-
15			-
16	**System length**	4,857	100.00%
17			

sch ref		System length (km) (at year end)	Weighted average pipe diameter (mm)	Number of ICPs (at year end)	Gas conveyed for Persons not involved in the GDB (TJ)
18	**By operating pressure:**				
19	Intermediate pressure	197	100	39	5,925
20	Medium pressure	4,589	20	64,013	4,386
21	Low pressure	71	26	1,294	30
22	**Total**	4,857	23	65,346	10,342

Company Name	First Gas Limited (Distribution)
For Year Ended	30 September 2020
Network / Sub-network Name	North Island Network

SCHEDULE 9d: REPORT ON DEMAND

This schedule requires a summary of the key measures of network demand for the disclosure year (number of new connections including, maximum monthly loads and total gas conveyed)

sch ref

8

9 ## 9d(i): Consumer Connections

10 **Number of ICPs connected in year by consumer type**

11

sch ref	*Consumer types defined by GDB*	**Number of connections (ICPs)**
13	Residential	1,440
14	Commercial	70
15	Industrial	3
16		
17		
18	**Total**	1,513

19 ## 9d(ii): Gas Delivered

20

sch ref			
21	Number of ICPs at year end	65,346	connections
22	Maximum daily load	39,053	(GJ per day)
23	Maximum monthly load	1,046,666	(GJ per month)
24	Number of directly billed ICPs	-	(at year end)
25	Total gas conveyed	10,342,054	(GJ per annum)
26	Average daily delivery	28,257	(GJ per day)
27			
28	**Load factor**	82.34%	

Company Name	**First Gas Limited (Distribution)**
For Year Ended	**30 September 2020**
Network / Sub-network Name	**North Island Network**

SCHEDULE 10a: REPORT ON NETWORK RELIABILITY AND INTERRUPTIONS

This schedule requires a summary of the key measures of network reliability (interruptions, SAIDI, SAIFI and CAIDI) for the disclosure year
GDBs must provide explanatory comment on their network reliability for the disclosure year in Schedule 14 (Explanatory Notes to Templates). The SAIDI and SAIFI information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref

8 ### 10a(i): Interruptions

sch ref	Interruptions by class	Actual
9	**Interruptions by class**	**Actual**
10	Class A (planned interruptions by GTB)	-
11	Class B (planned interruptions on the network)	350
12	Class C (unplanned interruptions on the network)	75
13	Class D (unplanned interruptions by GTB)	-
14	Class I (unplanned interruptions caused by third party damage)	87
15	**Total**	512

sch ref	Number of unplanned outage events (interruptions that affect more than 5 ICPs)	Actual
17	North Island regions	5
18		
19		
20		
21		

sch ref	Number of unplanned outage events caused by third party damage (interruptions that affect more than 5 ICPs)	Actual
23	North Island regions	4
24		
25		
26		
27		

28 ### 10a(ii): Reliability

sch ref	Overall reliability	SAIDI	SAIFI	CAIDI
30	Based on the total number of interruptions	1,054.78	10.03	105.15
31	Class I (unplanned interruptions caused by third party damage)	150.96	2.11	71.51

sch ref	Class B (planned interruptions on the network)	SAIDI	SAIFI	CAIDI
33	North Island regions	388.69	5.64	68.92
34				-
35				-
36				-
37				-

sch ref	Class C (unplanned interruptions on the network)	SAIDI	SAIFI	CAIDI
39	North Island regions	515.13	2.28	225.89
40				-
41				-
42				-
43				-

Company Name	**First Gas Limited (Distribution)**
For Year Ended	**30 September 2020**
Network / Sub-network Name	**North Island Network**

SCHEDULE 10b: REPORT ON NETWORK INTEGRITY AND CONSUMER SERVICE

This schedule requires a summary of the key measures of network Integrity (gas escapes, response time to emergencies etc) for the disclosure year.

sch ref

8 ### 10b(i): System Condition and Integrity

sch ref	Number of confirmed public reported gas escapes per system length (escapes/1000 km)	Actual
10	North Island regions	30
11		
12		
13		
14		

sch ref	Number of leaks detected by routine survey per system length (leaks/1000 km)	Actual
16	North Island regions	10
17		
18		
19		
20		

sch ref	Number of third party damage events per system length (events/1000 km)	Actual
22	North Island regions	32
23		
24		
25		
26		

sch ref	Number of poor pressure events due to network causes	Actual
28	North Island regions	8
29		
30		
31		
32		

sch ref	Number of telephone calls to emergency numbers answered within 30 seconds per total number of calls (Note: This entry may be excluded for sub-networks.)	Actual
35	North Island regions	90%
36		
37		
38		
39		

sch ref	Product control—safety of distribution gas	Actual
41	Number of non-compliant odour tests	2

42 ### 10b(ii): Consumer Service

sch ref	Response time to emergencies (RTE)	Proportion of emergencies responded to within 1 hour (%)	Proportion of emergencies responded to within 3 hours (%)	Average call response time (hours)	Number of emergencies
44	North Island regions	88%	100%	0.57	60
45					
46					
47					
48					

sch ref	Number of complaints	Actual
50	Number of complaints per average total consumer numbers	0.0001

Company Name	First Gas Limited (Distribution)
For Year Ended	30 September 2020

Schedule 14 Mandatory Explanatory Notes

(Guidance Note: This Microsoft Word version of Schedules 14, 14a and 15 is from the Gas Distribution Information Disclosure Determination 2012 – as amended and consolidated 3 April 2018. Clause references in this template are to that determination)

1. This schedule requires GDBs to provide explanatory notes to information provided in accordance with clauses 2.3.1, 2.4.21, 2.4.22, and subclauses 2.5.1(1)(e) and 2.5.2(1)(e).
2. This schedule is mandatory—GDBs must provide the explanatory comment specified below, in accordance with clause 2.7.1. Information provided in boxes 1 to 11 of this schedule is part of the audited disclosure information, and so is subject to the assurance requirements specified in section 2.8.
3. Schedule 15 (Voluntary Explanatory Notes to Schedules) provides for GDBs to give additional explanation of disclosed information should they elect to do so.

Mandatory explanatory notes

Return on Investment (Schedule 2)

4. In the box below, comment on return on investment as disclosed in Schedule 2. This comment must include information on reclassified items in accordance with subclause 2.7.1(2).

Box 1: Explanatory comment on return on investment

The vanilla return on investment (ROI) for our Distribution business of 5.87% (reflecting all revenue earned) was lower than the 2019 result of 6.28%. This decrease in ROI is primarily due to the increase in operational expenditure in FY2020 resulting in a lower regulatory profit.

There has been no re-classification of items in the disclosure year.

Regulatory Profit (Schedule 3)

5. In the box below, comment on regulatory profit for the disclosure year as disclosed in Schedule 3. This comment must include-

   5.1 a description of material items included in other regulated income (other than gains / (losses) on asset disposals), as disclosed in 3(i) of Schedule 3

   5.2 information on reclassified items in accordance with subclause 2.7.1(2).

Box 2: Explanatory comment on regulatory profit

Other regulated income includes:

- Fees charged for disconnection services. Fees charged for disconnection services offset the costs of providing these services included in Firstgas' operational expenditure
- A one-off, atypical payment from a supplier in settlement of a dispute relating to a prior year.

There has been no re-classification of items in the disclosure year.

Merger and acquisition expenses (3(iv) of Schedule 3)

6. If the GDB incurred merger and acquisitions expenditure during the disclosure year, provide the following information in the box below:

   6.1 information on reclassified items in accordance with subclause 2.7.1(2)

   6.2 any other commentary on the benefits of the merger and acquisition expenditure to the GDB.

Box 3: Explanatory comment on merger and acquisition expenditure
No merger and acquisition expenditure has been included during the disclosure year.

Value of the Regulatory Asset Base (Schedule 4)

7. In the box below, comment on the value of the regulatory asset base (rolled forward) in Schedule 4. This comment must include information on reclassified items in accordance with subclause 2.7.1(2).

Box 4: Explanatory comment on the value of the regulatory asset based (rolled forward)

The value of the regulated asset base (RAB) has been determined by rolling forward the initial RAB with adjustments made for additions, disposals, depreciation and revaluation in accordance with the applicable Input Methodologies.

Adoption of NZ IFRS 16 Leases

Firstgas adopted the NZ IFRS 16 Leases approach to valuing leases, effective from 1 October 2019. NZ IFRS 16 requires that all leases (excluding those exempt leases) are brought onto the balance sheet, introducing a new class of assets – Right of Use (ROU) assets. As a result, lease costs that were previously being accounted for as business support costs are being deducted via depreciation in the RAB going forward. To illustrate, in FY2019, $30,000of lease costs went through business support costs. In FY2020, those future payments come into the RAB and for FY2020 $27,000 of depreciation was recorded on those leases.

Regulatory tax allowance: disclosure of permanent differences (5a(i) of Schedule 5a)

8. In the box below, provide descriptions and workings of the material items recorded in the following asterisked categories of 5a(i) of Schedule 5a-

   8.1 Income not included in regulatory profit / (loss) before tax but taxable

   8.2 Expenditure or loss in regulatory profit / (loss) before tax but not deductible

   8.3 Income included in regulatory profit / (loss) before tax but not taxable

   8.4 Expenditure or loss deductible but not in regulatory profit / (loss) before tax

Box 5: Regulatory tax allowance: permanent differences
Permanent differences consist of immaterial non-deductible professional and entertainment expenses and an adjustment for transfer pricing on interest

Regulatory tax allowance: disclosure of temporary differences (5a(vi) of Schedule 5a)

9. In the box below, provide descriptions and workings of material items recorded in the asterisked category ‘Tax effect of other temporary differences’ in 5a(vi) of Schedule 5a.

Box 6: Tax effect of other temporary differences (current disclosure year)
Temporary differences include immaterial movements in provisions and accruals

Cost allocation (Schedule 5d)

10. In the box below, comment on cost allocation as disclosed in Schedule 5d. This comment must include information on reclassified items in accordance with subclause 2.7.1(2).

Box 7: Cost allocation in schedule 5d

Approach to cost allocation

Firstgas (distribution) is part of the Firstgas Group of companies. We provide business support functions to other companies within the group. Any shared costs are charged to the relevant related party on an arm's-length basis as reported in schedule 5b. Further information on our related party transactions is included in the voluntary notes at the end of this disclosure.

Remaining shared costs within Firstgas are allocated applying the accounting-based allocation approach (ABAA). ABAA has been applied in accordance with the applicable Input Methodologies determination to allocate not-directly attributable costs (shared costs) between Firstgas' transmission and distribution businesses.

Causal cost allocators have been used where a cost driver has led to the cost being incurred.

Where a single causal allocator cannot be established for a shared cost, a proxy allocator has been used. The rationale behind the use of each proxy allocator is based on an analysis of the cost drivers for each cost item that is not directly attributable. The key allocator that can be used as a proxy allocator is determined by management. This is based on management's experience and knowledge, and an analysis of each of the cost areas.

Only one allocation method is used for each cost area.

Treatment of costs

Business support costs that are not directly attributable arise in the areas of:

- Legal and consulting fees, which has a causal cost allocator of management's estimate of time spent
- Employee-related costs such as phones, stationery, travel, information technology hardware and software, and advertising for positions, which have a causal cost allocator of employee numbers
- General expenses such as sponsorship and professional fees for audit, tax, information and technology and treasury functions which have a proxy cost allocator of the Regulatory Asset Base (RAB)
- Directors fees which has a proxy cost allocator of RAB
- Insurance costs which has a proxy cost allocator of RAB

Reclassification of costs

There has been no reclassification of costs in the FY2020 disclosure period.

Asset allocation (Schedule 5e)

11. In the box below, comment on asset allocation as disclosed in Schedule 5e. This comment must include information on reclassified items in accordance with subclause 2.7.1(2).

Box 8: Commentary on asset allocation in schedule 5e

There has been no re-classification of items in the disclosure year.

Approach to asset cost allocation

The accounting-based allocation approach (ABAA) has been applied in accordance with the applicable Input Methodologies determination to allocate not-directly attributable shared asset values between Firstgas' transmission and distribution businesses.

Non-network assets that are not directly attributable have been allocated across all Firstgas regulated businesses based on head count.

These assets comprise:

- Software
- Computer equipment
- Building equipment and assets.

Headcount is considered an appropriate causal asset allocator as employee numbers tend to drive the need for building assets, computer and office equipment and software.

Capital Expenditure for the Disclosure Year (Schedule 6a)

12. In the box below, comment on expenditure on assets for the disclosure year, as disclosed in Schedule 6a. This comment must include-

    12.1 a description of the materiality threshold applied to identify material projects and programmes described in Schedule 6a;

    12.2 information on reclassified items in accordance with subclause 2.7.1(2).

Box 9: Explanation of capital expenditure for the disclosure year

A project or programme is considered material if the estimated total project cost is equal to or exceeds $0.5 million.

There have been no re-classified items.

Focus for capital expenditure

Firstgas remains focused on building and maintaining a safe and resilient gas distribution network for our customers, whilst actively pursuing growth across our network.

These focus areas were reflected in the work programme that was undertaken this year. Firstgas has had a positive result in FY2020 delivering a full capital works programme even though non-essential works were halted during the lock-down period (alert level 4) in response to the COVID-19 pandemic.

Major works undertaken in FY2020 included:

- Integrity upgrades to pipelines. We have continued our programme of, where necessary, replacing the pre-1985 polyethylene (PE) pipelines across our network. As a result of a risk assessment of our PE pipelines undertaken in FY2019, our first focus is on pre-1975 PE pipelines that require replacement.
- Upgrades to district regulating stations (DRS) and metering equipment. We replaced and upgraded equipment that was no longer meeting our performance standards in Hamilton and the wider Waikato. Upgrades to DRS and metering equipment mean we can ensure adequate supply of pressure across our networks
- Mains extensions and customer connections. A large component of our CAPEX is spent to connect new customers to our networks. New customers included residential homes as well as businesses.
- Expansion of our network to serve industrial customers including Innovation Food, Southern Fresh and APL Industrial.

Further detail on our expenditure during this period, and our future work programme is available in our 2020 Asset Management Plan (AMP) published on the Firstgas website here: http://firstgas.co.nz/about-us/regulatory/distribution/

Operational Expenditure for the Disclosure Year (Schedule 6b)

13. In the box below, comment on operational expenditure for the disclosure year, as disclosed in Schedule 6b. This comment must include-

    13.1 Commentary on assets replaced or renewed with asset replacement and renewal operational expenditure, as reported in 6b(i) of Schedule 6b

    13.2 Information on reclassified items in accordance with subclause 2.7.1(2)

    13.3 Commentary on any material atypical expenditure included in operational expenditure disclosed in Schedule 6b, including the value of the expenditure, the purpose of the expenditure, and the operational expenditure categories the expenditure relates to.

Box 10: Explanation of operational expenditure for the disclosure year
There has no asset replacement and renewal operational expenditure this year. There have been no re-classified items in the disclosure year. Firstgas has not incurred atypical expenditure in FY2020.

Variance between forecast and actual expenditure (Schedule 7)

14. In the box below, comment on variance in actual to forecast expenditure for the disclosure year, as reported in Schedule 7. This comment must include information on reclassified items in accordance with subclause 2.7.1(2).

Box 11: Explanatory comment on variance in actual to forecast expenditure

Expenditure on assets

Network expenditure on assets for the period was $14.8 million and approximately 3% above expenditure forecast in our 2019 Asset Management Plan (AMP) Update.[1]

FY2020 was a challenging year with non-essential works being deferred during the lock-down period over April and May 2020 in response to the COVID-19 pandemic. Despite the impact of COVID 19, we delivered a full capital works programme with our resources focused on meeting consumer connection needs and the relocation of assets to facilitate roading and council works. This strong performance and deliverability of a works programme to meet our customers needs can, in part, be attributed to the robust planning and CAPEX governance processes that have been put in place over the course of the last two years. This increased our ability to be flexible and move to meet customer needs.

The increase in network expenditure above that forecast is largely due to:

- Increase in customer connections: three commercial customer connections were delivered in FY2020 that had not been included in the AMP Update forecast. The new connections for Innovation Food, Southern Fresh and APL industrial were not known when we completed the AMP Update in 2019.
- Deferral of system growth work: System growth is less than forecast as an anticipated reinforcement project in the Hamilton region was deferred. Originally planned for FY2020, further technical evaluation of the existing assets was required. Whilst the technical evaluation has now been completed, project execution has been deferred to FY2022 to facilitate potential alignment with transmission work at the gate station.
- Relocation works were higher than forecast. Each year Firstgas receives requests to relocate assets, typically from Councils, the New Zealand Transport Association (NZTA) and customers. We complete the works in line with the schedule required by the requesting party. This often means the phasing of works can alter from our initial forecasts.

Operational expenditure

Total operating expenditure is $0.2 million (2%) below that forecast in the 2019 AMP Update for the FY2020 disclosure period. Lower than forecast expenditure in network operating expenditure has been partially offset by increased non-network operating expenditure.

Network OPEX was $1.3 million less than that forecast in the 2019 AMP Update. This reduction in costs from forecast is largely due to:

- The revised contract and revised contract structure for the provision of maintenance services by Electrix has reduced costs to our related party GSNZ and those costs savings have been passed through to Firstgas. The benefits from the new contract terms were not recognised when the forecast was set.
- The deferral of non-essential works during the COVID-19 lock down period. Non-essential routine maintenance works were largely still completed in FY2020 with a small amount being deferred to FY2021.

This was offset largely by non-network OPEX being $1.1 million higher than forecast. Included in this variance was a one-off payment from a supplier in settlement of a dispute. This settlement was forecast in non-network OPEX but subsequently re-assessed to be other income.

[1] https://firstgas.co.nz/wp-content/uploads/Gas-Distribution-Asset-Management-Plan-Update-2019-2.pdf

Further detail on our expenditure for this period, and future work programme is available in our 2020 AMP published on the Firstgas website here: http://firstgas.co.nz/aboutus/regulatory/distribution/

Information relating to revenues and quantities for the disclosure year

15. In the box below, please explain reasons for any material differences between target revenue disclosed before the start of the pricing year in accordance with clause 2.4.1 and subclause 2.4.3(3), and total billed line charge revenue for the disclosure year as disclosed in Schedule 8.

Box 12: Explanatory comment relating to revenue for the disclosure year
Our line charge revenue of $24.7 million is $1.7 million above the target revenue forecast for the period ($23 million). This variance against the target is due to higher than expected consumer connections during the period. Target revenue is determined using the allowable notional revenue calculated in accordance with the 2017 DPP Determination for gas distribution services. The allowable notional revenue is adjusted for a forecast volume growth of approximately 1% per year. This forecast was based on historic growth in volumes and consumer connections.

16. If price category codes or consumer groups (as applicable) have been changed in a disclosure year, please explain in the box below the effect of this on the allocation of ICPs, quantities and revenues between consumer groups disclosed in Schedule 8.

Box 13: Explanatory comment relating to changed price category codes or consumer groups
No price category codes or consumer groups were changed in the FY2020 disclosure year.

Network Reliability for the Disclosure Year (Schedule 10a)

17. In the box below, comment on network reliability for the disclosure year, as disclosed in Schedule 10a.

Box 14: Commentary on network reliability for the disclosure year

A total of 512 interruptions were experienced on the network in FY2020. The increase from the 475 interruptions experienced in 2019 is largely due to an increase in planned interruptions.

In FY2020, we have increased the focus on replacing sections of pre-1975 and pre-1985 polyethylene (PE) pipeline assets, which explains the increase in planned interruption numbers during this period. This programme of work is expected to continue for the remainder of this regulatory period.[2]

The number of unplanned interruptions caused by third parties is reduced from previous years. Firstgas has limited control over the number of these interruptions and our focus is to ensure our response is efficient and effective. We have continued our efforts in this disclosure period to educate developers and contractors on the need to check the area before they commence works and dig. We are also members of the "NZUAG"[3] and use the service "before u dig"[4] and actively promote its use and provide industry leadership in promoting the service to all industry stakeholders.

Whilst the number of unplanned interruptions on the network not caused by third parties (Class C) is consistent with last year, we have seen an increased SAIDI for the unplanned interruptions this year. The increase in SAIDI was caused by one event in Hamilton in December 2019. The unplanned interruption occurred during maintenance works where a network valve was closed by mistake, isolating part of the network and supply was interrupted to 67 customers.

Insurance cover

18. In the box below, provide details of any insurance cover for the assets used to provide gas pipeline services, including-

    18.1 The GDB's approaches and practices in regard to the insurance of assets, including the level of insurance;

    18.2 In respect of any self insurance, the level of reserves, details of how reserves are managed and invested, and details of any reinsurance.

Box 15: Explanation of insurance cover

Insurance cover is in place for a large number of group assets, excluding distribution pipeline assets. These policies cover material damage, business interruption and contract works insurance.

Insurance costs are allocated to the Distribution business based on the businesses share of total RAB forecasts.

Amendments to previously disclosed information

19. In the box below, provide information about amendments to previously disclosed information disclosed in accordance with clause 2.12.1 in the last 7 years, including:

    19.1 a description of each error; and

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[2] Further information is available in our 2020 AMP summary: https://firstgas.co.nz/wp-content/uploads/Firstgas-Distribution-AMP-2020-FINAL.pdf

[3] The New Zealand Utilities Advisory Group (NZUAG) Inc is a joint consultative group of road and rail owners/managers and utility companies. The NZUAG manages the National Code for Utilities' Access to the Transport Corridors.

[4] Before u dig is an online service which enables anyone undertaking excavation works to obtain information on the location of cables, pipes and other utility assets in and around any proposed dig site. For more information see: https://www.beforeudig.co.nz/nz/home

19.2 for each error, reference to the web address where the disclosure made in accordance with clause 2.12.1 is publicly disclosed.

Box 16: Disclosure of amendment to previously disclosed information
No amendments have been made to previously disclosed information.

Company Name	First Gas Limited (Distribution)
For Year Ended	30 September 2020

Schedule 15: Voluntary Explanatory Notes

(In this Schedule, clause references are to the Gas Distribution Information Disclosure Determination 2012 – as amended and consolidated 3 April 2018.)

1. This schedule enable GDBs to provide, should they wish to:

   1.1 additional explanatory comment to reports prepared in accordance with clauses 2.3.1, 2.4.21, 2.4.22, 2.5.1, and 2.5.2.

   1.2 information on any substantial changes to information disclosed in relation to a prior disclosure year, as a result of final wash-ups.

2. Information in this schedule is not part of the audited disclosure information, and so is not subject to the assurance requirements specified in section 2.8.

3. Provide additional explanatory comment in the box below.

Box 1: Voluntary explanatory comment on disclosed information
Firstgas works closely with other companies in the Firstgas Group. As required under the information disclosure determination, the following pages outline Firstgas' interactions and relationships with its related parties for the 2020 disclosure year.

REGULATORY DISCLOSURE

Gas distribution services: Information disclosure for related parties

For the year ended 30 September 2020

First Gas Limited
February 2021

Introduction

First Gas Limited (Firstgas) operates 2,500 kilometres of gas transmission pipelines, and more than 4,800 kilometres of gas distribution pipelines across the North Island. These gas infrastructure assets transport gas from Taranaki to major industrial gas users, electricity generators, businesses and homes, and transport around 20 percent of New Zealand's primary energy supply.

Firstgas is part of the wider Firstgas Group. As illustrated in *Figure 1*, the Firstgas Group also owns Gas Services, Rockgas and Flexgas. Gas Services provides operations and maintenance contracting services. Flexgas owns and operates New Zealand's only open-access gas storage facility at Ahuroa.[1] Rockgas has over 80 years' experience and provides LPG to 100,000 customers throughout New Zealand. It is New Zealand's largest LPG retail business and supplies its customers with LPG from both domestic and imported sources.[2]

Figure 1: Structure of the Firstgas Group for disclosure year 2020[3]

For further information on Firstgas, please visit our website www.firstgas.co.nz.

Information disclosure requirements

This disclosure is made on behalf of Firstgas' distribution business. Firstgas (distribution) procures operations and maintenance (O&M) services from its related party, Gas Services New Zealand Midco Limited (GSNZ). The extent of these and other purchases from the wider group mean that Firstgas (distribution) procures more that 65% of its operating expenditure (OPEX) and capital expenditure (CAPEX) from a related party.

Given this use of related party transactions, Firstgas (distribution) is subject to the full disclosure requirements for related parties under the *Gas Distribution Services Information Disclosure Determination*

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[1] Visit the website www.flexgas.co.nz

[2] Visit the website www.rockgas.co.nz.

[3] The structure of the Firstgas Group and companies has been truncated to facilitate understanding of the related party relationship.

2012 consolidating all amendments as of 3 April 2018 (ID Determination) issued by the Commerce Commission.

The related party information disclosed on the following pages has been prepared in accordance with sections 2.3.8, 2.3.10, 2.3.12 and 2.3.13 of the ID Determination. It:

- Provides a summary of related party relationships and transactions
- Provides a summary of the Firstgas Group procurement policy and describes how this policy is applied in practice by Firstgas (distribution)
- Describes policies and procedures that require consumers to purchase goods or services from related parties
- Provides representative examples of how the procurement policy has been applied for related party purchases and how arm's length terms were tested
- Provides a map of anticipated network expenditure and constraints.

This disclosure was prepared on 17 February 2021 and where required, has been audited as part of the annual information disclosure process.

A copy of the full procurement policy and associated guidelines has been provided to the Commerce Commission as required under section 2.3.11 of the ID Determination.

Further information

For further information regarding this disclosure, please contact:

Karen Collins
Regulatory Policy Manager
First Gas Limited
Karen.Collins@firstgas.co.nz
04 979 5368

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1. Summary of Firstgas' related party relationships and transactions

Clause 2.3.8 of the ID Determination requires that:

> "*if a GDB has had related party transactions involving a procurement from a related party during that disclosure year, the GDB must publicly disclose a diagram or a description that shows the connection between the GDB and the related parties with which it has had related party transactions in the disclosure year, including for each of those related parties:*
>
> *(1) the relationship between the GDB and the related party*
> *(2) the principal activities of the related party and*
> *(3) the total annual expenditure incurred by the GDB with the related party.*

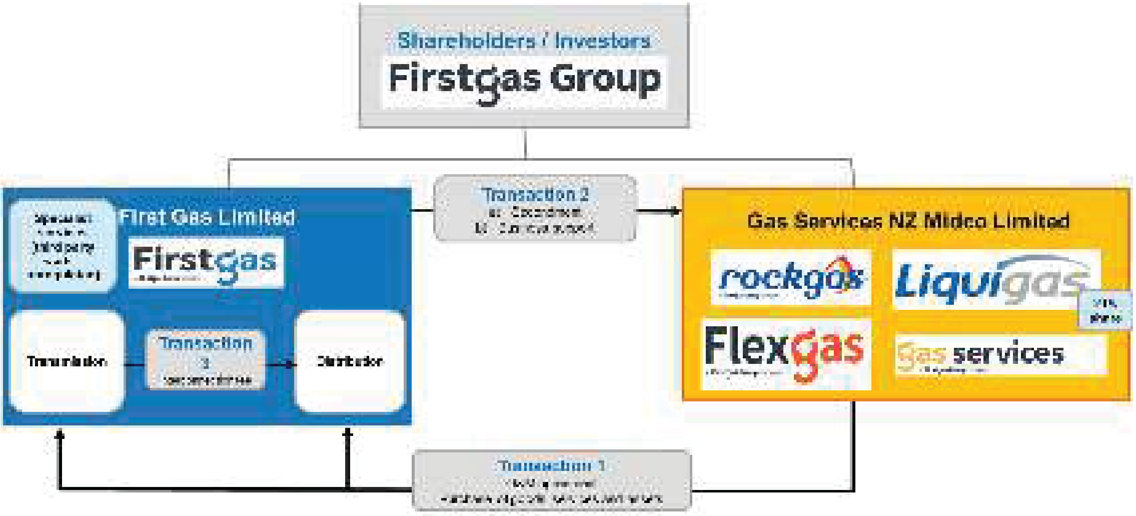
In FY2020 Firstgas (distribution) procured:

- Operations and maintenance (O&M) services from its related party, Gas Services New Zealand (Midco) Limited (GSNZ)
- Interconnection services from Firstgas (transmission).[4]

Firstgas provides unregulated services to GSNZ. In the 2020 disclosure period, Firstgas provided seconded staff and business support services to GSNZ under a Corporate Functions and Secondment Services Agreement (CFSA). The supply of these unregulated services was valued on an arm's length basis.

These transactions are illustrated in Figure 2.

Figure 2: Related party transactions in disclosure year 2020



The following table describes the connection between Firstgas (distribution) and its related parties with which it has had transactions with during the 2020 disclosure year. A breakdown of these transactions is also provided in Schedule 5b of our Information Disclosure schedules.

[4] The Firstgas transmission business and Firstgas distribution business are considered related parties for regulatory reporting purposes.

Table 1: The nature and extent of related party transactions in disclosure year 2020

Related Party	Nature of relationship	Principle activities of the related party	FY2020 expenditure/revenue between Firstgas (distribution) and its related party
Gas Services on behalf of GSNZ (Transaction 1)	Firstgas (distribution) and Gas Services have the same ultimate shareholders	Gas Services provides operations and maintenance (O&M) services. Services are provided principally to Firstgas under an O&M agreement between Firstgas and GSNZ.[5] Costs are directly attributable to Firstgas (distribution).	Network CAPEX $14.818 million Non-network CAPEX $0.02 million Network OPEX $3.75 million System operations and network support OPEX $1.83 million
GSNZ (Transaction 2)	First Gas Limited and GSNZ have the same ultimate shareholders	GSNZ owns and operates Rockgas, Flexgas and Gas Services, which purchases corporate services and employee time from Firstgas under a Corporate Functions and Secondment Services Agreement (the CFSA).	Unregulated income of $2.406 million is included in Schedule 5b for the provision of these services. This unregulated income is included in *total regulatory income* in schedule 5b. This unregulated income is not included in Schedule 2 or Schedule 3.[6]
Firstgas (transmission) (Transaction 3)	Firstgas (transmission) and Firstgas (distribution) are parts of First Gas Limited.	Firstgas (transmission) provides transmission services across the North Island.	System operations and network support OPEX $0.20 million for interconnection fees. Interconnection fees may be charged to parties connecting to the transmission network. Firstgas (distribution) connects to the transmission network.

Gas Services (Midco) New Zealand Limited

Gas Services (Midco) New Zealand Limited (GSNZ) and Firstgas are part of the wider Firstgas Group and have the same ultimate shareholders. GSNZ owns Gas Services, a contracting company providing operations and maintenance services.

In the 2020 disclosure year, GSNZ provided 102% of the Firstgas (distribution) total Capex[7] and 69% of all Opex under an Operations and Maintenance agreement (O&M agreement).

[5] Whilst the O&M agreement is between Firstgas Limited and GSNZ, Gas Services is the party providing the services on behalf of GSNZ

[6] Costs directly attributable to the provision of the unregulated services are removed from the Firstgas regulated accounts. This reduces the level of business support costs remaining that are subsequently allocated to the regulated transmission and distribution businesses.

[7] GSNZ provides 98% of expenditure on all assets commissioned. The provision of customer contributions by third parties means that total CAPEX incurred by our regulated business reduces, and the proportion of CAPEX provided by GSNZ increases to over 100%.

Services provided under the O&M agreement include:

- Management of the gas distribution business operations
- Asset management
- Health, safety and environment management
- Land and planning management
- Design and engineering services
- Scheduling and completing field works
- Incident and emergency response
- Provision of non-network assets such as plant and equipment (if required).

Firstgas provides business support services (executive management, finance, HR, IT and procurement services) to GSNZ under the CFSA.

The O&M agreement and CFSA both expire on 30 September 2022.

Operations and Maintenance (O&M) Agreement

Firstgas procures almost all of it network CAPEX, most of its network OPEX, and almost all of its system operations and network support (SONS) expenditure from GSNZ. These services are provided by Gas Services in accordance with the terms and conditions of the O&M agreement between Firstgas and GSNZ.

While Firstgas owns the network and non-network assets and provides the gas distribution services across the North Island, under the O&M agreement GSNZ manages the operation of the assets, carries out an agreed Capital and Maintenance works programme, responds to incidents and emergencies and provides system operations and network support services to Firstgas.

When Firstgas' shareholders purchased the gas transmission and distribution businesses in 2016, they wanted to blend specific gas pipeline expertise within the company with fresh thinking from outside. The goal was to ensure a continuing development of best practice, efficiency improvements and cost control. A Joint Venture (JV) structure was adopted between GSNZ[8] and Australian gas pipeline services provider OSD (the Gas Services JV) to provide O&M services to Firstgas under an O&M agreement.

The O&M agreement was negotiated an arms' length basis with an independent party (OSD). While the Gas Services JV was still considered a related party (due to the involvement of GSNZ), the role of OSD as third-party operator of the Gas Services JV overcame many of the usual concerns about the discipline on related parties to negotiate balanced arrangements.

The O&M agreement has allowed Firstgas to access a broader range of experience and capability for operating our gas pipeline businesses, drawing on the expertise of staff within Firstgas with the international expertise of OSD (particularly in adopting best practices from Australia).

In 2018, GSNZ released OSD from the joint venture. This decision was made to reflect that Firstgas had emerged from the transition phase and significant improvements had been made in project delivery and putting robust processes in place. While this brought an end to the involvement of an independent party in delivering O&M services for Firstgas, the O&M service contract has remained in place (incorporating amendments to reflect the release of OSD).

Costs incurred by Firstgas under the O&M agreement are directly attributable to either the gas transmission or the gas distribution business.

[8] Gas Services New Zealand Limited is the owner of Gas Services New Zealand (Midco) Limited

2. Summary of Firstgas' procurement policy

Clause 2.3.10 of the ID Determination requires that:

> "*if a GDB has had related party transactions involving a procurement from a related party during that disclosure year, the GDB must publicly disclose-*
>
> *(1) a summary of its current policy in respect of the procurement of assets or goods or services from any related party; or*
> *(2) a summary of alternative documentation which is equivalent to a procurement policy in respect of the procurement of assets or goods or services from any related party.*

Pursuant to clause 2.3.10(2) this section provides a summary of our procurement policy and guidelines.[9]

Firstgas operates 2,500 kilometres of gas transmission pipelines (including the Maui pipeline), and more than 4,800 kilometres of gas distribution pipelines across the North Island. We require specialist personnel, contractors and materials to operate and manage this extensive network in a safe and reliable manner.

To maximise our cost efficiency while managing our networks, Firstgas Group has an overarching procurement policy. This policy requires we "*source, engage and manage suppliers in a professional and transparent manner within a consistent framework to achieve best value for Firstgas [Group]."* This Policy provides guiding principles for all procurement by, or on behalf of Firstgas Group[10].

In this section we summarise the procurement principles that underpin the procurement policy and the procurement methods employed by the Firstgas Group. Procurement of goods and services made by GSNZ under the O&M agreement must abide by the Firstgas Group procurement policy.

Procurement principles

Anyone procuring goods and services for Firstgas must be familiar with and apply the following procurement principles:

• Health & Safety First	The health and safety of staff and suppliers must be taken into consideration when procuring goods and/or services.
• Open and Effective Competition	Firstgas purchasing must be conducted in a manner that encourages competition amongst suppliers.
• Get the best value for Firstgas	Making quality decisions that consider the life of the contract (or whole-of-life cost) not just selecting the lowest price.
• Play by the Rules	Building trust and relationships with suppliers and keeping a reputation as a fair buyer.

These principles all contribute to producing efficient and effective infrastructure for the long-term benefit of our business and our customers. While we seek competitive outcomes, we believe consumers equally value least-cost over the lifetime of the asset and Firstgas always places the health and safety of our employees and contractors first. For example, we may not select the lowest price quote or tender if the supplier cannot meet our safety and quality standards or if the life-cycle cost of the asset is higher than other options.

[9] Document 08843 Firstgas Group procurement policy and document 09410 Firstgas Group procurement guidelines
[10] The Firstgas Group referred to in the Procurement policy includes First Gas Limited and those companies fully owned by GSNZ.

The competitive process

Whilst the Firstgas Group encourages competition amongst suppliers through our procurement process, to some extent this is governed by the value of the goods/services to be supplied and the availability of suppliers to meet our needs. This includes being suitably qualified to work on the gas networks.

Low cost purchases that meet the policy thresholds, will be supported, at a minimum, with quotations from several suppliers.[11] High value works that meet policy thresholds will be supported by an open competitive process such as a request for proposal or invitation to tender where possible. This process is undertaken by GSNZ to meet the requirements under its O&M agreement with Firstgas.

The Policy recognises that in some instances sole sourcing may be the only procurement option available. "Sole sourcing" refers to where a competitive procurement process, such as a tender or quote requests, cannot be used or there would be no benefit from going through a competitive process. This will generally be because only one supplier, to the best of our knowledge and belief, can deliver the required good(s) and/or service(s). In the relatively specialised field of gas distribution operations and maintenance, this is not an uncommon situation.

Other typical reasons for selecting sole sourcing include:

- **Availability / workload within pool of approved suppliers**: Particularly with professional services where we have already negotiated rates and have a pool of 3 – 5 suppliers. To ensure that work is allocated to avoid resource conflict, it may be acceptable to sole source smaller projects
- **Exclusivity:** Where Firstgas is already committed to an exclusive contract for the procurement of such goods or services for a set time period (for example the O&M Agreement with GSNZ)
- **OEM / Warranty arrangement:** Where sole source is required contractually.

The sole sourcing procurement option requires formal justification and approval in line with delegated authorities.

Monitoring and compliance

The Firstgas Group procurement team is responsible for monitoring compliance with this Policy for Firstgas and reporting any breaches of this Policy to the Executive. The procurement team will undertake reviews of Firstgas' procurement activity especially around the compliance with this policy and the application of procurement processes. Reviews may include review of the procurement process undertaken by GSNZ acting on the behalf of Firstgas under the O&M agreement.

Failure within the Firstgas Group to comply with the provisions of the procurement policy is a breach of an employee's Code of Conduct & Performance & Conduct Policy. Any instances of reported non-compliance will be investigated and may lead to disciplinary action.

Firstgas has a whistle blower policy that provides an avenue for employees to raise concerns about misconduct or wrongdoing. Misconduct or wrongdoing includes failure to abide by the procurement policy and enables anyone to report identified breaches of the policy.

In FY2020, Firstgas engaged an independent firm to review the key controls and processes in relation to related party transactions within the Group Procurement Policy. There were no significant findings from the review and management communicated the results to the November Audit, Regulatory and Risk Committee.

[11] If the purchase is less than $1,000, only one quote need be obtained.

© First Gas Limited

3. Application of the procurement policy

Clause 2.3.12 of the ID Determination requires that:

> "*if a GDB has had related party transactions involving a procurement from a related party during that disclosure year, the GDB must publicly disclose-:*
>
> *(1) a description of how the GDB applies its current policy for the procurement of assets or goods or services from a related party in practice*
>
> *(2) a description of any policies or procedures of the GDB that require or have the effect of requiring a consumer to purchase assets or goods or services from a related party that are related to the supply of the gas distribution services*
>
> *(3) subject to subclause (5), at least one representative example transaction from the disclosure year of how the current policy for the procurement of assets or goods or services from a related party is applied in practice*
>
> *(4) for each representative example transaction specified in accordance with subclause (3), how and when the GDB last tested the arm's-length terms of those transactions and*
>
> *(5) separate representative example transactions where the GDB has applied the current policy for the procurement of assets or goods or services from a related party significantly differently between expenditure categories.*

Pursuant to clause 2.3.12 (1), the following section describes how Firstgas (distribution) has applied the Firstgas Group procurement policy in respect of the procurement of goods or services from a related party.

In the 2020 disclosure period, Firstgas (distribution) has procured goods and services from:

- GSNZ under the O&M agreement
- Firstgas (transmission) under an agreement for interconnection services.

The section considers the procurement of goods and services under the O&M contract and the purchase of services from Firstgas (transmission).

3.1 Purchase of OPEX and CAPEX services from our related party GSNZ

The procurement policy puts emphasis on making decisions to achieve the best outcomes for Firstgas and its customers whilst keeping our staff, contractors, and assets free from harm. We manage long-life assets and require specialist personnel, contractors, and materials to operate and manage this extensive network in a safe and reliable manner.

Under the O&M agreement, Firstgas has contracted GSNZ to manage the operational functions, maintain the network assets, implement, and feed into the Asset Management Plan (AMP) and provide system operations and network support functions. From time to time, Firstgas may also procure non-network assets from GSNZ. These assets are provided under the service agreement as they relate to the ongoing maintenance of the distribution network or management of the assets on the distribution network. GSNZ acts on behalf of Firstgas when project managing and purchasing required goods and services in the course of carrying out its responsibilities under the O&M agreement.

As discussed above, our first step in ensuring we are achieving the best for our customers and businesses was to enter into an Operations and Maintenance (O&M) agreement.

The O&M agreement (first with the GSNZ Joint Venture and now with GSNZ) provides a range of expertise and experience guiding and supporting our distribution business. This expertise and experience is vital in maintaining and expanding the network and also in the planning process both annually and long-term.

Provisions within the O&M agreement align with Firstgas procurement principles to ensure on-going value of the agreement to our customers. These include:

- Planning to ensure O&M works plans align with Firstgas requirements efficiently and in a cost-effective manner. This may include benchmarking of costs to ensure the O&M agreement continues to meet efficiency targets and is compliant with the related party rules for regulated businesses
- Service level agreements including a range of key performance indicators that are linked to payments
- Provisions around meeting stringent safety standards.

The O&M agreement has been provided to independent appraisers[12] and to our auditors to confirm the terms are consistent with an arm's length transaction and to facilitate the audit of this section of our information disclosure.

To give an idea of how the O&M agreement works in practice, we consider the annual process:

- Planning
- Challenge and benchmarking process
- Execution of works including monitoring and reporting
- Completion of works.

Planning

Planning is an important part of the procurement process. It determines the anticipated work plan for the year and highlights resource requirements, whether they be personnel or materials.

Each year Firstgas management work with the Chief Operations Officer (COO) of GSNZ to develop and update the long-term Asset Management Plan (AMP). The AMP provides the asset management framework for Firstgas' distribution network and includes guidance on the expected annual works plan. The AMP is reviewed and approved by Firstgas management and Board of Directors.

The AMP is part of the long-term planning for the distribution network. It supports the Firstgas business plan and the operations and maintenance (O&M) plan. GSNZ provides Firstgas with the long-term O&M plan to meet the network development and maintenance section of the business plan. The O&M plan includes indicative resourcing and costings and works plans. This must be agreed by both parties and the O&M agreement outlines the resolution process.

The COO of GSNZ provides a budget to Firstgas to complete the annual works plan as required under the O&M agreement.

Challenge and benchmarking process

While GSNZ is a related party of Firstgas, the O&M agreement is a commercial arrangement structured as if two separate legal entities, with different ownership interests, and operating on an arm's length basis. Each party acknowledges that a key objective of Firstgas in appointing GSNZ to deliver the O&M is to ensure value for money and continuous improvement in delivery and value.

In practice, this means that Firstgas may accept in full or challenge any part of the budget provided by GSNZ. Firstgas may subject all or part of the annual budget to a benchmarking procedure undertaken by an independent expert.

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[12] An independent appraiser was engaged to confirm the valuation of related party transactions met the Information Disclosure Determination requirements for our FY2019 disclosures. The independent appraiser report is included in our information disclosure for FY2019, available on the Firstgas website: https://firstgas.co.nz/wp-content/uploads/First-Gas-Distribution-Information-Disclosure-2019-STAMPED.pdf. Firstgas was not required to obtain a further independent appraiser report for our FY2020 disclosures.

The Benchmarker will:

- Compare the O&M Services and Service Fee, including the component parts of the Service Fee, with the services, charges and margins being obtained under other similar service contracts in New Zealand and/or good international market services, charges and margins for third parties
- Assess, in light of this comparison, whether:
  - The scope of the O&M Services being provided is necessary to meet the Service Standards, and
  - The Service Fee, including the component parts of the Service Fee, is market competitive and otherwise meets the Information Disclosure Determination requirements.

As there has been no material change in the scope of contracting services procured from GSNZ in FY2020, we have largely relied on benchmarking work undertaken for FY2019. To confirm there has been no material change in the five-year average margin on costs applied under the O&M agreement we had an independent expert confirm the margin on costs under the O&M agreement remain aligned with comparative third-party service providers. To support the conclusion that our related party transactions are no more than would be incurred under an arms-length basis we have updated our benchmarking of costs against other industry participants, where more information has been available.

Under the O&M agreement, we anticipate that the prices charged by GSNZ will not change significantly from year to year (unless there is strong evidence that input costs have changed). This is consistent with a competitive market where companies with long-term contracts in place (such as the O&M agreement and CFSA) tend to set prices for longer terms. This gives service providers greater certainty to invest in staff and equipment required to fulfil the contract terms over the duration of the contract. When the margins earned by GSNZ under the O&M agreement were reviewed for FY2019, Firstgas engaged independent experts to:

- Confirm the margin charged by GSNZ under the O&M agreement was within the range of providers of similar services; and
- Cross-check that GSNZ costs remain efficient and consistent with the input prices Firstgas would have paid in an arm's length transaction by completing benchmarking against others in the industry.

Whilst we do not anticipate GSNZ would need to significantly change prices within the contract period, we recognise that the onus remains on Firstgas to ensure that costs from related party transactions remain consistent with input prices that we would have paid in an arm's length transaction. The Commission has noted that there is some risk that long-term contracts can become out of date with current market practices and prices and Firstgas has actively considered this risk through our benchmarking process this year.

For FY2020, our O&M agreement remains aligned with current market practices and prices, we have engaged an independent expert to:

- Consider changes in market practices or pricing for similar services and how this may affect arm's length margins
- Conduct a sample of relevant margin data to ensure no substantive and permanent change has occurred in the market since margins were established under the O&M Agreement for FY2019. The sample taken in FY2020 comes from within the larger sample set used in FY2019.

Normally this would be completed as part of the budget setting process if required. FY2020 was an abnormal year because of the COVID-19 pandemic and Firstgas sought confirmation from an independent expert that, to date, there was no significant movement in the market.

Whilst there was some evidence of lower margins due to COVID-19 for some of the sample group considered, there has not been a substantive or permanent change evidenced in the market for the sample group. Overall, the margins within the O&M agreement remained aligned with the market.

Firstgas continued to cross-check that our costs remain efficient and consistent with the input prices Firstgas would have paid in an arm's length transaction by completing benchmarking against others in the industry.

Benchmarking completed by an independent expert for FY2019 was updated for FY2020 where further information was available. This benchmarking confirmed FY2020 costs for Firstgas (distribution) are within the range of costs incurred by others in the industry.

Execution of works including monitoring and reporting

Once the O&M budget has been agreed, GSNZ undertake responsibility to complete the works to the service level required. Significant large-scale projects are managed by the GSNZ projects team. Projects of this nature often require additional resources and expertise. GSNZ will source services and materials as required and in line with the Firstgas procurement policy.

The COO of GSNZ reports monthly to Firstgas on progress against the works plan and budget for services provided under the O&M agreement. From time-to-time works may be required by Firstgas that are outside of the budgeted plan. Any change to the annual work plan is negotiated between GSNZ and Firstgas. Any additional remedial works GSNZ recommend are either included in the current year's workplan, with agreement from Firstgas or included in the annual works budget for following years.

The costs GSNZ incurs undertaking the responsibilities of the O&M agreement are charged to Firstgas monthly and include a commercial mark up to enable a modest commercial profit. As discussed above, benchmarking undertaken in 2019 and reviewed for the FY2020 disclosures has confirmed the mark-up applied is aligned with those of providers of similar services within Australasia, the United Kingdom and United States.

Completion of works

The completion of works is managed within GSNZ. GSNZ will process any project close out documentation and update maintenance records within Firstgas information systems. If the project was a CAPEX project, Firstgas will capitalise the project once GSNZ notifies that the assets have been commissioned.

3.2 Purchase of services from Firstgas (transmission)

Firstgas (transmission) provides interconnection services to several parties who seek to connect or are already connected to the gas transmission system. These parties are commonly referred to as "Interconnecting Parties" (IPs) and include gas distribution businesses, large industrial consumers, power stations and gas producers.

Firstgas (transmission) maintains an Interconnection Policy that explains how it will facilitate new interconnections with the transmission system and sets out some of the key ongoing terms of interconnection. In most circumstances, Firstgas (transmission) will charge an IP certain fees to recover the cost of building, operating, and maintaining a new interconnection or associated equipment.

Firstgas' transmission business charges Firstgas' distribution business (GDB) a daily interconnection fee for:

- the upgrade work that was undertaken on the Horotiu Delivery Point (a transmission asset) in 2018
- the new Delivery Point at Waiuku commissioned in FY2020.

The interconnection fee applied for Firstgas (distribution) was calculated using the same model that is applied for any other interconnected party. All interconnections to the transmission network are governed by the terms of Firstgas' GTB Interconnection Policy. The current draft of this Policy is available on the OATIS website.[13] The interconnection policy specifically states that:

> *"Firstgas will deal with all IPs on an arms' length basis and not prefer or give any priority to any IP except as expressly provided for in the Gas Transmission Access Code (GTAC)."*

[13] https://www.oatis.co.nz/Ngc.Oatis.UI.Web.Internet/Common/Publications.aspx.

4. Policies that require consumers to purchase goods or services from Firstgas' related parties

Section 2.3.12 of the ID Determination requires that:

> *within 6 months after the end of each disclosure year, if a GDB has had related party transactions involving a procurement from a related party during that disclosure year, the GDB must publicly disclose-*
>
> *(2) a description of any policies or procedures of the GDB that require or have the effect of requiring a consumer to purchase assets or goods or services from a related party that are related to the supply of the gas distribution services;*

To work on or near Firstgas' distribution network, a contractor must be deemed competent and authorised to complete the work undertaken to meet operating standard requirements. This is specialised work and, in most instances, Gas Services (a part of GSNZ) provides authorised personnel and completes any work up to the ICP on the distribution network.

From time to time we may require customers to contribute to the cost of development work in the form of a capital contribution. In effect, in these instances, customers are required to use our related party, Gas Services, to complete the works. Our capital contribution policy is available from the Firstgas website at https://firstgas.co.nz/about-us/regulatory/distribution/.

5. Representative examples of how the procurement policy is applied

5.1 Regulatory requirements

Section 2.3.12 of the ID Determination for our GDB specifies that:

> *within 6 months after the end of each* ***disclosure year****, if a* ***GDB*** *has had* ***related party transactions*** *involving a procurement from a* ***related party*** *during that* ***disclosure year****, the* ***GDB*** *must* ***publicly disclose****-*
>
> *(3) subject to subclause (5), at least one representative example transaction from the* ***disclosure year*** *of how the current policy for the procurement of assets or goods or services from a* ***related party*** *is applied in practice;*
>
> *(4) for each representative example transaction specified in accordance with subclause (3), how and when the* ***GDB*** *last tested the arm's-length terms of those transactions; and*
>
> *(5) separate representative example transactions where the* ***GDB*** *has applied the current policy for the procurement of assets or goods or services from a* ***related party*** *significantly differently between expenditure categories.*

5.2 Representative examples

Firstgas sources a range of services from GSNZ to manage the network operations and complete the work plan. GSNZ applies the Firstgas Group procurement policy for all expenditure under the O&M agreement. This is summarised in the table below followed by a separate representative example of the procurement process.

Procurement from Firstgas (transmission) has been completed under the Firstgas Group procurement policy but follows a different approach to testing the arm's length terms and is included separately in Table 2.

All agreements, methodologies and models, and reports from external parties have been provided to our auditors to facilitate their review of our related party transactions in FY2020 and this disclosure.

Table 2: Representative example transactions of costs in Schedule 5b

Expenditure category	Representative example	Procurement method	How and when were the arm's length terms last tested
All network CAPEX categories All network OPEX categories excluding the purchase of fuel gas	Network OPEX and CAPEX and system operations and network support across the network.	Direct procurement from a 'sole supplier' under the existing O&M agreement.	The arm's length terms were tested as part of a benchmarking process that was undertaken during the 2019 disclosure year. For FY2020 Firstgas has relied on the work undertaken in FY2019 and tested it remain appropriate to apply for FY2020. Normally this would be tested when agreeing the budget with our related party. In FY2020 we engaged an independent expert to consider if there was evidence of substantive or permanent change in the market in the wake of the COVID-19 pandemic. For FY2019 we undertook substantive work to confirm the margins and costs under the O&M agreement with our related party met the requirements of an arms-length transaction. Firstgas engaged an independent expert to benchmark: • The margins applied to the costs of O&M services provided by Gas Services to Firstgas • Total service costs against comparable businesses. The margin benchmarking compared services supplied by GSNZ to companies providing similar services across the United Kingdom, United States, Australia and New Zealand. Total costs were compared to similar companies in Australia. Benchmarking was undertaken with the permission of GSNZ. Benchmarking is allowed for under the O&M agreement. To test the arm's length terms in FY2020, we took a more light-handed approach to confirm the charges from Gas Services in FY2020 remain in line with an arms-length transaction Firstgas. We: • Engaged an independent expert to assess, on a sample basis, whether the margins applied by gas services remained aligned with comparable businesses • Updated benchmarking of costs undertaken for FY2019 to confirm the costs for Firstgas were no more than would be incurred under an arms-length transaction. Analysis from the independent expert confirmed there has not been a substantive or permanent change to contract terms evidenced in the market for FY2020. Therefore, we can rely on the application of margins from FY2019 for FY2020, with the support of cost benchmarking to confirm costs remain aligned with others in the industry. Terms of the O&M agreement, advice from the independent expert and benchmarking results were provided to our auditors as part of their review of the related party valuation requirements.

Expenditure category	Representative example	Procurement method	How and when were the arm's length terms last tested
System operations and network support	Interconnection agreements recognising increased or new investment by the transmission business at a delivery point driven by the needs of a distribution customer	Direct procurement from a 'sole supplier' under an interconnection agreement. Firstgas (transmission) is the sole supplier of gas transmission services in New Zealand	Interconnection agreements are standard agreements available to all parties connecting to the Transmission network. Third parties purchase the same or substantially similar services from Firstgas (transmission) on substantially the same terms, including price. Whilst there are no set prices for interconnection fees, there is a consistent methodology for establishing the fees under an interconnection agreement. The fees for each individual agreement reflect the specific details on each site seeking to be connected to the gas transmission network. The value at which the services are provided to Firstgas (distribution) were established using the same methodology that is used for all other unrelated interconnected parties. Firstgas (distribution) tested the value for both interconnection agreements against the Firstgas (Transmission) draft Interconnection policy to ensure the terms and conditions were reflective of that policy when agreeing the terms and fees of the interconnection. Firstgas' auditor has reviewed the interconnection agreements and confirmed comparable pricing to test the arm's length terms for FY2020.

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5.3 Examples of procurement undertaken by GSNZ on our behalf

Firstgas procures a range of services from GSNZ. These services may have different characteristics and involve different procurement choices within the policy to suit the work undertaken. The process will remain consistent with the project management and reporting requirements within GSNZ and with monthly reporting against the budget and works plan provided to the Firstgas executive team.

A field services agreement is in place with Electrix. GSNZ and Electrix work closely together to provide the services required by Firstgas. GSNZ does not have the extensive personnel required to cover the distribution network effectively. Electrix can provide field service staff across our network and respond to incidents and emergencies quickly. Electrix provide field services and may also act as project managers, especially where it is a long-term programme of work being undertaken with limited other resources being required. Electrix field services are overseen by GSNZ's distribution manager and any project management is overseen by the GSNZ project management team.

The following examples of projects or works undertaken by GSNZ for Firstgas illustrates the procurement process.

Major projects

All projects are managed ultimately by GSNZ. The project delivery manager is responsible for delivering project work from the project approval and front-end engineering design (FEED) through to the final delivered and commissioned project.

GSNZ will develop the initial FEED including the scope and expected cost of the project for approval by the Chief Operating Officer (COO). Projects outside of the budget or with significant cost may require a full business case and further approval from Firstgas' Chief Executive and Board.[14]

Major projects are often long term in nature, complex in design and may require more extensive procurement requirements. Due to the typically large amount of dedicated and varied resources required, segments of the project may be subcontracted by GSNZ. Larger projects generally are higher in costs and may require more extensive procurement processes under the Firstgas Group procurement policy. For example, there may be several tenders of work for different stages or requirements of the project.

A GSNZ project manager will be assigned to oversee the project, manage the flow of work, work orders and purchase orders used to track expenditure. The project manager will also ensure suppliers are paid in the time frame specified in any procurement contract for materials or services. Progress is reported to GSNZ management. Progress on major projects may be reported to Firstgas at established intervals.

A formal project close-out process occurs on completion of the project. We have provided two examples to illustrate the delivery of major projects by GSNZ under the O&M contract:

- The relocation of distribution pipelines and a district regulator station (DRS) at Wairere Drive
- Extending the gas network to meet customer needs at Hautapu, near Cambridge.

[14] Firstgas has a Delegations of Authority policy that outlines approval levels.

Example 1: Relocation of distribution pipelines and a DRS

From time-to-time Firstgas is requested by other utilities, local councils, or customers to relocate our existing assets. Typically, asset relocation projects are predominantly funded through capital contributions by the third parties who request the relocation.

In FY2020, Firstgas completed a major relocation of distribution pipelines and a district regulator station (DRS) at Wairere Drive in Hamilton. The relocation of assets was requested by the Hamilton City Council (HCC) to allow for the construction of the extension of Wairere Drive to complete the Hamilton Ring Road.

The following example is provided to illustrate the procurement process followed by GSNZ on our behalf when completing this project. The key outcome was to meet the time schedule specified by HCC and within the agreed budget.

Project name:	Wairere Drive relocation and DRS upgrade
Project date	Detailed design began in October 2018 with commissioning of the relocated assets completed by 31 January 2020
Project or work order number:	10197
Project expenditure (estimated)	$1.16 million from initial scoping and design through to commissioning of the assets and project close-out.
Project cost type	Relocation CAPEX
Project managed by:	GSNZ managed the design of the relocated assets and completion of works under the O&M agreement. The GSNZ project manager was also responsible for liaising with the Hamilton City Council (HCC) and appointed civil consultant Bloxam Burnett and Oliver Ltd (BBO). The HCC provided its own contractors to complete groundworks for the reinstatement of assets and the consenting processes.
Subcontractors:	Plant and Platform was awarded the tender to complete the design works for phase one. Plant and Platform completed further design works under phase two. Relocation works were largely completed by Electrix, with some works falling under the responsibility of HCC and their elected subcontractors.

Planning

In October 2017, Firstgas received a request from the Hamilton City Council (HCC) to relocate our distribution assets between Cambridge Road and Cobham Road in Hamilton. This was to allow for the construction of the final phase in the Hamilton Ring Road network. Firstgas has a legal obligation to relocate our assets when formally requested by the local authority.[15]

This was a major project for Firstgas, and project management was assigned to GSNZ. The HCC was driving the overall programme of work with Firstgas' relocation works scheduled within that programme of works. The GSNZ project manager and distribution manager liaised with the HCC and ensured that as the HCC schedule changed GSNZ could manage its own works, including subcontractors, to meet the new timing.

A project management team was established within GSNZ and tasked with developing a business case for the relocation works. As part of the business case, GSNZ asset managers and engineers considered the

[15] Gas Act 1992, s33.

assets to be relocated and the most efficient and cost-effective approach for the life cycle of the assets. The project required the relocation of DRS 103 and the relocation of existing PE and Steel pipeline assets.

Analysis completed by GSNZ and BBO indicated that the most efficient and cost-effective option for the roading project was to replace DRS 103 with a new suitably sized DRS built to Firstgas Standards rather than to relocate the station and complete required upgrades of equipment. The HCC roading project also required the relocation of a steel pipeline.

Alongside the relocation project Firstgas took the opportunity to decommission a further regulating station in the area (DRS101) and relocate an aging PE pipeline which had been identified for future replacement under our asset management plan.[16] It was more cost effective, and less disruptive to consumers and road users, to complete this work during the time of the relocation and construction work required by HCC than at a later time.

The project was to consist of two main phases:

- Replacement of DRS103 and relocation of steel pipeline (required by HCC)
- Replacement of ageing polyethylene pipeline and the decommissioning of DRS101

A business case was developed for both phases and approved by GSNZ management and the Chief Executive of Firstgas for approximately 1.16 million.

Completion of works:

A Movement of Infrastructure (MOI) agreement was completed between Firstgas and HCC for the design, procurement, and execution of the relocation of assets.

Plant and Platform was contracted to complete the design works and once the design was finalised a scope of work was developed. The HCC undertook to complete groundworks and arranged for consents, such as permission to work in the access corridor. Electrix was contracted to complete the remaining relocation and replacement works as specified in the detailed scope of works.

Physical works were scheduled to begin in December 2018, with commissioning of the relocated and replacement assets in April 2019. Delays in the HCC schedule and the need to avoid the interruption of supply to customers during winter periods meant that the physical works did not start until October 2019. The relocation was completed, and assets commissioned in February 2020.

Once the project began, project costs were paid and tracked within the financial system after being approved by the project manager. Project costs and progress were monitored by the GSNZ project team and reported to the Chief Operating Officer for GSNZ and the Firstgas executive team on a monthly basis.

Market testing:

The detailed design and the construction work that were Firstgas' responsibility under the MOI agreement were outsourced. A closed tender was issued for the design work for phase one in 2018. Two companies were requested to tender. Both companies had extensive experience in design of similar projects and had worked with GSNZ and understood Firstgas Standards for its pipeline assets. The preferred tender was that from Plant and Platform.

The second design phase was also completed by Plant and Platform. The second design phase was procured under the sole sourcing option in 2019. Plant and Platform were well acquainted with the project and relocation requirements and issues discovered in phase one design. Plant and Platform were also available to complete the second phase in the specified timeline. Rather than go to another closed tender, a

[16] Further information on Firstgas' asset replacement plans for the pipeline fleet, particularly the polyethylene pipe installed prior to 1985 is available in our asset management plans. Refer https://firstgas.co.nz/wp-content/uploads/Firstgas-Distribution-AMP-2020-FINAL.pdf.

quote was requested from Plant and Platform. The quote was in line with the previous work completed and accepted by GSNZ.

A sole source approach was taken when GSNZ selected Electrix as the supplier to complete the scope of works for the relocation and replacement of assets. Electrix are the incumbent supplier of O&M services for GSNZ.[17] Electrix provided a quote for the scope of works based on the service agreement terms and the quote was subsequently accepted.

Outcomes:

The project was completed within the scheduled timeframe specified by the Hamilton City Council. The original timeframe was extended to meet the needs of customers and to respond to delays in the Hamilton City Council schedule. Synergies were achieved from aligning the relocation works with replacement of the DRS and the project was completed within budget.

[17] Electrix are the incumbent service provider under a long-term contract in place through to 30 September 2022.

Example 2: Extending the gas network to meet customer needs at Hautapu

A large component of our annual expenditure on assets[18] is allocated to system growth and connecting new customers to our network. In FY2020, Firstgas completed an extension of its gas distribution network at Hautapu to meet customer needs. The network was extended by approximately 2,800 metres to support the expansion plans of Southern Fresh, a new industrial consumer.

Southern Fresh is a leading professional grower and processor of high-quality gourmet vegetables, salad lines and herbs. The new gas connection would supply a 2 MW boiler, allowing Southern Fresh to heat its new high-tech glasshouse and achieve the benefits of CO_2 enrichment. [19]

The following example is provided to illustrate the procurement process followed by GSNZ for this major project. The required outcome was to connect Southern Fresh to the gas distribution network at Hautapu in the timeframe required by the customer and within the cost submitted by GSNZ to Firstgas.

Project name:	Southern Fresh MP4 supply
Project date	The business case was approved in October 2019 with assets available for use in May 2020. Gas was delivered to this customer from July 2020. .
Project or work order number:	P10750
Project expenditure (estimated)	$0.78 million from initial scoping and design through to commissioning of the assets and project close-out.
Project cost type	Customer Connection CAPEX
Project managed by:	GSNZ under the O&M agreement. GSNZ provided a detailed project scope definition including identifying risks and required controls and mitigation of identified risk.
Subcontractors:	Electrix completed design works and construction works through to commissioning based on the scope of works. Once the Business Case was approved by Firstgas, Electrix undertook the day to day project management on behalf of GSNZ with GSNZ oversight.

Planning:

In August 2019, Firstgas' Distribution Commercial Manager received a new customer connection request from Southern Fresh. The Southern Fresh site was a green fields site requiring energy to supply a 2 MW boiler. The customer initially required gas to be available by 1 March 2020.

With a sizable increase in load, and given the specific timing requirements, the Distribution Commercial manager liaised with the engineering, distribution management, and project management teams at GSNZ to:

- Consider any current capacity restrictions in the area
- Confirm the most efficient manner to meet the customer's needs and provide initial scope of work
- Confirm that given the initial scope of work GSNZ, or its approved contractors, could meet the tight deadline to have gas supply to the site

[18] In FY2020 expenditure on system growth and consumer connection assets accounted for approximately 63% of total expenditure on assets.

[19] https://www.southernfresh.co.nz/the-latest-innovation-from-southern-fresh/

- Develop an initial cost estimate. This connection had not been specifically budgeted and would require Firstgas to complete a full business case requiring approval by Firstgas' Chief Executive.

Once it was confirmed that we could meet the customer's needs, Firstgas confirmed the terms of the development and the costs with Southern Fresh. With the customer's agreement to proceed[20], the business case was prepared for consideration by Firstgas' Chief Executive Officer (CEO) by the Firstgas Commercial team and the GSNZ engineers.

The scope for this project required the provider to complete the required planning and notifications, including detailed design planning, to install approximately 2,800 metres of new pipeline. The project required directional drilling, installation of new pipeline and connection to the existing pipeline, the reinstatement of work sites and traffic management. The short time frame in which to complete the works meant that the project would need to begin as soon as possible.

The business case was approved by Firstgas' CEO based the detailed scope of works of $0.78 million and firm quotes for $0.78 million in January 2020.

Completion of works:

With the approval of the business case, GSNZ engaged Electrix to complete the project on its behalf under the sole sourcing option in the procurement policy. Electrix is experienced in the works required and has extensive experience on the Firstgas distribution network.

Electrix completed the detailed design work and completed the extension of the network following the scope of works and to the standards specified in the scope of works.

Once the project began, project costs were paid and tracked within the financial system after being approved by the GSNZ project manager.

Project costs and progress were monitored by the GSNZ project team and reported to the Chief Operating Officer for GSNZ and the Firstgas executive team on a monthly basis.

The project delivery was delayed when Southern Fresh encountered difficulties getting plant and equipment to its site and the urgency for completion lessened. The project delivery was further extended as a result of the COVID lockdown over April – May 2020, with work only recommencing once New Zealand returned to Alert Level 3 in May 2020.

The connection was available from the end of May and the first gas was conveyed to Southern Fresh in July 2020.

Market testing:

The detailed design, and the work to replace the assets were outsourced to Electrix. Electrix has had extensive experience with similar projects on the Firstgas network.

A sole source approach was taken rather than go through a competitive process. From time to time GSNZ may choose to proceed with a sole supplier rather than going through a competitive process. For this project, time was a factor. It was decided to forego the competitive process and the project was completed by Electrix under the terms and rates of their service level agreement.

Outcomes:

The customer initially required the gas to site by March 2020. When the customer inticated delays in their development, we worked with the customer to ensure the connection would be available before required, but

[20] Southern Fresh would be on a non-standard price for distribution services that reflected the cost of the assets.

the urgency for completion was reduced. Assets were available for use in May 2020. The project was completed within budget.

6. Map of anticipated network expenditure and constraints

Section 2.3.13 of the ID Determination requires that:

> *within 6 months after the end of each disclosure year, where a GDB has had related party transactions involving a procurement from a related party during that disclosure year, the GDB must publicly disclose a map of its gas distribution service territory, which includes-*
>
> *(1) subject to clause 2.3.15, a brief explanatory description of the 10 largest forecast operational expenditure projects in the AMP planning period and the likely timing, value and location of the projects;*
>
> *(2) subject to clause 2.3.15*[21]*, a brief explanatory description of the 10 largest forecast capital expenditure projects in the AMP planning period and the likely timing, value and location of the projects;*
>
> *(3) subject to clause 2.3.16, a brief explanatory description of possible future network or equipment constraints and their location, where the responses to the constraints would involve one of the 10 largest future operational expenditure projects in the AMP planning period; and*
>
> *(4) subject to clause 2.3.16, a brief explanatory description of possible future network or equipment constraints and their location, where the responses to the constraints would involve one of the 10 largest future capital expenditure projects in the AMP planning period.*

Section 2.3.14 further specifies the map must:

> *(1) identify whether the forecast or possible operational expenditure or capital expenditure is-*
>
> > *(a) already subject to a contract and, if so, whether that contract is with a related party;*
> >
> > *(b) forecast to require the supply of assets or goods or services by a related party; or*
> >
> > *(c) currently not indicated for supply by a related party; and*
>
> *(2) be consistent with the AMP information specified in-*
>
> > *(a) clause 14.4.4 of Attachment A on network or equipment constraints; and*
> >
> > *(b) clause 14.6 of Attachment A on the network development programme.*

The largest OPEX activities and CAPEX projects in the AMP planning period are provided below. Further information is available in the annual AMP or AMP update available on the Firstgas website.[22]

Largest OPEX activities

Firstgas does not have specific OPEX projects planned for the period. Instead we have provided the total OPEX expenditure. Where it has been possible, we have specified the level of OPEX allocated to each region within our network. Figure 3 sets out the location of the planned OPEX spend, with greater detail in Table 3. All network OPEX and system operations and network support OPEX, is forecast to be completed by our related party, Gas Services New Zealand Midco Limited (GSNZ) under the Operations and

[21] Sections 2.3.15 and 2.3.16 of the ID Determination recognises that there may be less than 10 forecast OPEX or CAPEX projects in the AMP planning period. If this occurs, all projects must be included.

[22] https://firstgas.co.nz/about-us/regulatory/distribution/

Management (O&M) agreement between Firstgas and GSNZ. This agreement will be reviewed by 30 September 2022. GSNZ manages a number of third-party contractors to deliver this network OPEX.

Currently no network constraints have been identified that will result in OPEX during this planning period.

Figure 3: Largest OPEX projects in the AMP planning period

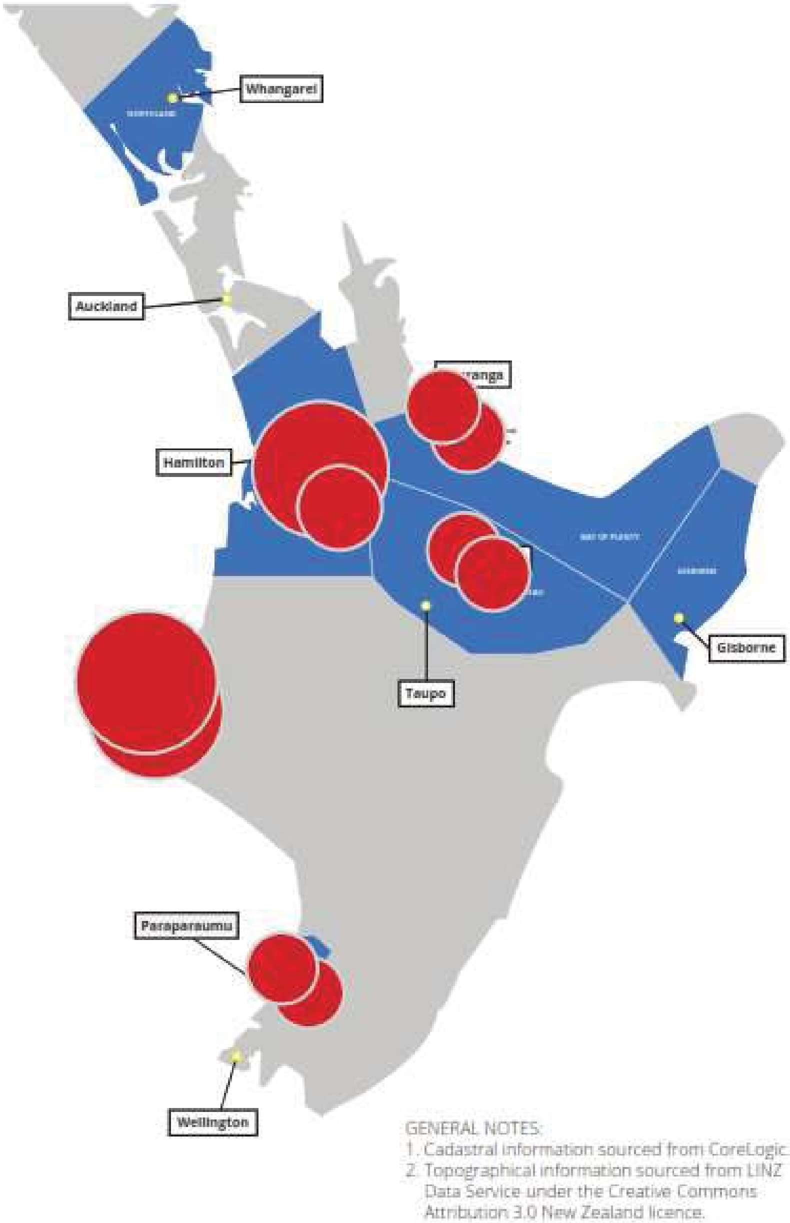

Table 3: Description of OPEX in the AMP planning period by region

Project	Description	Region	Cost (constant$)	Period
Service interruptions, incidents and emergencies	Ongoing costs to support reactive activities in terms of safety response and repair of any part of asset damaged from environmental factors or third-party interference, response to any fault at a station where safety or supply integrity could be compromised, and remediation or isolation works of unsafe network situations.	Waikato ($12 million) Bay of Plenty ($5 million) Central Plateau ($5 million) Kapiti Coast ($5 million) Northland ($1.5 million) Gisborne ($1.5 million)	$31 million	Across the period
Routine and corrective maintenance and inspection	Ongoing costs directly associated with operating and maintaining the Gas Distribution System.	Waikato ($8 million) Bay of Plenty ($3 million) Central Plateau ($3 million) Kapiti Coast ($3 million) Northland ($1.5 million) Gisborne ($1.5 million)	$ 20 million	Across the period
System operations and network support	Ongoing costs to support the management and operation of the network.	New Plymouth	$ 16 million	Across the period
Business support (not completed by our related party)	Ongoing costs to support distribution operations.	New Plymouth	$ 18 million	Across the period

Largest CAPEX projects

The high-level heat map provided in Figure 4 shows the largest CAPEX projects we have planned for the next ten years (FY2021 to FY2030) with greater detail in Table 4. The identified projects are all network CAPEX.

Network CAPEX is forecast to be completed by our related party, Gas Services New Zealand Midco Limited (GSNZ) under an operations and management (O&M) agreement between Firstgas and GSNZ. This O&M agreement was entered into with the change in ownership of the distribution business in 2016 and will be reviewed before September 2022. GSNZ manages a number of third-party contractors to deliver this network CAPEX. Figure 4 depicts our anticipated significant planned expenditure during the planning period. It is a snapshot in time, with the information we have available, and may change. As we progress into the 10-year plan, we will develop the activities according to our processes to develop more accurate forecasts and delivery schedules. Where the identified projects include some reinforcement work, there may be possible future network or equipment constraints. Currently no such constraints have been identified

Figure 4: Largest CAPEX projects in the AMP planning period

Table 4: Description of the largest CAPEX projects in the AMP planning period

Project	Description	Region	Cost (constant $)	Period
Pre-85 replacement programme	As discussed in section 4.1, replacement of pre-1985 PE pipe will occur throughout the planning period	Waikato, Hamilton ($25 million) Bay of Plenty ($2 million) Kapiti Coast ($2 million) Central Plateau ($1 million)	$30 million	Across the period
Hamilton network reinforcement	To address growth in demand in the area, we are currently reviewing the proposed load growth scenarios through modelling of the Hamilton network to determine the ideal options and timing	Hamilton	$1.5 million	FY2021 – FY2022
Mt. Maunganui IP reinforcement	To enhance network security, we are planning to create IP20 pipeline loops in this area	Bay of Plenty	$2.5 million	FY2024– FY2026
Mains and subdivision urban growth	To address anticipated urban growth development plan for Hamilton, Tauranga and other areas	Hamilton, Tauranga	$35 million	Across the period
Industrial / commercial connections	There are a number of large projects radaring the pipeline	Gisborne, Tauranga	$1.5 million	FY2021-FY2023

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Schedule 19 Certification for Year-end Disclosures

Clause 2.9.3

We, Mark Adrian Ratcliffe and Fiona Ann Oliver, being directors of First Gas Limited, certify that, having made all reasonable enquiry, to the best of our knowledge:

a) The information prepared for the purposes of clauses 2.3.1, 2.3.2, 2.4.21, 2.4.22, 2.5.1, 2.5.2 and 2.7.1 of the *Gas Distribution Information Disclosure Determination 2012* in all material respects complies with that determination

b) The historical information used in the preparation of Schedules 8, 9a, 9b, 9c, 9d, 10a, 10b and 14 has been properly extracted from the First Gas Limited's accounting and other records sourced from the applicable financial and non-financial systems, and that sufficient appropriate records have been retained and

c) In respect of information concerning assets, costs and revenues valued or disclosed in accordance with clause 2.3.6 of the *Gas Distribution Information Disclosure Determination 2012* and clauses 2.2.11(1)(g) and 2.2.11(5) of the *Gas Distribution Services Input Methodologies Determination 2012*, we are satisfied that:

   i. the costs and values of assets or goods or services acquired from a related party comply, in all material respects, with clauses 2.3.6(1) and 2.3.6(3) of the *Gas Distribution Information Disclosure Determination 2012* and clauses 2.2.11(1)(g) and 2.2.11(5)(a)-2.2.11(5)(b) of the *Gas Distribution Services Input Methodologies Determination 2012* and

   ii. the value of assets or goods or services sold or supplied to a related party comply, in all material respects, with clause 2.3.6(2) of the *Gas Distribution Information Disclosure Determination 2012*.

Director: Mark Adrian Ratcliffe

Director: Fiona Ann Oliver

Date: 17 February 2021

Date: 17 February 2021

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Independent Reasonable Assurance Report to the Directors of First Gas Limited ('the company') and to the New Zealand Commerce Commission

Opinion

Our reasonable assurance opinion has been formed on the basis of the matters outlined in this report. In our opinion, in all material respects, Schedules 1, 2, 3, 4, 5 (a-g), 6 (a-b), 7, 10a (iii) and 14 (boxes 1 – 12) of the First Gas Limited Gas Distribution Information Disclosure Requirements Information Templates (the 'schedules'), have been prepared, in accordance with the Commerce Commission Gas Distribution Information Disclosure Determination 2012 (amended as of 3 April 2018) and the related Reasons Paper and Input Methodologies (together 'the determination') for the year ended 30 September 2020.

In our opinion, in all material respects First Gas Limited's basis for valuation of related party transactions in the year ended 30 September 2020 has complied with clause 2.3.6 of the Gas Distribution Information Disclosure Determination 2017 and clauses 2.2.11(1)(g) and 2.2.11(5) of the related Input Methodologies.

In our opinion, in all material respects, First Gas Limited's additional disclosure information for related parties for the year ended 30 September 2020 ('Information Disclosures for Related Parties') has complied with clauses 2.3.8, 2.3.10, 2.3.11 and 2.3.12 of the Gas Distribution Information Disclosure Determination 2017.

As far as appears from an examination of them:

- proper records to enable the complete and accurate compilation of the schedules and Information Disclosures for Related Parties as at 30 September 2020 have been kept by First Gas Limited; and
- the information used in the preparation of the schedules and Information Disclosures for Related Parties as at 30 September 2020 has been properly extracted from First Gas Limited's accounting and other records and has been sourced, where appropriate, from First Gas Limited's financial and non-financial systems.

Information subject to assurance

We have performed an engagement to provide reasonable assurance in relation to First Gas Limited's schedules and Information Disclosures for Related Parties for the year ended 30 September 2020.

Criteria

We have performed an engagement to provide reasonable assurance in relation to the schedules 1, 2, 3, 4, 5 (a-g), 6 (a-b), 7, 10a (ii), 14 (boxes 1 – 12) and the Information Disclosures for Related Parties that have been prepared in accordance with the determination for the year ended 30 September 2020.

Key Assurance Matters

Key assurance matters are those matters that, in our professional judgement, were of most significance in our reasonable assurance engagement in relation to First Gas Limited's schedules in the current regulatory period. We summarise below those matters and our key procedures to address those matters in order that the directors and the New Zealand Commerce Commission may better understand the process by which we arrived at our opinion. Our procedures were undertaken in the context of and solely for the purpose of our opinion on the schedules and Information Disclosures for Related Parties as a whole and we do not express discrete opinions on separate elements of the schedules and Information Disclosures for Related Parties.

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The key assurance matter	How the matter was addressed in our audit
1. Capitalisation of assets into the regulatory assets base ('RAB'). Refer to Schedule 4 and Schedule 6a.	
Capitalisation of assets into the RAB (capital expenditure during the year of $15 million and assets commissioned of $15 million) is a key assurance matter due to the following significant judgements involved: — Assessment whether an asset meets the definition of network or non-network asset; — Allocation of non-directly attributable assets to the gas distribution business. Specifically, this judgement relates to the selection of allocators which appropriately align to the cause of the expenditure.	Our procedures included, amongst others: — Examining the operating effectiveness of controls related to the approval of capital expenditure; — Checking a sample of costs to invoice to determine whether the description of the expenditure met the capitalisation criteria in the determination and is consistent with their presentation as either network or non-network assets; — Comparing RAB assets commissioned to those commissioned for financial reporting purposes and obtaining explanation for any significant differences; — Examining and challenging the allocators used to allocate non-directly attributable assets into the RAB. This includes an assessment of whether the allocator is an appropriate reflection of the cause of the expenditure. We found no material errors in the amounts capitalised in the period.
2. Completeness and accuracy of SAIDI and SAIFI. Refer to Schedule 10a(ii).	
The accuracy and completeness of SAIDI and SAIFI (512 interruptions, SAIDI of 1,055 and SAIFI of 10.0) in the period is a key assurance matter due to the following factors: — The complexity of the calculation of SAIDI and SAIFI which requires detailed information about each individual outage, including the start time and restoration time for each affected connection; — The reliance of manual manipulation of the outage dataset to arrive at the SAIDI and SAIFI numbers in schedule 10.	The procedures we performed to evaluate accuracy of the dataset used to calculated SAIDI and SAIFI included amongst others: — Comparing the details of each outage in the SAIDI and SAIFI dataset to the outage records of First Gas's external field service provider; — Recalculating SAIDI and SAIFI according to the methodology of the Gas Information Disclosure determination. The procedures we performed to evaluate completeness of the dataset used to calculate SAIDI and SAIFI included amongst others: — Checking whether, on a sample basis, major outage events recorded in the media were appropriately recorded in the dataset; — Assessing of parameters used to extract data from the underlying systems. We found no material errors in the calculation of SAIDI and SAIFI.

3. Allocation of shared and other costs into operating expenditure. Refer to Schedule 5d and Schedule 6b.

The allocation of shared and other costs ($1.5 million of not directly attributable expenditure within the total of $8 million of operating expenditure) into operating expenditure is a key assurance matter due to:

- The fact that First Gas operates across a number of businesses, both regulated services (gas distribution and gas transmission) and non-regulated services. A number of operating costs can therefore be shared across these businesses.
- Allocation of shared and other costs into the gas distribution business requires judgement. Specifically, this judgement relates to the selection of allocators which appropriately align to the cause of the expenditure.

The procedures we performed to evaluate the allocation of non-directly attributable costs included, among others;

- Examining and challenging the allocators used to record shared and other costs into operating expenditure. This includes an assessment of whether the allocator is an appropriate reflection of the cause of the expenditure;
- Comparing the total amount of shared and other costs to that recorded for financial reporting purposes and obtaining and validating explanations for any significant differences;
- Examining shared and other costs and obtaining and validating explanations for any significant movement compared to historic levels or our understanding of the current business model and strategy.

We found no material errors in the amounts of shared and other costs allocated to First Gas's gas distribution business in the period.

4. Valuation and identification of related party transactions Refer to Schedule 5b.

The valuation of transactions with related parties ($2 million of unregulated income, $5.8 million of operating expenditure and $15m of capital expenditure incurred with related parties in the period) is a key assurance matter due to the significant judgement in forming a view of related party pricing in the absence, or insufficiency, of publicly available information about pricing and terms of certain services;

The procedures we performed to evaluate valuation of related parties' transactions included:

- Comparison of the related party expenditure recorded by First Gas to ensure a) it is the price incurred by the gas distribution business b) the purchase price is not materially lower than that charged to customers who are not related;
- Comparison of the terms and conditions extended by related parties to First Gas to the standard terms and conditions of the supplier, and investigation where a material difference exists;
- Understand and assess the need for an Independent Appraiser's report in RY20 in light of the extent to which the proportion of Related Party transactions in RY20 compares to the proportion of Related Party transactions in RY19. If the increase is in excess of 5% an Independent Appraiser is required. In RY20 an Independent Appraiser was not required;
- We reperformed the application of rates to be applied to Related Party transactions, with reference to the Independent Appraiser report and Company analysis undertaken in RY19. This included checking a sample of Related Party transactions (both sales and expenditure) to underlying evidence.

The procedures we performed to evaluate completeness of related parties' transactions included:

— Challenging whether all related party transactions had been included by comparing to our understanding of First Gas's operating model;

— Ensuring that all related party transactions recorded for financial reporting purposes had been correctly identified and disclosed.

We found no material errors in relation to the valuation or completeness of related party transactions in the period.

Standards we followed

We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) ISAE (NZ) 3000 (Revised) *Assurance Engagements other than audits or reviews of historical financial information* and Standard on Assurance Engagements SAE 3100 (Revised) *Assurance Engagements on Compliance*. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. In accordance with those standards we have:

— used our professional judgement to assess the risk of material misstatement and plan and perform the engagement to obtain reasonable assurance that the schedules and Information Disclosures for Related Parties are free from material misstatement, whether due to fraud or error;

— considered relevant internal controls when designing our assurance procedures, however we do not express an opinion on the effectiveness of these controls; and

— ensured that the engagement team possesses the appropriate knowledge, skills and professional competencies.

How to interpret reasonable assurance and material misstatement

Reasonable assurance is a high level of assurance but is not a guarantee that it will always detect a material misstatement when it exists.

Misstatements, including omissions, within the schedules and Information Disclosures for Related Parties are considered material if, individually or in the aggregate, they could reasonably be expected to influence the relevant decisions of the intended users taken on the basis of the schedules and Information Disclosures for Related Parties.

Use of this assurance Report

Our report should not be regarded as suitable to be used or relied on by any party other than First Gas Limited and the New Zealand Commerce Commission in relation to section 2.8.1 of the Gas Distribution Information Disclosure Determination 2017 for any purpose or in any context. Any party other than First Gas Limited and the New Zealand Commerce Commission who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk.

To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than First Gas Limited and the New Zealand Commerce Commission for our work, for this independent reasonable assurance report, or for the opinions we have reached.

Our report is released to First Gas Limited and the New Zealand Commerce Commission on the basis that it shall not be copied, referred to or disclosed, in whole (save for First Gas Limited's own internal purposes) or in part, without our prior written consent.

Management's responsibility for the schedules and Information Disclosures for Related Parties

Management of the company is responsible for the preparation and fair presentation of the schedules and Information Disclosures for Related Parties in accordance with the Determination. This responsibility includes such internal control as First Gas Limited determine is necessary to enable the preparation of the schedules and Information Disclosures for Related Parties that is free from material misstatement whether due to fraud or error.

Our responsibility

Our responsibility is to express an opinion to the directors and the New Zealand Commerce Commission on the preparation and presentation of the schedules and Information Disclosures for Related Parties in accordance with the Determination.

Our independence and quality control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 (Amended) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our firm has also provided audit and other assurance services to the company. Subject to certain restrictions, partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as assurance providers of the company for this engagement. The firm has no other relationship with, or interest in, the company.

KPMG
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Auckland
17 February 2021