Information disclosure for the gas transmission 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 Firstgas, please visit our website www.firstgas.co.nz.

First Gas Limited is part of the 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 transmission business, for the year ending on 30 September 2020, as required by the *Gas Transmission 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.

GTB Information Disclosure Requirements
Information Templates
for
Schedules 1–10

Company Name	First Gas Limited (Transmission)
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

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Company Name	**First Gas Limited (Transmission)**
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			
7	**1(i): Expenditure Metrics**		
8		**Ratio of expenditure to quantity of gas delivered ($ per TJ)**	**Ratio of expenditure to system length ($ per km)**
9	**Operational expenditure**	288	18,460
10	Network	137	8,811
11	Non-network	150	9,648
12			
13	**Expenditure on assets**	278	17,868
14	Network	200	12,806
15	Non-network	79	5,062
16			
17	**1(ii): Service Intensity Measures**		
18			
19	Volume density	64	*Quantity of gas delivered per km of system length (TJ/km)*
20			
21	**1(iii): Composition of Revenue Requirement**		
22		**($000)**	**% of revenue**
23	Operational expenditure	46,455	35.05%
24	Pass through and recoverable costs excluding financial incentives and wash-ups	8,440	6.37%
25	Total depreciation	34,954	26.37%
26	Total revaluations	12,037	9.08%
27	Regulatory tax allowance	11,739	8.86%
28	Regulatory profit/(loss) including financial incentives and wash-ups	42,991	32.44%
29	Total regulatory income	132,542	
30			
31	**1(iv): Reliability**		
32			
33	Interruption rate	1.5895	*Interruptions per 100km of system length*

Company Name	First Gas Limited (Transmission)
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SCHEDULE 2: REPORT ON RETURN ON INVESTMENT

This schedule requires information on the Return on Investment (ROI) for the GTB relative to the Commerce Commission's estimates of post tax WACC and vanilla WACC. GTBs 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 GTB makes this election, information supporting this calculation must be provided in 2(iii). GTBs 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		**30 Sep 18**	**30 Sep 19**	**30 Sep 20**
9	**ROI – comparable to a post tax WACC**	**%**	**%**	**%**
10	Reflecting all revenue earned	6.49%	5.35%	4.65%
11	Excluding revenue earned from financial incentives	6.49%	5.35%	4.65%
12	Excluding revenue earned from financial incentives and wash-ups	6.49%	5.28%	4.65%
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	7.02%	5.81%	4.98%
21	Excluding revenue earned from financial incentives	7.02%	5.81%	4.98%
22	Excluding revenue earned from financial incentives and wash-ups	7.02%	5.75%	4.98%
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	834,976		
33	*plus*	Opening wash-up account balance	(761)		
34	**Opening RIV**			834,216	
35					
36					
37		Line charge revenue	132,542		
38	*plus*	Wash-up amount	1,751		
39	**Adjusted line charge revenue**			134,293	
40					
41		Expenses cash outflow	54,895		
42	*plus*	Assets commissioned	37,682		
43	*less*	Asset disposals	53		
44	*plus*	Regulatory tax allowance	11,739		
45	*less*	Other regulated income	-		
46	**Mid-year net cash outflows**			104,263	
47					
48	**Term credit spread differential allowance**			-	
49					
50		Total closing RAB value	849,688		
51	*less*	Adjustment resulting from asset allocation	(0)		
52	*less*	Lost and found assets adjustment	-		
53	*plus*	Closing wash-up account balance	(4,040)		
54		**Closing RIV**		845,648	
55					
56					
57	**ROI – comparable to a vanilla WACC**				4.98%
58					
59		Leverage (%)			42%
60		Cost of debt assumption (%)			2.82%
61		Corporate tax rate (%)			28.0%
62					

Company Name	**First Gas Limited (Transmission)**
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SCHEDULE 2: REPORT ON RETURN ON INVESTMENT

This schedule requires information on the Return on Investment (ROI) for the GTB relative to the Commerce Commission's estimates of post tax WACC and vanilla WACC. GTBs 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 GTB makes this election, information supporting this calculation must be provided in 2(iii). GTBs 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		
63	**ROI – comparable to a post tax WACC**	4.65%

Company Name	First Gas Limited (Transmission)
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SCHEDULE 2: REPORT ON RETURN ON INVESTMENT

This schedule requires information on the Return on Investment (ROI) for the GTB relative to the Commerce Commission's estimates of post tax WACC and vanilla WACC. GTBs 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 GTB makes this election, information supporting this calculation must be provided in 2(iii). GTBs must provide explanatory comment on their ROI in Schedule 14 (Mandatory Explanatory Notes).
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sch ref

2(iii): Information Supporting the Monthly ROI

Opening RIV	N/A

($000)

	Line charge revenue	Expenses cash outflow	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	-	-	-	-	-	-

Regulatory tax allowance	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	5.04%
Year-end ROI – comparable to a post tax WACC	4.71%

** The year-end ROI values are comparable to the ROI reported in pre 2012 disclosures by GTBs 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	755	
Revenue wash-up draw down amount	(761)	
Other wash-ups		
Wash-up costs		(5)
Impact of wash-up costs on ROI		(0.00%)

Company Name	**First Gas Limited (Transmission)**
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SCHEDULE 3: REPORT ON REGULATORY PROFIT

This schedule requires information on the calculation of regulatory profit for the GTB for the disclosure year. GTBs 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		132,542
10	*plus*	Gains / (losses) on asset disposals		-
11	*plus*	Other regulated income (other than gains / (losses) on asset disposals)		-
12				
13		**Total regulatory income**		132,542
14		**Expenses**		
15	*less*	Operational expenditure		46,455
16				
17	*less*	Pass-through and recoverable costs excluding financial incentives and wash-ups		8,440
18				
19		**Operating surplus / (deficit)**		77,647
20				
21	*less*	Total depreciation		34,954
22				
23	*plus*	Total revaluations		12,037
24				
25		**Regulatory profit / (loss) before tax**		54,730
26				
27	*less*	Term credit spread differential allowance		-
28				
29	*less*	Regulatory tax allowance		11,739
30				
31		**Regulatory profit/(loss) including financial incentives and wash-ups**		42,991
32				
33		**3(ii): Pass-through and Recoverable Costs excluding Financial Incentives and Wash-Ups**	**($000)**	
34		**Pass through costs**		
35		Rates	1,496	
36		Commerce Act levies	641	
37		Industry Levies	33	
38		CPP specified pass through costs	-	
39		**Recoverable costs excluding financial incentives and wash-ups**		
40		Balancing gas costs	5,053	
41		Urgent project allowance	-	
42		Mokau compressor fuel gas costs	1,216	
43		Other recoverable costs excluding financial incentives and wash-ups	-	
44		**Pass-through and recoverable costs excluding financial incentives and wash-ups**		8,440
45				
46				
47		**3(iv): Merger and Acquisition Costs**		
48				**($000)**
49		Merger and acquisition expenditure		-
50				
51		*Provide commentary on the benefits of merger and acquisition expenditure to the gas transmission business, including required disclosures in accordance with section 2.7, in Schedule 14 (Mandatory Explanatory Notes)*		
52				
53		**3(v): Other Disclosures**		
54				**($000)**
55		Self-insurance allowance		-

Company Name	First Gas Limited (Transmission)
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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. GTBs 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			RAB	RAB	RAB	RAB	RAB
7	**4(i): Regulatory Asset Base Roll Forward**						
8		for year ended	30 Sep 16	30 Sep 17	30 Sep 18	30 Sep 19	30 Sep 20
9			($000)	($000)	($000)	($000)	($000)
10	**Total opening RAB value**		787,701	784,033	824,222	829,884	834,976
11							
12	*less* **Total depreciation**		26,666	29,058	31,148	32,786	34,954
13							
14	*plus* **Total revaluations**		5,893	15,365	15,652	12,154	12,037
15							
16	*plus* **Assets commissioned**		20,805	55,154	21,427	25,819	37,682
17							
18	*less* **Asset disposals**		621	1,191	79	-	53
19							
20	*plus* **Lost and found assets adjustment**						-
21							
22	*plus* **Adjustment resulting from asset allocation**		(3,079)	(81)	(190)	(93)	(0)
23							
24	**Total closing RAB value**		784,033	824,222	829,884	834,976	849,688
25							

sch ref		Unallocated RAB *		RAB	
26	**4(ii): Unallocated Regulatory Asset Base**				
28		($000)	($000)	($000)	($000)
29	**Total opening RAB value**		835,664		834,976
30	*less*				
31	**Total depreciation**		35,233		34,954
32	*plus*				
33	**Total revaluations**		12,045		12,037
34	*plus*				
35	Assets commissioned (other than below)	6,377		5,867	
36	Assets acquired from a regulated supplier				
37	Assets acquired from a related party	31,816		31,816	
38	**Assets commissioned**		38,192		37,682
39	*less*				
40	Asset disposals (other than below)	53		53	
41	Asset disposals to a regulated supplier				
42	Asset disposals to a related party				
43	**Asset disposals**		53		53
44					
45	*plus* **Lost and found assets adjustment**				
46					
47	*plus* **Adjustment resulting from asset allocation**				(0)
48					
49	**Total closing RAB value**		850,616		849,688

50 ** The 'unallocated RAB' is the total value of those assets used wholly or partially to provide gas transmission services without any allowance being made for the allocation of costs to services provided by the supplier that are not gas transmission 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 (Transmission)
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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. GTBs 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	835,664		834,976		
61	*less*	Opening value of fully depreciated, disposed and lost assets	1,317		1,238		
62							
63		Total opening RAB value subject to revaluation	834,348		833,738		
64		**Total revaluations**		12,045		12,037	
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**		39,029		38,906	
69	*plus*	Capital expenditure	44,977		44,481		
70	*less*	Assets commissioned	38,192		37,682		
71	*plus*	Adjustment resulting from asset allocation					
72		**Works under construction - current disclosure year**		45,813		45,705	
73							
74		Highest rate of capitalised finance applied				4.11%	
75							

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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. GTBs 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)	Unallocated RAB * ($000)	RAB ($000)	RAB ($000)
79	Depreciation - standard	28,721		28,721	
80	Depreciation - no standard life assets	6,512		6,233	
81	Depreciation - modified life assets				
82	Depreciation - alternative depreciation in accordance with CPP				
83	**Total depreciation**		35,233		34,954

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			Pipes	Stations	Compressors	Main-line valves	Special crossings	Other network assets	Non-network assets	Total
99		**Total opening RAB value**	531,987	107,744	46,487	6,663	48,522	68,935	24,637	834,976
100	*less*	Total depreciation	18,634	4,929	3,021	508	1,931	1,269	4,662	34,954
101	*plus*	Total revaluations	7,680	1,555	660	106	701	995	341	12,037
102	*plus*	Assets commissioned	8,685	8,249	6,161	5,155	-	2,307	7,125	37,682
103	*less*	Asset disposals	-	40	14	-	-	-	-	54
104	*plus*	Lost and found assets adjustment	-	-	-	-	-	-	-	-
105	*plus*	Adjustment resulting from asset allocation	-	-	-	-	-	-	-	-
106	*plus*	Asset category transfers	-	-	(665)	665	-	-	-	-
107		**Total closing RAB value**	529,718	112,579	49,608	12,080	47,292	70,968	27,442	849,688
109		**Asset Life**								
110		Weighted average remaining asset life	33.1	28.8	23.2	40.0	25.9	21.3	19.8	(years)
111		Weighted average expected total asset life	79.5	36.9	34.3	54.9	80.0	28.8	25.4	(years)

Company Name	**First Gas Limited (Transmission)**
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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).

GTBs 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				
7		**5a(i): Regulatory Tax Allowance**		**($000)**
8		**Regulatory profit / (loss) before tax**		54,730
9				
10	*plus*	Total depreciation	34,954	
11	*less*	Tax depreciation	26,643	
12		**Permanent differences:**		
13	*plus*	Income not included in regulatory profit / (loss) before tax but taxable	- *	
14		Expenditure or loss in regulatory profit / (loss) before tax but not deductible	502 *	
15				
16	*less*	Total revaluations	12,037	
17		Income included in regulatory profit / (loss) before tax but not taxable	- *	
18		Expenditure or loss deductible but not in regulatory profit / (loss) before tax	- *	
19				(11,534)
20		**Temporary differences:**		
21	*plus*	Income not included in regulatory profit / (loss) before tax but taxable	- *	
22		Expenditure or loss in regulatory profit / (loss) before tax but not deductible	161 *	
23				
24	*less*	Income included in regulatory profit / (loss) before tax but not taxable	- *	
25		Expenditure or loss deductible but not in regulatory profit / (loss) before tax	- *	
26				161
27	*less*	Notional deductible interest		9,744
28				
29		**Regulatory taxable income**		41,924
30				
31	*less*	Utilised tax losses	-	
32		Regulatory net taxable income		41,924
33				
34		Corporate tax rate (%)	28%	
35		**Regulatory tax allowance**		11,739
36				
37		* Workings to be provided in Schedule 14		
38				
39				
40		**5a(ii): Disclosure of Permanent and Temporary Differences**		
41		*In Schedule 14, Box 5 and Box 6, provide descriptions and workings of items recorded in the asterisked categories in Schedule 5a(i).*		
42				
43		**5a(iii): Reconciliation of Tax Losses**		**($000)**
44				
45		**Opening tax losses**	-	
46	*plus*	Current period tax losses	-	
47	*less*	Utilised tax losses	-	
48		**Closing tax losses**		-
49		**5a(iv): Regulatory Tax Asset Base Roll-Forward**		
50			**($000)**	
51		**Opening sum of regulatory tax asset values**	198,250	
52	*less*	Tax depreciation	26,643	
53	*plus*	Regulatory tax asset value of assets commissioned	33,762	
54	*less*	Regulatory tax asset value of asset disposals	29	
55	*plus*	Lost and found assets adjustment	-	
56	*plus*	Adjustment resulting from asset allocation	-	
57	*plus*	Other adjustments to the RAB tax value	-	
58		**Closing sum of regulatory tax asset values**		205,340

Company Name	First Gas Limited (Transmission)
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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

sch ref	5b(i): Summary—Related Party Transactions	($000)	($000)
8	**Total regulatory income**		29,246
9			
10	**Market value of asset disposals**		
11			
12	Service interruptions, incidents and emergencies	835	
13	Routine and corrective maintenance and inspection	13,059	
14	Asset replacement and renewal (opex)	-	
15	Compressor fuel	-	
16	Land management and associated activity	1,463	
17	**Network opex**		15,358
18	System operations	3,345	
19	Network support	6,661	
20	Business support	-	
21	**Operational expenditure**		25,364
22	Consumer connection	971	
23	System growth	(22)	
24	Asset replacement and renewal (capex)	29,937	
25	Asset relocations	1,499	
26	Quality of supply	-	
27	Legislative and regulatory	-	
28	Other reliability, safety and environment	-	
29	**Expenditure on non-network assets**		418
30	**Expenditure on assets**		32,803
31	Cost of financing		
32	Value of capital contributions		
33	Value of vested assets		
34	**Capital expenditure**		32,803
35	**Total expenditure**		58,166
36			
37	**Other related party transactions**		

38 5b(iii): Total Opex and Capex Related Party Transactions

39	Name of related party	Nature of opex or capex service provided	Total value of transactions ($000)
40	Gas Services NZ	Service interruptions, incidents and emergencies	835
41	Gas Services NZ	Routine and corrective maintenance and inspection	13,059
42	Gas Services NZ	Land management and associated activity	1,463
43	Gas Services NZ	System operations	3,345
44	Gas Services NZ	Network support	6,661
45	Gas Services NZ	Consumer connection	971
46	Gas Services NZ	System growth	(22)
47	Gas Services NZ	Asset replacement and renewal (capex)	29,937
48	Gas Services NZ	Asset relocations	1,499
49	Gas Services NZ	Expenditure on non-network assets	418
50		[Select one]	
51		[Select one]	
52		[Select one]	
53		[Select one]	
54		[Select one]	
55	**Total value of related party transactions**		58,166

56 ** include additional rows if needed*

57

Company Name | irst Gas Limited (Transmission
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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

sch ref	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

sch ref			
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 (Transmission)
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SCHEDULE 5d: REPORT ON COST ALLOCATIONS

This schedule provides information on the allocation of operational costs. GTBs 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

sch ref	5d(i): Operating Cost Allocations	Arm's length deduction	Gas transmission services	Non-gas transmission services	Total	OVABAA allocation increase ($000s)
8		Value allocated ($000s)				
10	**Service interruptions, incidents and emergencies**					
11	Directly attributable		835			
12	Not directly attributable				-	
13	**Total attributable to regulated service**		835			
14	**Routine and corrective maintenance and inspection**					
15	Directly attributable		13,470			
16	Not directly attributable				-	
17	**Total attributable to regulated service**		13,470			
18	**Asset replacement and renewal**					
19	Directly attributable					
20	Not directly attributable				-	
21	**Total attributable to regulated service**		-			
22	**Compressor fuel**					
23	Directly attributable		6,406			
24	Not directly attributable				-	
25	**Total attributable to regulated service**		6,406			
26	**Land management and associated activity**					
27	Directly attributable		1,463			
28	Not directly attributable				-	
29	**Total attributable to regulated service**		1,463			
30	**System operations**					
31	Directly attributable		3,345			
32	Not directly attributable				-	
33	**Total attributable to regulated service**		3,345			
34	**Network support**					
35	Directly attributable		5,766			
36	Not directly attributable				-	
37	**Total attributable to regulated service**		5,766			
38	**Business support**					
39	Directly attributable		914			
40	Not directly attributable	4,572	14,256	1,487	20,315	
41	**Total attributable to regulated service**		15,170			
42						
43	**Operating costs directly attributable**		32,199			
44	**Operating costs not directly attributable**	4,572	14,256	1,487	20,315	-
45	**Operational expenditure**		46,455			
46						

Company Name	First Gas Limited (Transmission)
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SCHEDULE 5d: REPORT ON COST ALLOCATIONS

This schedule provides information on the allocation of operational costs. GTBs 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)			
47	**5d(ii): Other Cost Allocations**					
48	**Pass through and recoverable costs**	Arm's length deduction	Gas distribution services	- distribution services	Total	OVABAA allocation increase ($000s)
49	**Pass through costs**					
50	Directly attributable		2,286			
51	Not directly attributable				-	
52	**Total attributable to regulated service**		2,286			
53	**Recoverable costs**					
54	Directly attributable		6,269			
55	Not directly attributable				-	
56	**Total attributable to regulated service**		6,269			
57						

				($000)	
58	**5d(iii): Changes in Cost Allocations* †**				
59					
60				($000)	
61	**Change in cost allocation 1**			CY-1	Current Year (CY)
62	Cost category		Original allocation		
63	Original allocator or line items		New allocation		
64	New allocator or line items		Difference	-	-
65					
66	Rationale for change				
67					
68					
69				($000)	
70	**Change in cost allocation 2**			CY-1	Current Year (CY)
71	Cost category		Original allocation		
72	Original allocator or line items		New allocation		
73	New allocator or line items		Difference	-	-
74					
75	Rationale for change				
76					
77					
78				($000)	
79	**Change in cost allocation 3**			CY-1	Current Year (CY)
80	Cost category		Original allocation		
81	Original allocator or line items		New allocation		
82	New allocator or line items		Difference	-	-
83					
84	Rationale for change				
85					
86					

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

Company Name	First Gas Limited (Transmission)
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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. GTBs 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		
7	**5e(i): Regulated Service Asset Values**	
8		**Value allocated ($000s)**
9		**Gas transmission services**
10	**Pipes**	
11	Directly attributable	529,718
12	Not directly attributable	
13	**Total attributable to regulated service**	529,718
14	**Stations**	
15	Directly attributable	112,579
16	Not directly attributable	
17	**Total attributable to regulated service**	112,579
18	**Compressors**	
19	Directly attributable	49,608
20	Not directly attributable	
21	**Total attributable to regulated service**	49,608
22	**Main-line valves**	
23	Directly attributable	12,080
24	Not directly attributable	
25	**Total attributable to regulated service**	12,080
26	**Special crossings**	
27	Directly attributable	47,292
28	Not directly attributable	
29	**Total attributable to regulated service**	47,292
30	**Other network assets**	
31	Directly attributable	70,968
32	Not directly attributable	
33	**Total attributable to regulated service**	70,968
34	**Non-network assets**	
35	Directly attributable	16,600
36	Not directly attributable	10,842
37	**Total attributable to regulated service**	27,442
38		
39	**Regulated service asset value directly attributable**	838,846
40	**Regulated service asset value not directly attributable**	10,842
41	**Total closing RAB value**	849,688

Company Name	**First Gas Limited (Transmission)**
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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. GTBs 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

42

43 ### 5e(ii): Changes in Asset Allocations* †

sch ref				CY-1	Current Year (CY)
44					
45				($000)	
46	**Change in asset value allocation 1**			**CY-1**	**Current Year (CY)**
47	Asset category		Original allocation		
48	Original allocator or line items		New allocation		
49	New allocator or line items		Difference	-	-
50					
51	Rationale for change				
52					
53					
54				($000)	
55	**Change in asset value allocation 2**			**CY-1**	**Current Year (CY)**
56	Asset category		Original allocation		
57	Original allocator or line items		New allocation		
58	New allocator or line items		Difference	-	-
59					
60	Rationale for change				
61					
62					
63				($000)	
64	**Change in asset value allocation 3**			**CY-1**	**Current Year (CY)**
65	Asset category		Original allocation		
66	Original allocator or line items		New allocation		
67	New allocator or line items		Difference	-	-
68					
69	Rationale for change				
70					
71					

72 ** a change in asset allocation must be completed for each allocator or component change that has occurred in the disclosure year. A movement in an allocator metric is not a change in allocator or component.*

73 *† include additional rows if needed*

Company Name	First Gas Limited (Transmission)
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.
GTBs 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		971
9		System growth		(22)
10		Asset replacement and renewal		29,779
11		Asset relocations		1,499
12		Reliability, safety and environment:		
13		Quality of supply	-	
14		Legislative and regulatory	-	
15		Other reliability, safety and environment	-	
16		**Total reliability, safety and environment**		-
17		**Expenditure on network assets**		32,227
18		Expenditure on non-network assets		12,740
19				
20		**Expenditure on assets**		44,967
21	*plus*	Cost of financing		1,437
22	*less*	Value of capital contributions		1,923
23	*plus*	Value of vested assets		-
24				
25		**Capital expenditure**		44,481
26		**6a(ii): Subcomponents of Expenditure on Assets(where known)**		
27		Research and development		1
28		**6a(iii): Consumer Connection**		
29		*Connection types defined by GTB**	**($000)**	**($000)**
30		Direct Connect	971	
31		[GTB connection type]		
32		[GTB connection type]		
33		[GTB connection type]		
34		[GTB connection type]		
35		** include additional rows if needed*		
36		**Consumer connection expenditure**		971
37				
38	*less*	Capital contributions funding consumer connection expenditure	949	
39		**Consumer connection less capital contributions**		22

Company Name	**First Gas Limited (Transmission)**
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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.
GTBs 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

sch ref			System Growth	Asset Replacement and Renewal
40		**6a(iv): System Growth and Asset Replacement and Renewal**		
41			**System Growth**	**Asset Replacement and Renewal**
42			**($000)**	**($000)**
43		Pipes	(82)	12,535
44		Compressor stations	-	5,179
45		Other stations	59	11,920
46		SCADA and communications	-	107
47		Special crossings	-	-
48		*Components of stations (where known)*		
49		Main-line valves	-	-
50		Heating system	-	-
51		Odorisation plants	-	-
52		Coalescers	-	-
53		Metering system	-	37
54		Cathodic protection	-	-
55		Chromatographs	-	3
56		**System growth and asset replacement and renewal expenditure**	(22)	29,779
57	*less*	Capital contributions funding system growth and asset replacement and renewal	-	3
58		**System growth and asset replacement and renewal less capital contributions**	(22)	29,777
59				
60				

sch ref				
61		**6a(v): Asset Relocations**		
62		*Project or programme**	**($000)**	**($000)**
63		402 Line Te Rapa Realignment – POAL	255	
64		Transmission Gully Pipeline relocations	530	
65		Murphys Road 400B Pipeline Realignment	17	
66		200 Line Ladies Mile Pipeline Realignment	223	
67		0	-	
68		** include additional rows if needed*		
69		All other projects or programmes - asset relocations	474	
70		**Asset relocations expenditure**		1,499
71	*less*	Capital contributions funding asset relocations	972	
72		**Asset relocations less capital contributions**		527
73		**6a(vi): Quality of Supply**	**($000)**	**($000)**
74		*Project or programme**		
75		[Description of material project or programme]		
76		[Description of material project or programme]		
77		[Description of material project or programme]		
78		[Description of material project or programme]		
79		[Description of material project or programme]		
80		** include additional rows if needed*		
81		All other projects or programmes - quality of supply		
82		**Quality of supply expenditure**		-
83	*less*	Capital contributions funding quality of supply		
84		**Quality of supply less capital contributions**		-

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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.
GTBs 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				
85		**6a(vii): Legislative and Regulatory**		
86		*Project or programme**	**($000)**	**($000)**
87		[Description of material project or programme]		
88		[Description of material project or programme]		
89		[Description of material project or programme]		
90		[Description of material project or programme]		
91		[Description of material project or programme]		
92		** include additional rows if needed*		
93		All other projects or programmes - legislative and regulatory		
94		**Legislative and regulatory expenditure**		-
95	*less*	Capital contributions funding legislative and regulatory		
96		**Legislative and regulatory less capital contributions**		-
97				
98		**6a(viii): Other Reliability, Safety and Environment**		
99		*Project or programme**	**($000)**	**($000)**
100		[Description of material project or programme]		
101		[Description of material project or programme]		
102		[Description of material project or programme]		
103		[Description of material project or programme]		
104		[Description of material project or programme]		
105		** include additional rows if needed*		
106		All other projects or programmes - other reliability, safety and environment		
107		**Other reliability, safety and environment expenditure**		-
108	*less*	Capital contributions funding other reliability, safety and environment		
109		**Other reliability, safety and environment less capital contributions**		-
110				
111		**6a(ix): Non-Network Assets**		
112		**Routine expenditure**		
113		*Project or programme**	**($000)**	**($000)**
114		Equipment	418	
115		ICT	7,042	
116		Vehicles	515	
117		Building Refurbishment	1,174	
118		Right-of-use Assets	3,591	
119		** include additional rows if needed*		
120		All other projects or programmes - routine expenditure		
121		**Routine expenditure**		12,740
122		**Atypical expenditure**		
123		*Project or programme**	**($000)**	**($000)**
124		[Description of material project or programme]		
125		[Description of material project or programme]		
126		[Description of material project or programme]		
127		[Description of material project or programme]		
128		[Description of material project or programme]		
129		** include additional rows if needed*		
130		All other projects or programmes - atypical expenditure		
131		**Atypical expenditure**		-
132				
133		**Expenditure on non-network assets**		12,740

Company Name	**First Gas Limited (Transmission)**
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 disclosure year. GTBs 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	835	
9	Routine and corrective maintenance and inspection	13,470	
10	Asset replacement and renewal	-	
11	Compressor fuel	6,406	
12	Land management and associated activity	1,463	
13	**Network opex**		22,175
14	System operations	3,345	
15	Network support	5,766	
16	Business support	15,170	
17	**Non-network opex**		24,281
18			
19	**Operational expenditure**		46,455
20	**6b(ii): Subcomponents of Operational Expenditure (where known)**		
21	Research and development		583
22	Insurance		

Company Name	**First Gas Limited (Transmission)**
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.

GTBs 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

sch ref		Target ($000) [1]	Actual ($000)	% variance
8	**7(i): Revenue**			
9	Line charge revenue	129,704	132,542	2%

sch ref		Forecast ($000) [2]	Actual ($000)	% variance
10	**7(ii): Expenditure on Assets**			
11	Consumer connection	1,632	971	(41%)
12	System growth	1,319	(22)	(102%)
13	Asset replacement and renewal	28,719	29,779	4%
14	Asset relocations	2,397	1,499	(37%)
15	Reliability, safety and environment:			
16	Quality of supply	510	-	(100%)
17	Legislative and regulatory		-	-
18	Other reliability, safety and environment		-	-
19	**Total reliability, safety and environment**	510	-	(100%)
20	**Expenditure on network assets**	34,578	32,227	(7%)
21	Expenditure on non-network assets	9,842	12,740	29%
22	**Expenditure on assets**	44,420	44,967	1%

sch ref		Forecast ($000) [2]	Actual ($000)	% variance
23	**7(iii): Operational Expenditure**			
24	Service interruptions, incidents and emergencies	733	835	14%
25	Routine and corrective maintenance and inspection	16,010	13,470	(16%)
26	Asset replacement and renewal		-	-
27	Compressor fuel	3,758	6,406	70%
28	Land management and associated activity	1,071	1,463	37%
29	**Network opex**	21,572	22,175	3%
30	System operations	2,879	3,345	16%
31	Network support	3,659	5,766	58%
32	Business support	16,476	15,170	(8%)
33	**Non-network opex**	23,014	24,281	6%
34	**Operational expenditure**	44,586	46,455	4%
35				

sch ref		Forecast ($000) [2]	Actual ($000)	% variance
36	**7(iv): Subcomponents of Expenditure on Assets (where known)**			
37	Research and development	500	1	(100%)
38				

sch ref		Forecast ($000) [2]	Actual ($000)	% variance
39	**7(v): Subcomponents of Operational Expenditure (where known)**			
40	Research and development		583	-
41	Insurance		-	-
42				

43 *1 From the nominal dollar target revenue for the pricing year disclosed under clause 2.4.3(3) of this determination*

44 *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 (Transmission)**
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SCHEDULE 8: REPORT ON BILLED QUANTITIES AND LINE CHARGE REVENUES

This schedule requires disclosure of the delivered quantities and number of offtake points for each type of connection on the GTB's network, and the energy delivered to these offtake points, for the disclosure year. It also requires the billed quantities and associated line charge revenues for each contract type used by the GTB, for the disclosure year.

sch ref

8 **8(i): Billed quantities by contract type**

9

sch ref	Contract type	Billed quantities - Gas throughput billed*	Billed quantities - Reserved capacity billed*	Billed quantities - Overrun charges billed*	Billed quantities - Approved Nominations billed**	Billed quantities - ∑(Approved Nominations x distance) billed**	Other quantities billed
10							
11		TJ	TJ	TJ	TJ	TJ.km	TJ.km
12	Standard	64,665	53,014	1,901	154,741	16,239,412	-
13	Non-standard	37,011	131,009	49	-	-	-
14	*Add extra rows for additional contract types as necessary*						
15	**Totals for all contracts**	101,676	184,023	1,950	154,741	16,239,412	-
16							

17 **8(ii): Line charge revenues ($000) by contract type**

18

sch ref	Contract type	Total line charge revenue in disclosure year	Gas throughput revenue*	Reserved capacity revenue*	Overrun charges revenue*	Approved Nominations revenue**	∑(Approved Nominations x distance) revenue**	Other line charge revenue	Notional revenue foregone from posted discounts (if applicable)
19									
20	Standard	$108,532	9,546	57,429	4,241	11,316	25,999	-	n/a
21	Non-standard	$24,011	780	21,886	100	-	-	1,245	n/a
22	*Add extra rows for additional contract types as necessary*								
23	**Totals for all contracts**	$132,542	$10,326	$79,315	$4,341	$11,316	$25,999	$1,245	-

24 *Vector only

25 **MDL only

26

Company Name	**First Gas Limited (Transmission)**
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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

	Asset category	Asset class	Units	Items at start of year (quantity)	Items at end of year (quantity)	Net change	Data accuracy (1–4)
8	Pipes	Protected steel pipes	km	2,514	2,517	3	3
9	Pipes	Special crossings	km	8	8	0	3
10	Stations	Compressor stations	No.	9	9	-	3
11	Stations	Offtake point	No.	131	132	1	3
12	Stations	Scraper stations	No.	14	14	-	3
13	Stations	Intake points	No.	11	11	-	3
14	Stations	Metering stations	No.	5	5	-	3
15	Compressors	Compressors—turbine driven	No.	4	4	-	3
16	Compressors	Compressors—electric motor driven	No.	2	2	-	3
17	Compressors	Compressors—reciprocating engine driven	No.	14	14	-	3
18	Main-line valves	Main line valves manually operated	No.	75	75	-	3
19	Main-line valves	Main line valves remotely operated	No.	11	11	-	3
20	Heating systems	Gas-fired heaters	No.	110	110	-	3
21	Heating systems	Electric heaters	No.	4	4	-	3
22	Odorisation plants	Odorisation plants	No.	22	22	-	3
23	Coalescers	Coalescers	No.	40	41	1	3
24	Metering systems	Meters—ultrasonic	No.	9	10	1	3
25	Metering systems	Meters—rotary	No.	61	61	-	3
26	Metering systems	Meters turbine	No.	77	77	-	3
27	Metering systems	Meters—mass flow	No.	1	1	-	3
28	SCADA and communications	Remote terminal units (RTU)	No.	89	89	-	3
29	SCADA and communications	Communications terminals	No.	3	3	-	3
30	Cathodic protection	Rectifier units	No.	49	49	-	3
31	Chromatographs	Chromatographs	No.	10	11	1	3

Company Name: **First Gas Limited (Transmission)**
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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

7 **Disclosure Year (year ended)** 30 September 2020

Number of assets at disclosure year end by installation date

sch ref	Asset category	Asset class	Units	pre-1960	1960 –1964	1965 –1969	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)
8																																					
9	Pipes	Protected steel pipes	km	-	-	637	79	319	1,278	149	10	22	0	-	-	-	1	0	5	0	0	2	0	2	-	1	3	0	-	-	1	1	3	-	2,517	-	3
10	Pipes	Special crossings	km	-	-	2	1	1	3	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	-	8	-	3
11	Stations	Compressor stations	No.	-	-	2	-	1	5	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9	-	3
12	Stations	Offtake point	No.	-	-	4	9	23	56	14	4	10	-	-	-	-	-	2	-	2	-	-	-	-	-	-	1	5	-	-	-	1	1	-	132	-	3
13	Stations	Scraper stations	No.	-	-	3	-	3	5	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	14	-	3
14	Stations	Intake points	No.	-	-	-	-	3	1	-	1	-	-	1	-	-	-	-	1	2	-	1	-	-	-	1	-	-	-	-	-	-	-	-	11	-	3
15	Stations	Metering stations	No.	-	-	1	-	1	2	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5	-	3
16	Compressors	Compressors—turbine driven	No.	-	-	-	-	-	1	-	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	4	-	3
17	Compressors	Compressors—electric motor driven	No.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	-	-	-	-	2	-	3
18	Compressors	Compressors—reciprocating engine drivei	No.	-	-	3	-	3	4	4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14	-	3
19	Main-line valves	Main line valves manually operated	No.	-	-	18	6	10	26	13	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	75	-	3
20	Main-line valves	Main line valves remotely operated	No.	-	-	-	2	4	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11	-	3
21	Heating systems	Gas-fired heaters	No.	-	-	4	6	9	43	15	1	4	-	-	-	-	-	2	-	3	-	1	1	-	2	1	-	5	4	2	1	1	5	-	110	-	3
22	Heating systems	Electric heaters	No.	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	1	-	1	-	-	-	1	-	-	-	-	-	4	-	3
23	Odorisation plants	Odorisation plants	No.	-	-	1	-	2	2	-	-	1	-	-	-	-	14	-	-	-	-	-	-	-	2	-	-	-	-	-	-	-	-	-	22	-	3
24	Coalescers	Coalescers	No.	-	-	2	2	8	16	5	-	4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-	-	1	-	41	-	3
25	Metering systems	Meters—ultrasonic	No.	-	-	-	-	-	-	-	-	-	-	-	-	-	1	1	-	1	-	-	2	-	3	1	-	-	-	-	-	-	1	-	10	-	3
26	Metering systems	Meters—rotary	No.	-	-	-	-	-	4	6	6	-	1	1	-	-	1	1	3	3	-	1	5	3	1	3	1	5	-	1	6	7	2	-	61	-	3
27	Metering systems	Meters turbine	No.	-	-	-	-	-	-	-	-	7	-	-	-	-	-	-	1	2	-	7	2	8	-	-	6	8	-	9	7	16	4	-	77	-	3
28	Metering systems	Meters—mass flow	No.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	1	-	3
29	SCADA and communications	Remote terminal units (RTU)	No.	-	-	-	-	-	-	-	-	-	-	-	-	1	-	4	28	15	8	5	3	9	2	-	2	5	2	1	-	4	-	-	89	-	3
30	SCADA and communications	Communications terminals	No.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	1	-	-	-	-	-	-	-	-	-	-	-	3	-	3
31	Cathodic protection	Rectifier units	No.	-	-	5	1	5	7	1	1	-	-	-	-	-	-	-	2	1	2	1	2	2	2	9	3	2	1	1	1	-	-	-	49	-	3
32	Chromatographs	Chromatographs	No.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	-	1	1	-	1	1	-	-	2	-	-	1	1	-	1	-	11	-	3

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

SCHEDULE 9c: REPORT ON PIPELINE DATA

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

sch ref

sch ref	Transmission system	System length (km) (at year end)	Weighted average pipe diameter (mm)	Max monthly quantity entering the system (TJ per month)	Max weekly quantity entering the system (TJ per week)	Total gas conveyed (TJ per year)	Gas conveyed for Persons not involved in the GTB (TJ per year)	Number of connection points
7								
8	South - Kapuni - Frankley Road	1,034	220	3,903	2,944	32,648	32,439	64
9	Bay of Plenty	607	156	1,044	753	9,604	9,550	34
10	North	541	189	2,925	1,497	28,596	28,328	39
11	Te Awamutu North	11	155	79	35	555	555	3
12	Minor	16	69	31	22	305	302	19
13	Maui Pipeline	308	747	12,780	3,020	138,174	137,892	27
14	**Total**	2,517						

15 **Length by assigned location class (km)**

sch ref		Sensitive Use (S)	Industrial (I)	Heavy Industrial (HI)	Common Infrastructure Corridor (CIC)	Submerged (W)	Total (km) (at year end) *	Percentage of total
15		Secondary location class						
16								
17	Primary location class Rural (R1) land	9	10	8	4	2	2,228	88.55%
18	Primary location class Rural Residential (R2) land	9	0	1	3	1	153	6.07%
19	Primary location class Residential (T1) land	41	19	1	2	4	135	5.37%
20	Primary location class High Density (T2) land	-	-	-	-	-	-	-

21 ** The total km is not the same as the sum of the secondary location classes as a pipeline section may only have a primary location class.*

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

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

7 ### 9d(i): New Connections

sch ref	Connection types defined by GTB	Number of new connections
9	Distribution System	1
10	Direct Connect	-
11	Receipt Point	1
12		
13		
14	* include additional rows if needed	
15	**Connections total**	2

16

17 ### 9d(ii): Gas Volumes and Connections

sch ref	Connection types defined by GTB	Intake volume (TJ)	Quantity of gas delivered (TJ)	Number of connection points
19	Distribution System	162,184	-	15
20	Direct Connect	-	127,433	36
21	Receipt Point	-	34,039	108
22				
23	* include additional rows if needed			
24	**Total**	162,184	161,472	159

25

26 ### 9d(iii): Gas conveyed

sch ref		(TJ)
27	Intake volume (TJ)	162,184
28	Quantity of gas delivered (TJ)	161,472
29	Gas used in compressor stations (TJ)	681
30	Gas used in heating systems (TJ)	128
31	Change in line pack (TJ)	(14)
32	Vented gas (TJ)	8
33	Unaccounted for gas (TJ)	(119)
34	**Total gas conveyed (TJ)**	162,289

35

36 ### 9d(iv): Unaccounted for Gas

sch ref	Transmission system	Gas entering the system (TJ)	Unaccounted for gas (TJ)	Unaccounted for gas (%)	Intake volume (TJ)	Interconnected system intake (TJ)	Interconnected intake systems (name)
38	Combined systems	162,184	(119)	(0.07%)	162,184	-	-
39		-		-	-		
40		-		-			
41		-		-			
42		-		-			
43		-		-			
44	**Total**				162,184	-	

Company Name	**First Gas Limited (Transmission)**
For Year Ended	**30 September 2020**
Network	**Maui**

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

7 ### 9d(i): New Connections

sch ref	Connection types defined by GTB	Number of new connections
9	Intake Point (excluding Bi-directional Points)	-
10	Offtake Point (excluding Bi-directional Points and Compressor Stations)	1
11	Bi-Directional Point	-
12	Compressor Station	-
13		
14	** include additional rows if needed*	
15	**Connections total**	1

16

17 ### 9d(ii): Gas Volumes and Connections

sch ref	Connection types defined by GTB	Intake volume (TJ)	Quantity of gas delivered (TJ)	Number of connection points
19	Intake Point (excluding Bi-directional Points)	136,632	-	7
20	Offtake Point (excluding Bi-directional Points and Compressor Stations)	-	129,269	18
21	Bi-Directional Point	1,494	8,623	1
22	Compressor Station	-	-	1
23	** include additional rows if needed*			
24	**Total**	138,126	137,892	27

25

26 ### 9d(iii): Gas conveyed

sch ref		(TJ)
27	Intake volume (TJ)	138,126
28	Quantity of gas delivered (TJ)	137,892
29	Gas used in compressor stations (TJ)	282
30	Gas used in heating systems (TJ)	-
31	Change in line pack (TJ)	(12)
32	Vented gas (TJ)	-
33	Unaccounted for gas (TJ)	(60)
34	**Total gas conveyed (TJ)**	138,174

35

36 ### 9d(iv): Unaccounted for Gas

sch ref	Transmission system	Gas entering the system (TJ)	Unaccounted for gas (TJ)	Unaccounted for gas (%)	Intake volume (TJ)	Interconnected system intake (TJ)	Interconnected intake systems (name)
38	Maui Pipeline	-	(35)	-			
39		-		-			
40		-		-			
41		-		-			
42		-		-			
43		-		-			
44	**Total**				-	-	

Company Name	First Gas Limited (Transmission)
For Year Ended	30 September 2020
Network	Non-Maui

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

9d(i): New Connections

Connection types defined by GTB	Number of new connections
Distribution System	-
Direct Connect	-
Bi-Directional	-
Receipt Point	1
** include additional rows if needed*	
Connections total	1

9d(ii): Gas Volumes and Connections

Connection types defined by GTB	Intake volume (TJ)	Quantity of gas delivered (TJ)	Number of connection points
Distribution System	-	34,752	113
Direct Connect	-	30,393	23
Bi-Directional	9,803	6,029	4
Receipt Point	61,837	-	18
** include additional rows if needed*			
Total	71,640	71,174	158

9d(iii): Gas conveyed

	(TJ)
Intake volume (TJ)	71,640
Quantity of gas delivered (TJ)	71,173
Gas used in compressor stations (TJ)	399
Gas used in heating systems (TJ)	128
Change in line pack (TJ)	(2)
Vented gas (TJ)	8
Unaccounted for gas (TJ)	(70)
Total gas conveyed (TJ)	71,708

9d(iv): Unaccounted for Gas

Transmission system	Gas entering the system (TJ)	Unaccounted for gas (TJ)	Unaccounted for gas (%)	Intake volume (TJ)	Interconnected system intake (TJ)	Interconnected intake systems (name)
South-Kapuni-Frankley Road (SKF)	34,175	(159)	(0.47%)	34,175		
Bay of Plenty (BOP)	7,991	76	0.95%	7,991		
North (NORTH)	28,613	19	0.07%	28,613		
Te Awamutu North (TAN)	558	-	-	558		
Minor (MINORS)	305	-	-	305		
	-	-	-	-		
Total				71,642	-	

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

SCHEDULE 10a: REPORT ON NETWORK RELIABILITY AND INTERRUPTIONS

This schedule requires a summary of the key measures of network reliability (interruptions, compressor availability) for the disclosure year
GTBs must provide explanatory comment on their network reliability for the disclosure year in Schedule 14 (Explanatory Notes to Templates).

sch ref

7 ## 10a(i): Interruptions and Reliability

8

sch ref		
9	Total number of planned interruptions	-
10	**Service incidents and emergencies**	
11	Number of incidents	274

12

13 ### Unplanned interruptions in transmission systems

sch ref	Description and cause of Interruption	Transmission systems affected	Date	Duration (hrs)
15	Nil			
16				
17				
18				
19				
20				
21				
22				

23 **Add rows as necessary*

24 Number of interruption or curtailment events:

sch ref		
25	due to insufficient capacity	1
26	due to consumer flows exceeding approved quantities	-
27	caused by equipment failure	1
28	caused by third parties	38
29	**Total**	40

30 ## 10a(ii): Compressor Availability

31

sch ref	Compressor station code/name	Compressor unit ID	Number of hours the compressor ran	Number of hours compressor was available for service	Number of instances where the compressor failed to start	Number of instances where a compressor was required but unavailable for service
33	Mokau	Unit #1	5,994	8,394	10	2
34	Mokau	Unit #2	2,346	7,919	3	2
35	Henderson	1	3,749	8,688	-	4
36	Henderson	2	3,965	8,694	-	4
37	Kaitoke	1	1,802	8,604	5	-
38	Kaitoke	2	716	8,596	12	-
39	Kapuni	2	2,282	7,332	-	-
40	Kapuni	3	3,023	6,245	1	-
41	Kapuni	5	5,375	7,260	11	-
42	Kawerau	1	34	8,757	3	-
43	Kawerau	2	32	6,588	2	-
	Mahoenui	1	81	6,877	-	-
	Mahoenui	2	48	8,257	6	-
	Mahoenui	3	122	7,005	3	-
	Pokuru	1	5,408	8,691	-	2
	Pokuru	2	3,090	8,466	4	3
	Rotowaro	3	5,118	6,087	-	-
	Rotowaro	4	5,714	6,020	-	-
	Rotowaro	5	1,385	8,784	-	-
	Rotowaro	6	1,615	8,767	1	-

44 **Add rows as necessary*

Company Name	First Gas Limited (Transmission)
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 Transmission Information Disclosure Determination 2012 – as amended and consolidated 3 April 2018. Clause references in this template are to that determination)

1. This schedule requires GTBs to provide explanatory notes to information provided in accordance with clauses 2.3.1, 2.4.20 and subclause 2.5.1(1)(e).

2. This schedule is mandatory— GTBs 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 GTBs 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

In FY2020, the vanilla ROI for our transmission business was 4.98% (reflecting all revenue earned). This is below the ROI of 5.81% reported for FY2019. The decrease in the ROI from FY2019 is substantially driven by a decrease in regulatory profit for FY2020.

The reduction in regulatory profit is predominantly due to the higher cost of compressor fuel and balancing gas this year. Non-network Opex has increased from FY2019 because of higher insurance costs than last year and less time was capitalised to capital projects.

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 Schedule 3(i)

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

Box 2: Explanatory comment on regulatory profit

There are no items of other regulated income and no reclassified items.

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

6. If the GTB 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 GTB.

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 combined initial RAB's of both the Non-Maui transmission system and the Maui transmission system, with adjustments made for additions, disposals, depreciation and revaluation in accordance with the applicable Input Methodologies.

<u>Exemptions applied to the RAB</u>

In 2018, the Commerce Commission agreed that Firstgas would add together the historic disclosed results for each of the transmission businesses for the years prior to 2018. This exemption continues to be applied in the FY2020 disclosure period. There was no adjustment to recognise the different reporting year ends in 2015 and 2016 or the different reporting periods in 2017. Further information on this exemption is provided in the voluntary notes.

<u>Re-categorised items</u>

There were $0.7 million of valve assets related to a compressor included in the Compressors category in FY2019 that should have been included in the Main-line valves category. These assets have been re-categorised in FY2020 as shown in Schedule 4a.

<u>Adoption of NZ IFRS 16 Leases</u>

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, $0.3 million of lease costs went through business support costs. In FY2020, those future payments come into the RAB and for FY2020, $0.3 million 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 permanent differences included in the following items, as recorded in the asterisked categories in 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(i) of Schedule 5a)

9. In the box below, provide descriptions and workings of the material temporary differences included in the following items, as recorded in the asterisked categories in 5a(i) of Schedule 5a:

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

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

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

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

Box 6: Temporary differences 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 (transmission) 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 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 have a proxy cost allocator of RAB
- Insurance costs which have 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

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 allocator as employee numbers tend to drive the need for building assets, computer and office equipment and software.

Re-categorisation of costs

There were $0.7 million of valve assets related to a compressor included in the Compressors category in FY2019 that should have been included in the Main-line valves category. These assets have been re-categorised in FY2020 as shown in Schedule 4a.

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.

Capital expenditure in FY2020

Our focus continues to be on maintaining and improving the resilience of the gas transmission network and security of supply. At the same time, we continue to expand and upgrade the network to meet customer's needs.

These focus areas were reflected in the work programme that was undertaken this year. Major works included:

- Finalising upgrades to the Mokau Compressor Station. This upgrade provided a pressure increase to the transmission system north of Mokau.
- Completing civil works including the construction of a culvert over where the pipeline will be laid for the Gilbert Stream realignment project, with final tie ins expected in FY2022
- Continuing the programme to inspect, and replace if required, aging water bath heaters across stations. This is part of a programme to extend the life of the stations and ensure pressure equipment management targets continue to be met in future.
- In-line-inspection (pigging) of the transmission system. This is an ongoing programme of work. The frequency that the individual pipelines are intelligently pigged is driven by our Pipeline Integrity Management Plan. To maintain our certificate of fitness for the network, our pipeline certifier (Lloyds) requires that we conduct the pigging at our specified intervals across all our piggable pipelines.
- Upgrading the Waikeria Delivery Point to meet increased customer demand.
- Continuing a programme to replace and re-align the 200-line at Runciman Road to address coating deterioration on the pipeline. This is expected to be completed in 2021.
- Addressing land instability on the 200-line at Tiko Tiko Road and on the 400-line at Richardson Road due to land movement. This included providing sub-surface drainage and relieving pipe strain.
- Completing a remediation project to redress land instability within the easement of the 400-line near Awakau Road.

During FY2020, we have continued to develop IT systems to support the proposed new Gas Transmission Access Code (GTAC). This has involved intense work from a cross-functional internal team as well as outsource software / system providers. Over the last few months, there has been a series of workshops underway with Firstgas team members to interpret the detail of the GTAC code and define what the concepts, business rules and processes would mean for us and the industry. The workshops have clearly identified the increasing complexity of the complicated operational processes agreed with the customers through the initial GTAC code development.

Firstgas' Board has requested that Firstgas management complete the current workshops and customer engagements with a requirement to report back to the March 2021 Board meeting, with a list of options and a clear recommendation for the future of the project.

Further detail on our expenditure for 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/aboutus/regulatory/transmission/

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 Schedule 6b(i)

    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 was no asset replacement and renewal operational expenditure this year.

There have been no re-classified items in the disclosure year.

Firstgas has not incurred any material atypical expenditure in FY2020.

Research and development expenditure

Firstgas is committed to supporting New Zealand's transition to a net zero carbon economy and believe that gas networks can make that happen, while still maintaining and improving the resilience of the current gas transmission network and security of supply for natural gas.

In FY2020 we have undertaken two programmes of work focused on research or development:

- A hydrogen feasibility study
- A trial of drones on the network

Hydrogen feasibility study: Firstgas has commenced work on a desktop feasibility study for hydrogen this year that will define the trials required to transport hydrogen in our network. Hydrogen is rapidly emerging as a cost-effective way to decarbonise parts of our energy system, and a leading zero carbon energy solution for applications such as high temperature process heat and heavy transport, which can be expensive or impractical to electrify. The current study has the following objectives:

- Assess the potential sources and uses for hydrogen/hydrogen blends
- Consider the technical feasibility of converting the gas grid
- Establish the economics of decarbonisation using hydrogen
- Design the experiment(s) we need to do to safely convert the grid and selects the location(s).

This trial is discussed in our FY2020 Asset Management Plan here:
https://firstgas.co.nz/wp-content/uploads/J003564-Firstgas-Transmission-AMP-2020-FINAL.pdf

Drone trial: Firstgas is continuing to investigate opportunities to use new technology to more efficiently and effectively manage the transmission system. Use of drones provides opportunities to minimise use of helicopters and fixed wing aircraft for pipeline surveillance activities, potentially providing a reduction in risk and cost, and an improvement in the effectiveness of the surveillance programme. Trials will focus on integrating relevant technologies and addressing current regulatory hurdles related to beyond line-of -sight flights.

Whilst the preparation work for the actual trial was completed in FY2020, the COVID-19 pandemic has meant that the pilots for the drones have not been able to come into New Zealand. The trials are currently on hold.

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

Overall, our capital works programme was broadly aligned with the FY2019 Asset Management Plan (AMP) for the FY2020 period, with expenditure on assets of $45.0 million compared with expenditure forecast in the AMP for this period of $44.4 million.

Network expenditure on assets

We set an ambitious work programme for FY2020. While the work restrictions during the COVID-19 April / May 2020 lockdown period affected our planned spend for the year, our ability to progress planned capital works prior to the lockdown helped to mitigate the shortfall in expenditure.

Where necessary, we have rephased the capital works programme across the remaining two years of this DPP regulatory period. Careful planning and flexibility in our planning approach, allowed us to re-phase delivery of the projects and concentrate on areas of projects that could be delivered during the April / May 2020 lockdown. Once the lockdown restrictions were lifted, the project teams were able to focus back on the delivery of the works programme. Some projects have been specifically deferred due to the impact of COVID-19, while other projects have been deferred to increase confidence that the way we execute the work provides good value and reflects the best possible implementation approach.

Major changes in the programme of work from that planned for FY2020 relate to:

- Rephasing the completion of the Gilbert Stream re-alignment project to FY2022 and a small deferral of civil works to be completed in 2021. This deferral was due to the impact of COVID-19. All site works ceased when New Zealand moved to Alert level 4 in April / May 2020 in response to the COVID-19 pandemic. Work resumed after the winter period when conditions on site improved.
- The technical review for the Maungapukatea (White Cliffs) erosion site has reduced the expenditure planned for FY2020. A review has shown that cliff face erosion rates in the area are lower than previously modelled and therefore, it is unlikely that a major pipeline realignment will be required in the next five years. Our focus has turned from preparing for physical works in FY2026 to continual monitoring of the site and developing responses to monitored trigger points should erosion rates change.

Other projects undertaken in FY2020 included:

- Excavations and inspection works on the 600 series pipelines
- Upgrading compressor station components
- Geotechnical works. For example, addressing land instability at Tiko Tiko Road as discussed in Box 9 above.

Operational expenditure

Operating expenditure is $1.9 million (4%) more than that forecast for the FY2020 disclosure period. This small increase above forecast reflects:

- Increased compressor fuel costs in FY2020, with wholesale gas prices increasing since the publication of the FY2019 AMP Update
- Initial work carried out to define the trials required to transport hydrogen in our network (discussed above), not included in the forecast A review of projects undertaken in FY2020 resulted in small number of older projects being closed out to OPEX

The lockdown in April/May 2020 has also contributed to a higher than forecast non-network. With some CAPEX and routine maintenance work deferred during this period, time (and costs) that would have normally been charged against CAPEX or maintenance remain in the network support OPEX.

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 actual revenue of $132.5 million is approximately 2% more than our target (forecast) revenue of $129.7 million for the FY2020 disclosure period. This small variance to forecast has been largely driven by:

- Higher volumes of gas required by Huntly Power Station than forecast
- Higher over-run revenue from customers under the Vector Transmission Code (VTC) than forecast.

Further information on how we forecast target revenue is available from our transmission pricing methodology and ex-ante price setting compliance statements. These documents are available on the Firstgas website at https://firstgas.co.nz/about-us/regulatory/transmission/

KPMG

16. If prices or price category codes (as applicable) have been changed in a disclosure year, please explain in the box below the effect of this on the allocation of quantities and revenues between connection types or contract types (as applicable) disclosed in Schedule 9d(ii) and Schedule 8.

Box 13: Explanatory comment relating to changed prices or price category codes

There have been no changes to price category codes. However, prices were changed on 1 October 2019, in line with the price path calculation specified in the *Default Price-Quality Path Determination for transmission services, 2017 – 2022.*

The change of price does not affect the allocation of quantities between connection or contract types as disclosed in Schedule 8 and Schedule 9d(ii).

For the FY2020 disclosure period, we have continued to operate under the Maui Pipeline Operating Code (MPOC) and the Vector Transmission Code (VTC) for the Maui and Non-Maui pipelines respectively.

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

Incidents and interruptions

A total of 274 incidents were recorded on the gas transmission system during the FY2020 disclosure period, compared to 345 incidents in FY2019. Most of the incidents in this disclosure period relate to near miss events, station equipment failures, natural gas odour reported in vicinity of pipelines and unauthorised work over the pipeline.

In FY2020 we have seen a significant decrease in the number of unauthorised work events with only 33 reported events in FY2020 compared to 66 the previous year despite similar of higher levels of activity. Firstgas has had an on-going focus on landowner and contractor communications to raise awareness of pipeline safety process requirements including contacting us for easement permits and requesting information on the location of assets before they dig. Satisfaction surveys conducted during the year have indicated landowners and contractors working within our easements have high awareness of the pipeline safety process and continue to report positive interactions with Firstgas.

An interruption is a subset of incidents and occurs when gas supply to a consumer stops for at least one minute. There were no interruptions in this disclosure period.

Curtailments

There were 40 curtailment events recorded in the FY2020 disclosure period.

38 events were curtailments caused by third parties. Firstgas has no control over these curtailments and their number is affected by the number of production station outages, or mismatch between nominated and actual gas flows by system users.

One curtailment was caused by equipment failure. A suspected pipeline defect in November 2019 resulted in the need to temporarily reduce the pipeline pressure and a restriction was placed on producers/shippers offtake for approximately two days while the defect was assessed and repaired.

The remaining curtailment was a result of a compressor station power supply failure, and is an allowed response under the established commercial contract with the affected consumer.

The number of curtailments this year is similar the previous year. The majority of curtailments are either:

- A result of under or over-taking of gas, with respect to the nominations provided, which results in a curtailment being required to re-balance the pipeline
- Curtailments that the GTB execute on behalf of other users on the Maui Pipeline, at their request, often due to an upstream gas producer plant experiencing an unplanned outage.

Curtailment provisions and procedures for the Maui Pipeline network are described in section 15 of the Maui Pipeline Operating Code (MPOC).[1]

Compressor stations and performance

In Schedules 9a and 9b, we have disclosed 20 compressors situated at 9 compressor stations. In Schedule 10a, we have reported operating data for 20 compressors at 8 stations. The reason for the difference is that Schedules 9a and 9b account for all stations owned by Firstgas, whereas Schedule 10 accounts for all stations and compressors currently operational.

The number of instances when a compressor was required but unavailable for service has decreased in this disclosure period (from 36 instances in FY2019 to 17 in FY2020). The cause of this decrease

[1] The MPOC is available at: https://www.oatis.co.nz/Ngc.Oatis.UI.Web.Internet/Common/Publications.aspx

was primarily due to a lower number of interruptions to the power supply for the Henderson compressors. The availability of the Henderson compressors when required improved this year due to a lower number of electrical supply issues in the geographical area of the compressor station.

Emergency events

There were no emergency events during this disclosure period.

Insurance cover

18. In the box below, provide details of any insurance cover for the assets, including-

    18.1 The GTB'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 all assets in the gas transmission system, including policies for material damage, business interruption and contract works insurance.

Insurance costs are allocated to the Transmission 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

    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 (Transmission)
For Year Ended	30 September 2020

Schedule 15 Voluntary Explanatory Notes

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

1. This schedule enables GTBs to provide, should they wish to-

   1.1 additional explanatory comment to reports prepared in accordance with clauses 2.3.1, 2.4.20, 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

Exemptions

From 2018, Firstgas has been completing a single disclosure for the Maui and Non-Maui transmission networks. To facilitate the merged reporting, in FY2019 Firstgas received an exemption for the reporting of historic RAB roll-forward information in Schedule 4. The exemption continues to apply for the FY2020 disclosure year.

Section 4(i) requires that Firstgas rolls forward the Regulated Asset Base (RAB) on an annual basis from 30 September 2014. However, for the 2015/2016 disclosure period the two separate networks (operating under separate owners) had different year ends and neither of them were September.

For the historic roll-forward of RAB, we have added the annual disclosed results together. No adjustment has been made for the different year ends (2015 – 2016) or the different disclosure period in FY2017 when both networks transitioned to a September year-end.

Separate schedules for demand

In FY2020, Firstgas has disclosed separate demand schedules (Schedule 9d) for the Maui and Non-Maui systems, and a third schedule for the full gas transmission business (GTB). This is the second disclosure that includes a Schedule 9d disclosure for the full GTB.

The Maui and Non-Maui transmission systems operated under separate access codes for the FY2020 disclosure period – the Maui Pipeline Operating Code (MPOC) and Vector Transmission Code (VTC). Whilst disclosing separate schedules for demand provides greater transparency, it does not provide the amalgamated amount of gas conveyed for the single transmission business. Quantities of gas are transferred between the systems under the access codes, therefore adding the demand quantities together is not accurate.

In completing the 2020 information disclosure, Firstgas has continued to provide information on the separate systems and has included a third version of Schedule 9d reflecting the amalgamated demand across the entire transmission business. The amalgamated schedule for the GTB removes the quantities of gas transferred between the systems under the separate access codes. The ratios in Schedule 1 where the quantity of gas delivered (TJs) is used, refers to the TJs disclosed in the amalgamated GTB schedule.

Related party transactions

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 FY2020 disclosure year.

REGULATORY DISCLOSURE

Gas transmission 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.

First Gas Limited 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 underground gas storage facility at Ahuroa.[1] Rockgas has over 80 years' experience providing LPG to approximately 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' transmission business. Firstgas (transmission) 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 Firstgas Group means that Firstgas (transmission) procures more than 65% of its operating expenditure (OPEX) and capital expenditure (CAPEX) from a related party.

Given this use of related party transactions, Firstgas (transmission) is subject to the full disclosure requirements for related parties under the *Gas Transmission Information Disclosure Determination 2012* consolidating all amendments as of 3 April 2018 (ID Determination) issued by the Commerce Commission.

[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.

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 (transmission)
- 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 GTB has had related party transactions involving a procurement from a related party during that disclosure year, the GTB must publicly disclose a diagram or a description that shows the connection between the GTB 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 GTB and the related party*
> *(2) the principal activities of the related party*
> *(3) the total annual expenditure incurred by the GTB with the related party.*

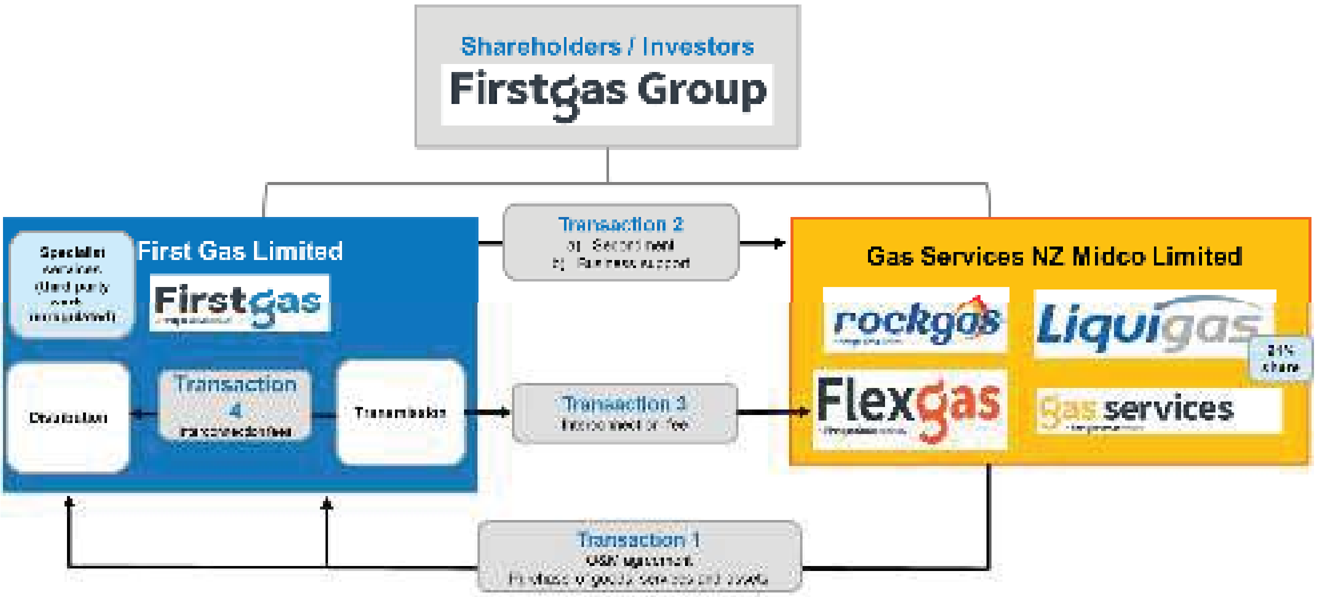
In FY2020 Firstgas (transmission):

- Procured operations and maintenance (O&M) services from its related party, Gas Services New Zealand (Midco) Limited (GSNZ)
- Supplied interconnection services to Flexgas and Firstgas (distribution).[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 transaction flows are illustrated in Figure 2.

Figure 2: Related party transactions in disclosure year 2020



The following table describes the connection between Firstgas (transmission) 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 (transmission) and its related party
Gas Services (a division of GSNZ) (Transaction 1)	Firstgas (transmission) 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 (transmission).	Network CAPEX $32.385 million Non-Network CAPEX $0.418 million Network OPEX $15.358 million System operations OPEX $3.345 million and network support OPEX $6.661 million
GSNZ (Transaction 2)	Firstgas 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 $29.029 million is included in Schedule 5b for the provision of these services. This unregulated income is included in *total regulatory income* in schedule 5b (and is not included in Schedule 2 or Schedule 3).[6]
Flexgas (Transaction 3)	Firstgas (transmission) and Flexgas have the same ultimate shareholders	Flexgas provides gas storage facilities to contracted third parties.	Other income received of $0.014 million for interconnection fees. Flexgas' gas storage facility at Ahuroa connects to the gas transmission network.
Firstgas (distribution) (Transaction 4)	Firstgas (transmission) and Firstgas (distribution) are separate regulated businesses both owned by Firstgas	Firstgas (distribution) provides gas distribution services across the central North Island.	Other income received of $0.204 million for interconnection fees. Firstgas (distribution) connects to the gas 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. GSNZ also owns Flexgas, which operates the gas storage facility at Ahuroa, and Rockgas.

In the 2020 disclosure year, GSNZ provided 74% of the Firstgas (transmission) total Capex and 55% of all Operating Expenditure (Opex) under an Operations and Maintenance agreement (O&M agreement).

Services provided under the O&M agreement include:

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[5] Whilst the O&M agreement is between First Gas 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.

- Management of the gas transmission 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
- Gas control services
- 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 capital expenditure, most of its network OPEX, and all 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 transmission 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[7] 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 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 under the O&M agreement are directly attributable to either the gas transmission or the gas distribution business.

[7] 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 GTB has had related party transactions involving a procurement from a related party during that disclosure year, the GTB 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.[8]

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, the 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.[9]

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 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 above other criteria. 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.

[8] Document 08843 Firstgas Group procurement policy and document 09410 Firstgas Group procurement guidelines

[9] 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 will be supported, at a minimum, with quotations from several suppliers[10]. High value works 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 transmission 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. In order 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 the whistle blower policy enables anyone to report identified breaches of the procurement 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.

[10] If the purchase is less than $1000 only one quote need be obtained.

3. Application of the procurement policy

Clause 2.3.12 of the ID Determination requires that:

> "*if a GTB has had related party transactions involving a procurement from a related party during that disclosure year, the GTB must publicly disclose-*
>
> *(1) a description of how the GTB 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 GTB 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 transmission 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 GTB last tested the arm's-length terms of those transactions; and*
>
> *(5) separate representative example transactions where the GTB 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 (transmission) 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 (transmission) has procured goods and services from GSNZ under the O&M agreement.

Firstgas has contracted GSNZ as the sole provider of operations and maintenance services. GSNZ acts on behalf of Firstgas when project managing and purchasing required goods and services while carrying out its responsibilities under the O&M agreement.

The section considers the procurement of goods and services under the O&M contract.

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 transmission network or management of the assets on the transmission 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 transmission 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[11] 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)[12]. The AMP provides the asset management framework for Firstgas' transmission 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 transmission 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.

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[11] 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.

[12] Firstgas (transmission) publishes an AMP or AMP update annually. These documents are available from our website https://firstgas.co.nz/about-us/regulatory/transmission/

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.

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 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
- Cross-checked 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, there has not been a substantive or permanent change evidenced in the market for FY2020. 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 (transmission) 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. 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.

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 GTB has had related party transactions involving a procurement from a related party during that disclosure year, the GTB must publicly disclose-*
>
> *(2) a description of any policies or procedures of the GTB 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 transmission services;*

To work on or near Firstgas' transmission network, a contractor must be deemed competent and authorised to complete the work undertaken to meet operating standard requirements. This is very specialised work and we require any work up to the delivery point on the transmission network be completed by Gas Services (a part of GSNZ).

Customers that contribute to the cost of new developments or upgrades on our network are therefore required to use Gas Services to complete the works. Our capital contribution policy is available at https://firstgas.co.nz/about-us/regulatory/transmission/.

5. Representative examples of how the procurement policy is applied

5.1 Regulatory requirements

Section 2.3.12 of the ID Determination for our GTB specify that:

*within 6 months after the end of each **disclosure year**, if a **GTB** has had **related party transactions** involving a procurement from a **related party** during that **disclosure year**, the **GTB** 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 **GTB** last tested the arm's-length terms of those transactions; and*

*(5) separate representative example transactions where the **GTB** 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.

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 System operations and network support Non-network assets	Network OPEX and CAPEX and system operations and network support across the network. We provide examples below of procurement undertaken by GSNZ on our behalf under the O&M agreement	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.

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.

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

Major projects

All projects are managed by GSNZ. The project delivery manager is responsible for delivering project work from the project approval and front-end engineering design (FEED) phase 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 further approval from Firstgas' Chief Executive and Board.[13]

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 more expensive 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 timeframe 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 contracts:

- The Grove 80 regulator replacement at Kinleith
- A geohazard remediation project: land erosion remediation at Awakau Road.

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

Example 1: Grove 80 regulator replacement at Kinleith

During FY2020, Firstgas continued with our programme of work to replace our fleet of obsolete Grove 80 regulators. We received notification in 2013 of the planned obsolescence of the Grove 80 regulators and supporting soft parts by the manufacturer. The regulators are used across a large number of our sites and our annual asset management plans (AMPs) have signalled the ongoing programme of work to replace the regulators before parts became unavailable. Firstgas is currently completing replacement at the last stations on the list, with the Grove replacement programme expected to be completed in FY2021.Our AMPs help form the annual works programme that targeted a number of sites each year across the North Island to upgrade to newer equipment over the course of the last five years.

After discussions with GSNZ's asset management team and engineers, in addition to replacement of the regulators Firstgas has taken the opportunity to review our pressure regulation controls onsite. Where possible, we now also incorporate slam-shut valves as an additional safety device to prevent over pressure incursions.

In FY2020, the Grove 80 regulators at Kinleith scraper station were replaced. The following example is provided to illustrate the procurement process followed by GSNZ to complete this asset replacement project.

Project name:	Kinleith scraper station – Grove 80 Regulator Replacement.
Project date	The project scope was completed in September 2018 with the works completed on 26 May and final close out of the project expected in early FY2021.
Project or work order number:	P10026
Project expenditure (estimated)	$0.491 million from initial scoping and design through to commissioning of the assets and project close-out.
Project cost type	Asset replacement and renewal Capex
Project managed by:	GSNZ under the O&M agreement
Subcontractors:	Several sub-contractors were required to deliver the project including Worley Parsons for the detailed design, Energyworks for the mechanical works and ENTEC provided instrument and electrical works and were responsible for managing sub-contractors required for the associated civil works.

Planning:

During FY2018, the Kinleith scrapper station (including Kinleith No 1 delivery point (DP) and Kinleith No 2 DP) was targeted as one of the sites for regulator replacement by FY2020. Project management and design for the project was to be undertaken by GSNZ under the O&M agreement. GSNZ would also be responsible for the execution and completion of the project, with oversight over any sub-contractors engaged.

The business case for the project was approved in FY2018 with an expected cost of $0.427 million and the project fell into the range of regulator replacement projects included in the works plan agreed between Firstgas and GSNZ for FY2019. It was initially expected that commissioning of the replacement assets would occur in October 2019.

The project would:

- Replace the existing obsolete Grove 80 Flexflo regulators with a modern equivalent
- Install new slam-shuts to match regulator capacity and change the pressure settings to accommodate the new slam-shut valves for the site

- Replace the current DN80 pressure relief valves (PSV) that were also obsolete
- Upgrade SCADA for the slam-shut valve position indication switches and their connection to Gas Control, install an additional inlet Pressure Instrument Transmitter at Kinleith No 1 DP, water bath temperature transmitters at the Scraper Station and the return signal from the existing flowmeter at Kinleith No 2
- Require excavation works between the scrapper station and Kinleith No 1 DP.

As well as design works, GSNZ would be responsible for procuring instrument and electrical (I&E) services and mechanical services and ensuring all site works conformed to Firstgas health and safety protocols.

Completion of works:

The Grove 80 regulatory replacement work at Kinleith was part of the larger regulator replacement programme of works. GSNZ recommend to Firstgas that sites scheduled for regulator replacement be grouped into a portfolio of works rather than considering each site separately. The design works and implementation were similar across sites and bundling sites into a portfolio of works would provide synergies in the timing of design and completion of works and minimise costs .

A closed tender had been completed in November 2018 for design works for the regulator replacement at the Warkworth and Gisborne DPs. Four companies had been invited to tender for the works. In December 2018, we invited the same four companies to extend the scope of works to include a further five sites, including the Kinleith DPs. In February 2019, Worley Parsons were selected to complete the detailed design works for the extended portfolio of replacement sites .

Procurement of Instrument and Electrical (I&E) and mechanical services specific to the Kinleith project was undertaken by GSNZ following the Firstgas Group procurement policy.

The external suppliers for the I&E and mechanical works were selected post a closed tender process. Requests to Quote on the statement of works were made to suppliers that had previously worked with Firstgas and GSNZ and were considered to have the raft of experience and knowledge required to complete the works to the standard required and in the time frame specified. Energyworks was selected to complete the mechanical works and Entec was selected to supply the I&E services.

The initial business case identified resource availability to be a risk to the timely completion of the works. Resource availability combined with difficulties with excavation work due to hard ground and design changes meant the site works were not undertaken until February/March 2020. The project works were substantially completed before the COVID -19 lockdown in April/May 2020 but were ceased during the lockdown period.Final instrument and electrical works were completed on 26 May 2020.

The unexpected difficulties encountered in the excavation work and the need to use different barriers for transmitter replacement (within the project scope) also increased the costs of the project and a further $64,000 of expenditure was approved.

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:

Most of the design and development works for the new delivery point were outsourced. Closed tenders were issued for:

- The detailed design work (as part of the portfolio of design work for the Grove 80 replacement programme)
- Mechanical works
- Instrument and electrical construction work

For each of these separate sections of work, at least two companies were requested to tender. Working with gas pipes and structures is specialised work. The companies that were offered the request to tender were considered to have the raft of experience and knowledge required to complete the scope of works. Most had worked with GSNZ and Firstgas to complete similar projects and were considered to be aligned with our high expectations around safety.

In all instances, each company provided a valid quote for the job indicating they could meet the standards and outputs required including the revised timing specified. The successful company was chosen foremost on their experience on similar projects. A second consideration was the cost quoted and our previous experience of the company keeping to that quoted price.

Outcomes:

The scope of works was completed, and assets commissioned within a revised time frame. Ultimately the programme of works, within which the Kinleith project falls, is expected to reach completion in FY2021.

Delays due to resourcing, excavation works that were more difficult than expected and the need to change design resulted in costs exceeding the original budget.

Whilst the final close out of the project documentation and invoices will not occur until the FY2021 disclosure period, we expect the project will be within 1% of budgeted costs.

Example 2: Land remediation at Awakau Road, Mokau

Firstgas' transmission pipelines run the length of the North Island, with areas of geotechnical risk posing a problem for our pipelines. Addressing geohazard risk is therefore a priority for us. Firstgas monitors potential geohazards[14] and we prioritise our work plans to remediate the risks. Geohazard monitoring and reporting is largely completed for us by GSNZ, who regularly report back to Firstgas and support the prioritisation of remediation projects, developing the detailed scopes of work, and managing subsequent work programmes.

The following example is provided to illustrate the procurement process followed by GSNZ for a major remediation project.

Project name:	Land remediation services for the 400 gas transmission pipeline (Awakau Road)
Project date	The project scope was completed in October 2018 with works completed in March 2020.
Project or Work order number:	P10185
Project expenditure (estimated)	$1.12 million from initial scoping and design through to commissioning of the assets and project close-out
Project cost type	Asset replacement and renewal CAPEX
Project managed by:	GSNZ under the O&M agreement
Subcontractors:	FEED and Detailed Design was completed by Pattle Delmore Partners Limited (PDP) and GeoStabilization International (GSI) completed the remediation works.

Planning:

Firstgas reports geohazard risks in our asset management plans (AMP) each year. Our AMPs are available on the Firstgas website.[15] In our 2019 AMP Update,[16] we signalled two sections of the 400 pipeline at Awakau Road near Mokau in North Taranaki had been prioritised for remediation works to occur in FY2020.

The 400 pipeline supplies gas from the Frankley Road off-take in Taranaki to the Huntly off-take in the Waikato, servicing Hamilton and the Central North Island regions. Instability of pipeline easement fill and weathered siltstone over two sections of the pipeline (50 metres at Awakau Road 1 and 30 metres at Awakau Road 2) had the potential to reduce pipeline cover, expose the pipeline and remove pipeline

[14] Geo-hazard risk Geo-hazard is the term we use for land instability events, such as landslides, erosion or movement of rocks or debris, that has the potential to affect the integrity of transmission pipelines. Our geo-hazard management processes consider the risks posed by activities that can result in a geo-hazard event, including: – Earthquake – Landslides – Heavy rainfall – Human activity. For example, surface erosion may result in a loss of pipeline cover leaving the pipeline exposed and at risk to operating outside minimum code requirements, or damage from being struck by debris or machinery.

[15] www.Firstgas.co.nz

[16] https://firstgas.co.nz/wp-content/uploads/First-Gas-Transmission-2019-AMP-Update.pdf

support. Wind fall and natural die-off of the mature pine trees located adjacent to these sections of pipeline had the potential to reduce pipeline cover and expose the pipeline and remove pipeline support.

This was identified during part of a geohazards assessment in 2016 and detailed site investigations were carried out in 2017 to inform remedial work options assessment. An anchored system was considered the best long-term solution for Awakau Road 1 and an anchored retaining structure for Awakau Road 2. All works could be completed within the existing easements. The design works were completed in FY2019 allowing for the remediation works to be completed in FY2020.

The AMP Update was subject to challenge from the GSNZ Chief Operating Officer before being presented to the Firstgas executive team. After further review and challenge from the Firstgas team and subsequently the Firstgas Board of Directors, the AMP is approved.

Asset management plans are disaggregated into long-term plans and annual workplans. The annual workplans are presented to Firstgas and once approved, form the work plan and budget for the year. The GSNZ project management team responsible for the remediation works at Awakau Road developed the business case specifying the requirements for the works and the costs. The business case and costs of $1.12 million were approved under the GSNZ financial authorities and by the Chief Executive of Firstgas.

Completion of works:

Prior to the business case being approved, GSNZ completed a detailed scope of works for the project based on the comprehensive investigation work completed in 2017. Geohazard works are an ongoing focus for Firstgas and work in this area is allowed for annually in the Firstgas budget. GSNZ manage that budget once set and can allocate funds to the preparation of remedial works.

In FY2019, Firstgas commissioned Pattle Delmore Partners Limited (PDP) to complete the detailed design of the geohazard remediation system for both Awakau Road site 1 and Awakau Road site 2. The resulting design and estimated costs to complete the works were included in the business case.

With the approval of the business case in November 2019, the project management team could proceed to tendering the civil works to remediate the erosion issues at Awakau Road. Tendering for services was undertaken by GSNZ followed the Firstgas Group procurement policy.

GeoStabilization International (GSI) were selected to complete the remediation works. Based on their experience in this area, GSI proposed an alternative design approach for the AwaKau 2 site. The approach proposed by GSI would mean the work could be completed at a lower cost than originally budgeted and with less risk. GSNZ requested GSI have the proposed design peer reviewed by a company approved by the GSNZ engineering team. The design proposed by GSI for the Awakau 2 site was subsequently accepted by GSNZ and used to complete that section of the remediation works .

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 monthly.

Figure 3: Erosion remediation at Awakau Road

Market testing:

The land remediation required at Awakau road was along a ridge line and complicated. GSNZ engaged external suppliers to complete the detailed design and the remediation works.

From time-to-time, GSNZ may choose to proceed with a sole supplier rather than going through a competitive process. A sole source approach was taken when GSNZ selected PDP as the supplier of the detailed design work. The complexity of the design works across both sites on Awakau Road required specialists with extensive experience designing solutions for such situations. PDP has completed several design projects for GSNZ to remediate geohazard impacts on the Firstgas network.

The external suppliers of the remediation works were procured following a closed tender approach. Where a closed tender is used, at least two companies are requested to tender. Working with gas pipes and structures is specialised work . The remediation work at Awakau Road was more specialised than usual due to location and the work required to stablise the land. Prior to issuing the request to tender documents GSNZ:

- Considered specialists in the field and sought the advice of PDP to ensure the companies requested to tender had the experience required to complete the works
- Completed the necessary due diligence to ensure the companies selected met the requirements to work on the Firstgas network

Due to the specialist nature of the work, only a small number of suppliers where considered to have the necessary experience to complete the works and two suppliers were selected to tender. GeoStabilization International (GSI) were selected to complete the works.

Outcomes:

The remediation project was completed on-time and under the original budgeted cost.

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 GTB has had related party transactions involving a procurement from a related party during that disclosure year, the GTB must publicly disclose a map of its gas transmission 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*[17]*, 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.[18]

Largest OPEX activities

Figure 3 sets out the location of the largest ten activities in the AMP planning period (FY2021-FY2030), with greater detail in *Table 3*. All network OPEX, except for the purchase of compressor fuel, is forecast to be completed by our related party, Gas Services New Zealand Midco Limited (GSNZ) under the Operations and Management (O&M) agreement between Firstgas and GSNZ. This agreement will be reviewed by

[17] 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.
[18] https://firstgas.co.nz/about-us/regulatory/transmission/

September 2022. GSNZ manages a number of third-party contractors to deliver this network OPEX. All activities are network related works, and none are a result of future network or equipment constraints.

Figure 3: Largest Opex projects in the AMP planning period

Table 3: Description of the largest Opex projects in the AMP planning period

Activity	Description	Region	Cost (constant $)	Period
Kapuni Gas Treatment Plant (KGTP) maintenance[19]	Ongoing maintenance costs associated with assets at KGTP	Taranaki	$12.0 million	FY2021 – FY2030
Rotowaro Compressor Station maintenance	Ongoing maintenance costs associated with assets onsite	Northern System	$2.9 million	FY2021 – FY2030
Mokau Compressor Station maintenance	Ongoing maintenance costs associated with assets onsite	Taranaki	$3.0 million	FY2021 – FY2030
Kaitoke Compressor Station maintenance	Ongoing maintenance costs associated with assets onsite	Southern system	$2.5 million	FY2021 – FY2030
Pokuru Compressor Station	Ongoing maintenance costs associated with assets onsite	Bay of Plenty system	$1.8 million	FY2021 – FY2030
Bulk odorant purchasing	Procurement of odorant	System wide	$1.8 million	FY2021– FY2030
Odorant systems maintenance	Ongoing maintenance costs associated with assets onsite	System wide	$3.4 million	FY2021– FY2030
Aerial surveillance	Helicopter and fixed wing aerial surveillance costs	System wide	$5.8 million	FY2021 – FY2030
Asset decommissioning	End of lifecycle costs to decommission assets.	System wide	$10.0 million	FY2023 – FY2030

[19] The implementation of the compression strategy would deliver a reduction in planned maintenance expenditure for all sites that will be upgraded. As the project is developed and detailed design undertaken the savings in maintenance costs will be factored into to ongoing expenditure forecasts.

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 transmission business in 2016 and will be reviewed before September 2022. GSNZ manages a number of third-party contractors to deliver this network CAPEX.

Table 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 ten-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.

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
Compression strategy	Upgrade and standardisation of ageing fleet of compressors	Strategic compression sites	$100 million	FY2021-FY2030
Geohazards	Risk remediation projects resulting from geotechnical hazards	System wide	$57 million	FY2021-FY2030
Gilbert Stream realignment	Geohazard risk remediation from coastal erosion	North Taranaki	$7.8 million	FY2021-FY2022
Heating systems	Replacement of ageing fleet of water bath heaters	System wide	$30 million	FY2021- FY2030
Warkworth expansion	Increasing pipeline capacity to meets increase in demand	Northern system	$6 million	FY2021-FY2022
Pipeline inline inspections	Pipeline pigging operations undertaken on piggable lines	System wide	$6.5 million	FY2021-FY2022
Scada and communications	Upgrade and replacement of SCADA master server	North Taranaki	$15 million	FY2021-FY2030
Mangapukatea (Whitecliffs) re-alignment	Geohazard risk remediation from coastal erosion	North Taranaki	$2 million	FY2021-FY2025
Pariroa defect	Pipeline defect repair and land stabilisation	North Taranaki	$5.5 million	FY2021-FY2021
Asset relocations	Relocation of infrastructure	System wide	$20 million	FY2021-FY2030
Customer connections	Supporting system growth and new customers	System wide	$19 million	FY2021-FY2030

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, 2.4.20, 2.5.1 and 2.7.1 of the *Gas Transmission 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 its 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 Transmission Information Disclosure Determination 2012* and clauses 2.2.11(1)(g) and 2.2.11(5) of the *Gas Transmission 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 Transmission 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 Transmission 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 Transmission Information Disclosure Determination 2012*.

Director: Mark Adrian Ratcliffe

Director: Fiona Ann Oliver

Date: 17 February 2021

Date: 17 February 2021

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, and 14 (boxes 1 – 12) of the First Gas Limited Gas Transmission Information Disclosure Requirements Information Templates (the 'schedules'), have been prepared, in accordance with the Commerce Commission Gas Transmission 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 Transmission Information Disclosure Determination 2012 (amended as of 3 April 2018) 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 Transmission Information Disclosures Determination 2012 (amended as of 3 April 2018).

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, 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.

The key assurance matter	How the matter was addressed in our assurance
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 $45 million and assets commissioned of $38 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 transmission 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. Allocation of shared and other costs into operating expenditure. Refer to Schedule 5d and Schedule 6b.	
The allocation of shared and other costs ($14 million of not directly attributable expenditure within the total of $46 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 transmission and gas distribution) 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 transmission 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 transmission business in the period.

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

The valuation of transactions with related parties ($29 million of unregulated income, $25 million of operating expenditure and $33 million of capital expenditure incurred with related parties in the period) is a key assurance matter due to (1) 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 and (2) the ownership structure of First Gas and its owners is complex and there may be a number of trading relationships that meet the definition of a related party.

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

- Comparison of the related party sales recorded by First Gas to ensure a) it is the price achieved by the gas transmission business b) the selling price is not materially lower than that charged to customers who are not related;
- Comparison of the related party expenditure recorded by First Gas to ensure a) it is the price incurred by the gas transmission business b) the purchase price is not materially higher than that charged to customers who are not related;
- Comparison of the terms and conditions extended by First Gas to related parties (or vice versa) to the standard terms and conditions of the customer, 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 and changes in rates in FY20 (if any). 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 Transmission Information Disclosure Determination 2012 (amended as of 3 April 2018) 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

KPMG
Auckland
17 February 2021