



Information disclosure for the gas distribution business

Year ending 30 September 2019



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 First Gas, please visit our website www.firstgas.co.nz.

First Gas Limited is part of the Firstgas Group. 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 and Rockgas. The Ahuroa gas storage facility (trading as Flexgas Limited)¹ is a depleted gas field that has been re-purposed to store large amounts of energy for release when New Zealand energy users need it most (e.g. due to low hydro inflows or during periods of high demand). It can store up to 18PJ of gas, with expansion planned over the next two years to increase the injection and withdrawal rates of the facility. Rockgas has over 80 years' experience providing LPG to 100,000 customers throughout New Zealand². Flexgas and Rockgas were both added to the Firstgas Group in the 2019 disclosure period.

Information disclosure

This document contains Firstgas' annual information disclosure for the gas distribution business, for the year ending on 30 September 2019, as required by the *Gas Distribution 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
- KPMG independent appraiser report with respect to the valuation of related party transactions

This information disclosure was prepared on 26 March 2020.

Further information

For further information regarding this compliance statement, please contact:

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¹ For further information please visit the Flexgas website www.flexgas.co.nz

² For further information please visit the Rockgas website www.rockgas.co.nz

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.



**GDB Information Disclosure Requirements
Information Templates
for
Schedules 1–10**

Company Name

First Gas Limited(Distribution)

Disclosure Date

31 March 2020

Disclosure Year (year ended)

30 September 2019

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(Distribution)**
For Year Ended **30 September 2019**

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

1(i): Expenditure Metrics

	Expenditure per TJ energy delivered to ICPs (\$/TJ)	Expenditure per average no. of ICPs (\$/ICP)	Ratio of expenditure to maximum monthly load (\$ per GJ/month)	Expenditure per km of pipeline for supply (\$/km)
Operational expenditure	768	109	7	1,458
Network	376	53	3	713
Non-network	392	56	3	744
Expenditure on assets	1,855	264	16	3,520
Network	1,811	258	15	3,438
Non-network	44	6	0	83

1(ii): Revenue Metrics

	Revenue per TJ energy delivered to ICPs (\$/TJ)	Revenue per average no. of ICPs (\$/ICP)
Total line charge revenue	2,607	371
Standard consumer line charge revenue	5,024	358
Non-standard consumer line charge revenue	192	51,429

1(iii): Service Intensity Measures

Demand density	224	Maximum monthly load (GJ per month) per system length
Volume density	2	Quantity of gas delivered per km of system length (TJ/km)
Connection point density	13	Average number of ICPs in disclosure year per system length
Energy intensity	142	Total GJ delivered to ICPs per average number of ICPs in disclosure year

1(iv): Composition of Revenue Requirement

	(\$000)	% of revenue
Operational expenditure	6,999	29.43%
Pass-through and recoverable costs excluding financial incentives and wash-ups	579	2.43%
Total depreciation	6,205	26.09%
Total revaluations	2,248	9.45%
Regulatory tax allowance	2,877	12.10%
Regulatory profit/(loss) including financial incentives and wash-ups	9,373	39.41%
Total regulatory income	23,785	

1(v): Reliability

Interruption rate	9.89	Interruptions per 100km of system length
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Company Name **First Gas Limited(Distribution)**
 For Year Ended **30 September 2019**

SCHEDULE 2: REPORT ON RETURN ON INVESTMENT

This schedule requires information on the Return on Investment (ROI) for the GDB relative to the Commerce Commission's estimates of post tax WACC and vanilla WACC. GDBs 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 GDB makes this election, information supporting this calculation must be provided in 2(iii).

GDBs must provide explanatory comment on their ROI in Schedule 14 (Mandatory Explanatory Notes).

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sch ref

2(i): Return on Investment

ROI – comparable to a post tax WACC

Reflecting all revenue earned
 Excluding revenue earned from financial incentives
 Excluding revenue earned from financial incentives and wash-ups

Mid-point estimate of post tax WACC

25th percentile estimate
 75th percentile estimate

ROI – comparable to a vanilla WACC

Reflecting all revenue earned
 Excluding revenue earned from financial incentives
 Excluding revenue earned from financial incentives and wash-ups

WACC rate used to set regulatory price path

Mid-point estimate of vanilla WACC

25th percentile estimate
 75th percentile estimate

	CY-2	CY-1	Current Year CY
for year ended	30 Sep 17	30 Sep 18	30 Sep 19
	%	%	%
Reflecting all revenue earned	10.04%	4.23%	5.81%
Excluding revenue earned from financial incentives	10.04%	4.23%	5.81%
Excluding revenue earned from financial incentives and wash-ups	10.04%	4.23%	5.78%
Mid-point estimate of post tax WACC	5.45%	5.18%	4.88%
25th percentile estimate	4.64%	4.47%	4.17%
75th percentile estimate	6.26%	5.89%	5.58%
ROI – comparable to a vanilla WACC			
Reflecting all revenue earned	10.58%	4.75%	6.28%
Excluding revenue earned from financial incentives	10.58%	4.75%	6.28%
Excluding revenue earned from financial incentives and wash-ups	10.58%	4.75%	6.24%
WACC rate used to set regulatory price path	7.44%	6.41%	6.41%
Mid-point estimate of vanilla WACC	5.99%	5.71%	5.34%
25th percentile estimate	5.18%	5.00%	4.64%
75th percentile estimate	6.80%	6.41%	6.05%

2(ii): Information Supporting the ROI

(\$000)

Total opening RAB value	153,499	
plus Opening deferred tax	(6,306)	
Opening RIV		147,194
Line charge revenue		23,758
Expenses cash outflow	7,578	
plus Assets commissioned	14,445	
less Asset disposals	-	
plus Tax payments	1,508	
less Other regulated income	27	
Mid-year net cash flows		23,503
Term credit spread differential allowance		-
Total closing RAB value	164,081	
less Adjustment resulting from asset allocation	93	
less Lost and found assets adjustment	-	
plus Closing deferred tax	(7,675)	
Closing RIV		156,312
ROI – comparable to a vanilla WACC		6.28%
Leverage (%)		42%
Cost of debt assumption (%)		3.96%
Corporate tax rate (%)		28%
ROI – comparable to a post tax WACC		5.81%

Company Name

First Gas Limited(Distribution)

For Year Ended

30 September 2019

SCHEDULE 2: REPORT ON RETURN ON INVESTMENT

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GDBs 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						-

Tax Payments

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

6.02%

Year-end ROI – comparable to a post tax WACC

5.56%

* these year-end ROI values are comparable to the ROI reported in pre 2012 disclosures by GDBs 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
 Other wash-ups

-
 -
 -
 72
 -

Wash-up costs

72

Impact of wash-up costs on ROIs

0.04%

Company Name **First Gas Limited(Distribution)**
For Year Ended **30 September 2019**

SCHEDULE 3: REPORT ON REGULATORY PROFIT

This schedule requires information on the calculation of regulatory profit for the GDB for the disclosure year. GDBs 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	23,758	
10	plus Gains / (losses) on asset disposals	-	
11	plus Other regulated income (other than gains / (losses) on asset disposals)	27	
12			
13	Total regulatory income	23,785	
14	Expenses		
15	less Operational expenditure	6,999	
16			
17	less Pass-through and recoverable costs excluding financial incentives and wash-ups	579	
18			
19	Operating surplus / (deficit)	16,207	
20			
21	less Total depreciation	6,205	
22			
23	plus Total revaluations	2,248	
24			
25	Regulatory profit / (loss) before tax	12,250	
26			
27	less Term credit spread differential allowance	-	
28			
29	less Regulatory tax allowance	2,877	
30			
31	Regulatory profit/(loss) including financial incentives and wash-ups	9,373	
32			
33	3(ii): Pass-through and recoverable costs excluding financial incentives and wash-ups		(\$000)
34	Pass through costs		
35	Rates	441	
36	Commerce Act levies	103	
37	Industry Levies	35	
38	CPP specified pass through costs	-	
39	Recoverable costs excluding financial incentives and wash-ups		
40	Urgent project allowance	-	
41	Other recoverable costs excluding financial incentives and wash-ups	-	
42	Pass-through and recoverable costs excluding financial incentives and wash-ups	579	
43			
44			
45			
46	3(iv): Merger and Acquisition Expenditure		
47			(\$000)
48	Merger and acquisition expenditure	-	
49			
50	<i>Provide commentary on the benefits of merger and acquisition expenditure to the gas distribution business, including required disclosures in accordance with section 2.7, in Schedule 14 (Mandatory Explanatory Notes)</i>		
51			(\$000)
52	3(v): Other Disclosures		
53			(\$000)
54	Self-insurance allowance	-	

Company Name **First Gas Limited(Distribution)**
 For Year Ended **30 September 2019**

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. GDBs 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

4(i): Regulatory Asset Base Value (Rolled Forward)

	for year ended	RAB 30 Jun 15 (\$000)	RAB 30 Jun 16 (\$000)	RAB 30 Sep 17 (\$000)	RAB 30 Sep 18 (\$000)	RAB 30 Sep 19 (\$000)
Total opening RAB value			131,352	131,884	147,907	153,499
less Total depreciation			5,041	6,328	5,970	6,205
plus Total revaluations			547	2,958	2,811	2,248
plus Assets commissioned			5,820	19,132	8,561	14,445
less Asset disposals			9	24	2	-
plus Lost and found assets adjustment			-	-	-	-
plus Adjustment resulting from asset allocation			(786)	285	192	93
Total closing RAB value		-	131,884	147,907	153,499	164,081

4(ii): Unallocated Regulatory Asset Base

	Unallocated RAB *	RAB
	(\$000)	(\$000)
Total opening RAB value		153,499
less Total depreciation		6,205
plus Total revaluations		2,248
plus Assets commissioned (other than below)	2,057	165
Assets acquired from a regulated supplier	-	-
Assets acquired from a related party	14,280	14,280
Assets commissioned		14,445
less Asset disposals (other than below)	-	-
Asset disposals to a regulated supplier	-	-
Asset disposals to a related party	-	-
Asset disposals		
plus Lost and found assets adjustment		
plus Adjustment resulting from asset allocation		93
Total closing RAB value	172,169	164,081

* The 'unallocated RAB' is the total value of those assets used wholly or partially to provide gas distribution services without any allowance being made for the allocation of costs to services provided by the supplier that are not gas distribution 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(Distribution)**
 For Year Ended **30 September 2019**

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. GDBs 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

4(iii): Calculation of Revaluation Rate and Revaluation of Assets

CPI _t	1,039
CPI _{t-4}	1,024
Revaluation rate (%)	1.46%

Unallocated RAB *		RAB	
(\$000)	(\$000)	(\$000)	(\$000)
Total opening RAB value	162,062	153,499	
less Opening value of fully depreciated, disposed and lost assets	36	16	
Total opening RAB value subject to revaluation	162,026	153,484	
Total revaluations		2,373	2,248

4(iv): Roll Forward of Works Under Construction

Unallocated works under construction		Allocated works under construction	
Works under construction—preceding disclosure year	2,973	2,811	
plus Capital expenditure	25,885	15,321	
less Assets commissioned	16,337	14,445	
plus Adjustment resulting from asset allocation			
Works under construction - current disclosure year	12,521	3,687	
Highest rate of capitalised finance applied		4.43%	

Company Name **First Gas Limited(Distribution)**
 For Year Ended **30 September 2019**

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. GDBs 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

4(v): Regulatory Depreciation

Depreciation - standard
 Depreciation - no standard life assets
 Depreciation - modified life assets
 Depreciation - alternative depreciation in accordance with CPP
Total depreciation

Unallocated RAB * (\$000)	(\$000)	RAB (\$000)	(\$000)
5,343		5,343	
3,261		862	
-		-	
-		-	
	8,603		6,205

(\$000 unless otherwise specified)

4(vi): Disclosure of Changes to Depreciation Profiles

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

* include additional rows if needed

4(vii): Disclosure by Asset Category

(\$000 unless otherwise specified)

	Intermediate pressure main pipelines	Medium pressure main pipelines	Low pressure main pipelines	Service pipe	Stations	Line valve	Special crossings	Other network assets	Non-network assets	Total
Total opening RAB value	21,517	87,175	1,452	26,432	5,634	1,490	3,462	3,935	2,404	153,499
less Total depreciation	551	2,821	35	1,348	195	35	139	285	796	6,205
plus Total revaluations	315	1,277	21	387	83	22	51	58	35	2,248
plus Assets commissioned	-	10,788	-	2,736	568	166	-	-	187	14,445
less Asset disposals	-	-	-	-	-	-	-	-	-	-
plus Lost and found assets adjustment	-	-	-	-	-	-	-	-	-	-
plus Adjustment resulting from asset allocation	-	-	-	-	-	-	-	-	93	93
plus Asset category transfers	-	-	-	-	-	-	-	-	-	-
Total closing RAB value	21,281	96,419	1,438	28,208	6,089	1,643	3,374	3,707	1,922	164,081
Asset Life										
Weighted average remaining asset life	45.6	35.4	46.3	36.1	29.5	51.3	27.1	23.3	19.4	(years)
Weighted average expected total asset life	70.2	60.0	60.0	64.3	35.0	58.7	60.0	37.1	50.0	(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

5a(i): Regulatory Tax Allowance			(\$'000)
8	Regulatory profit / (loss) before tax		12,250
9			
10	plus Income not included in regulatory profit / (loss) before tax but taxable	- *	
11	Expenditure or loss in regulatory profit / (loss) before tax but not deductible	144 *	
12	Amortisation of initial differences in asset values	1,683	
13	Amortisation of revaluations	848	
14			2,674
15			
16	less Total revaluations	2,248	
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	Notional deductible interest	2,401	
20			4,649
21			
22	Regulatory taxable income		10,275
23			
24	less Utilised tax losses	-	
25	Regulatory net taxable income		10,275
26			
27	Corporate tax rate (%)	28%	
28	Regulatory tax allowance		2,877

In Schedule 14, Box 5, provide descriptions and workings of items recorded in the asterisked categories in Schedule 5a(i).

(\$000)

36		Opening unamortised initial differences in asset values	57,209	
37	<i>less</i>	Amortisation of initial differences in asset values	1,683	
38	<i>plus</i>	Adjustment for unamortised initial differences in assets acquired	-	
39	<i>less</i>	Adjustment for unamortised initial differences in assets disposed	-	
40		Closing unamortised initial differences in asset values		55,527
41				
42		Opening weighted average remaining useful life of relevant assets (years)		34

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). GDBs 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

5a(iv): Amortisation of Revaluations		(\$000)
Opening sum of RAB values without revaluations	141,881	
Adjusted depreciation	5,357	
Total depreciation	6,205	
Amortisation of revaluations		848
5a(v): Reconciliation of Tax Losses		(\$000)
Opening tax losses	-	
plus Current period tax losses	-	
less Utilised tax losses	-	
Closing tax losses		-
5a(vi): Calculation of Deferred Tax Balance		(\$000)
Opening deferred tax	(6,306)	
plus Tax effect of adjusted depreciation	1,500	
less Tax effect of tax depreciation	2,092	
plus Tax effect of other temporary differences*	13	
less Tax effect of amortisation of initial differences in asset values	471	
plus Deferred tax balance relating to assets acquired in the disclosure year	-	
less Deferred tax balance relating to assets disposed in the disclosure year	0	
plus Deferred tax cost allocation adjustment	(318)	
Closing deferred tax		(7,675)
5a(vii): Disclosure of Temporary Differences		
<i>In Schedule 14, Box 6, provide descriptions and workings of items recorded in the asterisked category in Schedule 5a(vi) (Tax effect of other temporary differences).</i>		
5a(viii): Regulatory Tax Asset Base Roll-Forward		(\$000)
Opening sum of regulatory tax asset values	59,411	
less Tax depreciation	7,472	
plus Regulatory tax asset value of assets commissioned	14,386	
less Regulatory tax asset value of asset disposals	1	
plus Lost and found assets adjustment	-	
plus Adjustments resulting from asset allocation	(1,044)	
plus Other adjustments to the RAB tax value	-	
Closing sum of regulatory tax asset values		65,279

Company Name:		First Gas Limited(Distribution)
For Year Ended		30 September 2019
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		
7	5b(i): Summary—Related Party Transactions	
8		(S000)
9	Total regulatory income	2,148
10		
11	Market value of asset disposals	
12	Service interruptions, incidents and emergencies	2,705
13	Routine and corrective maintenance and inspection	720
14	Asset replacement and renewal (opex)	-
15	Network opex	3,425
16	Business support	-
17	System operations and network support	1,359
18	Operational expenditure	4,784
19	Consumer connection	5,916
20	System growth	5,791
21	Asset replacement and renewal (capex)	3,539
22	Asset relocations	1,153
23	Quality of supply	105
24	Legislative and regulatory	-
25	Other reliability, safety and environment	-
26	Expenditure on non-network assets	172
27	Expenditure on assets	16,676
28	Cost of financing	
29	Value of capital contributions	
30	Value of vested assets	
31	Capital expenditure	16,676
32	Total expenditure	21,461
33		
34	Other related party transactions	-
35	5b(iii): Total Opex and Capex Related Party Transactions	
36		
37		Total value of transactions (S000)
38	Name of related party	
39	Nature of opex or capex service provided	
40	First Gas Transmission	143
41	Gas Services NZ	2,705
42	Gas Services NZ	720
43	Gas Services NZ	1,217
44	Gas Services NZ	5,916
45	Gas Services NZ	5,791
46	Gas Services NZ	3,539
47	Gas Services NZ	1,153
48	Gas Services NZ	105
49	Gas Services NZ	172
50		
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Company Name **First Gas Limited(Distribution)**
 For Year Ended **30 September 2019**

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

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8

9

5c(i): Qualifying Debt (may be Commission only)

10

11

12

13

14

15

16

17

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
* include additional rows if needed						-	-	-

18

5c(ii): Attribution of Term Credit Spread Differential

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(Distribution)**
 For Year Ended **30 September 2019**

SCHEDULE 5d: REPORT ON COST ALLOCATIONS

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

5d(i): Operating Cost Allocations

		Value allocated (\$000s)				OVABAA allocation increase (\$000s)
		Arm's length deduction	Gas distribution services	Non-gas distribution services	Total	
Service interruptions, incidents and emergencies						
Directly attributable			2,705			
Not directly attributable				-	-	
Total attributable to regulated service			2,705			
Routine and corrective maintenance and inspection						
Directly attributable			720			
Not directly attributable				-	-	
Total attributable to regulated service			720			
Asset replacement and renewal						
Directly attributable						
Not directly attributable					-	
Total attributable to regulated service				-		
System operations and network support						
Directly attributable			1,260			
Not directly attributable		-		-	-	
Total attributable to regulated service			1,260			
Business support						
Directly attributable			1,039			
Not directly attributable		330	1,275	11,312	12,917	
Total attributable to regulated service			2,314			
Operating costs directly attributable			5,724			
Operating costs not directly attributable		330	1,275	11,312	12,917	-
Operational expenditure			6,999			

Company Name **First Gas Limited(Distribution)**
 For Year Ended **30 September 2019**

SCHEDULE 5d: REPORT ON COST ALLOCATIONS

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

35	5d(ii): Other Cost Allocations	Value allocated (\$000s)				
		Arm's length deduction	Gas distribution services	Non-gas distribution services	Total	OVABAA allocation increase (\$000s)
36	Pass through and recoverable costs					
37	Pass through costs					
38	Directly attributable		579			
39	Not directly attributable		-	-	-	
40	Total attributable to regulated service		579			
41	Recoverable costs					
42	Directly attributable					
43	Not directly attributable				-	
44	Total attributable to regulated service		-			
45	5d(iii): Changes in Cost Allocations* †					
46						
47	Change in cost allocation 1					
48	Cost category					
49	Original allocator or line items					
50	New allocator or line items					
51						
52	Rationale for change					
53						
54						
55						
56	Change in cost allocation 2					
57	Cost category					
58	Original allocator or line items					
59	New allocator or line items					
60						
61	Rationale for change					
62						
63						
64						
65	Change in cost allocation 3					
66	Cost category					
67	Original allocator or line items					
68	New allocator or line items					
69						
70	Rationale for change					
71						
72						

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

† include additional rows if needed

Company Name **First Gas Limited(Distribution)**
 For Year Ended **30 September 2019**

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. GDBs 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

5e(i): Regulated Service Asset Values

	Value allocated (\$000s) Gas distribution services
Main pipe	
Directly attributable	119,137
Not directly attributable	-
Total attributable to regulated service	119,137
Service pipe	
Directly attributable	28,208
Not directly attributable	-
Total attributable to regulated service	28,208
Stations	
Directly attributable	6,089
Not directly attributable	-
Total attributable to regulated service	6,089
Line valve	
Directly attributable	1,643
Not directly attributable	-
Total attributable to regulated service	1,643
Special crossings	
Directly attributable	3,374
Not directly attributable	-
Total attributable to regulated service	3,374
Other network assets	
Directly attributable	3,707
Not directly attributable	-
Total attributable to regulated service	3,707
Non-network assets	
Directly attributable	1,220
Not directly attributable	703
Total attributable to regulated service	1,922
Regulated service asset value directly attributable	163,378
Regulated service asset value not directly attributable	703
Total closing RAB value	164,081

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

Change in asset value allocation 1

(\$000)

			CY-1	Current Year (CY)
Asset category		Original allocation		
Original allocator or line items		New allocation		
New allocator or line items		Difference	-	-
Rationale for change				

Change in asset value allocation 2

(\$000)

			CY-1	Current Year (CY)
Asset category		Original allocation		
Original allocator or line items		New allocation		
New allocator or line items		Difference	-	-
Rationale for change				

Change in asset value allocation 3

(\$000)

			CY-1	Current Year (CY)
Asset category		Original allocation		
Original allocator or line items		New allocation		
New allocator or line items		Difference	-	-
Rationale for change				

component.

† include additional rows if needed

Company Name

First Gas Limited(Distribution)

For Year Ended

30 September 2019

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.

GDBs 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			5,916
9	System growth			5,791
10	Asset replacement and renewal			3,539
11	Asset relocations			1,153
12	Reliability, safety and environment:			
13	Quality of supply		-	
14	Legislative and regulatory		-	
15	Other reliability, safety and environment		105	
16	Total reliability, safety and environment			105
17	Expenditure on network assets			16,504
18	Expenditure on non-network assets			397
19				
20	Expenditure on assets			16,901
21	plus Cost of financing			61
22	less Value of capital contributions			1,641
23	plus Value of vested assets			-
24				
25	Capital expenditure			15,321
26	6a(ii): Subcomponents of Expenditure on Assets (where known)			(\$000)
27	Research and development			
28	6a(iii): Consumer Connection			
29	Consumer types defined by GDB*		(\$000)	(\$000)
30	Mains Extensions/Subdivisions		2,208	
31	Service Connections - Residential		2,899	
32	Service Connections - Commercial		809	
33				
34				
35	* include additional rows if needed			
36	Consumer connection expenditure			5,916
37				
38	less Capital contributions funding consumer connection expenditure		240	
39	Consumer connection less capital contributions			5,676

Company Name

First Gas Limited(Distribution)

For Year Ended

30 September 2019

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.

GDBs 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

40			
41	6a(iv): System Growth and Asset Replacement and Renewal		
42		System Growth	Asset Replacement and Renewal
43		(\$000)	(\$000)
44	Intermediate pressure		
45	Main pipe	1,206	479
46	Service pipe	-	-
47	Stations	-	-
48	Line valve	-	-
49	Special crossings	-	3
50	Intermediate pressure - total	1,206	482
51	Medium pressure		
52	Main pipe	4,373	2,437
53	Service pipe	-	-
54	Stations	-	-
55	Line valve	-	-
56	Special crossings	-	-
57	Medium pressure - total	4,373	2,437
58	Low pressure		
59	Main pipe	-	-
60	Service pipe	-	-
61	Line valve	-	-
62	Special crossings	-	-
63	Low pressure - total	-	-
64	Other network assets		
65	Monitoring and control systems	-	-
66	Cathodic protection systems	-	14
67	Other assets (other than above)	212	607
68	Other network assets - total	212	621
69			
70	System growth and asset replacement and renewal expenditure	5,791	3,539
71	less Capital contributions funding system growth and asset replacement and renewal	585	-
72	System growth and asset replacement and renewal less capital contributions	5,206	3,539
73	6a(v): Asset Relocations		
74	<i>Project or programme*</i>	(\$000)	(\$000)
75	Waikato Expressway, Matangi-Hamilton Section	9	
76	SH1 Tarewa Road Intersection Upgrade	475	
77	Wairere Drive relocation, DRS101 & 103	307	
78	Cambridge Pipe Bridge, Cambridge	106	
79	Peka Peka to Otaki Expressway	103	
80	<i>* include additional rows if needed</i>		
81	All other projects or programmes - asset relocations	154	
82	Asset relocations expenditure		1,153
83	less Capital contributions funding asset relocations	816	
84	Asset relocations less capital contributions		337

Company Name

First Gas Limited(Distribution)

For Year Ended

30 September 2019

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. GDBs 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

6a(vi): Quality of Supply

Project or programme*

Nil

* include additional rows if needed

All other projects or programmes - quality of supply

Quality of supply expenditure

less Capital contributions funding quality of supply

Quality of supply less capital contributions

(\$000)

(\$000)

--

-

--

-

6a(vii): Legislative and Regulatory

Project or programme*

Nil

* include additional rows if needed

All other projects or programmes - legislative and regulatory

Legislative and regulatory expenditure

less Capital contributions funding legislative and regulatory

Legislative and regulatory less capital contributions

(\$000)

(\$000)

--

-

--

-

6a(viii): Other Reliability, Safety and Environment

Project or programme*

* include additional rows if needed

All other projects or programmes - other reliability, safety and environment

Other reliability, safety and environment expenditure

less Capital contributions funding other reliability, safety and environment

Other reliability, safety and environment less capital contributions

(\$000)

(\$000)

105

105

--

105

6a(ix): Non-Network Assets**Routine expenditure**

Project or programme*

ICT
Plant & Equipment
Building Refurbishment

* include additional rows if needed

All other projects or programmes - routine expenditure

Routine expenditure**Atypical expenditure**

Project or programme*

* include additional rows if needed

All other projects or programmes - atypical expenditure

Atypical expenditure**Expenditure on non-network assets**

(\$000)

(\$000)

167
173
57

--

397

(\$000)

(\$000)

--

-

--

397

Company Name

First Gas Limited(Distribution)

For Year Ended

30 September 2019

SCHEDULE 6b: REPORT ON OPERATIONAL EXPENDITURE FOR THE DISCLOSURE YEAR

This schedule requires a breakdown of operational expenditure incurred in the current disclosure year. GDBs 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

		(\$000)	(\$000)
7	6b(i): Operational Expenditure		
8	Service interruptions, incidents and emergencies	2,705	
9	Routine and corrective maintenance and inspection	720	
10	Asset replacement and renewal	-	
11	Network opex		3,425
12	System operations and network support	1,260	
13	Business support	2,314	
14	Non-network opex		3,574
15			
16	Operational expenditure		6,999
17	6b(ii): Subcomponents of Operational Expenditure (where known)		
18	Research and development		
19	Insurance		

Company Name

First Gas Limited(Distribution)

For Year Ended

30 September 2019

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.

GDBs 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

7(i): RevenueTarget (\$000) ¹ Actual (\$000) % variance

Line charge revenue

22,518

23,758

6%

7(ii): Expenditure on AssetsForecast (\$000) ² Actual (\$000) % variance

Consumer connection

7,021

5,916

(16%)

System growth

2,964

5,791

95%

Asset replacement and renewal

4,501

3,539

(21%)

Asset relocations

866

1,153

33%

Reliability, safety and environment:

Quality of supply

-

-

-

Legislative and regulatory

-

-

-

Other reliability, safety and environment

-

105

-

Total reliability, safety and environment

-

105

-

Expenditure on network assets

15,352

16,504

8%

Expenditure on non-network assets

474

397

(16%)

Expenditure on assets

15,826

16,901

7%

7(iii): Operational Expenditure

AMP Forecast Actual (\$000)

Service interruptions, incidents and emergencies

2,980

2,705

(9%)

Routine and corrective maintenance and inspection

1,882

720

(62%)

Asset replacement and renewal

-

-

-

Network opex

4,862

3,425

(30%)

System operations and network support

1,589

1,260

(21%)

Business support

1,735

2,314

33%

Non-network opex

3,324

3,574

8%

Operational expenditure

8,186

6,999

(14%)

7(iv): Subcomponents of Expenditure on Assets (where known)

Research and development

-

-

-

7(v): Subcomponents of Operational Expenditure (where known)

Research and development

-

-

-

Insurance

-

-

-

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

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(Distribution)**For Year Ended **30 September 2019**

Network / Sub-Network Name

SCHEDULE 8: REPORT ON BILLED QUANTITIES AND LINE CHARGE REVENUES

This schedule requires the billed quantities and associated line charge revenues for the disclosure year for each consumer group or price category code used by the GDB in its pricing schedules. Information is also required on the number of ICPs that are included in each consumer group or price category code, and the energy delivered to these ICPs.

sch ref

8(i): Billed quantities by price component

Price component

Billed quantities by price component

Add extra columns
for additional
billed quantities
by price
component as
necessary

Unit charging basis
(eg, days, GJ, etc.)

Consumer group name or price
category code Consumer type or types (eg, residential,
commercial, etc.) Standard or non-standard
consumer group (specify) Average no. of ICPs in
disclosure year Quantity of gas
delivered (TJ)

GN0R	Residential	Standard	59,837	1,261
GN0V	Residential	Standard	-	-
GN01	Business/Commercial	Standard	2,111	184
GN02	Commercial	Standard	1,470	475
GN03	Commercial	Standard	510	904
GN04	Commercial/Industrial	Standard	67	809
GN05	Large Industrial	Standard	9	922
Non-Standard (NG60)	Large Industrial	Non-standard	17	4,558

Add extra rows for additional consumer groups or price category codes as necessary

Standard consumer totals	64,004	4,555
Non-standard consumer totals	17	4,558
Total for all consumers	64,021	9,113

Fixed	Variable			
Days	kWh			

21,802,557	350,149,777			
-	-			
768,401	51,032,952			
535,351	132,007,024			
185,771	251,097,661			
24,466	224,697,660			
3,285	256,220,649			
5,475	1,266,074,300			

23,319,831	1,265,205,723	-	-	-
5,475	1,266,074,300	-	-	-
23,325,306	2,531,280,023	-	-	-

Company Name **First Gas Limited(Distribution)**For Year Ended **30 September 2019**

Network / Sub-Network Name

SCHEDULE 8: REPORT ON BILLED QUANTITIES AND LINE CHARGE REVENUES

This schedule requires the billed quantities and associated line charge revenues for the disclosure year for each consumer group or price category code used by the GDB in its pricing schedules. Information is also required on the number of ICPs that are included in each consumer group or price category code, and the energy delivered to these ICPs.

8(ii): Line charge revenues (\$000) by price component**Line charge revenues (\$000) by price component**

Add extra columns
for additional line
charge revenues
by price
component as
necessary

Price component

Rate (eg, \$ per day,
\$ per GJ, etc.)

Consumer group name or price category code	Consumer type or types (eg, residential, commercial, etc.)	Standard or non-standard consumer group (specify)	Total line charge revenue in disclosure year	Notional revenue foregone from posted discounts (if applicable)
GN0R	Residential	Standard	\$14,901	
GN0V	Residential	Standard	-	
GN01	Business/Commercial	Standard	\$880	
GN02	Commercial	Standard	\$1,576	
GN03	Commercial	Standard	\$2,627	
GN04	Commercial/Industrial	Standard	\$1,763	
GN05	Large Industrial	Standard	\$1,135	
Non-Standard (NG60)	Large Industrial	Non-standard	\$874	
			-	
			-	
			-	
			-	

Fixed	Variable			
Days	kWh			

7,547	7,354			
-	-			
492	388			
600	977			
920	1,707			
347	1,416			
759	377			
705	169			

Add extra rows for additional consumer groups or price category codes as necessary

Standard consumer totals	\$22,883	-
Non-standard consumer totals	\$874	-
Total for all consumers	\$23,758	-

\$10,664	\$12,219	-	-	-
\$705	\$169	-	-	-
\$11,369	\$12,388	-	-	-

Company Name **First Gas Limited(Distribution)**
For Year Ended **30 September 2019**
Network / Sub-network Name **North Island Network**

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

					Items at start of	Items at end of	Net change	Data accuracy
	Operating Pressure	Asset Category	Asset Class	Units	year (quantity)	year (quantity)		(1-4)
8	Intermediate Pressure	Main pipe	IP PE main pipe	km	-	-	-	N/A
9	Intermediate Pressure	Main pipe	IP steel main pipe	km	196	195	(1)	3
10	Intermediate Pressure	Main pipe	IP other main pipe	km	-	-	-	N/A
11	Intermediate Pressure	Service pipe	IP PE service pipe	km	-	-	-	N/A
12	Intermediate Pressure	Service pipe	IP steel service pipe	km	2	2	-	3
13	Intermediate Pressure	Service pipe	IP other service pipe	km	-	-	-	N/A
14	Intermediate Pressure	Stations	Intermediate pressure DRS	No.	102	101	(1)	3
15	Intermediate Pressure	Line valve	IP line valves	No.	238	253	15	3
16	Intermediate Pressure	Special crossings	IP crossings	No.	17	17	-	2
17	Medium Pressure	Main pipe	MP PE main pipe	km	2,977	3,046	69	3
18	Medium Pressure	Main pipe	MP steel main pipe	km	130	130	-	3
19	Medium Pressure	Main pipe	MP other main pipe	km	-	-	-	N/A
20	Medium Pressure	Service pipe	MP PE service pipe	km	1,328	1,344	16	3
21	Medium Pressure	Service pipe	MP steel service pipe	km	12	12	-	3
22	Medium Pressure	Service pipe	MP other service pipe	km	1	1	-	3
23	Medium Pressure	Stations	Medium pressure DRS	No.	24	24	-	3
24	Medium Pressure	Line valve	MP line valves	No.	1,038	1,113	75	3
25	Medium Pressure	Special crossings	MP special crossings	No.	73	75	2	2
26	Low Pressure	Main pipe	LP PE main pipe	km	41	41	-	3
27	Low Pressure	Main pipe	LP steel main pipe	km	-	-	-	N/A
28	Low Pressure	Main pipe	LP other main pipe	km	-	-	-	N/A
29	Low Pressure	Service pipe	LP PE service pipe	km	30	30	-	3
30	Low Pressure	Service pipe	LP steel service pipe	km	-	-	-	N/A
31	Low Pressure	Service pipe	LP other service pipe	km	-	-	-	N/A
32	Low Pressure	Line valve	LP line valves	No.	11	11	-	3
33	Low Pressure	Special crossings	LP special crossings	No.	-	-	-	N/A
34	All	Monitoring and control systems	Remote terminal units	No.	-	-	-	N/A
35	All	Cathodic protection systems	Cathodic protection	No.	42	43	1	2

Company Name
For Year Ended
Network / Sub-network Name

First Gas Limited(Distribution)
30 September 2019
North Island Network

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

8		Disclosure Year (year ended)		30 September 2019		Number of assets at disclosure year end by installation date																																			
						pre-1970	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	No. with age unknown	Items at end of year (quantity)	No. with default dates	Data accuracy (1-4)					
9	Operating Pressure	Asset Category	Asset Class	Units																																					
10		Intermediate Pressure	Main pipe	IP PE main pipe	km																														N/A						
11		Intermediate Pressure	Main pipe	IP steel main pipe	km	1	16	1	105	38	8	0		0	0	0	1	0	0	0	0	0	0	0	1	0	1	0	1	0	21	(1)	195		3						
12		Intermediate Pressure	Main pipe	IP other main pipe	km																														N/A						
13		Intermediate Pressure	Service pipe	IP PE service pipe	km																														N/A						
14		Intermediate Pressure	Service pipe	IP steel service pipe	km		0		1	1	0	0							0			0								0			2		3						
15		Intermediate Pressure	Service pipe	IP other service pipe	km																														N/A						
16		Intermediate Pressure	Stations	Intermediate pressure	No.		1		42	24	8	1		3	1	2	2	1			1	1	3	1		2	2	5		2		(1)		101		3					
17		Intermediate Pressure	Line valve	IP line valves	No.		12	4	42	63	18	6	1	2	1	1	6	6	2	5	4	1	2	5	11	4	11	9	6	10	6	15		253		3					
18		Intermediate Pressure	Special crossings	IP crossings	No.		1		8	7	1																							17		2					
19		Medium Pressure	Main pipe	MP PE main pipe	km	26	39	141	204	726	516	428	59	53	52	73	87	76	66	56	46	24	15	14	15	36	47	32	40	54	50	69		3,046		3					
20		Medium Pressure	Main pipe	MP steel main pipe	km	9	80	26	15	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(2)	1		131		3					
21		Medium Pressure	Main pipe	MP other main pipe	km																														N/A						
22		Medium Pressure	Service pipe	MP PE service pipe	km	0	27	91	64	178	226	243	43	38	44	39	37	35	33	27	14	18	15	14	18	22	14	16	17	13	15		1,343		3						
23		Medium Pressure	Service pipe	MP steel service pipe	km	0	11	1	1	0	0	0	43			0			0	0	0	0	0	0	0	0	0	0	0	0	(2)		12		3						
24		Medium Pressure	Service pipe	MP other service pipe	km		1	0			0				0												0						1		3						
25		Medium Pressure	Stations	Medium pressure DRS	No.		3	1	2	1	1	2						1				1	2		2	6	1	1					24		3						
26		Medium Pressure	Line valve	MP line valves	No.	9	140	97	208	127	42	39	7	8	4	11	14	23	2	10	8	14	11	13	26	18	23	51	30	24	79	75		1,113		3					
27		Medium Pressure	Special crossings	MP special crossings	No.				8	26	8	6	1	1			1				1					1	2			3	3	2	12	75		2					
28		Low Pressure	Main pipe	LP PE main pipe	km		2	20	2	3	3	2	0	0	0	0	0	0	0	0	0	0	0	0	0	5	0	0	0	0			41		3						
29		Low Pressure	Main pipe	LP steel main pipe	km		0																										0		N/A						
30		Low Pressure	Main pipe	LP other main pipe	km																														N/A						
31		Low Pressure	Service pipe	LP PE service pipe	km	0	2	8	4	3	4	3	0	0	0	0	0	0	0	1	0	0	0	0	1	2	1	0	0	0	(1)		30		3						
32		Low Pressure	Service pipe	LP steel service pipe	km	0	0	0	0																								0		N/A						
33		Low Pressure	Service pipe	LP other service pipe	km																														N/A						
34		Low Pressure	Line valve	LP line valves	No.						1														4	3			1		(1)	3	11		3						
35		Low Pressure	Special crossings	LP special crossings	No.																														N/A						
36	All	Monitoring and control system	Remote terminal units	No.																															N/A						
37	All	Cathodic protection systems	Cathodic protection	No.		1		6	18	8		1	1									1			1	2				3	1		43								

Company Name

First Gas Limited(Distribution)

For Year Ended

30 September 2019

Network / Sub-network Name

North Island Network

SCHEDULE 9c: REPORT ON PIPELINE DATA

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

sch ref

Network Information (end of year)**System length by material (defined by GDB)**

Length (km)

%

Steel	340	7.08%
PE	4,460	92.90%
Other	1	0.02%
		-
		-
		-
System length	4,801	100.00%

By operating pressure:

Intermediate pressure

Medium pressure

Low pressure

Total

System length (km) (at year end)	Weighted average pipe diameter (mm)	Number of ICPs (at year end)	Gas conveyed for Persons not involved in the GDB (TJ)
197	100	39	5,848
4,533	20	63,116	4,432
71	26	1,288	31
4,801	23	64,443	10,311

Company Name **First Gas Limited(Distribution)**For Year Ended **30 September 2019**Network / Sub-network Name **North Island Network****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

8

9

9d(i): Consumer Connections

Number of ICPs connected in year by consumer type

10

11

12

Consumer types defined by GDB

Number of
connections (ICPs)

13

Residential

1,247

14

Commercial

109

15

Industrial

1

16

17

18

Total

1,357

19

9d(ii): Gas Delivered

20

21

Number of ICPs at year end

64,443

connections

22

Maximum daily load

39,303

(GJ per day)

23

Maximum monthly load

1,073,861

(GJ per month)

24

Number of directly billed ICPs

-

(at year end)

25

Total gas conveyed

10,310,519

(GJ per annum)

26

Average daily delivery

28,248

(GJ per day)

27

28

Load factor

80.01%

Company Name **First Gas Limited(Distribution)**For Year Ended **30 September 2019**Network / Sub-network Name **North Island Network****SCHEDULE 10a: REPORT ON NETWORK RELIABILITY AND INTERRUPTIONS**

This schedule requires a summary of the key measures of network reliability (interruptions, SAIDI, SAIFI and CAIDI) for the disclosure year. GDBs must provide explanatory comment on their network reliability for the disclosure year in Schedule 14 (Explanatory Notes to Templates). The SAIDI and SAIFI 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

10a(i): Interruptions**Interruptions by class**

	Actual
Class A (planned interruptions by GTB)	-
Class B (planned interruptions on the network)	283
Class C (unplanned interruptions on the network)	75
Class D (unplanned interruptions by GTB)	-
Class I (unplanned interruptions caused by third party damage)	117
Total	475

	Actual
Number of unplanned outage events (interruptions that affect more than 5 ICPs)	
North Island regions	2

	Actual
Number of unplanned outage events caused by third party damage (interruptions that affect more than 5 ICPs)	
North Island regions	2

10a(ii): Reliability**Overall reliability**

	SAIDI	SAIFI	CAIDI
Based on the total number of interruptions	727.0	8.7	83.71
Class I (unplanned interruptions caused by third party damage)	235.8	2.5	93.78

	SAIDI	SAIFI	CAIDI
Class B (planned interruptions on the network)			
North Island regions	303.7	4.8	63.33
			-
			-
			-

	SAIDI	SAIFI	CAIDI
Class C (unplanned interruptions on the network)			
North Island regions	187.4	1.4	136.36
			-
			-
			-

Company Name

First Gas Limited(Distribution)

For Year Ended

30 September 2019

Network / Sub-network Name

North Island Network

SCHEDULE 10b: REPORT ON NETWORK INTEGRITY AND CONSUMER SERVICE

This schedule requires a summary of the key measures of network Integrity (gas escapes, response time to emergencies etc) for the disclosure year.

sch ref

10b(i): System Condition and IntegrityNumber of confirmed public reported gas escapes per system length
(escapes/1000 km)

Actual

North Island regions	34

Number of leaks detected by routine survey per system length
(leaks/1000 km)

Actual

North Island regions	2

Number of third party damage events per system length
(events/1000 km)

Actual

North Island regions	25

Number of poor pressure events due to network causes

Actual

North Island regions	6

Number of telephone calls to emergency numbers answered within 30 seconds per
total number of calls

Actual

Note: This entry may be excluded for sub-networks.

North Island regions	78%

Product control—safety of distribution gas

Actual

Number of non-compliant odour tests

4

10b(ii): Consumer Service

Response time to emergencies (RTE)

Proportion of
emergencies
responded to
within 1 hour (%)Proportion of
emergencies
responded to
within 3 hours (%)Average call
response time
(hours)Number of
emergencies

North Island regions	95%	100%	0.46	57

Number of complaints

Actual

Number of complaints per average total consumer numbers

0.0002

Company Name	First Gas Limited (Distribution)
For Year Ended	30 September 2019

Schedule 14 Mandatory Explanatory Notes

(Guidance Note: This Microsoft Word version of Schedules 14, 14a and 15 is from the Gas Distribution Information Disclosure Determination 2012 – as amended and consolidated 3 April 2018. Clause references in this template are to that determination)

1. This schedule requires GDBs to provide explanatory notes to information provided in accordance with clauses 2.3.1, 2.4.21, 2.4.22, and subclauses 2.5.1(1)(e) and 2.5.2(1)(e).
2. This schedule is mandatory—GDBs 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 GDBs 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

The vanilla return on investment (ROI) for our Distribution business of 6.28% (reflecting all revenue earned) was higher than the 2018 result of 4.75%. This increase in ROI is primarily due to the decrease in operational expenditure in 2019. In 2018, Firstgas' operational expenditure was higher than normal due to a \$3.4 million settlement of claims brought by the Commerce Commission. The claim related to Firstgas' acquisition of GasNet's Bay of Plenty gas distribution pipelines. 2019 sees a return to business as usual expenditure.

There has been no re-classification of items in the disclosure year.

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 3(i) of Schedule 3
 - 5.2 information on reclassified items in accordance with subclause 2.7.1(2).

Box 2: Explanatory comment on regulatory profit

Fees charged for disconnection services are included in other regulated income. These fees offset the costs of providing these services included in Firstgas' operational expenditure.

There has been no re-classification of items in the disclosure year.

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

6. If the GDB 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 GDB.

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)

There has been no re-classification of items in the disclosure year.

The value of the regulated asset base (RAB) has been determined by rolling forward the initial RAB with adjustments made for additions, disposals, depreciation and revaluation in accordance with the applicable Input Methodologies.

Exemptions applied to RAB

In 2017, the Commerce Commission exempted First Gas Limited (Distribution) from completing the historic information in Schedule 4(1) Regulatory Asset Base Value (Rolled Forward) relating to periods prior to Firstgas ownership. Firstgas purchased the non-Auckland gas distribution network on 20 April 2016 and historical disclosures were made by Vector Limited.

We have continued to apply this exemption in the 2019 disclosures.

Regulatory tax allowance: disclosure of permanent differences (5a(i) of Schedule 5a)

8. In the box below, provide descriptions and workings of the material items recorded in the following asterisked categories of 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.

Regulatory tax allowance: disclosure of temporary differences (5a(vi) of Schedule 5a)

9. In the box below, provide descriptions and workings of material items recorded in the asterisked category 'Tax effect of other temporary differences' in 5a(vi) of Schedule 5a.

Box 6: Tax effect of other temporary differences (current disclosure year)

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 5dApproach to cost allocation

The accounting-based allocation approach (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 and our unregulated 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 cost 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 has a proxy cost allocator of RAB
- Insurance costs which has a proxy cost allocator of RAB

Reclassification of costs

In 2019, Firstgas reviewed the pool of not-directly attributable (or shared) costs. We found that during the 2018 disclosure year, we had included of \$0.787 million of directly attributable costs for the distribution commercial team in the shared cost pool. Consequently, in the 2018 disclosure year, these costs were allocated to both the distribution and transmission businesses, with only 7% of the costs being allocated to the distribution business. In 2019, these costs relating to the distribution commercial team were \$0.718 million and were fully allocated to the distribution business.

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 in schedule 5e

There has been no re-classification of items in the disclosure year.

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

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.

Focus for capital expenditure

Firstgas remains focused on building and maintaining a safe and resilient gas distribution network for our customers, whilst actively pursuing growth across our network. We support the Government's desire to transition to a low carbon future and believe that gas can help that happen, especially where gas is replacing coal or gas is blended with lower carbon fuels (i.e. hydrogen, biogas).

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

- Integrity upgrades to pipelines. We have recommenced our programme of replacing the pre-1985 polyethylene (PE) pipelines across our network. We see a step jump in these works in 2019 after the replacement programme was temporarily halted in 2018 while we undertook a strategy review to determine the priority areas to address first. Further integrity works include the reinforcement of the pipelines servicing the growing areas of Cambridge and Paraparaumu
- Upgrades to district regulating stations (DRS) in Hamilton and Rotorua. We replace and upgrade equipment that isn't meeting our performance standards. Upgrades to DRS and metering equipment mean we can ensure adequate supply of pressure across our networks
- Mains extensions for subdivisions and customer connections. A large component of our Capex is allocated to connecting new customers to our network. New customers included residential homes as well as business and commercial operations
- Expansion of our network to serve the Gourmet Waiuku business, south-west of Auckland. This 8.5-kilometre pipeline project will link Waiuku to the main gas transmission pipeline at Glenbrook and will initially power Gourmet Waiuku's capsicum growing operation. The provision of natural gas will allow this business to heat their glasshouse more cleanly and efficiently and move away from the use of coal.

Further detail on our expenditure during this period, and our future work programme is available in our 2018 Asset Management Plan (AMP) and the 2019 AMP Update published on the Firstgas website here: <http://firstgas.co.nz/about-us/regulatory/distribution/>

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 in 6b(i) of Schedule 6b
 - 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 has no asset replacement and renewal expenditure this year.

There has been no re-classified items in the disclosure year except those discussed in box 7.

Firstgas has not incurred atypical expenditure in 2019.

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

In 2019 we applied the new related party rules to our information disclosure reporting for the first time. The valuation approach for related party transactions has changed from a prescriptive approach that was applied until 2018, to a principles-based approach (establishing value equivalent to an arm's length transaction). The forecast expenditure in the 2018 Asset Management Plan (AMP) for 2019 was based on the prior prescriptive rules.¹ The change in valuation rules has led to an increase in Capex compared to the forecast, and a decrease in Opex compared to forecast for this disclosure period.

Expenditure on assets

Total expenditure on assets was above that forecast in our 2018 AMP by \$1 million (7%). This small increase in expenditure above that forecast is largely due to:

- The unplanned extension of the network at Waiuku to supply a new industrial customer
- The application of the related party valuation rules which has seen a small increase in costs for Capex works completed by GSNZ.

Operational expenditure

Total operating expenditure is \$1.2 million (14%) below that forecast in the 2018 AMP for the 2019 disclosure period. This is driven by lower than forecast expenditure in network expenditure, partially offset by increased non-network expenditure.

- Network OPEX was \$1.4 million less than that forecast in the 2018 AMP. This reduction in costs from forecast is largely due to a revised contract and revised contract structure for the provision of maintenance services. As part of the revised contract structure, some costs that had been previously considered routine or corrective in nature are now treated as reactive works. This sees a movement in costs from the routine and corrective maintenance category to the service interruptions, incidents and emergencies category.
- The new valuation approach for related party transactions has further reduced network OPEX and reduced network support and system operations costs from that forecast
- Business support costs have benefited from the expansion in the Firstgas Group – this was not included in the 2018 AMP forecast. In 2019, our related party GSNZ purchased Rockgas and Flexgas. Rockgas is a major supplier of LPG services and Flexgas owns and operates the gas storage facility at Ahuroa. Firstgas provides business support services to GSNZ. Costs associated with these services are excluded from the regulatory accounts, reducing the costs allocated to Firstgas' transmission and distribution businesses.

An increase in business support costs was due to a correction in allocation of costs as discussed in box 7 above. Further detail on our expenditure for this period, and future work programme is available in our 2018 AMP and the 2019 AMP update published on the Firstgas website here:

<http://firstgas.co.nz/aboutus/regulatory/distribution/>

¹ In 2018 Firstgas applied clause 2.3.6(2)(b) of the [Fast Track] *Gas Distribution Information Disclosure Amendments Determination* (No1 2017) when disclosing related party Opex transactions. Opex services supplied by GSNZ included a mark-up on direct costs of 17%. In 2018, Firstgas applied clause 2.2.11(5)(e) of the *Gas Distribution Services Input Methodologies Amendments Determination 2016* to value Capex services provided by GSNZ. Capex was valued at its inventory value on the day before acquisition by Firstgas determined in accordance with GAAP.

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 line charge revenue of \$23.8 million is \$1.3 million above the target revenue forecast for the period (\$22.5 million). This variance against the target is due to higher than expected consumer connections during the period.

Target revenue is determined using the allowable notional revenue calculated in accordance with the 2017 DPP Determination for gas distribution services. The allowable notional revenue adjusted for a forecast volume growth of approximately 1%. This forecast was based on historic growth in volumes and consumer connections and growth on Firstgas networks has been above these estimates.



16. If price category codes or consumer groups (as applicable) have been changed in a disclosure year, please explain in the box below the effect of this on the allocation of ICPs, quantities and revenues between consumer groups disclosed in Schedule 8.

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

No price category codes or consumer groups were changed in the 2019 disclosure year. Firstgas introduced a new fully variable tariff in 2017 after feedback from retailers indicated this was desired.

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

A total of 475 interruptions were experienced on the network in 2019. This is an increase from the 241 interruptions experienced in 2018 and is largely due to an increase in planned interruptions.

The number of planned interruptions increased from 85 in 2018 to 283 in 2019. The number of interruptions reflects the mixture of work undertaken during the period.

- Typically, the annual programme has a focus on growth projects such as new subdivision or connection work and these will result in lower planned interruptions to consumers.
- This contrasts with asset replacement and renewal work on existing connected assets, which involves planned interruptions for every consumer where their service pipe is replaced or upgraded.

In 2019, we have increased the focus on replacing sections of pre-1985 polyethylene (PE) pipeline assets, which explains the increase in planned interruption numbers during this period. This programme of work is expected to continue for the remainder of this regulatory period.²

The number of unplanned interruptions caused by third parties is consistent with 2018 year. Firstgas has limited control over the number of these interruptions and our focus is to ensure response is efficient and effective. We have continued our efforts in this disclosure period to educate developers and contractors on the need to check the area before they commence works and dig. We are also members of the “before u dig” service and actively promote its use and provide industry leadership in promoting the service to all industry stakeholders.

Unplanned SAIDI not caused by third party damage (Class C) has increased this disclosure period, from 80 minutes in the 2018 disclosure period to 187 minutes in the 2019 disclosure period. Whilst higher interruption numbers affect this result, the main driver of the higher SAIDI is the increase in temporary disconnections and their duration. In 2018, there were 3 temporary disconnection events accounting for 39 minutes, compared to 4 events this year accounting for 104 SAIDI minutes.

Temporary disconnections occur when Firstgas is unable to restore supply during the initial response to the event. For example, this can happen if the interruption occurs in the evening and it is unsafe or too disruptive for works to continue, or the consumer requests that we leave the supply disconnected for a specified period. In these cases, the site is made safe and Firstgas will return to reinstate supply the following day or at the time requested. Any period of disconnection is undertaken with the customer’s agreement.

Insurance cover

18. In the box below, provide details of any insurance cover for the assets used to provide gas pipeline services, including-
- 18.1 The GDB’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.

² Further information is available in our 2019 AMP Update: <https://firstgas.co.nz/wp-content/uploads/First-Gas-Distribution-2019-AMP-Update.pdf>

Box 15: Explanation of insurance cover

Insurance cover is in place for a large number of group assets, excluding distribution pipeline assets. These policies cover material damage, business interruption and contract works insurance.

Insurance costs are allocated to the Distribution 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 (Distribution)
For Year Ended	30 September 2019

Schedule 15: Voluntary Explanatory Notes

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

1. This schedule enable GDBs to provide, should they wish to:
 - 1.1 additional explanatory comment to reports prepared in accordance with clauses 2.3.1, 2.4.21, 2.4.22, 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

The 2019 disclosure is the first disclosure under the recently amended Information Disclosure Determination. Firstgas works closely with other companies in the Firstgas Group. As required under the new disclosure requirements, the following pages outline Firstgas' interactions and relationships with its related parties for the 2019 disclosure year.



REGULATORY DISCLOSURE

Gas distribution services: Information disclosure for related parties

For the year ended 30 September 2019

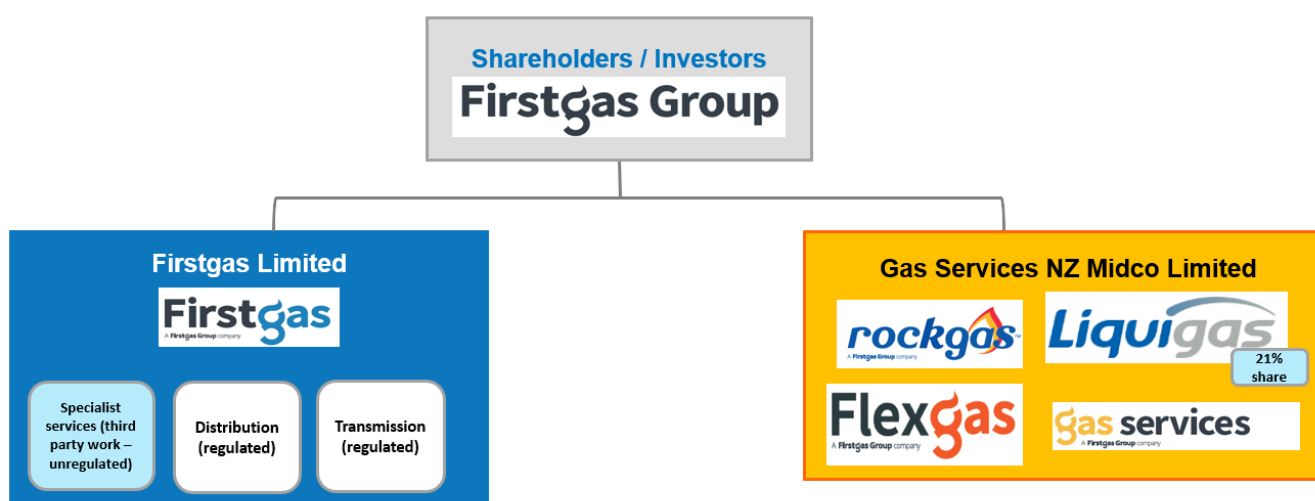


Introduction

First Gas Limited (Firstgas) operates 2,500 kilometres of gas transmission pipelines, and more than 4,700 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.

Firstgas 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, to a range of pipeline owners, including Firstgas. Flexgas owns and operates New Zealand's only open-access gas storage facility at Ahuroa. Rockgas has over 80 years' experience providing LPG to approximately 100,000 customers throughout New Zealand.

Figure 1: Structure of the Firstgas Group for disclosure year 2019¹



For further information on Firstgas, please visit our website www.firstgas.co.nz.

Information disclosure requirements

This disclosure is made on behalf of Firstgas' distribution business. Firstgas (distribution) 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 group mean that Firstgas (distribution) procures more than 65% of its operating expenditure (OPEX) and capital expenditure (CAPEX) from a related party.

Firstgas (distribution) is subject to the full disclosure requirements for related parties under the *Gas Distribution Services Information Disclosure Determination 2012* consolidating all amendments as of 3 April 2018 (ID Determination) issued by the Commerce Commission.

¹ 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 (distribution)
- 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 26 March 2020 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 GDB has had related party transactions involving a procurement from a related party during that disclosure year, the GDB must publicly disclose a diagram or a description that shows the connection between the GDB and the related parties with which it has had related party transactions in the disclosure year, including for each of those related parties-

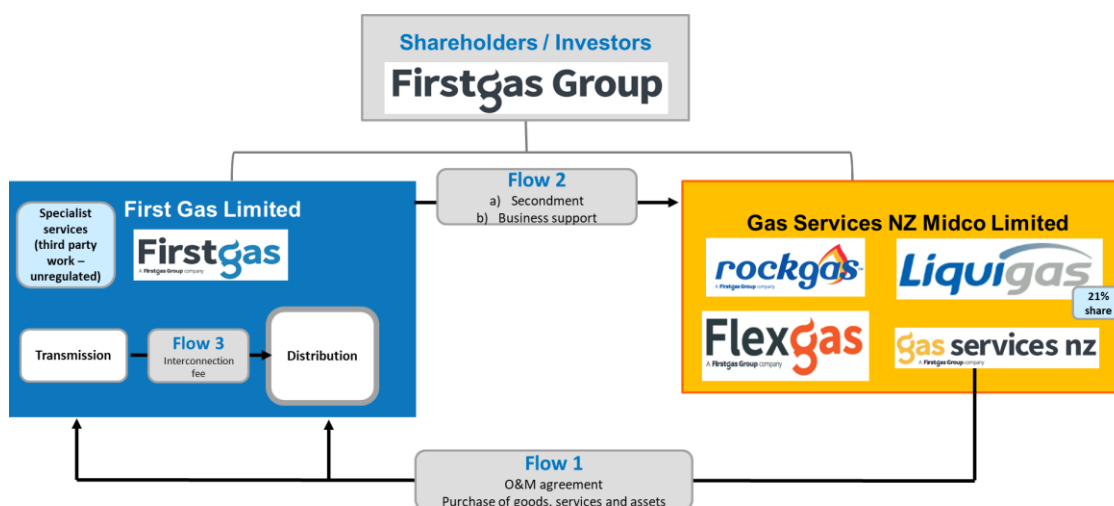
- (1) the relationship between the GDB and the related party;*
- (2) the principal activities of the related party; and*
- (3) the total annual expenditure incurred by the GDB with the related party*

Firstgas (distribution) procures operations and maintenance (O&M) services from its related party, Gas Services New Zealand (Midco) Limited (GSNZ). Further, in 2019 Firstgas (distribution) purchased interconnection services from Firstgas (transmission).²

Firstgas provides unregulated services to GSNZ. In the 2019 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 2019



The following table describes the connection between Firstgas (distribution) and its related parties with which it has had transactions with during the 2019 disclosure year. A breakdown of these transactions is also provided in Schedule 5b of our Information Disclosure schedules.

² 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 2019

Related Party	Nature of relationship	Principle activities of the related party	FY2019 expenditure/revenue between Firstgas (distribution) and its related party
Gas Services on behalf of GSNZ (Flow 1)	Firstgas (distribution) 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 operations and maintenance agreement between Firstgas and GSNZ. ³ Costs are directly attributable to Firstgas (distribution).	Network CAPEX \$16.504 million Non-network CAPEX \$0.172 million Network OPEX \$3.425 million System operations and network support OPEX \$1.216 million
GSNZ (Flow 2)	First Gas Limited 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 \$2.148 million is included in Schedule 5b for the provision of these services. This unregulated income is included in <i>total regulatory income</i> in schedule 5b. This unregulated income (and is not included in Schedule 2 or Schedule 3). ⁴
Firstgas (transmission) (Flow 3)	Firstgas (transmission) and Firstgas (distribution) are parts of First Gas Limited.	Firstgas (transmission) provides transmission services across the North Island.	System operations and network support OPEX \$0.143 million for interconnection fees. Interconnection fees may be charged to parties connecting to the transmission network. Firstgas (distribution) connects to the 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.

In the 2019 disclosure year, GSNZ provided 99% of the Firstgas (distribution) total expenditure on assets and 68% of all Operating Expenditure (OPEX) under an Operations and Maintenance agreement (O&M agreement).

Services provided under the O&M agreement include:

- Management of the gas distribution business operations
- Asset management
- Health, Safety and environment management

³ Whilst the O&M agreement is between Firstgas Limited and GSNZ, Gas Services is the party providing the services on behalf of GSNZ

⁴ 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.

- Land and planning management
- Design and engineering services
- Scheduling and completing field works
- Incident and emergency response
- 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. With the addition of Rockgas and Flexgas to the Firstgas Group in the 2019 disclosure year, the scope of business support services provided to GSNZ has increased.

The O&M agreement and CFSA both expire on 30 September 2022.

Operations and Maintenance (O&M) Agreement

Firstgas incurs almost all of its network CAPEX, 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 distribution 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 GSNZ⁵ 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 on 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.

⁵ 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 GDB has had related party transactions involving a procurement from a related party during that disclosure year, the GDB 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.⁶

Firstgas operates 2,500 kilometres of gas transmission pipelines (including the Maui pipeline), and more than 4,700 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, 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 Group⁷.

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 value 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.

⁶ Document 08843 Firstgas Group procurement policy and document 09410 Firstgas Group procurement guidelines

⁷ 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 suppliers⁸. 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 our relatively specialised field, 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 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 enables anyone to report identified breaches of the policy.

⁸ If the purchase is less than \$1,000, only one quote need be obtained.

3. Application of the procurement policy

Clause 2.3.12 of the ID Determination requires that:

“if a GDB has had related party transactions involving a procurement from a related party during that disclosure year, the GDB must publicly disclose-

- (1) a description of how the GDB 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 GDB 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 distribution 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 GDB last tested the arm's-length terms of those transactions; and*
- (5) separate representative example transactions where the GDB 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 (distribution) has applied the Firstgas Group procurement policy in respect of the procurement of goods or services from a related party.

In the 2019 disclosure period, Firstgas (distribution) has procured goods and services from:

- GSNZ under the O&M agreement
- Firstgas (transmission) under an agreement for interconnection services.

The section considers the procurement of goods and services under the O&M contract and the purchase of services from Firstgas (transmission).

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 distribution network or management of the assets on the distribution 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 distribution 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 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). The AMP provides the asset management framework for Firstgas' distribution 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 distribution 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.

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.⁹

⁹ FY2019 was the third year of the O&M contract. In FY2019, as part of validating the charges from GSNZ to Firstgas were no more than would be charged on an arm's length basis, Firstgas undertook a benchmarking exercise of total costs and the margin applied by GSNZ under the O&M contract.

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 part of preparing our related party disclosures for 2019, Firstgas engaged an independent expert to complete a benchmarking exercise for our gas distribution business. Benchmarking confirmed that the costs charged by GSNZ were consistent with similar organisations in New Zealand.

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 will report 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 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.

3.2 Purchase of services from Firstgas (transmission)

Firstgas (transmission) provides interconnection services to several parties who seek to connect or are already connected to the gas transmission system. These parties are commonly referred to as "Interconnecting Parties" (IPs) and include gas distribution businesses, large industrial consumers, power stations and gas producers.

Firstgas (transmission) maintains an Interconnection Policy that explains how it will facilitate new interconnections with the transmission system and sets out some of the key ongoing terms of interconnection. In most circumstances, Firstgas (transmission) will charge an IP certain fees to recover the cost of building, operating and maintaining a new interconnection or associated equipment.

Firstgas' transmission business charges Firstgas' distribution business (GDB) a daily interconnection fee for the upgrade work that was undertaken on the Horotiu Delivery Point (a transmission asset) in 2018.

The interconnection fee applied for Firstgas (distribution) was calculated using the same model that is applied for any other interconnected party. All interconnections to the transmission network are governed by

the terms of Firstgas' GTB Interconnection Policy. The current draft¹⁰ of this Policy is available on the OATIS website¹¹. The interconnection policy specifically states that:

"Firstgas will deal with all IPs on an arms' length basis and not prefer or give any priority to any IP except as expressly provided for in the Gas Transmission Access Code (GTAC)."

¹⁰ The policy is in draft at present as Firstgas (transmission) are currently implementing a single new code for the gas transmission network, which will come into effect on or after 1 October 2020. This transaction reflects the terms and conditions as at the time of the transaction.

¹¹ <https://www.oatis.co.nz/Ngc.Oatis.UI.Web.Internet/Common/Publications.aspx>.

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 GDB has had related party transactions involving a procurement from a related party during that disclosure year, the GDB must publicly disclose-

- (2) *a description of any policies or procedures of the GDB 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 distribution services;*

Firstgas operates 2,500 kilometres of gas transmission pipelines (including the Maui pipeline), and more than 4,700 kilometres of gas distribution pipelines across the North Island.

To work on or near Firstgas' distribution network, a contractor must be deemed competent and authorised to complete the work undertaken to meet operating standard requirements. This is specialised work and, in most instances, Gas Services (a part of GSNZ) provides authorised personnel and completes any work up to the ICP on the distribution network.

From time to time we may require customers to contribute to the cost of development work in the form of a capital contribution. In effect, in these instances, customers are required to use our related party, Gas Services, to complete the works. Our capital contribution policy is available from the Firstgas website at <https://firstgas.co.nz/about-us/regulatory/distribution/>.

5. Representative examples of how the procurement policy is applied

5.1 Regulatory requirements

Section 2.3.12 of the ID Determination for our GDB specifies that:

*within 6 months after the end of each **disclosure year**, if a **GDB** has had **related party transactions** involving a procurement from a **related party** during that **disclosure year**, the **GDB** 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 **GDB** last tested the arm's-length terms of those transactions; and*
- (5) *separate representative example transactions where the **GDB** 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.

Procurement from Firstgas (transmission) has been completed under the Firstgas Group procurement policy but follows a different approach to testing the arm's length terms and is included separately in Table 2.

All agreements, methodologies and models, and reports from external parties have been provided to our auditors and independent appraiser to facilitate their review of our related party transactions 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
<p>All network CAPEX categories</p> <p>All network OPEX categories excluding the purchase of fuel gas</p> <p>System operations and network support</p> <p>Non-network assets</p>	<p>Network OPEX and CAPEX and system operations and network support across the network.</p> <p>We provide examples below of procurement undertaken by GSNZ on our behalf under the O&M agreement</p>	<p>Direct procurement from a 'sole supplier' under the existing O&M agreement.</p>	<p>The arm's length terms were tested as part of a benchmarking process that was undertaken during the 2019 disclosure year.</p> <p>Firstgas engaged an independent expert to benchmark:</p> <ul style="list-style-type: none"> The margins applied to the costs of O&M services provided by Gas Services to Firstgas Total service costs against comparable businesses. <p>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.</p> <p>Benchmarking was undertaken with the permission of GSNZ. Benchmarking is allowed for under the O&M agreement.</p> <p>From time to time Firstgas will procure non-network assets from GSNZ. Such assets will relate to the ongoing maintenance and management of the network. They are procured under the terms of the O&M agreement.</p> <p>Terms of the O&M agreement were provided to the independent appraiser and our auditors as part of their review of the related party valuation requirements.</p>
<p>System operations and network support</p>	<p>Interconnection agreement recognising increased investment by the transmission business at a delivery point driven by the needs of a distribution customer</p>	<p>Direct procurement from a 'sole supplier' under an interconnection agreement.</p> <p>Firstgas (transmission) is the sole supplier of gas transmission services in New Zealand</p>	<p>Firstgas (distribution) tested the value against the Firstgas (Transmission) draft Interconnection policy to ensure the terms and conditions were reflective of that policy.</p> <p>Firstgas' independent appraiser reviewed comparable pricing to test the arm's length terms in November 2019.</p> <p>Third parties purchase the same or substantially similar services from Firstgas (transmission) on substantially the same terms, including price.</p> <p>Whilst there are no set prices for interconnection fees, there is a consistent methodology for establishing the fees under an interconnection agreement.</p> <p>The fees for each individual agreement reflect the specific details on each site seeking to be connected to the gas transmission network.</p> <p>The value at which the services are provided to Firstgas (distribution) were established using the same methodology that is used for all other unrelated interconnected parties.</p>

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.

A field services agreement is in place with Electrix. GSNZ and Electrix work closely together to provide the services required by Firstgas. GSNZ does not have the extensive personnel required to cover the distribution network effectively. Electrix can provide field service staff across our network and be in a position to respond to incidents and emergencies quickly. Electrix provide field services and may also act as project managers, especially where it is a long-term programme of work being undertaken with limited other resources being required. Electrix field services is overseen by the distribution operations manager at GSNZ and any project management is overseen by the GSNZ project management team.

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

Major projects

All projects are managed ultimately by GSNZ. The project delivery manager is responsible for delivering project work from the project approval and front-end engineering design (FEED) 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 a full business case and further approval from Firstgas' Chief Executive and Board.

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 higher in costs 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 time frame 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 reinforcement of an existing intermediate pressure system at Cambridge
- Replacement of pipe at Pukete foot bridge.

Example 1: Cambridge IP20 system reinforcement

The following example is provided to illustrate the procurement process followed by GSNZ for a major project to reinforce an existing system.

Project name:	Cambridge IP20 system reinforcement
Project date	December 2017 with commissioning in March 2019
Project or work order number:	144259
Project expenditure (estimated)	\$1.425 million from initial scoping and design through to commissioning of the assets and project close-out
Project cost type	System Growth CAPEX
Project managed by:	GSNZ under the O&M agreement
Subcontractors:	OSD for design and Electrix for construction

System growth CAPEX is generally driven by customer requirements and this was the driver for the Cambridge reinforcement project. The Cambridge network is supplied from the transmission system from a single gate station and consists of one Intermediate Pressure (IP) 20 pressure system, two Medium Pressure MP4 pressure systems and three District Regulating Stations (DRSs).

Planning

The capacity of the Cambridge IP20 network capacity in 2017 was 1,305 scm/h. The GSNZ engineering and asset management teams highlighted that ongoing commercial requests from developers and the forecast increase in residential users indicated that the network would soon reach capacity. This situation had been anticipated, and the reinforcement of the Cambridge system is mentioned in the FY2016 and FY2017 Asset Management Plans. It was initially anticipated and budgeted that the project would occur in the FY2018.

A project management team was established within GSNZ and tasked with developing a business case for the reinforcement of the Cambridge IP20 network. A business case was developed and approved by GSNZ management and the Chief Executive of Firstgas.

The project was to consist of two main phases:

- Design of the reinforcement to the IP line
- Construction works.

OSD was contracted to complete the design works and once the design was finalised a scope of work was developed, and a closed tender was issued to two companies for the construction works.

While the tender process was ongoing, Firstgas was approached by the Waipa District Council requesting a realignment of approximately 650 metres of the IP20 network to allow for future construction of a swale. Firstgas discussed this with the GSNZ project team. Synergies could be achieved, costs reduced,¹² and disruption to traffic and personnel minimised by merging the IP20 upgrade with this relocation project. A new design was developed to recognise the revised location of works.

A revision to the initial business case was developed and approved for \$1.9million.

¹² The Waipa District Council would be contributing to the cost of relocating the pipe.

Completion of works:

Electrix had been the preferred tender under the original scope of works and rather than go through the tender process again, Electrix was asked to provide a quote for the revised scope. This quote was based on the service agreement terms and was accepted.

Firstgas formed a memorandum of understanding with the Waipa District Council based on the quoted costs for the relocation share of the work from Electrix.

Physical works were scheduled to begin in January 2019, with commissioning of the upgraded network in March 2019.

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:

The detailed design and the construction works for the IP20 reinforcement were outsourced. A closed tender was initially issued for construction project. Two companies were requested to tender. Working with gas pipes and structures is specialised work. The companies that were requested to tender were considered to have the raft of experience and knowledge required to complete the scope of works. Both had worked with GSNZ and Firstgas to complete similar projects and were considered to be aligned with our high expectations around safety. The preferred tender was that from Electrix.

Before the tender process was formerly completed, the scope of works changed. Rather than being the tender process again with the same two companies it was decided to approach Electrix and request a quote on the new scope. This quote was based on the same terms and rates as the original tender.

A sole source approach was taken when GSNZ selected OSD as the supplier of the detailed design work. OSD has extensive experience with similar projects.

Outcomes:

Whilst the project was delayed from the original time frame, it was still completed on time to meet the needs of customers and the network. Synergies achieved from aligning the relocation works with the IP20 reinforcement resulted in lower costs.

Example 2: Pukete bridge pipe replacement

The following example is provided to illustrate the procurement process followed by GSNZ for a major project to replace pipe under a bridge crossing.

Project name:	Pukete bridge pipe replacement
Project date	February 2018 with assets commissioned in December 2018 and project close out in 2019.
Project or work order number:	146079
Project expenditure (estimated)	\$0.610 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:	OSD completed the design works and Electrix completed construction works through to commissioning.

Asset replacement and renewal projects are generally driven by asset condition and monitoring assessments performed periodically by GSNZ. Depending on the nature of any issues identified, the response may be an immediate repair, or the issue/defect may be placed on the Risk Item Register (RIR). Items on the RIR are assessed by the GSNZ operations and engineering teams and a determination is made on whether a repair to the asset or replacement of the asset is required, and whether action need be taken in the current year or deferred to later work plans.

In 2018, an integrity issue was identified during routine inspections of the distribution pipeline across the Pukete foot bridge in Hamilton. The pipe, located within a concrete duct on the bridge, had corrosion damage, and expansion bellows in place along its length were past their design life. The issue represents a major safety and supply risk, and immediate remediation is required.

Planning:

GSNZ engineers reviewed the information provided from the inspection data and determined the issue represented a public safety and supply risk to the network. The project was considered reasonably complex as the bridge was used often by the public and given the location it was likely a resource consent would be required.

Given the immediacy of the works, GSNZ worked with OSD to develop the options available. GSNZ management had kept Firstgas advised of the identified issue with the pipeline and development of options. The business case outlining the preferred option was approved with expected expenditure of \$0.9 million.

The project was included in our 2018 AMP¹³ and costs included in the AMP were based on the business case developed by the GSNZ project management team and approved by Firstgas. The business case estimated costs of \$0.9 million given the complexity of the works required. Firstgas' directors approved the 2018 AMP in August 2018.

¹³ <https://firstgas.co.nz/wp-content/uploads/First-Gas-Gas-Distribution-AMP-2018-Summary-Documents-ARTWORK.pdf>

Completion of works:

With the approval of the business case, the project management team could proceed to finalise the detailed design based and begin the detailed planning required to ensure the pipeline was replaced as soon as possible. GSNZ outsourced the design work and most of the construction works.

OSD completed the design work and construction was completed by Electrix under its service level agreement. Electrix undertook the work to install, test and commission the replacement pipeline. The work entailed connecting the existing pipeline at both ends of the bridge to a carbon steel pipeline that was located on the bridge but had never been commissioned on gas. This solution effectively bypassed the section of corroded pipe.



▲ One of the sections of 80NB Carbon Steel pipeline at Pukete Bridge with severe corrosion



▲ The new section of 80NB Carbon Steel pipeline which replaced the corroded pipe in the picture above

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:

The options analysis and design, and the work to replace the assets were outsourced. The analysis and design work was completed by OSD and the construction works were completed by Electrix. Both companies have had extensive experience with similar projects and on the Firstgas network.

A sole source approach was taken rather than go through a competitive process. From time to time GSNZ may choose to proceed with a sole supplier rather than going through a competitive process. For this project, time was a factor. It was decided to forego the competitive process in order to initiate replacement of the pipeline as soon as possible.

Electrix had completed the pre-work to inform the design options for OSD and so we could benefit from that knowledge by using Electrix to complete the construction work. Electrix completed the works under the terms and rates of their service level agreement.

Outcomes:

The project was originally scheduled to be undertaken between December 2018 and January 2019, and the project was commissioned in December 2018. The project was completed within budget.

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 GDB has had related party transactions involving a procurement from a related party during that disclosure year, the GDB must publicly disclose a map of its gas distribution 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 2.3.15¹⁴, 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.¹⁵

Largest OPEX activities

Firstgas does not have specific OPEX projects planned for the period. Instead we have provided the total OPEX expenditure. Where it has been possible, we have specified the level of OPEX allocated to each region within our network. Figure 3 sets out the location of the planned OPEX spend, with greater detail in Table 3. All network OPEX and system operations and network support OPEX, is forecast to be completed by our related party, Gas Services New Zealand Midco Limited (GSNZ) under the Operations and

¹⁴ 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.

¹⁵ <https://firstgas.co.nz/about-us/regulatory/distribution/>

Management (O&M) agreement between Firstgas and GSNZ. This agreement will be reviewed by 30 September 2022. GSNZ manages a number of third-party contractors to deliver this network OPEX.

Currently no network constraints have been identified that will result in OPEX during this planning period.

Figure 3: Largest OPEX projects in the AMP planning period

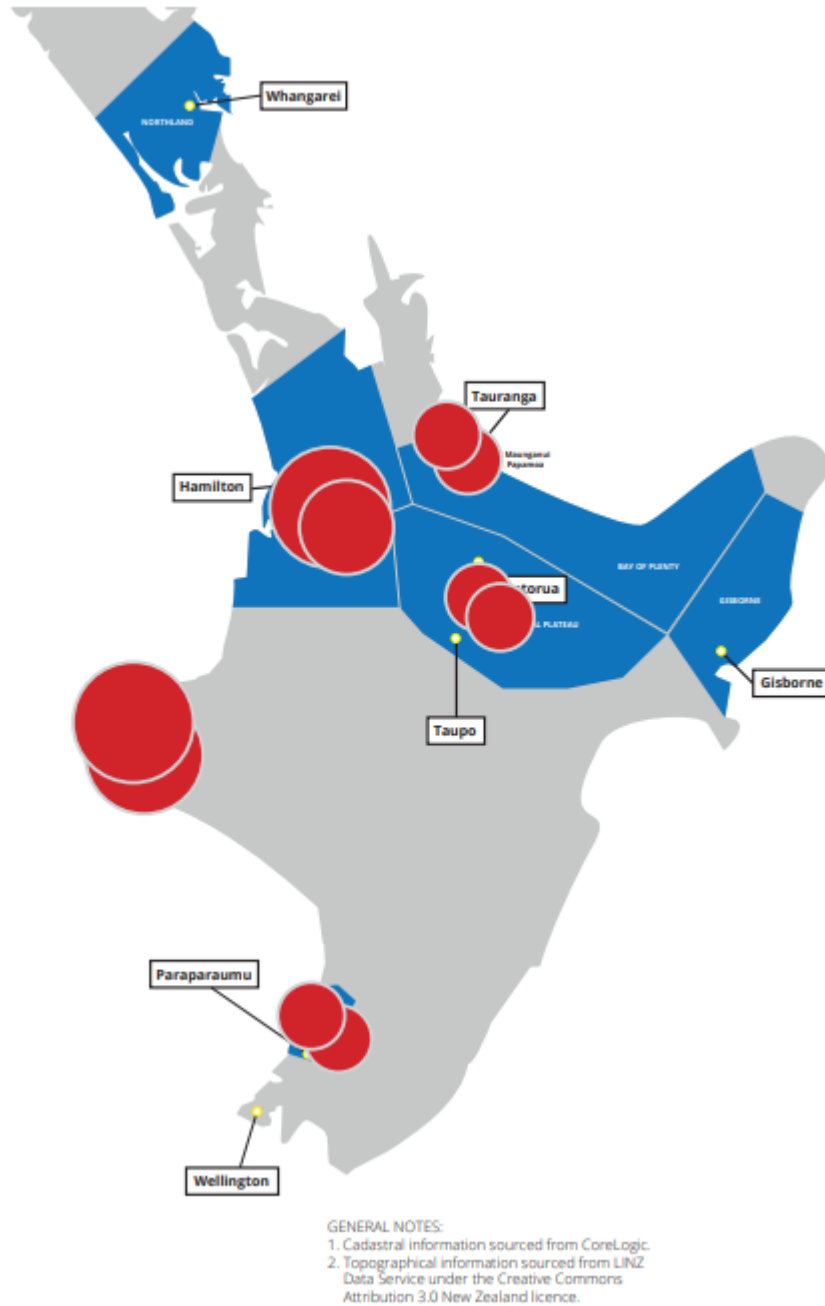


Table 3: Description of OPEX in the AMP planning period by region

Project	Description	Region	Cost (constant\$)	Period
Service interruptions, incidents and emergencies	Ongoing costs to support reactive activities in terms of safety response and repair of any part of asset damaged from environmental factors or third-party interference, response to any fault at a station where safety or supply integrity could be compromised, and remediation or isolation works of unsafe network situations.	Waikato (\$11.6 million) Bay of Plenty (\$4.9 million) Central Plateau (\$4.9 million) Kapiti (\$4.9 million) Northland (\$3.3 million) Gisborne (\$3.3 million)	\$30 million	Across the period
Routine and corrective maintenance and inspection	Ongoing costs directly associated with operating and maintaining the Gas Distribution System.	Waikato (\$7 million) Bay of Plenty (\$3 million) Central Plateau (\$3 million) Kapiti (\$3 million) Northland (\$2 million) Gisborne (\$2 million)	\$ 19 million	Across the period
System operations and network support	Ongoing costs to support the management and operation of the network.	New Plymouth	\$ 16 million	Across the period
Business support (not completed by our related party)	Ongoing costs to support the Distribution Operations.	New Plymouth	\$ 17 million	Across the period

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 (FY2020 to FY2029) 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 distribution business in 2016 and will be reviewed before September 2022. GSNZ manages a number of third-party contractors to deliver this network CAPEX. Figure 3 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 10-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. Currently no such constraints have been identified

Figure 4: Largest CAPEX projects in the AMP planning period

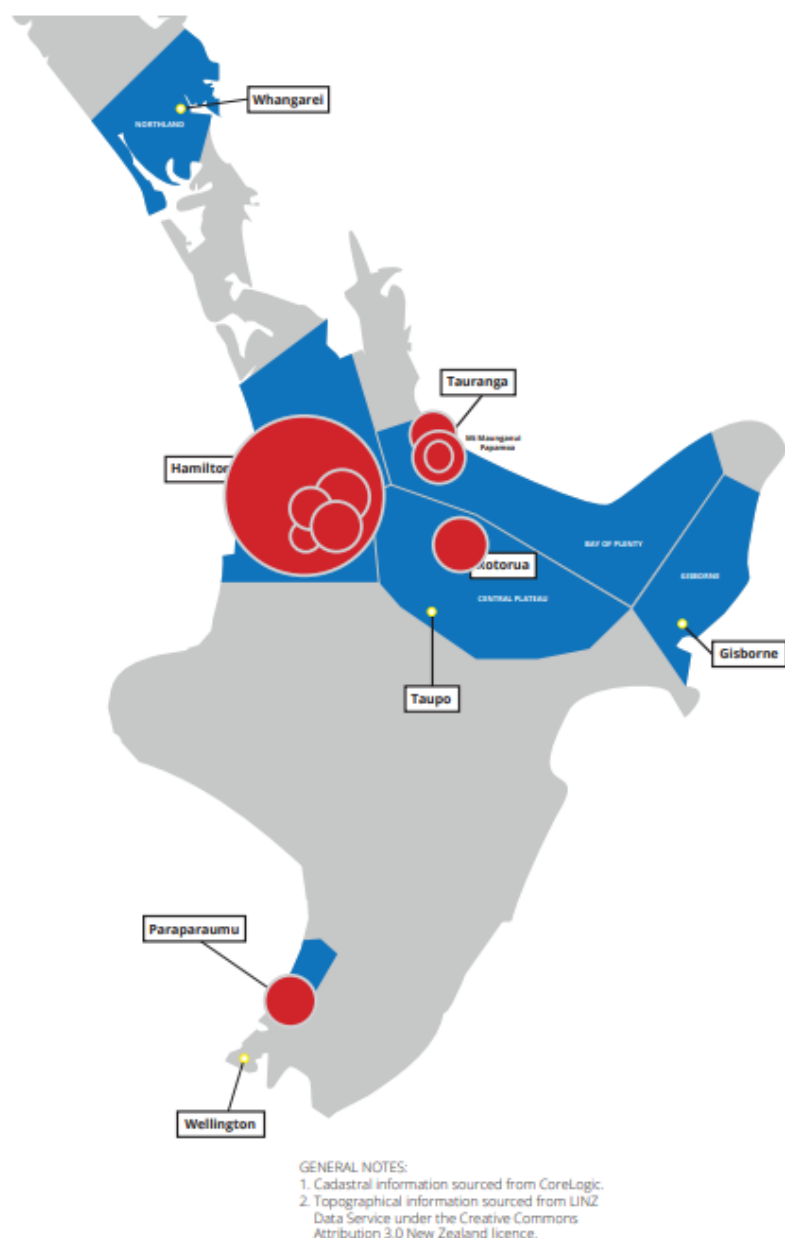


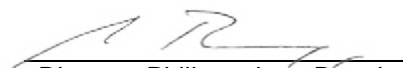
Table 4: Description of the largest CAPEX projects in the AMP planning period

Project	Description	Region	Cost (constant \$)	Period
Pre-85 replacement programme	As discussed in section 4.1 of the 2019 AMP update, replacement of pre-1985 PE pipe will occur throughout the planning period.	Waikato, Hamilton (\$21.7million) Bay of Plenty (\$2.9 million) Kapiti (\$2.9 million) Central Plateau (\$1.4 million)	\$29 million	Across the period
Cambridge IP20 reinforcement	To address anticipated growth in demand in the area we are planning reinforcement of the IP20 network. This will see the construction of approximately 1,430 metres of and provide up to 1,660 scm/h of capacity into the Cambridge network.	Waikato	\$1.1 million	FY2021
Hamilton IP reinforcement	To address anticipated growth in demand in the area we are planning reinforcement of the IP10 network. The proposed load growth scenarios are currently under review through modelling of the Hamilton network to determine the ideal options and timing.	Hamilton	\$2.3 million	FY2020 – FY2022
Mt. Maunganui IP reinforcement	To enhance network security, we are planning to create creating IP20 pipeline loops in this area.	Bay of Plenty	\$2.4 million	FY2024– FY2026
Mains and subdivision urban growth	To address anticipated urban growth development plan for Hamilton and Tauranga.	Hamilton (\$800,000) Tauranga (\$800,000)	\$1.6 million	FY2020 – FY2022
Industrial/commercial connections 1. OMYA Lime Works 2. NZ Food Innovation	As discussed in section 4.1 of the 2019 AMP update, we anticipate two major new connections in the first half of this planning period: <ul style="list-style-type: none"> Reinforcement of the MP4 network to facilitate a plant upgrade for Omya Lime works in Te Kuiti. A mains extension to supply NZ Food Innovation Sheep Milk Factory. 	Waikato	\$2.2 million	FY2020 – FY2022

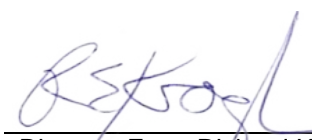
INFORMATION DISCLOSURE CERTIFICATE FOR GDB

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:

- a) the information prepared for the purposes of clauses 2.3.1, 2.3.2, 2.4.21, 2.4.22, 2.5.1, 2.5.2 and 2.7.1 of the *Gas Distribution 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 the applicable 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 Distribution Information Disclosure Determination 2012* and clauses 2.2.11(1)(g) and 2.2.11(5) of the *Gas Distribution 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 Distribution 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 Distribution 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 Distribution Information Disclosure Determination 2012*.



Director: Philippa Jane Dunphy



Director: Euan Richard Krogh

26 March 2020

Date

26 March 2020

Date



Independent Reasonable Assurance Report to the Directors of First Gas Limited 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, 10a (ii) and 14 (boxes 1 – 12) of the First Gas Limited Gas Distribution Information Disclosure Requirements Information Templates (the 'schedules'), have been prepared, in accordance with the Commerce Commission Gas Distribution 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 2019.

In our opinion, in all material respects, First Gas Limited's basis for valuation of related party transactions in the year ended 30 September 2019 has complied with clause 2.3.6 of the Gas Distribution 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 2019 has complied with clauses 2.3.8, 2.3.10, 2.3.11 and 2.3.12 of the Gas Distribution Information Disclosure Determination 2012 (amended as of 3 April 2018).

We have also concluded that, as far as appears from an examination of them:

- proper records to enable the complete and accurate compilation of the schedules and additional disclosure information for related parties as at 30 September 2019 have been kept by First Gas Limited; and
- the information used in the preparation of the schedules and additional disclosure information for related parties as at 30 September 2019 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 additional disclosure information for related parties for the year ended 30 September 2019.

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, 10a (ii), 14 (boxes 1 – 12) and the information disclosure for related parties that have been prepared in accordance with the determination for the year ended 30 September 2019.

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 conclusion. Our procedures were undertaken in the context of and solely for the purpose of our conclusion on the schedules and disclosures as a whole and we do not express discrete conclusions on separate elements of the schedules and additional information disclosures for related parties.



The key assurance matter	How the matter was addressed in our assurance
<p>1. Capitalisation of assets into the regulatory assets base ('RAB'). Refer to Schedule 4 and Schedule 6a.</p> <p>Capitalisation of assets into the RAB (capital expenditure during the year of \$26 million and assets commissioned of \$16 million) is a key assurance matter due to the following significant judgements involved:</p> <ul style="list-style-type: none">— Assessment whether an asset meets the definition of network or non-network asset;— Allocation of non-directly attributable assets to the gas distribution business. Specifically this judgement relates to the selection of allocators which appropriately align to the cause of the expenditure.	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none">— 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. <p>We found no material errors in the amounts capitalised in the period.</p>
<p>2. Completeness and accuracy of SAIDI and SAIFI. Refer to Schedule 10a(ii).</p> <p>The accuracy and completeness of SAIDI and SAIFI (475 interruptions, SAIDI of 727 and SAIFI of 8.7) in the period is a key assurance matter due to the following factors:</p> <ul style="list-style-type: none">— The complexity of the calculation of SAIDI and SAIFI which requires detailed information about each individual outage, including the start time and restoration time for each affected connection;— The reliance of manual manipulation of the outage dataset to arrive at the SAIDI and SAIFI numbers in schedule 10.	<p>The procedures we performed to evaluate accuracy of the dataset used to calculate SAIDI and SAIFI included amongst others:</p> <ul style="list-style-type: none">— Comparing the details of each outage in the SAIDI and SAIFI dataset to the outage records of First Gas's external field service provider;— Recalculating SAIDI and SAIFI according to the methodology of the Gas Information Disclosure determination. <p>The procedures we performed to evaluate completeness of the dataset used to calculate SAIDI and SAIFI included amongst others:</p> <ul style="list-style-type: none">— Checking whether, on a sample basis, major outage events recorded in the media were appropriately recorded in the dataset;— Assessing of parameters used to extract data from the underlying systems. <p>We found no material errors in the calculation of SAIDI and SAIFI.</p>



3. Allocation of shared and other costs into operating expenditure. Refer to Schedule 5d and Schedule 6b.

The allocation of shared and other costs (\$1.3 million of not directly attributable expenditure within the total of \$7 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 distribution and gas transmission) 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 distribution 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 distribution business in the period.

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

The valuation of transactions with related parties (\$2 million of unregulated income, \$4.8 million of operating expenditure and \$17m of capital expenditure incurred with related parties in the period) is a key assurance matter due to 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;

The identification of and transactions with related parties is a key assurance matter because 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. Transactions with a number of related parties may give rise to related party transactions with the gas distribution business.

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

- Comparison of the related party expenditure recorded by First Gas to ensure a) it is the price incurred by the gas distribution 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 related parties to First Gas to the standard terms and conditions of the supplier, and investigation where a material difference exists.
- Reviewing the Independent Appraiser's report; examining and considering the assumptions, testing and results of the Independent Appraiser's work (in connection with the valuation of related party transactions).
- This involved reperforming some of the company's and the Independent Appraiser's work, including 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 conclusion. 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 Disclosure 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 a conclusion 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 Disclosure 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 Disclosure 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 Distribution 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 conclusions 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.

First Gas Limited's responsibility for the schedules

First Gas Limited is responsible for the preparation and fair presentation of the schedules and Information Disclosure 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 Disclosure for Related Parties that is free from material misstatement whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion to the directors and the New Zealand Commerce Commission on the preparation and presentation of the schedules and Information Disclosure 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 (Revised) 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 other services to First Gas Limited such as the annual audit of the financial statements, regulatory assurance services, and other assurance services. Partners and employees of our firm may also deal with First Gas Limited on normal terms within the ordinary course of trading activities of the business of First Gas Limited. These matters have not impaired our independence as assurance providers of First Gas Limited for this engagement. The firm has no other relationship with, or interest in, First Gas Limited.

A handwritten signature in black ink, appearing to read 'KPMG.' with a period at the end.

KPMG
Auckland
26 March 2020



Independent Appraiser's Reasonable Assurance Report to the Directors of First Gas Limited and the New Zealand Commerce Commission for the Distribution Business

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:

- the Information in schedule 5b of the Information Disclosure Schedules on Related Party Transactions has complied with the Gas Distribution Information Disclosure Determination 2012 section 2.3.6 and the Input Methodologies section 2.2.11(1)(g) and 2.2.11(5) (together 'the determination') for the period ending 30 September 2019; and
- the steps undertaken by First Gas Limited, as specified under "*Overall scoping and steps undertaken in testing compliance*" are considered to be, in all material respects, reasonable in the circumstances.

As far as appears from an examination of them, in all material aspects:

- proper records to enable the complete and accurate compilation of the Information Disclosure Schedules on Related Party Transactions as at 30 September 2019 have been kept by First Gas Limited; and
- the information used in the preparation of the Information Disclosure Schedules on Related Party Transactions as at 30 September 2019 has been properly extracted from First Gas Limited's accounting system and other records and has been sourced, where appropriate, from Vector Limited's financial and non-financial systems.

Information subject to assurance and criteria

We have performed an engagement to provide reasonable assurance that First Gas Limited's Information Disclosure Schedules on Related Party Transactions are in compliance with the determination for the period ending 30 September 2019 and that the steps undertaken by First Gas Limited are considered to be, in all material respects, reasonable in the circumstances.

Our procedures

Materiality

Our assurance engagement is designed to provide reasonable assurance that First Gas Limited is in compliance, in all material respects with the determination. Based on our professional judgement, we determined certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our assurance engagement, the nature, timing and extent of our assurance procedures and to evaluate the effect of misstatements, both individually and in aggregate on gross related party information. Quantitative materiality level was determined as 2% of the gross related party revenue and expense transactions. Qualitative factors were also considered when assessing the arm's length valuation rules on related party transactions.

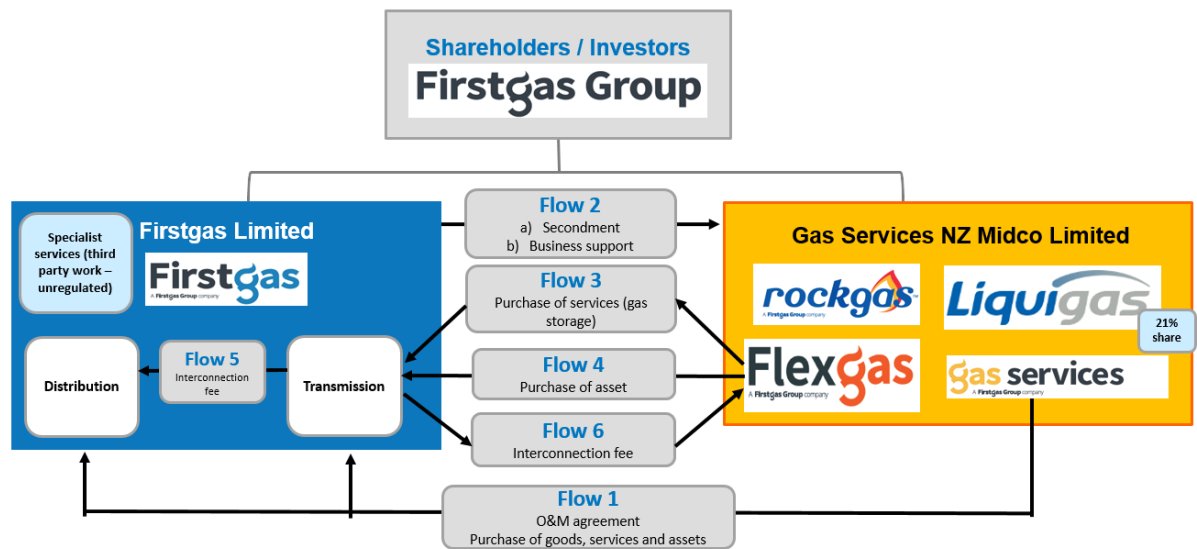
Key assumptions

In carrying out our procedures we have relied on First Gas Limited's internal controls relating to the identification of related party transactions and the valuation of related party transactions that were tested, and relied upon, during the independent audit of First Gas Limited and Gas Services NZ Midco Limited's financial statements for the year ended 30 September 2019, in relation to our work as the independent appraiser.

In building on this assumption we have carried out specific tests, to assess if First Gas Limited has identified related parties and related party transactions during the disclosure year ending 30 September 2019.

Overall scoping and steps undertaken in testing compliance

- Obtained an understanding of First Gas Limited's approach to identify all related party relationships in accordance with the determination, and disclosed these in the 2019 Information Disclosure Schedules as prepared and published;
- Obtained an understanding of all First Gas Limited's Related Party Transaction Flows and determine that each of the flows meet the definition of a related party transaction per the determination, refer to flows below;



- We independently assessed the margins applied to Related Party Flows 1 & 2;
- Compared the margins applied to each flow is consistent with the criteria and supported by either;
 - An open tendering process;
 - Comparable pricing;
 - Independent market valuations;
 - Published price lists; or a
 - Consolidation approach.
- Determined that margin applied to each flow meets the criteria of the Information Disclosure Determinations;
- For each related party who provided, or acquired a material value of goods and services to or from First Gas Limited, respectively, we assessed that each related party transaction was valued in accordance with the requirements of the determination;
- Reconciled the First Gas Limited's related party transactions to the Information Disclosure Schedules; and
- Tested an unbiased sample of invoices to ensure their classification of related party flow are appropriate and in compliance with the First Gas Limited's methodology.



Each related party flow is considered a key assurance matter. 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 Disclosure Schedules on Related Party Transactions in the current regulatory period ended 30 September 2019. We summarise below those matters and our key procedures to address those matters in order that the directors of First Gas Limited 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 providing reasonable assurance in relation to First Gas Limited's Information Disclosure Schedules on Related Party Transactions are in compliance with the determination. For the Distribution business, related party flow transaction 3, 4 and 6 do not apply.

The related party flow

Procedures performed

Flow 1- Operating and Maintenance Agreement

Gas Services supplies operations and maintenance (O&M) services on behalf of GSNZ Midco to First Gas under a services agreement for both the gas transmission and distribution businesses.

Our procedures over Related Party flow 1 included:

- Obtained and understood the O&M services agreement with GSNZ Midco;
- Verified the margins applied to the O&M services provided are in line with the agreement;
- Recalculated the margins applied to the direct costs;
- Benchmarked against comparable businesses to confirm that total costs are consistent with an arm's length transaction;
- Performed sensitivity analysis over the range of margins identified;
- Agreed that the Gas Services JV costs have a margin equal to the Gas Services Revenue GL codes; and
- For an unbiased sample of transactions, tested the allocation of cost categories between transmission and distribution.

Flow 2- Business support and secondment staff services

First Gas provides business support services to support the operations of GSNZ Midco (and its subsidiaries Flexgas and Rockgas) and second staff to GSNZ Midco to undertake O&M services.

Our procedures over Related Party flow 2 included:

Business support services

- Verified the margins applied to each distinct service provided and/or received are in line with the third party margins obtained;
- Assessed the allocation of staff time between the regulated and unregulated businesses;
- Assessed the allocation of direct costs and staff time to each service provided and/or received;
- Recalculated the margins applied to the direct costs;
- Benchmarked against comparable businesses to confirm that total costs are consistent with an arm's length transaction; and
- Obtained a breakdown of all transactions between Gas Services JV and First Gas and reconciled it to the audited trial balance to identify any transactions not recorded.

Secondment services

- Verified the margin applied to secondment services are in line with the third party margin obtained;
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The related party flow

Procedures performed

- Assessed the allocation of staff time between the regulated and unregulated businesses;
- Recalculated the margins applied to the direct costs;
- Benchmarked against comparable businesses to confirm that total costs are consistent with an arm's length transaction; and
- Obtained a breakdown of all transactions between Gas Services JV and First Gas and reconciling it to the audited trial balance to identify any transactions not recorded.

Flow 5- Interconnection fees

First Gas transmission (GTB) charges the First Gas distribution business (GDB) interconnection fees for new connections to the transmission network.

Our procedures over Related Party flow 5 included:

- Obtained interconnection contracts with third parties;
- Assessed the third-party methodology to determine whether the interconnection fee in the contract was calculated using the same interconnection methodology used for all interconnecting parties; and
- Assessed GTB trial balance codes to identify other related party transmission charges not recognised in the information disclosures.

We summarise below the steps undertaken by First Gas Limited to test compliance with the determination.

Compliance to determination

Steps performed by First Gas

The steps undertaken by First Gas Limited, are considered to be, in all material respects, reasonable in the circumstances.

The procedures performed by First Gas limited include:

- Identified related party relationships and transactions flows;
- Outlined the intent behind the key related party contracts included the O&M services agreement with GSNZ Midco;
- Assessed compliance with the definition of an arm's length transaction (in accordance with ISA (NZ) 550); and
- Obtained independent and objective measures to support the arm's length principle for each related party flow. This includes management engagement of third parties (PwC and Chris Harvey Consulting) to establish benchmarks to be applied to Flow 1 and Flow 2.

Standards we followed

We conducted our reasonable assurance engagement on the related party valuation requirements as set out in the determination in accordance with International Standard on Assurance Engagements (New Zealand) 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 Information Disclosure Schedules for Related Party Transactions is 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 Information Disclosure Schedules for Related Party Transactions 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 Information Disclosure Schedules for Related Party Transactions.

Use of this assurance report

Our report should not be regarded as suitable to be used or relied on by any party's other than First Gas Limited and the New Zealand Commerce Commission in relation to the determination for any purpose or in any context. Any party other than First Gas Limited or 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 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' responsibility for compliance with the determination

The management of First Gas Limited are responsible for the preparation and fair presentation of the Information Disclosure Schedules on Related Party Transaction in accordance with the determination. This responsibility includes such internal control as the management determine is necessary to enable the preparation of the Information Disclosure Schedules on Related Party Transaction 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 whether the preparation and presentation of the Information Disclosure Schedules on Related Party Transactions is, in all material respects, in compliance with the determination for the period ending 30 September 2019.

Our independence and quality control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 (Revised) 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.



David Gates is a member of Chartered Accountants Australia and New Zealand who has 25 years of audit and commercial experience, including in identification and disclosure of related party transactions. David is supported by KPMG specialists and staff who possess a range of experience and disciplines in relevant areas such as assessing the valuation of related party transaction.

Our firm has also provided audit, other assurance and non-audit services to First Gas Limited. Subject to certain restrictions, partners and employees of our firm may also deal with First Gas Limited on normal terms within the ordinary course of trading activities of the business of First Gas Limited. These matters have not impaired our independence as assurance providers of First Gas Limited for this engagement. The firm has no other relationship with, or interest in, First Gas Limited.

A handwritten signature in blue ink that reads 'KPMG'. The letters are stylized and connected, with a long horizontal stroke extending from the end of the 'G'.

KPMG
Wellington

26 March 2020