COMPLIANCE STATEMENT

Gas transmission services – Compliance with price path

Assessment Period 1 October 2020 – 30 September 2021

First Gas Limited
September 2020

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.

Firstgas is part of the wider Firstgas Group. The Firstgas Group owns energy infrastructure assets across New Zealand through our affiliate Gas Services NZ Limited (GSNZ), a separate business with common shareholders that owns the Rockgas[1] and the Ahuroa gas storage[2] 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 both domestic and imported sources of LPG. The Ahuroa gas storage facility (trading as Flexgas Limited) is New Zealand's only open access gas storage facility.

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,* consolidating all amendments as of 18 December 2018 (DPP Determination). This Compliance Statement covers the fourth Assessment Period from 1 October 2020 to 30 September 2021 (GY2021).

Compliance with Price Path	Yes

Firstgas has been working with stakeholders on the implementation of a single transmission code, the Gas Transmission Access Code (GTAC). Unforeseen complexities in developing the IT platform, including a large degree of customisation, as well as the impact of COVID-19, have meant that the original implementation timeframes have been extended. The earliest opportunity that the new IT platform may go live is October 2021.

Firstgas will retain the structure of the prices under the Maui Pipeline Operating Code (MPOC) and Vector Transmission Code (VTC) for this pricing year. There have been no pricing structure changes for the MPOC or the VTC.

Pricing for the year beginning 1 October 2020 (GY2021) will increase slightly under the MPOC and decrease slightly for some tariffs under the VTC. Firstgas has taken the opportunity to align price increases under the MPOC and VTC over the last two years. In GY2020, prices under the MPOC were held steady in anticipation of implementing the GTAC. This meant for GY2020 prices under the VTC increased by more than CPI. For GY2021, we have reduced or held steady most tariffs under the VTC and increased MPOC prices so that price increases under both contracts over the two years are more aligned.

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

A Directors' certificate is provided with this compliance statement.

[1] More information on Rockgas: https://rockgas.co.nz
[2] More information on Flexgas Limited: https://flexgas.co.nz/

Further information

For further information regarding this compliance statement, please contact:

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

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 2020 to 30 September 2021(GY2021).

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 2020 (GY2021), Firstgas has elected to continue to apply the two existing pricing methodologies for the Maui and Non-Maui gas transmission systems – the methodologies under the Maui Pipeline Operating Code (MPOC) and the Vector Transmission Code (VTC). A full overview of our charging can be found in sections 3 and 5 of our Transmission Pricing Methodology (TPM).[3]

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 and any non-standard contract revenue forms the basis of our Forecast Revenue from Prices for the year. Forecast Revenue from Prices is set out in the following table.

[3] The Transmission Pricing Methodology for the year commencing 1 October 2020 can be found here: https://firstgas.co.nz/about-us/regulatory/transmission/

Table 1: Forecast Revenue from Prices

Target revenue for the Assessment Period	Amount	
	GY2021 ($)	Proportion of Target Revenue (%)
Standard MPOC revenue for the period 1 October 2020 to 30 September 2021	$35,986,821	27.84%
Standard VTC revenue for the period 1 October 2019 to 30 September 2020	$74,104,743	57.33%
Non-Standard Pricing (SA and ICA Revenue)	$19,162,396	14.83%
Target Revenue	**$129,253,961**	**100.00%**

Standard Prices and Revenue for GY2021 are set out in the tables below. Further information on the calculation of forecast standard revenue for the VTC is available in **Appendix 1**.

Table 2: MPOC Standard prices and revenue

	Unit	Price ($)	Quantity	Revenue
Tariff 1	$ / GJ.km	0.001665	14,856,910,671	$ 24,736,756.27
Tariff 2	$ / GJ	0.076057	147,916,234	$ 11,250,065.02
Total MPOC Standard Revenue				**$ 35,986,821.29**

Table 3: VTC Standard prices and revenue

Pricing Region	GY2021		Revenue		Total Revenue ($)
	TPF ($/GJ)	CRF ($/GJ.MDQ)	TPF ($)*	CRF ($)	
Taranaki	$ 0.10	$ 84	$ 162,616	$ 369,690	**$ 532,306**
Waikato South	$ 0.10	$ 369	$ 1,117,873	$ 7,366,757	**$ 8,484,630**
Auckland	$ 0.10	$ 358	$ 2,647,607	$ 20,896,483	**$ 23,544,090**
Northland	$ 0.10	$ 544	$ 29,576	$ 334,360	**$ 363,936**
Waikato North	$ 0.10	$ 369	$ 438,412	$ 3,167,839	**$ 3,606,251**
South Taranaki - Whanganui	$ 0.10	$ 348	$ 373,343	$ 2,876,194	**$ 3,249,537**
Manawatu - Horowhenua	$ 0.10	$ 358	$ 439,836	$ 3,472,851	**$ 3,912,687**
Hawkes Bay	$ 0.10	$ 369	$ 404,744	$ 3,027,882	**$ 3,432,626**
Kapiti - Wellington	$ 0.10	$ 443	$ 996,226	$ 6,624,984	**$ 7,621,210**
Waikato East	$ 0.10	$ 369	$ 244,835	$ 1,262,274	**$ 1,507,110**
Bay of Plenty West	$ 0.10	$ 453	$ 320,245	$ 1,833,422	**$ 2,153,668**
Bay of Plenty South	$ 0.10	$ 474	$ 382,275	$ 3,077,974	**$ 3,460,249**
Bay of Plenty East	$ 0.10	$ 495	$ 231,704	$ 2,502,261	**$ 2,733,965**
Eastland	$ 0.10	$ 516	$ 114,737	$ 807,298	**$ 922,035**
Hamilton	$ 0.10	$ 196	$ 254,818	$ 1,306,721	**$ 1,561,540**
Frankley Road	$ 0.31	n/a	$ 7,018,905	n/a	**$ 7,018,905**
Total Standard Revenue			**$ 15,177,752**	**$ 58,926,992**	**$ 74,104,743**

*includes overrun revenue

Total Forecast Revenue from Prices

The total Forecast Revenue from Prices is **$129.254 million**.

Forecast Revenue from Prices =	*Forecast Revenue from MPOC Prices*
	+ Forecast Revenue from VTC Prices
	+ Forecast Revenue from Non-Standard Prices
	= $35.987 million + $74.105 million + $19.162 million
	= **$129.254 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.

Forecast Net Allowable Revenue

As established in schedule 4 of the DPP Determination, the Forecast Net Allowable Revenue for the Assessment Period ending 30 September 2021 is **$129.270 million**.

Forecast Pass-through Costs and Recoverable Costs

The DPP Determination states that all forecasts of Pass-through Costs and Recoverable Costs must be reasonable. For GY2021, Firstgas has forecast the following costs as shown in Table 4.

Table 4: Forecast pass-through and recoverable costs

Forecast Pass-through and Recoverable Costs	$million
Rates and levies	$2.481
Balancing gas costs and revenues	$0.433
Mokau Compressor fuel gas costs	$0.568
CAPEX Wash-up Adjustment	$0.800
Total	**$4.282**

All 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.

Opening balance of the wash-up amount

The *opening wash-up account balance* for the fourth Assessment Period is **($4.040) million.** This is equal to the *closing wash-up account balance* of the third Assessment Period of ($3.606) million adjusted for the time value of money as specified 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 = $129.028 million + $4.282 million + ($4.040 million)

$129.270 million

1.4 Compliance

Based on the calculations set out in sections 1.2 and 1.3 above, Firstgas will comply with the price path of the DPP Determination for GY2021.

Forecast Revenue from Prices	≤	Forecast Allowable Revenue
$129.254 million	≤	$129.270 million

2. Additional compliance requirements

2.1 Certification

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

2.2 Statement date

This Compliance Statement was prepared on 12 August 2020.

Appendix 1: Methodology for forecasting GY2021 quantities

<u>Methodology for flow quantities</u>

Aretê Consulting Limited (Aretê) was employed by Firstgas to forecast the gas flows across the transmission network and this was 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.

Overlaying the forecast of quantities this year was consideration of the effect the COVID-19 pandemic has had on customers. Aretê and Firstgas management have been working alongside our major customers to estimate the likely effects of COVID-19 on quantities of gas to be conveyed during GY2021.

Aretê's forecast was assessed for reasonability by Firstgas management and found to be reasonable and aligned with the most recent information we had received from customers at the time of writing.

<u>Methodology for capacity reservation quantities</u>

Capacity reservations have been estimated based on historical gas flows and observed booking patterns. Shippers generally seem to reserve less capacity than their annual peak demand, as a way of optimising between reservation fees and overrun charges. One GJ of reserved capacity attracts 365 days of charges, whereas one GJ of overrun is charged the equivalent of 10 days of charges. Analysis of previous years suggests that shippers have tended to book capacity for the start of the gas year at a level that represents about the 37th highest day in the previous gas year.

For GY2021, Firstgas used this observed relationship between historical gas flows and capacity bookings to project bookings for the coming year. Adjustments have been made where required to account for the expiration of supplementary agreements, where the load will go back to standard pricing for the coming year.

Table 5: Forecast VTC standard revenue from prices for GY2021

Pricing Region	Prices		Quantities		Revenue by component ($)			VTC total standard revenue ($)
	TPF ($/GJ)	CRF ($/GJ.MDQ)	Throughput	Capacity reservations	TPF	CRF	Over-Run	
Taranaki	$0.10	$84	1,140,884	1,606,391	$114,088	$369,690	$48,528	$532,306
Waikato South	$0.10	$369	4,198,716	7,286,901	$419,872	$7,366,757	$698,002	$8,484,630
Auckland	$0.10	$358	16,337,166	21,305,073	$1,633,717	$20,896,483	$1,013,891	$23,544,090
Northland	$0.10	$544	144,997	224,341	$14,500	$334,360	$15,076	$363,936
Waikato North	$0.10	$369	1,964,006	3,133,499	$196,401	$3,167,839	$242,011	$3,606,251
South Taranaki - Whanganui	$0.10	$348	1,847,387	3,016,698	$184,739	$2,876,194	$188,604	$3,249,537
Manawatu - Horowhenua	$0.10	$358	2,267,033	3,540,756	$226,703	$3,472,851	$213,132	$3,912,687
Hawkes Bay	$0.10	$369	1,877,667	2,995,060	$187,767	$3,027,882	$216,977	$3,432,626
Kapiti - Wellington	$0.10	$443	4,168,922	5,458,509	$416,892	$6,624,984	$579,334	$7,621,210
Waikato East	$0.10	$369	738,733	1,248,591	$73,873	$1,262,274	$170,962	$1,507,110
Bay of Plenty West	$0.10	$453	1,216,846	1,477,261	$121,685	$1,833,422	$198,561	$2,153,668
Bay of Plenty South	$0.10	$474	1,717,159	2,370,170	$171,716	$3,077,974	$210,559	$3,460,249
Bay of Plenty East	$0.10	$495	1,392,653	1,845,102	$139,265	$2,502,261	$92,439	$2,733,965
Eastland	$0.10	$516	433,534	571,054	$43,353	$807,298	$71,383	$922,035
Hamilton	$0.10	$196	1,715,145	2,433,435	$171,515	$1,306,721	$83,304	$1,561,540
Frankley Road	$0.31	n/a	22,641,629	n/a	$7,018,905	n/a	n/a	$7,018,905
Total Standard Revenue (VTC)					**$11,134,990**	**$58,926,992**	**$4,042,762**	**$74,104,743**

Director Certificate for ex-ante price setting compliance statement

We, Mark Adrian Ratcliffe 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: Mark Adrian Ratcliffe

Director: Euan Richard Krogh

12 August 2020
Date

12 August 2020
Date