COMPLIANCE STATEMENT

Gas transmission services – Compliance with price path

Assessment Period 1 October 2022 – 30 September 2023

First Gas Limited
August 2022

Introduction

First Gas Limited (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.

Firstgas is part of the wider Firstgas Group. Firstgas Group owns energy infrastructure assets across New Zealand through Firstgas and Gas Services NZ Midco Limited (GSNZ Midco), a separate business with common shareholders that owns the Ahuroa gas storage facility and Rockgas Limited (Rockgas). Under its gas services brand, GSNZ Midco provides operational and maintenance support to gas infrastructure owners, including other parts of the Firstgas Group.

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. For more information, visit our website: www.gasischanging.co.nz.

Compliance statement in respect of price setting

This document is a compliance statement prepared pursuant to clauses A3 - A6 of the Notice to supply information to the Commerce Commission under section 53N of the *Commerce Act 1986* – Compliance statements for the third regulatory period (the Notice). This Compliance Statement covers the first Assessment Period for DPP3[1] and is for the period from 1 October 2022 to 30 September 2023 (GY2023).

Compliance with Price Path	Yes

Firstgas will retain the structure of the prices under the Maui Pipeline Operating Code (MPOC) and Gas Transmission Code (GTC) for this pricing year. The revenue earned from transmission services provided under the MPOC and GTC 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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[1] The third regulatory period under the default price quality path framework is for the period 1 October 2022 to 30 September 2026.

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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Firstgas

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 *Gas Transmission Services Default Price-Quality Path Determination 2022* (PQ Determination) for the Assessment Period from 1 October 2022 to 30 September 2023 (GY2023).

1.1 Price path for GTBs

The PQ 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 PQ 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 2022 (GY2023), 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 Gas Transmission Code (GTC). A full overview of our charging can be found in sections 3 and 5 of our Transmission Pricing Methodology (TPM).[2]

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.

[2] The Transmission Pricing Methodology for the year commencing 1 October 2022 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	
	GY2023 ($)	Proportion of Target Revenue (%)
Standard MPOC revenue for the period 1 October 2022 to 30 September 2023	$45,441,436	28.99%
Standard GTC revenue for the period 1 October 2022 to 30 September 2023	$99,931,235	63.76%
Non-Standard Pricing (SA and ICA Revenue)	$11,364,441	7.25%
Target Revenue	**$156,737,112**	**100.00%**

Standard Prices and Revenue for GY2023 are set out in the tables below. Further information on the calculation of forecast standard revenue for the GTC is available in **Appendix 1**.

Table 2: MPOC Standard prices and revenue

	Unit	Price ($)	Quantity	Revenue
Tariff 1	$ / GJ.km	0.002043	15,300,905,901	$31,259,750.76
Tariff 2	$ / GJ	0.093284	152,026,987	$14,181,685.42
Total MPOC Standard Revenue				$45,441,436.18

Table 3: GTC standard prices and revenue

Pricing Region	2022/2023 TPF ($/GJ)	2022/2023 CRF ($/GJ.MDQ)	Revenue TPF ($)*	Revenue CRF ($)	Total Revenue ($)
Taranaki	$ 0.39	$ 92	$ 790,597	$ 423,520	**$ 1,214,117**
Waikato South	$ 0.39	$ 404	$ 2,535,909	$ 7,595,472	**$ 10,131,381**
Auckland	$ 0.39	$ 393	$ 7,236,040	$ 23,103,240	**$ 30,339,280**
Northland	$ 0.39	$ 597	$ 68,513	$ 374,597	**$ 443,110**
Waikato North	$ 0.39	$ 404	$ 1,293,808	$ 4,155,819	**$ 5,449,626**
South Taranaki - Whanganui	$ 0.39	$ 382	$ 798,259	$ 2,648,408	**$ 3,446,667**
Manawatu - Horowhenua	$ 0.39	$ 393	$ 1,329,913	$ 3,779,750	**$ 5,109,664**
Hawkes Bay	$ 0.39	$ 404	$ 1,125,004	$ 3,016,363	**$ 4,141,367**
Kapiti - Wellington	$ 0.39	$ 486	$ 2,431,387	$ 8,948,626	**$ 11,380,012**
Waikato East	$ 0.39	$ 404	$ 142,590	$ 1,402,740	**$ 1,545,330**
Bay of Plenty West	$ 0.39	$ 497	$ 721,813	$ 2,453,873	**$ 3,175,685**
Bay of Plenty South	$ 0.39	$ 520	$ 1,189,680	$ 3,568,042	**$ 4,757,722**
Bay of Plenty East	$ 0.39	$ 543	$ 564,180	$ 2,319,112	**$ 2,883,292**
Eastland	$ 0.39	$ 567	$ 331,052	$ 902,759	**$ 1,233,811**
Hamilton	$ 0.39	$ 264	$ 767,990	$ 1,877,459	**$ 2,645,449**
Frankley Road	$ 0.39	n/a	$ 12,034,722	n/a	**$ 12,034,722**
Total Standard Revenue			**$ 33,361,456**	**$ 66,569,780**	**$ 99,931,235**

*includes overrun revenue

Total Forecast Revenue from Prices

The total Forecast Revenue from Prices is **$156.737 million.**

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

+ Forecast Revenue from GTC Prices

+ Forecast Revenue from Non-Standard Prices

= $45.441 + $99.931million + 11.364 million[3]

= **$156.765 million**

[3] 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 4[4] of Schedule 8.

Forecast Net Allowable Revenue

As established in schedule 4 of the PQ Determination, the Forecast Net Allowable Revenue for the Assessment Period ending 30 September 2023 is **$147.227 million**.

Forecast Pass-through Costs and Recoverable Costs

The PQ Determination states that all forecasts of Pass-through Costs and Recoverable Costs must be reasonable. For GY2023, 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	$3.304
Balancing gas costs and revenues	$2.065
Mokau Compressor fuel gas costs	$1.602
CAPEX Wash-up Adjustment	$0.000
Total	$6.971

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 first Assessment Period is $2.569 million**.** This is equal to the *closing wash-up account balance* of the last Assessment Period of the previous regulatory period of $2.293

[4] The definition in Schedule 5 refers to paragraph 3 of Schedule 8. The Commission has confirmed this is a drafting error in the PQ Determination and Firstgas should apply the requirements in paragraph 4 of Schedule 8 for the purpose of completing our FY2023 ex-Ante compliance statement.

million adjusted for the time value of money as specified in schedule 8 of the Gas Transmission Services Default Price Quality Path Determination 2017.

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 =	\$147.227 million + \$6.971 million + \$2.569 million
	\$156.768 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 PQ Determination for GY2023.

Forecast Revenue from Prices	≤	Forecast Allowable Revenue
\$156.737 million	≤	\$156.768 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 29 July 2022.

Appendix 1: Calculation of forecast standard revenue for the GTC

	Prices		Quantities		Revenue by component ($)			GTC total standard revenue ($)
Pricing Region	TPF ($/GJ)	CRF ($/GJ.MDQ)	Throughput	Capacity reservations	TPF	CRF	Over-Run	
Taranaki	$0.38	$91	1,769,814	1,680,987	$672,529	$419,095	$98,302	$1,189,926
Waikato South	$0.38	$398	4,144,997	6,781,161	$1,575,099	$7,394,252	$895,141	$9,864,492
Auckland	$0.38	$387	15,662,738	21,557,043	$5,951,840	$22,856,372	$1,111,997	$29,920,210
Northland	$0.38	$587	55,847	230,135	$21,222	$370,108	$46,138	$437,468
Waikato North	$0.38	$398	2,260,426	3,376,002	$1,039,988	$4,283,136	$231,549	$5,554,673
South Taranaki - Whanganui	$0.38	$375	1,676,786	2,687,669	$637,179	$2,761,304	$148,514	$3,546,997
Manawatu - Horowhenua	$0.38	$387	2,301,835	3,882,074	$874,697	$4,116,062	$461,146	$5,451,905
Hawkes Bay	$0.38	$398	1,984,653	3,246,635	$754,168	$3,540,166	$397,655	$4,691,990
Kapiti - Wellington	$0.38	$477	4,150,654	6,408,367	$1,577,249	$8,374,770	$765,310	$10,717,329
Waikato East	$0.38	$398	19,206	1,291,213	$7,298	$1,407,953	$135,581	$1,550,832
Bay of Plenty West	$0.38	$488	1,168,879	2,074,161	$444,174	$2,773,125	$294,061	$3,511,360
Bay of Plenty South	$0.38	$512	1,763,856	2,579,314	$670,265	$3,618,106	$505,599	$4,793,970
Bay of Plenty East	$0.38	$534	1,191,091	1,781,469	$452,614	$2,606,313	$109,510	$3,168,437
Eastland	$0.38	$557	372,414	772,992	$141,517	$1,179,607	$234,235	$1,555,359
Hamilton	$0.38	$264	1,656,055	2,530,792	$629,301	$1,827,579	$118,913	$2,575,793
Frankley Road	$0.38	n/a	30,858,262	n/a	$11,726,140	n/a	n/a	$11,726,140
Total Standard Revenue (VTC)					$27,175,281	$67,527,948	$5,553,651	$100,256,880

Appendix 2: Methodology for forecasting GY2023 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.

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.

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 price-path compliance statement of First Gas Limited, and related information, prepared for the purposes of the *Gas Transmission Services Default Price-Quality Path Determination 2022* has been prepared in accordance with all the relevant requirements.

Director: Mark Adrian Ratcliffe

Director: Fiona Ann Oliver

29 July 2022
Date

29 July 2022
Date