COMPLIANCE STATEMENT

Gas transmission services – Compliance with price path

Assessment Period 1 October 2021 – 30 September 2022

First Gas Limited
September 2021

Introduction

Firstgas operates 2,500 kilometres of gas transmission pipelines and more than 4,900 kilometres of gas distribution pipelines across the North Island. These gas infrastructure assets transport natural 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. Our distribution network services approximately 66,000 consumers across the regions of Northland, Waikato, Central Plateau, Bay of Plenty, Gisborne and Kapiti Coast. For more information, 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 Ahuroa gas storage facility and Rockgas. The Ahuroa gas storage facility (trading as Flexgas) is New Zealand's only underground gas storage facility. Rockgas has over 80 years' experience providing LPG to over 100,000 customers throughout New Zealand. Rockgas is New Zealand's largest LPG retail business and supplies its customers with LPG from both domestic and imported services.

Firstgas is committed to helping Aotearoa achieve its climate change goal of zero carbon emissions by 2050. Our gas transmission and distribution networks are ideally placed to support the development, transfer and use of emerging fuels such as hydrogen or biogas. For more information, visit our website: www.gasischanging.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,* consolidating all amendments as of 18 December 2018 (DPP Determination). This Compliance Statement covers the fifth Assessment Period from 1 October 2021 to 30 September 2022 (GY202).

Compliance with Price Path	Yes

Firstgas will retain the structure of the prices under the Maui Pipeline Operating Code (MPOC) and Vector Transmission Code (VTC) for this pricing year. 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 in **Appendix 3**.

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 2021 to 30 September 2022 (GY2022).

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.

<u>Firstgas' transmission business</u>

For the pricing year commencing 1 October 2021 (GY2022), Firstgas will 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).[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 and 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.

[1] The Transmission Pricing Methodology for the year commencing 1 October 2021 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	
	GY2022 ($)	Proportion of Target Revenue (%)
Standard MPOC revenue for the period 1 October 2021 to 30 September 2022	$38,439,578	27.58%
Standard VTC revenue for the period 1 October 2021 to 30 September 2022	$84,395,791	60.56%
Non-Standard Pricing (SA and ICA Revenue)	$16,526,953	11.86%
Target Revenue	**$139,362,322**	**100.00%**

Standard Prices and Revenue for GY2022 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	0.001832	14,512,917,289	$ 26,587,664.47
Tariff 2	$ / GJ	0.083663	141,662,546	$ 11,851,913.59
Total MPOC Standard Revenue				**$ 38,439,578.06**

Table 3: VTC standard prices and revenue

Pricing Region	2020/2021		Revenue		Total Revenue ($)
	TPF ($/GJ)	CRF ($/GJ.MDQ)	TPF ($)*	CRF ($)	
Taranaki	$ 0.34	$ 82	$ 465,350	$ 360,888	**$ 826,237**
Waikato South	$ 0.34	$ 359	$ 2,174,040	$ 7,167,116	**$ 9,341,156**
Auckland	$ 0.34	$ 349	$ 6,384,656	$ 20,371,152	**$ 26,755,808**
Northland	$ 0.34	$ 530	$ 67,723	$ 325,755	**$ 393,478**
Waikato North	$ 0.34	$ 359	$ 1,016,410	$ 3,081,990	**$ 4,098,400**
South Taranaki - Whanganui	$ 0.34	$ 339	$ 812,434	$ 2,801,810	**$ 3,614,244**
Manawatu - Horowhenua	$ 0.34	$ 349	$ 1,083,729	$ 3,385,545	**$ 4,469,274**
Hawkes Bay	$ 0.34	$ 359	$ 1,075,836	$ 2,945,826	**$ 4,021,661**
Kapiti - Wellington	$ 0.34	$ 431	$ 2,249,606	$ 6,445,527	**$ 8,695,132**
Waikato East	$ 0.34	$ 359	$ 429,583	$ 1,228,066	**$ 1,657,649**
Bay of Plenty West	$ 0.34	$ 441	$ 612,633	$ 1,784,855	**$ 2,397,488**
Bay of Plenty South	$ 0.34	$ 462	$ 847,700	$ 3,000,051	**$ 3,847,750**
Bay of Plenty East	$ 0.34	$ 482	$ 468,230	$ 2,436,545	**$ 2,904,775**
Eastland	$ 0.34	$ 503	$ 270,915	$ 786,959	**$ 1,057,874**
Hamilton	$ 0.34	$ 191	$ 697,485	$ 1,273,387	**$ 1,970,872**
Frankley Road	$ 0.34	n/a	$ 8,343,993	n/a	**$ 8,343,993**
Total Standard Revenue			**$ 27,000,321**	**$ 57,395,470**	**$ 84,395,791**

*includes overrun revenue

Total Forecast Revenue from Prices

The total Forecast Revenue from Prices is **$139.362 million**.

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

+ Forecast Revenue from VTC Prices

+ Forecast Revenue from Non-Standard Prices

= $38.440 million+ $84.396 million + 16.526 million[2]

= **$139.362 million**

[2] Figures rounded from those show in Table 1.

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 2022 is **$131.623 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 GY2022, 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	$3.050
Balancing gas costs and revenues	$0.816
Mokau Compressor fuel gas costs	$1.073
CAPEX Wash-up Adjustment	$0.846
Total	**$5.786**

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.

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

The *opening wash-up account balance* for the fifth Assessment Period is $1.962 million. This is equal to the *closing wash-up account balance* of the fourth Assessment Period of $1.751 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 =	$131.623 million + $5.786 million + $1.962 million
	$139.371 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 GY2022.

Forecast Revenue from Prices	≤	Forecast Allowable Revenue
$139.362 million	≤	$139.371 million

2. Additional compliance requirements

2.1 Certification

The required certification for this Compliance Statement is attached in **Appendix 3.**

2.2 Statement date

This Compliance Statement was prepared on 11 August 2021.

Appendix 1: Calculation of forecast standard revenue for the VTC

	Prices		Quantities		Revenue by component ($)			VTC total standard revenue ($)
Pricing Region	TPF ($/GJ)	CRF ($/GJ.MDQ)	Throughput	Capacity reservations	TPF	CRF	Over-Run	
Taranaki	$0.34	$82	1,147,689	1,606,391	$390,214	$360,888	$75,135	$826,237
Waikato South	$0.34	$359	3,901,735	7,286,901	$1,326,590	$7,167,116	$847,450	$9,341,156
Auckland	$0.34	$349	15,597,646	21,305,073	$5,303,200	$20,371,152	$1,081,456	$26,755,808
Northland	$0.34	$530	130,012	224,341	$44,204	$325,755	$23,519	$393,478
Waikato North	$0.34	$359	2,345,847	3,133,499	$797,588	$3,081,990	$218,822	$4,098,400
South Taranaki - Whanganui	$0.34	$339	1,823,347	3,016,698	$619,938	$2,801,810	$192,496	$3,614,244
Manawatu - Horowhenua	$0.34	$349	2,267,555	3,540,756	$770,969	$3,385,545	$312,760	$4,469,274
Hawkes Bay	$0.34	$359	2,288,299	2,995,060	$778,022	$2,945,826	$297,814	$4,021,661
Kapiti - Wellington	$0.34	$431	4,334,453	5,458,509	$1,473,714	$6,445,527	$775,892	$8,695,132
Waikato East	$0.34	$359	831,126	1,248,591	$282,583	$1,228,066	$147,000	$1,657,649
Bay of Plenty West	$0.34	$441	1,140,601	1,477,261	$387,804	$1,784,855	$224,829	$2,397,488
Bay of Plenty South	$0.34	$462	1,735,959	2,370,170	$590,226	$3,000,051	$257,473	$3,847,750
Bay of Plenty East	$0.34	$482	1,236,619	1,845,102	$420,450	$2,436,545	$47,780	$2,904,775
Eastland	$0.34	$503	418,073	571,054	$142,145	$786,959	$128,770	$1,057,874
Hamilton	$0.34	$191	1,699,394	2,433,435	$577,794	$1,273,387	$119,691	$1,970,872
Frankley Road	$0.34	n/a	24,541,156	n/a	$8,343,993	n/a	n/a	$8,343,993
Total Standard Revenue (VTC)					**$22,249,434**	**$57,395,470**	**$4,750,887**	**$84,395,791**

Appendix 2: Methodology for forecasting GY2022 quantities

Methodology for flow quantities

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 large industrial customer reducing demand or shutting down all together. Aretê and Firstgas management have been working alongside our major customers to estimate the likely effects of on quantities of gas to be conveyed during GY2022.

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.

Methodology for capacity reservation quantities

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 GY2022, 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.

Appendix 3: Directors’ certification

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 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 11 Aug, 2021 5:00:18 PM GMT+12	Director: Fiona Ann Oliver 11 Aug, 2021 5:05:59 PM GMT+12
11 August 2021	11 August 2021
Date	Date