COMPLIANCE STATEMENT

Gas transmission services – Compliance with price path

Assessment Period 1 October 2019 – 30 September 2020

Revised as at March 2020

First Gas Limited
March 2020

Firstgas

Introduction

First Gas Limited (Firstgas) owns and operates 2,500 kilometres of gas transmission pipelines and more than 4,800 kilometres of gas distribution pipelines. These pipelines transport around 20 percent of New Zealand's primary energy supply from Taranaki to industrial gas users, electricity generators, businesses and homes across the North Island. For further information on Firstgas, please visit our website www.firstgas.co.nz.

The Firstgas Group also owns energy infrastructure assets across New Zealand through our affiliate Gas Services NZ Limited (GSNZ), a separate business with common shareholders that owns the Ahuroa gas storage facility (Flexgas) and the Rockgas LPG business. For more information, visit our websites www.flexgas.co.nz and www.rockgas.co.nz.

Compliance statement

This document is a compliance statement prepared pursuant to clauses 11.1 – 11.3 of the *Gas Transmission Services Default Price-Quality Path Determination 2017* (DPP Determination). This Compliance Statement covers the third Assessment Period from 1 October 2019 to 30 September 2020. We have reissued this Compliance Statement in March 2020 due to the change in pricing structure for the period 1 April 2020 – 30 September 2020. The pricing for this 6-month period has been adjusted following delays to the implementation of the single transmission code, the Gas Transmission Access Code (GTAC). Background on this decision is set out in the section below.

A Directors' certificate is provided with this compliance statement.

Delay to implementation of the Gas Transmission Access Code

Firstgas has been working with stakeholders to implement a single transmission code, the Gas Transmission Access Code (GTAC). The GTAC business processes and IT systems are still being developed and the GTAC is expected to come into force on or after 1 October 2020. This is a delay to the timing proposed at the beginning of the assessment period, which envisaged a 1 April 2020 start for the GTAC. This is no longer possible and Maui Pipeline Operating Code (MPOC) and Vector Transmission Code (VTC) will remain in place for the entire gas year (GY) 2020 period. Accordingly, we have revised this Compliance Statement mid-way through the period to give assurance that changes to pricing caused by this delay have not affected our compliance with our DPP Determination.

Firstgas has retained the structure of the prices under the Maui Pipeline Operating Code (MPOC) and Vector Transmission Code (VTC) for the first six months of the gas year (GY) year beginning 1 October 2019. There have been no pricing structure changes for the MPOC or the VTC. MPOC prices are unchanged from those applied during GY2019. VTC prices have been adjusted to reflect the lower level of capacity reservations requested by shippers under that code over the spring and summer months.

For the second six months of GY2020, we have maintained the pricing under VTC and MPOC from the first half of the year. In order to comply with our revenue cap, we have reduced the VTC overrun multiplier from 10 to 1. This has the effect of reducing our overrun revenue and reduces the administrative burden on Shippers who otherwise would have needed to re-book capacity mid-way through the year. It also allows us to use our existing IT system (OATIS) to issue customer invoices with no manual workarounds, which reduces risk of billing errors.

Meetings were held with Shippers during December 2019 to consult on the proposed change and the required extension to the VTC. The pricing outcome in this document was preferred by a majority of Shippers. We are working with customers to ensure they are prepared for the change.

The revenue earned from transmission services provided under the MPOC and VTC has been updated to reflect changes in allowable revenue, forecast transmission quantities, pass-through and recoverable costs.

Further information

For further information regarding this compliance statement, please contact:

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Disclaimer

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

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1. Price setting for gas transmission services

Firstgas is pleased to confirm that we have set gas transmission prices to comply with the price path in clause 8.3 of the DPP Determination for the Assessment Period from 1 October 2019 to 30 September 2020.

1.1 Price path for GTBs

The DPP determination sets out that the Forecast Revenue from Prices of a GTB for each Assessment Period must not exceed the Forecast Allowable Revenue for the Assessment Period.

Forecast Revenue from Prices ≤ Forecast Allowable Revenue

1.2 Forecast Revenue from Prices

As specified in Schedule 3 of the DPP Determination, when a GTB sets prices for an Assessment Period, the GTB must calculate the Forecast Revenue from Prices for the Assessment Period.

Forecast Revenue from Prices is defined as:

Forecast Revenue from Prices = *sum of each price multiplied by each corresponding forecast Quantity*

The GTB must prepare a forecast of Quantities for the Assessment Period to which the Prices for the Assessment Period will apply. All forecast Quantities used to calculate the Forecast Revenue from Prices must be reasonable.

Firstgas transmission business

For the pricing year commencing 1 October 2019 (GY2020), Firstgas has elected to continue to apply the existing pricing methodologies for the Maui and Non-Maui gas transmission systems for the year. A full overview of our charging can be found in our TPM in section 4.[1] We have prepared a forecast of volumes for the period, across standard products and non-standard contracts. We have also developed estimates of overrun revenue for the gas year. The combination of standard product revenue, incentive fee revenue and any non-standard contract revenue form the basis of our Forecast Revenue from Prices for the year. Revenue from Prices is set out in the following table.

Table 1: Forecast Revenue from Prices

	Amount	
	1 Oct 2020 – 30 Sep 2020	**Proportion of Target Revenue**
Target Revenue		
Standard MPOC revenue for the period 1 October 2019 to 30 September 2020	$35,829,008	27.8%
Standard VTC revenue for the period 1 October 2019 to 30 September 2020	$68,353,647	53.0%
Non-Standard Pricing (SA and ICA Revenue)	$24,729,115	19.2%
Target Revenue	**$128,911,770**	**100.0%**

[1] The Transmission Pricing Methodology for the year commencing 1 October 2019 can be found here: https://firstgas.co.nz/about-us/regulatory/transmission/

Standard Prices and Revenue for the year are as per the table below.

Table 2: MPOC Standard prices and revenue

	Unit	Price ($)	Quantity	Revenue
Tariff 1	$ / GJ.km	0.001601	15,318,343,104 GJ.km	$24,524,667
Tariff 2	$ / GJ	0.073132	154,574,477 GJ	$11,304,341
Total MPOC Standard Revenue				**$35,829,007**

Table 3: VTC Standard prices and revenue

Pricing Region	2019/2020		Revenue		Total Revenue ($)
	TPF ($/GJ)	CRF ($/GJ.MDQ)	TPF ($)*	CRF ($)	
Taranaki	$0.10	$87	$142,388	$318,886	**$461,274**
Waikato South	$0.10	$384	$976,906	$7,332,463	**$8,309,369**
Auckland	$0.10	$373	$2,961,858	$20,495,604	**$23,457,462**
Northland	$0.10	$567	$60,247	$482,970	**$543,217**
Waikato North	$0.10	$384	$476,659	$3,758,526	**$4,235,185**
South Taranaki - Whanganui	$0.10	$362	$288,610	$2,083,801	**$2,372,411**
Manawatu - Horowhenua	$0.10	$373	$522,594	$3,640,846	**$4,163,440**
Hawkes Bay	$0.10	$384	$425,241	$2,769,994	**$3,195,235**
Kapiti - Wellington	$0.10	$461	$837,756	$6,018,211	**$6,855,967**
Waikato East	$0.10	$384	$173,169	$1,441,486	**$1,614,655**
Bay of Plenty West	$0.10	$472	$228,897	$1,705,741	**$1,934,638**
Bay of Plenty South	$0.10	$494	$369,217	$2,851,586	**$3,220,803**
Bay of Plenty East	$0.10	$516	$309,369	$2,525,443	**$2,834,811**
Eastland	$0.10	$538	$90,391	$605,160	**$695,550**
Hamilton	$0.10	$178	$239,072	$911,091	**$1,150,162**
Frankley Road	$0.29	n/a	$3,309,468	$0	**$3,309,468**
Total Standard Revenue			**$11,411,839**	**$56,941,808**	**$68,353,647**

*includes overrun revenue

Total Forecast Revenue from Prices

The total Forecast Revenue from Prices is **$128.911 million.**

Forecast Revenue from Prices = *Forecast Revenue from MPOC Prices*

\+ *Forecast Revenue from VTC Prices*

\+ *Forecast Revenue from Non-Standard Prices*

= $35.829 million + $68.353 million + $24.729 million

= $128.911 million

1.3 Forecast Allowable Revenue

Schedule 5 sets out that Forecast Allowable Revenue must be determined in accordance with the following formula.

Forecast Allowable Revenue = *forecast net allowable revenue +*

forecast pass-through and recoverable costs +

opening balance of the wash-up account

where:

forecast net allowable revenue is the amount specified in Schedule 4;

forecast pass-through and recoverable costs is the sum of all the forecast Pass-through Costs and forecast Recoverable Costs, excluding any Recoverable Cost that is a *revenue wash-up draw down amount* calculated as specified in paragraph 5 of Schedule 7; and

opening balance of the wash-up account is the amount calculated as specified in paragraph 3 of Schedule 8.

<u>Forecast Net Allowable Revenue</u>

As established in schedule 4 of the DPP Determination, the Forecast Net Allowable Revenue for the Assessment Period ending 30 September 2020 is **$126.456 million**.

<u>Forecast Pass-through Costs and Recoverable Costs</u>

The DPP Determination states that all forecasts of Pass-through Costs and Recoverable Costs must be reasonable. For the year beginning 1 October 2019, Firstgas has forecast the following costs as shown in Table 3.

Table 3: Forecast pass-through and recoverable costs

Forecast Pass-through and Recoverable Costs	$million
Rates and levies	$2.539
Balancing gas costs and revenues	($0.695)
Mokau Compressor fuel gas costs	$0.623
CAPEX Wash-up Adjustment	$0.755
Total	**$3.223**

All of the forecast Pass-through Costs and Recoverable Costs included above meet the definitions set out in clause 3.1.2 and 3.1.3 of the applicable Input Methodologies.

<u>Opening balance of the wash-up amount</u>

The *opening wash-up account balance* for the third Assessment Period is **($0.761) million.** This is equal to the *closing wash-up account balance* of the first Assessment Period adjusted for the time value of money as specified in schedule in schedule 8 of the DPP determination.

Calculation of Forecast Allowable Revenue

Firstgas has calculated Forecast Allowable Revenue as follows:

Forecast Allowable Revenue =	*forecast net allowable revenue +*
	forecast pass-through and recoverable costs +
	opening balance of the wash-up account
Forecast Allowable Revenue =	\$126.456 million + \$3.223 million + (\$0.761 million)
	\$128.918 million

1.4 Compliance

Based on the calculations set out in sections 1.1 and 1.2 above, Firstgas will comply with the price path of the DPP Determination.

Forecast Revenue from Prices ≤ Forecast Allowable Revenue

\$128.911 million ≤ \$128.918 million

2. Additional compliance requirements

2.1 Certification

The required certification for this Compliance Statement is attached in **Attachment 2.**

2.2 Statement date

This Compliance Statement was prepared on 26 March 2020.

Appendix 1: Methodology for forecasting 2019/20 quantities

Methodology for flow quantities

Aretê Consulting Limited (Aretê) was employed by Firstgas to forecast the gas flows across the network, which was peer reviewed by Firstgas staff. This forecast used statistical timeseries approaches to forecasting smaller loads on the system and potential growth. Deterministic methods were used for large loads using data from large users. Firstgas' knowledge of large additional loads on the system was also used to forecast growth in large loads.

Aretê's forecast was assessed for reasonability by Firstgas management and found to be reasonable.

The flow forecast was not amended for either of the GTAC go-live delays, as that only affects the pricing methodology.

Reasonability assessment of Aretê's forecast

Aretê's forecast was assessed in line with historic trends and Firstgas' knowledge of demand changes for 2019/20. The comparison of the forecast 2019/20 and 2017/18 loads was used to assess the reasonableness of the Aretê forecast with the results shown in the table below. Any changes in flows were either minor (underlying growth or attrition of small loads or could be explained by variances in large loads. These changes are annotated in the table below. The forecast was therefore considered to be reasonable.

Methodology for capacity reservation quantities

Since the VTC will continue to apply for the first six months of GY2020, Firstgas needed a forecast of reserved capacity over this period to set prices. Given the difficulty in forecasting reservations over a six-month period (since the VTC has historically only applied 12-month reservations), VTC shippers agreed to provide confirmed capacity reservations before VTC prices were finalised. These capacity reservations provided on 06 September were used in the calculation of final prices.

The further delay to GTAC go-live to at least 1 October 2020 has resulted in an extension to the VTC. During consultation with shippers regarding the potential pricing options for the second half of GY2020, shippers raised concerns about the additional administrative burden of re-forecasting capacity reservations mid-year. Through the consultation we resolved with shippers to reduce the overrun multiplier from 10 to 1, which reduced the incentive charges in the event of an overrun of reserved capacity. As a result, shippers could avoid the need to re-forecast capacity reservations. The updated revenue model for GY2020 therefore uses the actual capacity bookings in October 2019.

Table A: Forecast quantities

	GY 2018 total deliveries (GJ)	Step volume change (GJ) GY 2020	Total	Forecast GY2020	Other adjustments following consultation	Final Forecast	Variance GY18 versus forecast	Comments
Delivery Zones								
Te Tai Tokerau (Northland)	302,597		302,597	268,693		268,693	-11%	Change in volumes due to interplay between probabilistic and deterministic forecasts
Tāmakimakaurau (Auckland)	15,760,141	290,000	16,050,141	16,403,213	-1,155,000	15,248,213	-5%	Additional Capacity due to known load increases. Countered by reduction due to Pohokura outage programmed for March 2020.
Waikato ki te Raki (Waikato North)	1,851,144	200,000	2,051,144	2,164,317		2,164,317	6%	Additional Capacity due to known load increases.
Kirikiriroa (Hamilton)	1,634,566		1,634,566	1,684,009		1,684,009	3%	
Te Rohe Pōtae-Taupiri (King Country-Taupiri)	771,270		771,270	739,578		739,578	-4%	
Waikato ki te Tonga (Waikato South)	4,322,863		4,322,863	4,663,448		4,663,448	8%	
Tauranga	1,092,948		1,092,948	1,100,247		1,100,247	1%	
Central Plateau	1,704,100		1,704,100	1,713,175		1,713,175	1%	
Whakatane	1,185,319		1,185,319	1,351,862		1,351,862	14%	High variability in timeseries for dairy loads. Potential for variation between dairy seasons.
Te Tai Rawhiti (Eastland)	474,641		474,641	476,533		476,533	0%	
Taranaki ki Uta (Inland Taranaki)	12,767,603		12,767,603	12,535,343		12,535,343	-2%	
Taranaki ki Tai (Coastal Taranaki)	17,868		17,868	17,067		17,067	-4%	
Aotea (South Taranaki-Whanganui)	1,381,277		1,381,277	1,428,390		1,428,390	3%	

	GY 2018 total deliveries (GJ)	Step volume change (GJ) GY 2020	Total	Forecast GY2020	Other adjustments following consultation	Final Forecast	Variance GY18 versus forecast	Comments
Tararua (Manawatu-Horowhenua)	2,548,188		2,548,188	2,667,748		2,667,748	5%	
Kahungunu (Hawkes Bay)	2,201,639		2,201,639	2,289,125		2,289,125	4%	
Whanganui- a- tara / Kapiti (Kapiti-Wellington)	4,075,920		4,075,920	4,164,973		4,164,973	2%	
Total	52,092,084	490,000	52,582,084	53,667,721	-1,155,000	52,512,721	0%	
Individual Delivery Points								
Bertrand Road (Waitara Valley)	15,433,180		15,433,180	16,000,000	-1,155,000	14,845,000	-4%	Reduction due to Pohokura outage programmed for March 2020.
Faull Road	7,669,072		7,669,072	14,000,000		14,000,000	83%	Reduced Flows in GY 2018 due to ongoing Pohokura issues. This forecast reflects normal operational levels.
Huntly Power Station	24,731,288		24,731,288	21,000,000	1,900,000	22,900,000	-7%	Adjusted to 25,000,000 from Arete forecast based on submission information by Genesis. Countered by reduction due to Kupe outage programmed for November 2019.
Mangorei Delivery Point	-	500,000	500,000	237,500	262,500	500,000	0%	New delivery point; estimate based on email discussions. Changed to 500 TJ from Arete forecast based on further discussions with Nova.

	GY 2018 total deliveries (GJ)	Step volume change (GJ) GY 2020	Total	Forecast GY2020	Other adjustments following consultation	Final Forecast	Variance GY18 versus forecast	Comments
Ngatimaru Rd (Delivery)	38,669,546		38,669,546	44,000,000		44,000,000	14%	Reduced Flows in GY 2018 due to ongoing Pohokura issues. This forecast reflects normal operational levels.
Total	*86,503,086*	*500,000*	*87,003,086*	*95,237,500*	*1,007,500*	*96,245,000*	*11%*	
Supplementary Agreements								
Total Supplementary Agreements	22,987,374	42,000	23,029,374	22,712,379	-	22,739,914	-1%	
Grand Total	***161,582,544***	***1,032,000***	***162,614,544***	***171,645,135***	***-147,500***	***171,497,635***	***6%***	

Directors' certification

We, Philippa Jane Dunphy and Euan Richard Krogh being Directors of First Gas Limited certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached Compliance Statement of First Gas Limited, and related information, prepared for the purposes of the *Gas Transmission Services Default Price-Quality Path Determination 2017* has been prepared in accordance with all the relevant requirements, and all forecasts used in the calculations of Forecast Revenue from Prices and Forecast Allowable Revenue are reasonable.

Director: Philippa Jane Dunphy

Director: Euan Richard Krogh

26 March 2020
Date

26 March 2020
Date