Information disclosure for the gas distribution business

Year ending 30 September 2022

First Gas Limited
22 February 2023

Introduction

First Gas Limited (Firstgas) owns and operates more than 4,900 kilometres of gas distribution pipelines that service approximately 66,000 consumers across the regions of Northland, Waikato, Central Plateau, Bay of Plenty, Gisborne and Kāpiti Coast. Firstgas also owns and operates 2,500 kilometres of gas transmission pipelines. These pipelines transport around 20 percent of New Zealand's primary energy supply from Taranaki across the North Island.

Firstgas is part of the wider Firstgas Group. Headquartered in New Plymouth, Firstgas Group is an umbrella brand consisting of Rockgas, Firstgas, Flexgas and Gas Services NZ. Firstgas and Rockgas deliver natural gas and supply LPG respectively to over 500,000 customers through their network of high-pressure gas transmission pipelines and distribution pipelines in the North Island, as well as through LPG distribution pipelines in the South Island, 36 local LPG suppliers, and over 180 Refill & Save locations across New Zealand.

Flexgas operates the Ahuroa gas storage facility in Central Taranaki. Gas Services NZ provides operational and maintenance support to all gas infrastructure owners, including other parts of Firstgas Group.

Information disclosure

This document contains Firstgas' annual information disclosure for the gas distribution business, for the year ending on 30 September 2022, 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
- PwC assurance report

This information disclosure was prepared on 22 February 2023.

Further information

For further information regarding this compliance statement, please contact:

Regulatory Policy Manager
First Gas Limited
compliance@firstgas.co.nz
04 979 5368

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.

COMMERCE COMMISSION NEW ZEALAND

GDB Information Disclosure Requirements
Information Templates
for
Schedules 1–10

Company Name	First Gas (Distribution)
Disclosure Date	31 March 2023
Disclosure Year (year ended)	30 September 2022

Templates for Schedules 1–10 excluding 5f–5g
Template Version 4.1. Prepared 21 December 2017

Table of Contents

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**

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

7 **1(i): Expenditure Metrics**

sch ref		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)
8					
9	**Operational expenditure**	1,080	152	11	2,046
10	Network	509	72	5	965
11	Non-network	571	80	6	1,081
12					
13	**Expenditure on assets**	1,400	197	15	2,652
14	Network	1,389	196	15	2,631
15	Non-network	11	2	0	21
16					

17 **1(ii): Revenue Metrics**

sch ref		Revenue per TJ energy delivered to ICPs ($/TJ)	Revenue per average no. of ICPs ($/ICP)
18			
19	**Total line charge revenue**	2,726	384
20	Standard consumer line charge revenue	5,524	366
21	Non-standard consumer line charge revenue	249	65,561
22			

23 **1(iii): Service Intensity Measures**

sch ref			
24			
25	Demand density	179	*Maximum monthly load (GJ per month) per system length*
26	Volume density	2	*Quantity of gas delivered per km of system length (TJ/km)*
27	Connection point density	13	*Average number of ICPs in disclosure year per system length*
28	Energy intensity	141	*Total GJ delivered to ICPs per average number of ICPs in disclosure year*
29			

30 **1(iv): Composition of Revenue Requirement**

sch ref		($000)	% of revenue
31			
32	Operational expenditure	10,187	38.78%
33	Pass-through and recoverable costs excluding financial incentives and wash-ups	940	3.58%
34	Total depreciation	6,539	24.89%
35	Total revaluations	13,153	50.07%
36	Regulatory tax allowance	2,468	9.40%
37	Regulatory profit/(loss) including financial incentives and wash-ups	19,008	72.35%
38	**Total regulatory income**	26,271	
39			

40 **1(v): Reliability**

sch ref			
41			
42	Interruption rate	6.83	*Interruptions per 100km of system length*

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**

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).
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

sch ref		CY-2	CY-1	Current Year CY
7	**2(i): Return on Investment**			
8	for year ended	**30 Sep 20**	**30 Sep 21**	**30 Sep 22**
9	**ROI – comparable to a post tax WACC**	**%**	**%**	**%**
10	Reflecting all revenue earned	5.54%	8.48%	10.34%
11	Excluding revenue earned from financial incentives	5.54%	8.48%	10.34%
12	Excluding revenue earned from financial incentives and wash-ups	5.50%	8.44%	10.30%
13				
14	**Mid-point estimate of post tax WACC**	4.07%	3.54%	4.30%
15	25th percentile estimate	3.36%	2.83%	3.60%
16	75th percentile estimate	4.78%	4.24%	5.01%
17				
18				
19	**ROI – comparable to a vanilla WACC**			
20	Reflecting all revenue earned	5.87%	8.72%	10.70%
21	Excluding revenue earned from financial incentives	5.87%	8.72%	10.70%
22	Excluding revenue earned from financial incentives and wash-ups	5.83%	8.68%	10.67%
23				
24	**WACC rate used to set regulatory price path**	6.41%	6.41%	6.41%
25				
26	**Mid-point estimate of vanilla WACC**	4.40%	3.78%	4.67%
27	25th percentile estimate	3.70%	3.07%	3.96%
28	75th percentile estimate	5.11%	4.49%	5.38%
29				

sch ref				($000)	
30	**2(ii): Information Supporting the ROI**				
31					
32		Total opening RAB value	181,908		
33	*plus*	Opening deferred tax	(10,041)		
34	**Opening RIV**			171,868	
35					
36	**Line charge revenue**			25,714	
37					
38		Expenses cash outflow	11,127		
39	*plus*	Assets commissioned	21,191		
40	*less*	Asset disposals	-		
41	*plus*	Tax payments	857		
42	*less*	Other regulated income	557		
43	**Mid-year net cash flows**			32,618	
44					
45	**Term credit spread differential allowance**			283	
46					
47		Total closing RAB value	209,596		
48	*less*	Adjustment resulting from asset allocation	(117)		
49	*less*	Lost and found assets adjustment	-		
50	*plus*	Closing deferred tax	(11,652)		
51	**Closing RIV**			198,062	
52					
53	**ROI – comparable to a vanilla WACC**				10.70%
54					
55		Leverage (%)			42%
56		Cost of debt assumption (%)			3.10%
57		Corporate tax rate (%)			28%
58					
59	**ROI – comparable to a post tax WACC**				10.34%
60					

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**

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).

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

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	10.37%
Year-end ROI – comparable to a post tax WACC	10.00%

** 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	87	
Other wash-ups	-	
Wash-up costs		87
Impact of wash-up costs on ROIs		0.04%

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**

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		25,714
10	*plus*	Gains / (losses) on asset disposals		-
11	*plus*	Other regulated income (other than gains / (losses) on asset disposals)		557
13		**Total regulatory income**		26,271
14		**Expenses**		
15	*less*	Operational expenditure		10,187
17	*less*	Pass-through and recoverable costs excluding financial incentives and wash-ups		940
19		**Operating surplus / (deficit)**		15,144
21	*less*	Total depreciation		6,539
23	*plus*	Total revaluations		13,153
25		**Regulatory profit / (loss) before tax**		21,759
27	*less*	Term credit spread differential allowance		283
29	*less*	Regulatory tax allowance		2,468
31		**Regulatory profit/(loss) including financial incentives and wash-ups**		19,008
33		**3(ii): Pass-through and recoverable costs excluding financial incentives and wash-ups**	**($000)**	
34		**Pass through costs**		
35		Rates	615	
36		Commerce Act levies	285	
37		Industry Levies	40	
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**		940
46		**3(iv): Merger and Acquisition Expenditure**		
47				**($000)**
48		Merger and acquisition expenditure		-
50		*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)*		
51				**($000)**
52		**3(v): Other Disclosures**		
53				**($000)**
54		Self-insurance allowance		-

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**

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

7	**4(i): Regulatory Asset Base Value (Rolled Forward)**		**RAB**	**RAB**	**RAB**	**RAB**	**RAB**
8		for year ended	**30 Sep 18**	**30 Sep 19**	**30 Sep 20**	**30 Sep 21**	**30 Sep 22**
9			**($000)**	**($000)**	**($000)**	**($000)**	**($000)**
10	**Total opening RAB value**		147,907	153,499	164,081	174,405	181,908
11							
12	*less* **Total depreciation**		5,970	6,205	6,609	6,273	6,539
13							
14	*plus* **Total revaluations**		2,811	2,248	2,368	8,590	13,153
15							
16	*plus* **Assets commissioned**		8,561	14,445	14,566	5,438	21,191
17							
18	*less* **Asset disposals**		2	-	-	119	-
19							
20	*plus* **Lost and found assets adjustment**		-	-	-	-	-
21							
22	*plus* **Adjustment resulting from asset allocation**		192	93	-	(133)	(117)
23							
24	**Total closing RAB value**		153,499	164,081	174,405	181,908	209,596
25							

26	**4(ii): Unallocated Regulatory Asset Base**				
27		**Unallocated RAB ***		**RAB**	
28		**($000)**	**($000)**	**($000)**	**($000)**
29	**Total opening RAB value**		192,906		181,908
30	*less*				
31	**Total depreciation**		8,798		6,539
32	*plus*				
33	**Total revaluations**		13,914		13,153
34	*plus*				
35	Assets commissioned (other than below)	2,456		147	
36	Assets acquired from a regulated supplier	-		-	
37	Assets acquired from a related party	21,043		21,043	
38	**Assets commissioned**		23,499		21,191
39	*less*				
40	Asset disposals (other than below)	-		-	
41	Asset disposals to a regulated supplier	-		-	
42	Asset disposals to a related party	-		-	
43	**Asset disposals**		-		-
44					
45	*plus* **Lost and found assets adjustment**				
46					
47	*plus* **Adjustment resulting from asset allocation**				(117)
48					
49	**Total closing RAB value**		221,521		209,596

50 ** 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 (Distribution)**
For Year Ended	**30 September 2022**

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						
51						
52	**4(iii): Calculation of Revaluation Rate and Revaluation of Assets**					
53						
54		CPI$_4$				1,186
55		CPI$_4^{-4}$				1,106
56		Revaluation rate (%)				7.23%
57						
58			**Unallocated RAB ***		**RAB**	
59			**($000)**	**($000)**	**($000)**	**($000)**
60		Total opening RAB value	192,906		181,908	
61	*less*	Opening value of fully depreciated, disposed and lost assets	540		63	
62						
63		Total opening RAB value subject to revaluation	192,366		181,846	
64		**Total revaluations**		13,914		13,153
65						
66	**4(iv): Roll Forward of Works Under Construction**					
67			**Unallocated works under construction**		**Allocated works under construction**	
68		**Works under construction—preceding disclosure year**		12,277		10,915
69	*plus*	Capital expenditure	14,514		12,499	
70	*less*	Assets commissioned	23,499		21,191	
71	*plus*	Adjustment resulting from asset allocation			-	
72		**Works under construction - current disclosure year**		3,292		2,224
73						
74		Highest rate of capitalised finance applied				4.21%
75						

Company Name **First Gas (Distribution)**
For Year Ended **30 September 2022**

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

76 4(v): Regulatory Depreciation

sch ref		Unallocated RAB * ($000)	($000)	RAB ($000)	($000)
79	Depreciation - standard	6,275		6,275	
80	Depreciation - no standard life assets	2,523		263	
81	Depreciation - modified life assets				
82	Depreciation - alternative depreciation in accordance with CPP				
83	**Total depreciation**		8,798		6,539

84

85 4(vi): Disclosure of Changes to Depreciation Profiles

($000 unless otherwise specified)

sch ref	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
87					
88					
89					
90					
91					
92					
93					
94					

95 ** include additional rows if needed*

96 4(vii): Disclosure by Asset Category

97 **($000 unless otherwise specified)**

sch ref			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
99		**Total opening RAB value**	21,493	104,005	1,456	39,126	6,069	1,683	3,302	3,379	1,395	181,908
100	*less*	Total depreciation	604	3,416	38	1,585	240	39	150	288	180	6,539
101	*plus*	Total revaluations	1,555	7,523	105	2,823	439	123	239	244	103	13,153
102	*plus*	Assets commissioned	608	11,850	22	7,806	55	346	-	304	198	21,191
103	*less*	Asset disposals	-	-	-	-	-	-	-	-	-	-
104	*plus*	Lost and found assets adjustment	-	-	-	-	-	-	-	-	-	-
105	*plus*	Adjustment resulting from asset allocation	-	-	-	-	-	-	-	-	(117)	(117)
106	*plus*	Asset category transfers	-	(2)	-	(75)	-	13	-	5	58	-
107		**Total closing RAB value**	23,052	119,959	1,546	48,096	6,323	2,126	3,392	3,644	1,458	209,596
108												
109		**Asset Life**										
110		Weighted average remaining asset life	45.5	39.4	45.5	45.5	29.1	53.3	26.5	25.8	16.9	(years)
111		Weighted average expected total asset life	70.2	60.1	60.0	62.0	35.0	59.3	60.0	38.0	47.2	(years)

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**

SCHEDULE 5a: REPORT ON REGULATORY TAX ALLOWANCE

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 2.8

sch ref

5a(i): Regulatory Tax Allowance

sch ref				($000)
8		**Regulatory profit / (loss) before tax**		21,759
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	4 *	
12		Amortisation of initial differences in asset values	1,683	
13		Amortisation of revaluations	1,005	
14				2,692
16	*less*	Total revaluations	13,153	
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	2,482	
20				15,636
22		**Regulatory taxable income**		8,815
24	*less*	Utilised tax losses		
25		Regulatory net taxable income		8,815
27		Corporate tax rate (%)	28%	
28		**Regulatory tax allowance**		2,468

30 * Workings to be provided in Schedule 14

5a(ii): Disclosure of Permanent Differences

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

5a(iii): Amortisation of Initial Difference in Asset Values

sch ref				($000)
36		Opening unamortised initial differences in asset values	52,161	
37	*less*	Amortisation of initial differences in asset values	1,683	
38	*plus*	Adjustment for unamortised initial differences in assets acquired	-	
39	*less*	Adjustment for unamortised initial differences in assets disposed	-	
40		Closing unamortised initial differences in asset values		50,479
42		Opening weighted average remaining useful life of relevant assets (years)		31

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**

SCHEDULE 5a: REPORT ON REGULATORY TAX ALLOWANCE

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 2.8.

sch ref				
44	**5a(iv): Amortisation of Revaluations**			**($000)**
46		Opening sum of RAB values without revaluations	159,027	
48		Adjusted depreciation	5,533	
49		Total depreciation	6,539	
50		Amortisation of revaluations		1,005
52	**5a(v): Reconciliation of Tax Losses**			**($000)**
54		**Opening tax losses**	-	
55	*plus*	Current period tax losses	-	
56	*less*	Utilised tax losses		
57		**Closing tax losses**		-
58	**5a(vi): Calculation of Deferred Tax Balance**			**($000)**
60		**Opening deferred tax**	(10,041)	
62	*plus*	Tax effect of adjusted depreciation	1,549	
64	*less*	Tax effect of tax depreciation	2,743	
66	*plus*	Tax effect of other temporary differences*	35	
68	*less*	Tax effect of amortisation of initial differences in asset values	471	
70	*plus*	Deferred tax balance relating to assets acquired in the disclosure year	-	
72	*less*	Deferred tax balance relating to assets disposed in the disclosure year	-	
74	*plus*	Deferred tax cost allocation adjustment	19	
76		**Closing deferred tax**		(11,652)
78	**5a(vii): Disclosure of Temporary Differences**			
79		*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).*		
81	**5a(viii): Regulatory Tax Asset Base Roll-Forward**			
82				**($000)**
83		**Opening sum of regulatory tax asset values**	68,286	
84	*less*	Tax depreciation	9,798	
85	*plus*	Regulatory tax asset value of assets commissioned	21,140	
86	*less*	Regulatory tax asset value of asset disposals	-	
87	*plus*	Lost and found assets adjustment	-	
88	*plus*	Adjustments resulting from asset allocation	(50)	
89	*plus*	Other adjustments to the RAB tax value	-	
90		**Closing sum of regulatory tax asset values**		79,579

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**

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**	**($000)**	**($000)**
8	**Total regulatory income**		2,135
9			
10	**Market value of asset disposals**		
11			
12	Service interruptions, incidents and emergencies	3,504	
13	Routine and corrective maintenance and inspection	1,300	
14	Asset replacement and renewal (opex)	-	
15	**Network opex**		4,804
16	Business support	-	
17	System operations and network support	2,373	
18	**Operational expenditure**		7,177
19	Consumer connection	4,845	
20	System growth	2,715	
21	Asset replacement and renewal (capex)	4,483	
22	Asset relocations	745	
23	Quality of supply	22	
24	Legislative and regulatory	-	
25	Other reliability, safety and environment	293	
26	**Expenditure on non-network assets**		1
27	**Expenditure on assets**		13,104
28	Cost of financing		
29	Value of capital contributions		
30	Value of vested assets		
31	**Capital expenditure**		13,104
32	**Total expenditure**		20,280
33			
34	**Other related party transactions**		

35	**5b(iii): Total Opex and Capex Related Party Transactions**		
36	**Name of related party**	**Nature of opex or capex service provided**	**Total value of transactions ($000)**
37	First Gas Transmission	System operations and network support	234
38	Gas Services NZ	Service interruptions, incidents and emergencies	3,504
39	Gas Services NZ	Routine and corrective maintenance and inspection	1,300
40	Gas Services NZ	System operations and network support	2,138
41	Gas Services NZ	Consumer connection	4,845
42	Gas Services NZ	System growth	2,715
43	Gas Services NZ	Asset replacement and renewal (capex)	4,483
44	Gas Services NZ	Asset relocations	745
45	Gas Services NZ	Expenditure on non-network assets	1
46	Gas Services NZ	Other reliability, safety and environment	293
47	Gas Services NZ	Quality of supply	22
48			
49			
50			
51			
52	**Total value of related party transactions**		20,280
53	** include additional rows if needed*		
54			

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**

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

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

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
2021 USPP 7yr	23/03/2021	10/03/2021	7.0	2.32%	185,112	203,815	278	(106)
2021 USPP 9yr	23/03/2021	10/03/2021	9.0	2.59%	165,626	178,017	497	(147)
2021 USPP 10yr	23/03/2021	24/11/2020	10.0	2.32%	107,619	105,087	404	(108)
2021 USPP 12yr	23/03/2021	24/11/2020	12.0	2.42%	286,985	270,745	1,507	(335)
2021 USPP 15yr	23/03/2021	24/11/2020	15.0	BKBM +200bps	225,000	223,774	1,688	(300)
** include additional rows if needed*						981,439	4,372	(995)

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

Gross term credit spread differential		3,377
Total book value of interest bearing debt	981,439	
Leverage	42%	
Average opening and closing RAB values	195,752	
Attribution Rate (%)		8%
Term credit spread differential allowance		283

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**

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						
7	**5d(i): Operating Cost Allocations**					
8			**Value allocated ($000s)**			
9		**Arm's length deduction**	**Gas distribution services**	**Non-gas distribution services**	**Total**	**OVABAA allocation increase ($000s)**
10	**Service interruptions, incidents and emergencies**					
11	Directly attributable		3,504			
12	Not directly attributable				-	
13	**Total attributable to regulated service**		3,504			
14	**Routine and corrective maintenance and inspection**					
15	Directly attributable		1,300			
16	Not directly attributable				-	
17	**Total attributable to regulated service**		1,300			
18	**Asset replacement and renewal**					
19	Directly attributable		-			
20	Not directly attributable				-	
21	**Total attributable to regulated service**		-			
22	**System operations and network support**					
23	Directly attributable		2,316			
24	Not directly attributable				-	
25	**Total attributable to regulated service**		2,316			
26	**Business support**					
27	Directly attributable		722			
28	Not directly attributable	377	2,345	22,281	25,004	
29	**Total attributable to regulated service**		3,067			
30						
31	**Operating costs directly attributable**		7,842			
32	**Operating costs not directly attributable**	377	2,345	22,281	25,004	-
33	**Operational expenditure**		10,187			
34						

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**

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(ii): Other Cost Allocations

	Value allocated ($000s)				
Pass through and recoverable costs	**Arm's length deduction**	**Gas distribution services**	**Non-gas distribution services**	**Total**	**OVABAA allocation increase ($000s)**
Pass through costs					
Directly attributable		940			
Not directly attributable				-	
Total attributable to regulated service		940			
Recoverable costs					
Directly attributable					
Not directly attributable				-	
Total attributable to regulated service		-			

5d(iii): Changes in Cost Allocations* †

Change in cost allocation 1			($000) **CY-1**	**Current Year (CY)**
Cost category		Original allocation		
Original allocator or line items		New allocation		
New allocator or line items		Difference	-	-

Rationale for change

Change in cost allocation 2			($000) **CY-1**	**Current Year (CY)**
Cost category		Original allocation		
Original allocator or line items		New allocation		
New allocator or line items		Difference	-	-

Rationale for change

Change in cost allocation 3			($000) **CY-1**	**Current Year (CY)**
Cost category		Original allocation		
Original allocator or line items		New allocation		
New allocator or line items		Difference	-	-

Rationale for change

** 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 (Distribution)**
For Year Ended	**30 September 2022**

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	144,557
Not directly attributable	
Total attributable to regulated service	144,557
Service pipe	
Directly attributable	48,096
Not directly attributable	
Total attributable to regulated service	48,096
Stations	
Directly attributable	6,323
Not directly attributable	
Total attributable to regulated service	6,323
Line valve	
Directly attributable	2,126
Not directly attributable	
Total attributable to regulated service	2,126
Special crossings	
Directly attributable	3,392
Not directly attributable	
Total attributable to regulated service	3,392
Other network assets	
Directly attributable	3,644
Not directly attributable	
Total attributable to regulated service	3,644
Non-network assets	
Directly attributable	709
Not directly attributable	749
Total attributable to regulated service	1,458
Regulated service asset value directly attributable	208,847
Regulated service asset value not directly attributable	749
Total closing RAB value	209,596

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 (Distribution)**
For Year Ended	**30 September 2022**

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		4,845
9		System growth		2,715
10		Asset replacement and renewal		4,483
11		Asset relocations		745
12		Reliability, safety and environment:		
13		Quality of supply	22	
14		Legislative and regulatory	-	
15		Other reliability, safety and environment	293	
16		**Total reliability, safety and environment**		315
17		**Expenditure on network assets**		13,103
18		Expenditure on non-network assets		103
19				
20		**Expenditure on assets**		13,206
21	*plus*	Cost of financing		58
22	*less*	Value of capital contributions		764
23	*plus*	Value of vested assets		-
24				
25		**Capital expenditure**		12,499
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	785	
31		Service Connections - Residential	3,626	
32		Service Connections - Commercial	434	
33				
34				
35		** include additional rows if needed*		
36		**Consumer connection expenditure**		4,845
37				
38	*less*	Capital contributions funding consumer connection expenditure	124	
39		**Consumer connection less capital contributions**		4,721

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**

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			System Growth ($000)	Asset Replacement and Renewal ($000)
40				
41		**6a(iv): System Growth and Asset Replacement and Renewal**		
42				
43				
44		**Intermediate pressure**		
45		Main pipe	136	191
46		Service pipe	-	-
47		Stations	241	38
48		Line valve	-	160
49		Special crossings	-	-
50		**Intermediate pressure -total**	377	389
51		**Medium pressure**		
52		Main pipe	2,338	3,907
53		Service pipe	-	41
54		Stations	-	-
55		Line valve	-	38
56		Special crossings	-	8
57		**Medium pressure - total**	2,338	3,994
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	-	46
67		Other assets (other than above)	-	55
68		**Other network assets - total**	-	100
69				
70		**System growth and asset replacement and renewal expenditure**	2,715	4,483
71	*less*	Capital contributions funding system growth and asset replacement and renewal	133	-
72		**System growth and asset replacement and renewal less capital contributions**	2,582	4,483

73		**6a(v): Asset Relocations**		
74		*Project or programme**	**($000)**	**($000)**
75		Aotearoa Park, Cambridge	162	
76		Relocate IP CS main pipe, Washer Rd, Horotiu	123	
77		FY22 Dx Relocation of service and meters	96	
78		Realignment MP4 pipeline, Ruakura Rd, Hamilton	79	
		Waikato Expressway, Matangi-Hamilton Section	67	
79		Realignment MP4 pipeline, Sapper Moore-Jones, Hamilton	56	
		Relocate MP4 PE main pipe, Ruakura Rd, Hamilton	50	
80		** include additional rows if needed*		
81		All other projects or programmes - asset relocations	112	
82		**Asset relocations expenditure**		745
83	*less*	Capital contributions funding asset relocations	507	
84		**Asset relocations less capital contributions**		238

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**

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				
85		**6a(vi): Quality of Supply**		
86		*Project or programme**	**($000)**	**($000)**
87		Reinforcement of MP4 pipeline, Ormon Rd, Gisborne	22	
88				
89				
90				
91				
92		** include additional rows if needed*		
93		All other projects or programmes - quality of supply		
94		**Quality of supply expenditure**		22
95	*less*	Capital contributions funding quality of supply		
96		**Quality of supply less capital contributions**		22
97				
98		**6a(vii): Legislative and Regulatory**		
99		*Project or programme**	**($000)**	**($000)**
100		Nil		
101				
102				
103				
104				
105		** include additional rows if needed*		
106		All other projects or programmes - legislative and regulatory		
107		**Legislative and regulatory expenditure**		-
108	*less*	Capital contributions funding legislative and regulatory		
109		**Legislative and regulatory less capital contributions**		-
110				
111		**6a(viii): Other Reliability, Safety and Environment**		
112		*Project or programme**	**($000)**	**($000)**
113		Distribution-Zevac Gas Recompression Equipment	90	
114		Distribution Inline Camera	50	
115		Purchase and installation of SELMA 2 unit	153	
116				
117				
118		** include additional rows if needed*		
119		All other projects or programmes - other reliability, safety and environment		
120		**Other reliability, safety and environment expenditure**		293
121	*less*	Capital contributions funding other reliability, safety and environment		
122		**Other reliability, safety and environment less capital contributions**		293
123		**6a(ix): Non-Network Assets**		
124		**Routine expenditure**		
125		*Project or programme**	**($000)**	**($000)**
126		ICT	68	
127		Plant & Equipment	1	
128		Building Refurbishment	28	
129		Vehicles	-	
130		Right-of-use Assets	6	
131		** include additional rows if needed*		
132		All other projects or programmes - routine expenditure		
133		**Routine expenditure**		103
134		**Atypical expenditure**		
135		*Project or programme**	**($000)**	**($000)**
136		Nil		
137				
138				
139				
140				
141		** include additional rows if needed*		
142		All other projects or programmes - atypical expenditure		
143		**Atypical expenditure**		-
144				
145		**Expenditure on non-network assets**		103

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**

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			
7	**6b(i): Operational Expenditure**	**($000)**	**($000)**
8	Service interruptions, incidents and emergencies	3,504	
9	Routine and corrective maintenance and inspection	1,300	
10	Asset replacement and renewal	-	
11	**Network opex**		4,804
12	System operations and network support	2,316	
13	Business support	3,067	
14	**Non-network opex**		5,383
15			
16	**Operational expenditure**		10,187
17	**6b(ii): Subcomponents of Operational Expenditure (where known)**		
18	Research and development		
19	Insurance		507

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**

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				
8	**7(i): Revenue**	**Target ($000) [1]**	**Actual ($000)**	**% variance**
9	Line charge revenue	24,790	25,714	4%
10	**7(ii): Expenditure on Assets**	**Forecast ($000) [2]**	**Actual ($000)**	**% variance**
11	Consumer connection	13,143	4,845	(63%)
12	System growth	4,792	2,715	(43%)
13	Asset replacement and renewal	4,998	4,483	(10%)
14	Asset relocations	867	745	(14%)
15	Reliability, safety and environment:			
16	Quality of supply	51	22	(57%)
17	Legislative and regulatory	-	-	-
18	Other reliability, safety and environment	51	293	475%
19	**Total reliability, safety and environment**	102	315	209%
	Expenditure on network assets	23,902	13,103	(45%)
21	Expenditure on non-network assets	641	103	(84%)
22	**Expenditure on assets**	24,543	13,206	(46%)
23	**7(iii): Operational Expenditure**			
24	Service interruptions, incidents and emergencies	3,152	3,504	11%
25	Routine and corrective maintenance and inspection	1,067	1,300	22%
26	Asset replacement and renewal	-	-	-
27	**Network opex**	4,219	4,804	14%
28	System operations and network support	2,926	2,316	(21%)
29	Business support	3,007	3,067	2%
30	**Non-network opex**	5,933	5,383	(9%)
31	**Operational expenditure**	10,152	10,187	0%
32	**7(iv): Subcomponents of Expenditure on Assets (where known)**			
33	Research and development	-	-	-
34	**7(v): Subcomponents of Operational Expenditure (where known)**			
35	Research and development	-	-	-
36	Insurance	-	507	-

37 *1 From the nominal dollar target revenue for the pricing year disclosed under clause 2.4.3(3) of this determination*

38 *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 (Distribution)
For Year Ended	30 September 2022
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 **8(i): Billed quantities by price component**

9 **Billed quantities by price component**

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

sch ref	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)					
10					Price component	Fixed	Variable			
11					Unit charging basis (eg, days, GJ, etc.)	Days	kWh			
12										
13	GN0R	Residential	Standard	62,688	1,206	22,844,860	334,950,157			
14	GN0V	Residential	Standard	-	-	-	-			
15	GN01	Business/Commercial	Standard	2,044	160	744,592	44,457,353			
16	GN02	Commercial	Standard	1,530	457	557,696	126,821,316			
17	GN03	Commercial	Standard	521	935	189,976	259,721,613			
18	GN04	Commercial/Industrial	Standard	72	797	26,151	221,520,359			
19	GN05	Large Industrial	Standard	9	875	3,316	243,043,522			
20	NG60	Large Industrial	Non-standard	19	5,001	6,174	1,389,294,397			
21										
22										
23										
24										
25	*Add extra rows for additional consumer groups or price category codes as necessary*									
26			**Standard consumer totals**	66,864	4,430	24,366,591	1,230,514,320	-	-	-
27			**Non-standard consumer totals**	19	5,001	6,174	1,389,294,397	-	-	-
28			**Total for all consumers**	66,883	9,431	24,372,765	2,619,808,717	-	-	-
29										

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**
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					
				Price component	Fixed	Variable				*Add extra columns for additional line charge revenues by price component as necessary*
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)**	**Rate (eg, $ per day, $ per GJ, etc.)**	Days	kWh			
GN0R	Residential	Standard	$15,868			$8,569	$7,299			
GN0V	Residential	Standard	-			-	-			
GN01	Business/Commercial	Standard	$877			$514	$363			
GN02	Commercial	Standard	$1,671			$664	$1,007			
GN03	Commercial	Standard	$2,890			$994	$1,896			
GN04	Commercial/Industrial	Standard	$1,927			$396	$1,531			
GN05	Large Industrial	Standard	$1,237			$831	$406			
NG60	Large Industrial	Non-standard	$1,246			$966	$279			
			-							
			-							
			-							
			-							
Add extra rows for additional consumer groups or price category codes as necessary										
		Standard consumer totals	$24,468	-		$11,968	$12,501	-	-	-
		Non-standard consumer totals	$1,246	-		$966	$279	-	-	-
		Total for all consumers	$25,714	-		$12,934	$12,780	-	-	-

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**
Network / Sub-network Name	

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

8	**Operating Pressure**	**Asset Category**	**Asset Class**	**Units**	**Items at start of year (quantity)**	**Items at end of year (quantity)**	**Net change**	**Data accuracy (1–4)**
9	Intermediate Pressure	Main pipe	IP PE main pipe	km	-	-	-	N/A
10	Intermediate Pressure	Main pipe	IP steel main pipe	km	195	195	(0)	3
11	Intermediate Pressure	Main pipe	IP other main pipe	km	-	-	-	N/A
12	Intermediate Pressure	Service pipe	IP PE service pipe	km	-	-	-	N/A
13	Intermediate Pressure	Service pipe	IP steel service pipe	km	1	1	-	3
14	Intermediate Pressure	Service pipe	IP other service pipe	km	-	-	-	N/A
15	Intermediate Pressure	Stations	Intermediate pressure DRS	No.	100	99	(1)	3
16	Intermediate Pressure	Line valve	IP line valves	No.	237	223	(14)	3
17	Intermediate Pressure	Special crossings	IP crossings	No.	17	17	-	2
18	Medium Pressure	Main pipe	MP PE main pipe	km	3,140	3,192	52	3
19	Medium Pressure	Main pipe	MP steel main pipe	km	129	127	(2)	3
20	Medium Pressure	Main pipe	MP other main pipe	km	-	-	-	N/A
21	Medium Pressure	Service pipe	MP PE service pipe	km	1,368	1,382	14	3
22	Medium Pressure	Service pipe	MP steel service pipe	km	11	12	1	3
23	Medium Pressure	Service pipe	MP other service pipe	km	-	-	-	3
24	Medium Pressure	Stations	Medium pressure DRS	No.	26	26	-	3
25	Medium Pressure	Line valve	MP line valves	No.	1,465	1,529	64	3
26	Medium Pressure	Special crossings	MP special crossings	No.	75	75	-	2
27	Low Pressure	Main pipe	LP PE main pipe	km	41	40	(1)	3
28	Low Pressure	Main pipe	LP steel main pipe	km	-	-	-	N/A
29	Low Pressure	Main pipe	LP other main pipe	km	-	-	-	N/A
30	Low Pressure	Service pipe	LP PE service pipe	km	30	29	(1)	3
31	Low Pressure	Service pipe	LP steel service pipe	km	0	0	-	N/A
32	Low Pressure	Service pipe	LP other service pipe	km	-	-	-	N/A
33	Low Pressure	Line valve	LP line valves	No.	14	15	1	3
34	Low Pressure	Special crossings	LP special crossings	No.	-	-	-	N/A
35	All	Monitoring and control systems	Remote terminal units	No.	-	-	-	N/A
36	All	Cathodic protection systems	Cathodic protection	No.	43	43	-	2

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**
Network / Sub-network Name	

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 2022

Number of assets at disclosure year end by installation date

sch ref	Operating Pressure	Asset Category	Asset Class	Units	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	2020	2021	2022	No. with age unknown	Items at end of year (quantity)	No. with default dates	Data accuracy (1–4)
9																																						
10	Intermediate Pressure	Main pipe	IP PE main pipe	km																															-	-		N/A
11	Intermediate Pressure	Main pipe	IP steel main pipe	km	1	17	1	111	49	8	0	-	0	0	0	0	1	-	0	0	0	0	0	1	0	1	0	0	1	1	2	0	0	0	-	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	0	0	0	-	-	-	-	-	-	-	-	-	-	0	0	-	-	-	-	-	0	0	-	-	0	-	-	1		3
15	Intermediate Pressure	Service pipe	IP other service pipe	km																															-	-		N/A
16	Intermediate Pressure	Stations	Intermediate pressure	No.	-	1	-	21	31	7	1	-	3	1	-	4	1	-	-	1	1	3	1	-	1	4	3	2	5	4	1	3	-	-	-	99		3
17	Intermediate Pressure	Line valve	IP line valves	No.	2	4	4	41	43	14	5	1	2	-	1	5	7	-	5	5	-	4	4	11	4	9	6	6	14	11	10	3	1	1	-	223		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	0	20	135	187	720	521	430	62	56	46	69	90	83	59	61	59	26	16	14	16	32	43	34	42	73	67	71	56	47	59	-	3,192		3
20	Medium Pressure	Main pipe	MP steel main pipe	km	7	73	29	15	2	0	0	0	0	0	-	0	0	-	0	-	-	0	0	0	0	0	0	0	0	0	0	0	0	0	-	127		3
21	Medium Pressure	Main pipe	MP other main pipe	km																															-	-		N/A
22	Medium Pressure	Service pipe	MP PE service pipe	km	0	20	80	57	166	217	238	46	43	37	43	40	35	37	34	29	15	17	16	13	18	20	16	15	18	20	22	23	24	25	-	1,382		3
23	Medium Pressure	Service pipe	MP steel service pipe	km	0	9	1	0	0	0	0	-	-	-	0	0	-	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-	12		3
24	Medium Pressure	Service pipe	MP other service pipe	km																															-	-		3
25	Medium Pressure	Stations	Medium pressure DRS	No.	-	3	1	2	1	1	2	-	-	-	-	-	1	-	-	-	1	2	-	2	6	2	-	-	-	-	1	1	-	-	-	26		3
26	Medium Pressure	Line valve	MP line valves	No.	13	83	49	157	107	38	32	5	7	6	8	16	17	4	8	12	12	10	14	25	16	33	39	38	47	77	96	174	188	198	-	1,529		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	-	3	18	2	3	3	2	0	0	0	0	0	0	0	0	0	0	0	0	2	4	0	0	0	0	0	0	1	0	0	-	40		3
29	Low Pressure	Main pipe	LP steel main pipe	km																															-	-		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	6	3	3	3	3	0	0	0	0	0	0	0	1	0	0	0	0	2	1	0	0	0	0	0	0	0	0	0	-	29		3
32	Low Pressure	Service pipe	LP steel service pipe	km	0	0	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.	2	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	5	3	-	-	-	-	-	-	3	-	1	-	15		3
35	Low Pressure	Special crossings	LP special crossings	No.																															-	-		N/A
36	All	Monitoring and control systen	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		2

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**
Network / Sub-network Name	

SCHEDULE 9c: REPORT ON PIPELINE DATA

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

sch ref

sch ref		Length (km)	%
8	**Network Information (end of year)**		
9	**System length by material (defined by GDB)**	**Length (km)**	**%**
10	Steel	336	6.75%
11	PE	4,643	93.25%
12	Other	-	-
13			-
14			-
15			-
16	**System length**	4,980	100.00%
17			

sch ref		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)
18	**By operating pressure:**				
19	Intermediate pressure	197	91	40	5,452
20	Medium pressure	4,712	27	65,874	3,954
21	Low pressure	70	31	1,333	25
22	**Total**	4,980	29	67,247	9,431

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**
Network / Sub-network Name	

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

10 **Number of ICPs connected in year by consumer type**

11

sch ref	*Consumer types defined by GDB*	**Number of connections (ICPs)**
13	Residential	1,692
14	Commercial	63
15	Industrial	-
16		
17		
18	**Total**	1,755

19 ## 9d(ii): Gas Delivered

20

sch ref			
21	Number of ICPs at year end	67,247	connections
22	Maximum daily load	34,891	(GJ per day)
23	Maximum monthly load	891,157	(GJ per month)
24	Number of directly billed ICPs	-	(at year end)
25	Total gas conveyed	9,478,800	(GJ per annum)
26	Average daily delivery	25,969	(GJ per day)
27			
28	**Load factor**	88.64%	

Company Name	**First Gas (Distribution)**
For Year Ended	**30 September 2022**
Network / Sub-network Name	

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

8 10a(i): Interruptions

sch ref	Interruptions by class	Actual
10	Class A (planned interruptions by GTB)	-
11	Class B (planned interruptions on the network)	149
12	Class C (unplanned interruptions on the network)	91
13	Class D (unplanned interruptions by GTB)	-
14	Class I (unplanned interruptions caused by third party damage)	100
15	**Total**	340

sch ref	Number of unplanned outage events (interruptions that affect more than 5 ICPs)	Actual
17	North Island regions	1
18		
19		
20		
21		

sch ref	Number of unplanned outage events caused by third party damage (interruptions that affect more than 5 ICPs)	Actual
23	North Island regions	1
24		
25		
26		
27		

28 10a(ii): Reliability

sch ref	Overall reliability	SAIDI	SAIFI	CAIDI
30	Based on the total number of interruptions	3,583.99	9.001	398.19
31	Class I (unplanned interruptions caused by third party damage)	3,226.98	5.039	640.45

sch ref	Class B (planned interruptions on the network)	SAIDI	SAIFI	CAIDI
33	North Island regions	200.75	2.273	88.34
34				-
35				-
36				-
37				-

sch ref	Class C (unplanned interruptions on the network)	SAIDI	SAIFI	CAIDI
39	North Island regions	156.26	1.690	92.49
40				-
41				-
42				-
43				-

	Company Name	**First Gas (Distribution)**
	For Year Ended	**30 September 2022**
	Network / Sub-network Name	

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

8 ### 10b(i): System Condition and Integrity

sch ref	Number of confirmed public reported gas escapes per system length (escapes/1000 km)	Actual
10	North Island regions	27.9
11		
12		
13		
14		

sch ref	Number of leaks detected by routine survey per system length (leaks/1000 km)	Actual
16	North Island regions	5.8
17		
18		
19		
20		

sch ref	Number of third party damage events per system length (events/1000 km)	Actual
22	North Island regions	34.7
23		
24		
25		
26		

sch ref	Number of poor pressure events due to network causes	Actual
28	North Island regions	18
29		
30		
31		
32		

sch ref	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.	
35	North Island regions	66.74%
36		
37		
38		
39		

sch ref	Product control—safety of distribution gas	Actual
41	Number of non-compliant odour tests	-

42 ### 10b(ii): Consumer Service

sch ref	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
44	North Island regions	89.86%	100.00%	0.56	69
45					
46					
47					
48					

sch ref	Number of complaints	Actual
50	Number of complaints per average total consumer numbers	0

Company Name	First Gas Limited (Distribution)
For Year Ended	30 September 2022

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.

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 gas distribution business of 10.7% was higher than the 2021 result of 8.72%. This increase in ROI is primarily due to the significant increase in CPI in FY2022. The CPI for FY2022 was 7.23% in comparison to 4.93% in FY2021.

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

Other regulated income includes:

- Fees charged for disconnection / reconnection services and gas faults. Fees charged for these services offset the costs of providing these services included in Firstgas' Opex.
- Contributions towards hydrogen trials from other GDBs participating in the trial.

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) 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. Re-categorised items There were $75,000 of assets included in the Service Pipe category in 2021 that should have been included in the Line valve, Medium pressure main pipelines and Non-network asset categories. These assets have been re-categorised in 2022 as shown in Schedule 4a. Error in disclosure in 2021 The 2021 roll-forward of works under construction disclosed capital expenditure of $12.7 million in unallocated works under construction. This should have been $2.8 million and the closing balance of the works under construction should have been $12.3 million (instead of $22.2 million). The opening balance used for 2022 is the correct balance of $12.3 million. The difference of $9.9 million has been added to the Transmission balance (see the GTB Notes).

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

There has been no reclassification of costs in the FY2022 disclosure period.

Approach to cost allocation

Firstgas (distribution) is part of the Firstgas Group of companies. Business support functions are provided to other companies within the Group as well as to our regulated gas transmission business. Any shared costs are charged to the relevant related party on an arm's-length basis, as reported in schedule 5b. Further information on our related party transactions is included in the voluntary notes (Schedule 15) at the end of this disclosure.

Remaining shared costs within Firstgas are allocated applying the accounting-based allocation approach (ABAA). 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.

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 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 for each regulated business
- 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 RAB
- Directors' fees which have a proxy cost allocator of RAB
- Insurance costs which have a proxy cost allocator of RAB.
- Business review costs which have a proxy cost allocator of revenue.

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

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.

Focus for capital expenditure

Over the past year, we have continued our focus on maintaining a safe and resilient gas distribution network for our customers, whilst continuing to grow our network where economic to meet the needs of our customers. This focus has been reflected in the work programme that was undertaken during the year.

Major works undertaken in FY2022 included:

- Integrity upgrades to pipelines: We have continued our programme of replacing the pre-1985 polyethylene (PE) pipelines across our network where necessary. As a result of a risk assessment of our PE pipelines undertaken in FY2019, our primary focus is on pre-1975 PE pipelines that require replacement. In FY2022 Firstgas has completed eleven projects, replacing approximately 8 kilometres of pre-1975 PE pipeline on our network, addressing the risk of pipe failure and potential gas leaks.

- Upgrades to district regulating stations (DRS) and metering equipment: We have upgraded and replaced equipment that was no longer meeting our performance standards in Whakatane. Upgrades to DRS and metering equipment mean that we can ensure adequate supply of pressure across our networks.

- System growth: Firstgas continues to develop and enhance our network to meet the present and future needs of customers, where it is economic. This year we have completed over 30 mains extension and subdivision projects across the greater Waikato region, as well as in Taupo, Tauranga, and the Kapiti Coast.

- Customer connections: This year we have continued to see connections to our network, with 1,755 new gas connections added in FY2022.

Further detail on our expenditure during this period, and our future work programme is available in our 2022 Asset Management Plan (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 been no asset replacement and renewal operational expenditure this year.

Firstgas has not incurred any atypical expenditure in FY2022.

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
Expenditure on assets (Capex)

Total capital expenditure is approximately $11.3 million (46%) below the expenditure forecast for FY2022 in our 2021 Asset Management Plan (AMP).

The decrease in network Capex from that forecast is largely due to:

- Asset replacement and renewal: Expenditure in this category is approximately $0.5 million below that forecast for the period. Several projects saw delays and time extensions in FY2022 due to the world-wide logistics and supply chain issues. Most projects were completed 1-2 months later than planned, affecting the FY22 expenditure.

- Customer connections: Expenditure in this category is driven by customer demand. The large underspend to forecast relates to two industrial connections which did not eventuate. Another factor was lower than expected number of standard connections completed during the year.

- Asset relocation: Expenditure in this category is driven by third party requests to relocate assets, typically from Councils, the New Zealand Transport Association (NZTA) and customers. We forecast costs in this category based on expected requests, but actual expenditure is heavily dependent on third party schedules and often the timing of the projects is moved. In FY2022, a change in timing of works resulted in expenditure of $0.1 million below forecast.

- System Growth: Expenditure in this category is $2 million below budget. Improved modelling of Network demands allowed several growth projects to be deferred by several years with little capital expenditure required. In addition several new subdivision growth opportunities were deferred by the developers or were not considered economic investments.

- Non-Network Assets: The forecast for Non-Network Assets included costs for SaaS which has now been recategorised to Opex.

Operational expenditure

Total operating expenditure is closely aligned with the FY2022 forecast published in our 2021 AMP, with actual Opex $0.035 million above forecast.

Further detail on our expenditure for this period, and future work programme is available in our 2022 AMP Update published on the Firstgas website here:
https://firstgas.co.nz/aboutus/regulatory/distribution/

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 $25.7 million is $0.9 million above the target revenue forecast for the period ($24.8 million). This variance against the target is due to higher than expected consumer consumption 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 is adjusted for a forecast volume growth of approximately 1% per year. This forecast was based on historic growth in volumes and consumer connections.

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 FY2022 disclosure year.

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 340 interruptions were experienced on the network in FY2022. The decrease from the 383 interruptions experienced in 2021 is mainly due to a decrease in planned interruptions.

In FY2022, Firstgas has continued with its planned programme of works to replace sections for the pre-1985 PE pipeline. However, the ongoing effects of lockdowns due to COVID-19 and our continuous review of the plans for these works has seen a deferral of some pre-1985 replacement works into next year. This has subsequently resulted in a decrease in planned interruptions in FY2022.

The number of unplanned interruptions on the network not caused by third parties (Class C) is consistent with last year. The number of unplanned interruptions caused by third parties (Class I) has increased slightly from previous years and remains comparable to the other network companies. Firstgas has limited control over the number of interruptions caused by third parties. Our focus is to ensure our response is efficient and effective. We also continue to engage with developers and contractors and actively promote the “before u dig” service.

The increase in our SAIDI this year was the result of a single third-party event in Kawerau in November 2021. A gas main was damaged due to a contractor drilling. Firstgas arrived at the site within 30 minutes of receiving the call. The gas main was isolated for 947 minutes and 216 customers lost gas supply during that time.

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.

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 gas 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 2022

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
Firstgas works closely with other companies in the Firstgas Group. As required under the information disclosure determination, the following pages outline Firstgas' interactions and relationships with our related parties for the 2022 disclosure year.

Firstgas

REGULATORY DISCLOSURE

Gas distribution services:

Appendix A - Information disclosure for related parties

For the year ended 30 September 2022

First Gas Limited

February 2023

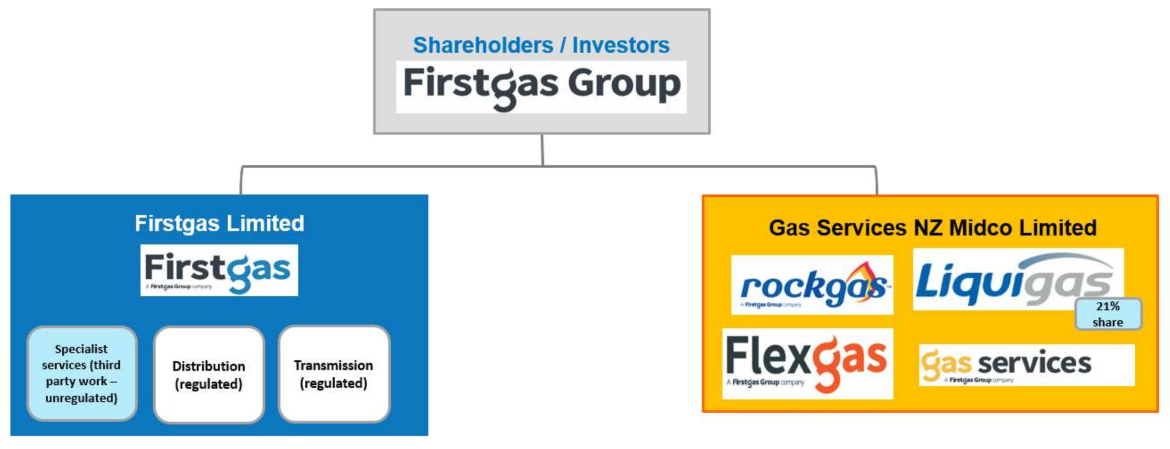
Introduction

First Gas Limited (Firstgas) owns and operates more than 4,900 kilometres of gas distribution pipelines that service approximately 66,000 consumers across the regions of Northland, Waikato, Central Plateau, Bay of Plenty, Gisborne and Kāpiti Coast. Firstgas also owns and operates 2,500 kilometres of gas transmission pipelines. These pipelines transport around 20 percent of New Zealand's primary energy supply from Taranaki across the North Island.

Firstgas is part of the wider Firstgas Group. Headquartered in New Plymouth, Firstgas Group is an umbrella brand consisting of Rockgas, Firstgas, Flexgas and Gas Services NZ. Firstgas and Rockgas deliver natural gas and supply LPG respectively to over 500,000 customers through their network of high-pressure gas transmission pipelines and distribution pipelines in the North Island, as well as through LPG distribution pipelines in the South Island, 36 local LPG suppliers, and over 180 Refill & Save locations across New Zealand.

Flexgas operates the Ahuroa gas storage facility in Central Taranaki. Gas Services NZ provides operational and maintenance support to all gas infrastructure owners, including other parts of Firstgas Group.

Figure 1: Structure of the Firstgas Group for disclosure year 2022[1]



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 that 65% of its operating expenditure (Opex) and capital expenditure (Capex) from a related party.

[1] The structure of the Firstgas Group and companies has been truncated to facilitate understanding of the related party relationship.

Given this use of related parties, 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.

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 22 February 2023, 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:

Regulatory Policy Manager
First Gas Limited
compliance@firstgas.co.nz
04 979 5368

Table of contents

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.*

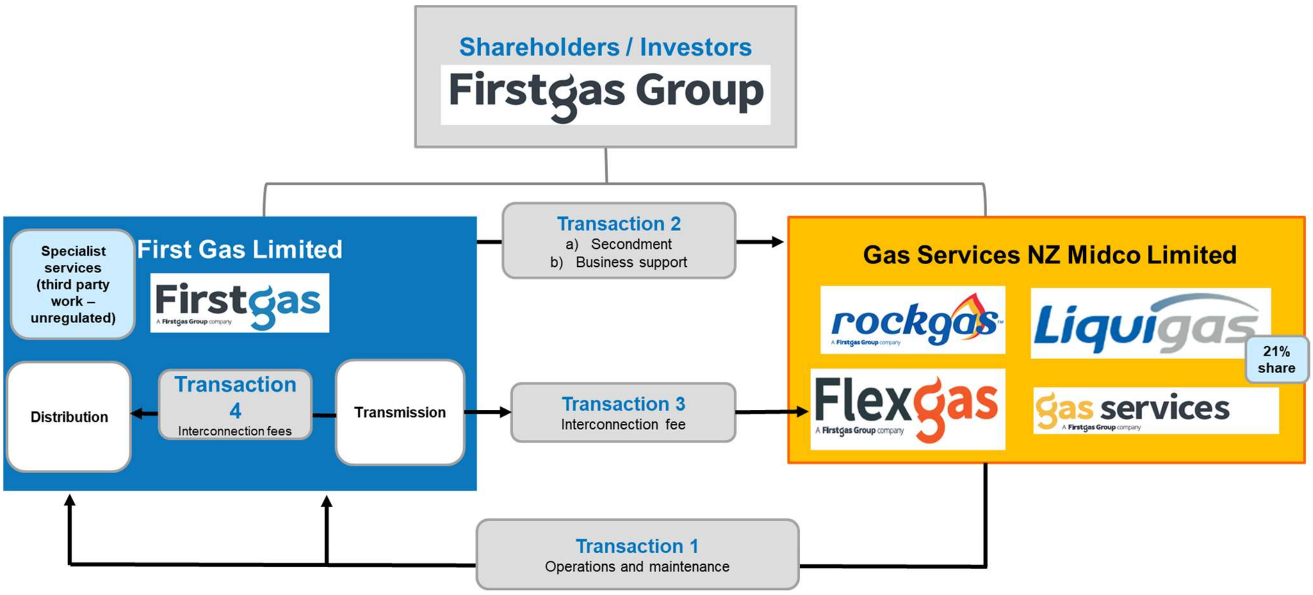
In FY2022 Firstgas (distribution) procured:

- Operations and maintenance (O&M) services from its related party, Gas Services New Zealand (Midco) Limited (GSNZ)
- Interconnection services from Firstgas (transmission).[2]

Firstgas provides unregulated services to GSNZ Midco. In the 2022 disclosure period, Firstgas provided seconded staff and business support services to GSNZ Midco under a Corporate Functions and Secondment Services Agreement (CFSA). The supply of these unregulated services was valued on an arm's length basis.

These transactions are illustrated in Figure 2.

Figure 2: Related party transactions in disclosure year 2022



The following table describes the connection between Firstgas (distribution) and its related parties with which it has had transactions with during the 2022 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 2022

Related Party	Nature of relationship	Principle activities of the related party	FY2022 expenditure/revenue between Firstgas (distribution) and its related party
GSNZ Midco (Transaction 1)	Firstgas (distribution) and GSNZ Midco have the same ultimate shareholders	GSNZ Midco supplies operations and maintenance (O&M) services to Firstgas (distribution). Services are provided principally to Firstgas under an O&M agreement between Firstgas and GSNZ Midco. Costs are directly attributable to Firstgas (distribution).	Network Capex $13.08 million Non-network Capex $0.001 million Network Opex $4.8 million System operations and network support Opex $2.1 million
GSNZ Midco (Transaction 2)	First Gas Limited and GSNZ Midco have the same ultimate shareholders	Firstgas supplies corporate function services to Rockgas and Flexgas and corporate function services and seconds staff to Gas Services under a Corporate Functions and Secondment Services Agreement (the CFSA).	Unregulated income of $2.1 million is included in Schedule 5b for the provision of these services. This unregulated income is included in *total regulatory income* in schedule 5b. This unregulated income is not included in Schedule 2 or Schedule 3.[3]
Firstgas (transmission) (Transaction 3)	Firstgas (transmission) and Firstgas (distribution) are regulated businesses both owned by Firstgas	Firstgas (transmission) provides transmission services across the North Island, including interconnection services to Firstgas (distribution) and other gas distribution businesses.	System operations and network support Opex of $0.234 million for interconnection fees to connect Firstgas (distribution) assets to the gas 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. GSNZ Midco also owns Flexgas which operates the gas storage facility at Ahuroa, and Rockgas a supplier of LPG.

In the 2022 disclosure year, GSNZ provided 100% of the Firstgas (distribution) total Capex[4] and 70% of all Opex under an Operations and Maintenance agreement (O&M agreement).

[3] 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.

[4] GSNZ provides 99% of expenditure on all assets commissioned. The provision of customer contributions by third parties means that total Capex incurred by our regulated business reduces, and the proportion of Capex provided by GSNZ increases to over 100%.

Services provided under the O&M agreement include:

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

Operations and Maintenance (O&M) Agreement

Firstgas procures almost all of it network Capex, most of its network Opex, and almost all of its system operations and network support (SONS) expenditure from GSNZ Midco. These services are provided by Gas Services in accordance with the terms and conditions of the O&M agreement between Firstgas and GSNZ Midco.

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 other organisations. The goal was to ensure a continuing development of best practice, efficiency improvements and cost control. A Joint Venture (JV) structure was adopted between GSNZ[5] 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 an arm's 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 third-party 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 by Firstgas 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 4,900 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 Group[7].

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 first. 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 Midco.

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 that meet the policy thresholds, will be supported, at a minimum, with quotations from several suppliers.[8] High value works that meet policy thresholds 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 Midco 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 the relatively specialised field of gas distribution operations and maintenance, 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. 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 a set time (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.

<u>Monitoring and compliance</u>

The Firstgas Group procurement team is responsible for monitoring compliance with the procurement policy for Firstgas and reporting any breaches of the policy to the Executive. The procurement team will undertake reviews of Firstgas' procurement activity especially around the compliance with the 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.

In FY2020, Firstgas engaged an independent firm to review the key controls and processes in relation to related party transactions within the Group Procurement Policy. There were no significant findings from the review and management communicated the results to the Audit, Regulatory and Risk Committee at its November meeting.

[8] If the purchase is less than $10,000 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 2022 disclosure period, Firstgas (distribution) has procured goods and services from:

- GSNZ Midco 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 Midco 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 Midco. 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 Midco 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[9] 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.

At the end of each year, Firstgas conducts an annual review of the process.

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 Midco 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 Midco 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 Midco 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 it was between 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 Midco to deliver the O&M is to ensure value for money and continuous improvement in delivery and value.

[9] An independent appraiser was engaged to confirm the valuation of related party transactions met the Information Disclosure Determination requirements for our FY2019 disclosures. The independent appraiser report is included in our information disclosure for FY2019, available on the Firstgas website: https://firstgas.co.nz/wp-content/uploads/First-Gas-Distribution-Information-Disclosure-2019-STAMPED.pdf. Firstgas was not required to obtain a further independent appraiser report for our FY2021 disclosures.

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.

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 there has been no material change in the scope of contracting services procured from GSNZ Midco in FY2022. To confirm there has been no material change in the five-year average margin on costs applied under the O&M agreement we had an independent expert confirm the margin on costs under the O&M agreement remain aligned with comparative third-party service providers in October 2022[10]. To support the conclusion that our related party transactions are no more than would be incurred under an arm's-length basis we updated our benchmarking of costs against other industry participants at that time, where more information has been available.

Under the O&M agreement, we anticipate that the prices charged by GSNZ will not change significantly from year to year (unless there is strong evidence that input costs have permanently changed). This is consistent with a competitive market where companies with long-term contracts in place (such as the O&M agreement and CFSA) tend to set prices for longer terms. This gives service providers greater certainty to invest in staff and equipment required to fulfil the contract terms over the duration of the contract. When the margins earned by GSNZ Midco under the O&M agreement were reviewed for FY2022, Firstgas engaged independent experts to:

- Confirm the margin charged by GSNZ under the O&M agreement was within the range of providers of similar services; and
- Cross-check that GSNZ costs remain efficient and consistent with the input prices Firstgas would have paid in an arm's length transaction by completing benchmarking against others in the industry.

Whilst we do not anticipate GSNZ would need to significantly change prices within the contract period, we recognise that the onus remains on Firstgas to ensure that costs from related party transactions remain consistent with input prices that we would have paid in an arm's length transaction. The Commission has noted that there is some risk that long-term contracts can become out of date with current market practices and prices and Firstgas has actively considered this risk through our benchmarking process this year.

For FY2022, our O&M agreement remains aligned with current market practices and prices. This was tested in September 2022 when we engaged an independent expert to:

- Consider changes in market practices or pricing for similar services and how this may affect arm's length margins
- Conduct a sample of relevant margin data to ensure no substantive and permanent change has occurred in the market since margins were established under the O&M Agreement for FY2022.

[10] As noted above, prices for the work procured under the O&M Agreement is agreed on or before the beginning of the financial year. Our financial year begins on 1 October.

Whilst there was some evidence of lower margins due to COVID-19 for some of the sample group, there had not been a substantive or permanent change evidenced in the market. Overall, the margins within the O&M agreement remained aligned with the market.

Firstgas continued to cross-check that our costs remain efficient and consistent with the input prices Firstgas would have paid in an arm's length transaction by completing benchmarking against others in the industry. Benchmarking completed by an independent expert for FY2022 was updated in September 2022 where further information was available. This benchmarking confirmed expected FY2022 costs for Firstgas (distribution) are within the range of costs incurred by others in the industry.

Execution of works including monitoring and reporting

Once the O&M budget has been agreed, GSNZ Midco undertake responsibility to complete the works to the service level required. Significant large-scale projects are managed by the GSNZ Midco projects team. Projects of this nature often require additional resources and expertise. GSNZ Midco will source services and materials as required and in line with the Firstgas procurement policy.

The COO of GSNZ Midco reports 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 Midco and Firstgas. Any additional remedial works GSNZ Midco 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. As discussed above, benchmarking undertaken in 2019 and reviewed for the FY2022 disclosures 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 Midco. GSNZ Midco 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 has an interconnection agreement with Firstgas distribution business[11]. Under that agreement, Firstgas transmission 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 new Delivery Point at Waiuku commissioned in FY2020.

The interconnection fees applied for Firstgas (distribution) were calculated using the same model that is applied for any other interconnected distribution business. All interconnections to the transmission network are governed by the terms of Firstgas' GTB Interconnection Policy. The current draft of this Policy is available on the OATIS website.[12] The interconnection policy specifically states that:

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

[11] In FY2021 (3 March 2021), Firstgas Transmission and Distribution signed an Amending Agreement under their ICA to provide for a new delivery point at Tauriko, to be commissioned in FY2022. There were no interconnection fees charged in relation to the Tauriko delivery point in FY2021.

[12] 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;*

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 Midco) 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 has had two related party transactions involving procurement in FY2022:

- Procurement of O&M services from GSNZ Midco
- Procurement of interconnection services from Firstgas (transmission)

Firstgas sources a range of services from GSNZ Midco, particularly from gas services, to manage the network operations and complete the work plan. GSNZ Midco applies the Firstgas Group procurement policy for all expenditure under the O&M agreement. This is summarised in the table 2 followed by a separate representative example of the procurement process.

Firstgas (distribution) purchases interconnection services from Firstgas (transmission). The purchase of these services has been completed under the Firstgas Group procurement policy. Our approach to testing the arm's length terms for this transaction is included separately in Table 2.

All agreements, methodologies and models, and reports from external parties have been provided to our auditors to facilitate their review of our related party transactions in FY2022 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
All network Capex categories All network Opex categories Non-network assets	Network Opex and Capex and system operations and network support across the network. We provide examples below of procurement undertaken by GSNZ Midco on our behalf under the O&M agreement	Direct procurement from a 'sole supplier' under the existing O&M agreement.	The arm's length terms were tested as part of a benchmarking process that was undertaken during the 2022 disclosure year. In FY2022 Firstgas engaged an independent expert to benchmark: • The margins applied to the costs of O&M services provided by GSNZ Midco to Firstgas • Total service costs against comparable businesses. The margin benchmarking compared services supplied by GSNZ Midco to companies providing similar services across the United Kingdom, United States, Australia, and New Zealand. Total costs were compared to similar companies in Australia. Margin benchmarking was reviewed in September 2022 to confirm there had not been any substantive and permanent change in the market when agreeing prices in advance of the contract year. With no discernible permanent change indicated, the same margins were applied in FY2022 as applied in FY2021. Benchmarking against comparable businesses indicated that Firstgas costs are aligned with our peers and the wider market. This demonstrates that the cost of the underlying service is consistent with the input price that Firstgas would have paid in an arm's length transaction. Terms of the O&M agreement were provided to the independent appraiser in FY2022 and our auditors as part of their review of the related party valuation requirements in FY2022. There has been no change to the O&M agreement across years. Benchmarking was undertaken with the permission of GSNZ Midco. Benchmarking is allowed for under the O&M agreement. Terms of the O&M agreement, advice from the independent expert and benchmarking results were provided to our auditors as part of their review of the related party valuation requirements.

Expenditure category	Representative example	Procurement method	How and when were the arm's length terms last tested
System operations and network support	Interconnection agreements recognising increased or new investment by the transmission business at a delivery point driven by the needs of a distribution customer	Direct procurement from a 'sole supplier' under an interconnection agreement. Firstgas (transmission) is the sole supplier of gas transmission services in New Zealand	Interconnection agreements are standard agreements available to all parties connecting to the Transmission network. Third parties purchase the same or substantially similar services from Firstgas (transmission) on substantially the same terms, including price. Whilst there are no set prices for interconnection fees, there is a consistent methodology for establishing the fees under an interconnection agreement. The fees for each connection point reflect: • The specific details on each site seeking to be connected to the gas transmission network • The interconnection fees policy in place at the time 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. Firstgas (distribution) tested the value for both interconnection agreements against the Firstgas (transmission) Interconnection policy to ensure the terms and conditions were reflective of that policy when agreeing the terms and fees of the interconnection.

5.3 Examples of procurement undertaken by GSNZ Midco on our behalf

Firstgas procures a range of services from GSNZ Midco. 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 Midco and with monthly reporting against the budget and works plan provided to the Firstgas executive team.

A service agreement (SA) is in place with Electrix. While Firstgas may still elect to tender works, generally Electrix will be the preferred supplier and most network Opex and Capex is completed under the SA.

GSNZ Midco acting on behalf of Firstgas and Electrix work closely together to provide the services required by Firstgas. GSNZ Midco does not have the extensive personnel required to cover the distribution network effectively. Electrix can provide field service staff across our network for maintenance and Capex works and respond to incidents and emergencies quickly. Electrix 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 teams liaise with GSNZ Midco's distribution manager and project management team. The distribution manager monitors Electrix performance against key performance indicators outlined in the SA. Any project management is overseen by the GSNZ Midco project management team. Any technical queries are answered by GSNZ Midco's engineering specialists, or consultants approved by GSNZ Midco.

The SA with Electrix was renewed in FY2022.

Major projects

All projects are managed ultimately by GSNZ Midco. 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. The project delivery manager will work closely with the Electrix project manager throughout the process.

GSNZ Midco 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.[13] Electrix will provide information on expected costs.

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 Midco. 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 Midco 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.

[13] Firstgas has a Delegations of Authority policy that outlines approval levels.

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 Midco under its O&M contract with Firstgas, including the application of our procurement policy:

- Pre-1985 mains replacement at Garnett Avenue
- Pre-1985 mains replacement at McKay Drive

Example 1: Pre-1985 polyethylene pipe replacement at Garnett Avenue

Firstgas has an ongoing programme of work to replace the pre-1985 polyethylene (PE) pipe on our network. PE pipe manufactured before 1985 was made with a polymer structure that over time is susceptible to cracking and significant deformation. We have less than 500 kilometres of this pre-1985 pipe, mostly in the Waikato.

In FY2018, Firstgas developed a Pre-1985 PE Pipeline replacement strategy (the replacement strategy) to replace the pre-1985 PE pipeline over the next fifteen years. The replacement strategy determines which parts of the pipeline to replace first based on a risk assessment that considers the age of the pipe, reported gas escapes or leaks found through our regular surveys of the network. Our Asset Management Plans (AMPs) outline our replacement strategy including the monitoring programme and risk assessment process.[14]

Research indicates that much of the polyethylene (PE) pipe manufactured and used for gas service from the 1970s through to the early 1980s may be susceptible to premature brittle-like failures when subjected to stress intensification.

In FY2020, the pipeline along Garnett Avenue was selected for replacement.

The following example is provided to illustrate the procurement process followed by GSNZ Midco on our behalf when completing this project and outline how the Service Agreement with Electrix works within that process.

Project name:	Garnett Avenue Hamilton pre-1985 replacement
Project date	The business case was approved in Dec 2021 and physical works were targeted for completion by Jul 2022. Delays due to an easement requirement, due for completion Jan 2023
Project or work order number:	P11253
Project expenditure (estimated)	$0.57 million
Project cost type	Asset replacement and renewal Capex
Project managed by:	GSNZ Midco provided oversight of the project under the O&M agreement.
Subcontractors:	Electrix managed the delivery of the project, supplying materials and the experience personnel required. Works were completed under the terms and rates specified in the service agreement between Firstgas and Electrix.

Planning:

Leading into FY2020, GSNZ Midco identified approximately 1000 metres of pre-1985 pipeline at Garnett Avenue in Hamilton as part of the remediation works for the year to be completed under the replacement strategy. The AMP for FY2020 had included $2.8 million in the asset replacement and renewal Capex forecast for the ongoing replacement of pre-1985 PE pipeline.

[14] Further information on our PE pipe and our replacement strategy is available in successive AMPs and AMP updates on our website. See https://firstgas.co.nz/about-us/regulatory/distribution/. Our most recent full AMP was completed in 2020. Discussion around our pre-1985 PE pipe and replacement plans can be found in Appendix E. See https://firstgas.co.nz/wp-content/uploads/Firstgas-Distribution-Appendices-FINAL-1.pdf

The AMP is approved by Firstgas' Chief Executive Officer and the Firstgas Board of Directors. Once approved, work plans are finalised for the upcoming year. With expenditure for the pre-1985 replacement work approved, specific sites of focus for the year were selected following the replacement strategy.

A business case was submitted for the works at Garnett Avenue in December 2021 and approved by the Chief Operating Officer of GSNZ Midco. The business case was based on a quoted cost supplied by Electrix for the scope of work.

The business case was developed and approved by GSNZ Midco management and Chief Operating Officer. Once the AMP is approved, and the budget for the remedial works is set then GSNZ Midco can approve expenditure based on the strategy up to their delegated authority. The initial business case for $0.510 million was approved in December 2021.

Completion of works:

Works began in February 2022 to replace approximately 1000 metres of new PE pipe and relay 98 service connections by directional drilling and open trench. Electrix reported regularly through to the GSNZ Midco project manager acting on Firstgas' behalf, and the replacement pipeline was in place by the end of July 2022.

Figure 1: Pre-1985 pipeline replacement project, with new PE pipe being installed

During the execution phase of the project, it was determined with Hamilton City Council that an easement is required for their large customer on the street. As a result, the works were halted, incurring additional costs for making the site safe and remobilisation/excavation of tie-in holes. The subsequent variation in scope of works was agreed in August 2022 by GSNZ Midco's distribution manager.

The change in scope of works required further project planning. The extended planning and competing demands for Electrix resources meant site works to replace the main pipe and valves was deferred to October 2022.

Once the project began, project costs were paid and tracked within the financial system after being approved by the Distribution manager. Project costs and progress were monitored by GSNZ Midco's project team and reported to the Chief Operating Officer (COO) for GSNZ Midco monthly. The COO reports progress against projects to the Firstgas Executive team monthly.

Market testing:

Electrix was selected as the supplier to complete the scope of works for the replacement of assets. Electrix is the incumbent supplier of O&M services for Firstgas.[15] While the Service Agreement with Electrix allows Firstgas to tender out work, we considered there would be no benefit to going out to tender for this project. Electrix was the preferred supplier for the Hamilton project work due to:

- **Their experience:** Electrix have extensive experience on our network and with our systems
- **Their base in the Waikato**: Electrix has a base in the Waikato region. There was no alternative Firstgas approved contractor in the Waikato region at the time. Approved contractors from other regions were available at a higher cost as they needed to mobilise personal to work in the Waikato. Mobilisation costs would cause a significant increase in cost for the project
- **Their commitment to a long-term contract**: While other contractors had provided similar services previously for Firstgas and were approved to work on our network, they were unable to commit to a long-term contract with Firstgas. The replacement programme of work is expected to continue for many years, and we needed a contractor that could commit to working with us for the long-term.

Electrix provided a quote for the scope of works based on the terms in the Service Agreement. The quote was reviewed for reasonableness and included in the business case costs.

Outcomes:

The replacement of the pre-1985 PE pipe is scheduled to be completed January 2023 within budget.

[15] Electrix are the incumbent service provider under a long-term contract in place through to 30 September 2022.

Example 2: Pre-1985 polyethylene pipe replacement at McKay Drive

Firstgas has an ongoing programme of work to replace the pre-1985 polyethylene (PE) pipe on our network. PE pipe manufactured before 1985 was made with a polymer structure that over time is susceptible to cracking and significant deformation. We have less than 500 kilometres of this pre-1985 pipe, mostly in the Waikato.

Project name:	McKay Drive Hamilton pre-1985 replacement
Project date	Expenditure was approved in April 2022 and physical works were targeted for completion by September 2022. Target date moved to December due to poor weather conditions
Project or work order number:	P10989
Project expenditure (estimated)	$0.553 million
Project cost type	Asset replacement and renewal capex
Project managed by:	GSNZ Midco provided oversight of the project under the O&M agreement.
Subcontractors:	Electrix managed the delivery of the project, supplying materials and the experience personnel required. Works were completed under the terms and rates specified in the service agreement between Firstgas and Electrix.

Planning:

Leading into FY2020, GSNZ Midco identified approximately 950 metres of pre-1985 pipeline at McKay Drive in Hamilton as part of the remediation works for the year to be completed under the replacement strategy. The AMP for FY2020 had included $2.8 million in the asset replacement and renewal Capex forecast for the ongoing replacement of pre-1985 PE pipeline.

The AMP is approved by Firstgas' Chief Executive Officer and the Firstgas Board of Directors. Once approved, work plans are finalised for the upcoming year. With expenditure for the pre-1985 replacement work approved, specific sites of focus for the year were selected following the replacement strategy.

A business case was submitted for the works at Garnett Avenue in March 2022 and approved by the Chief Executive Officer. The business case was based on a quoted cost supplied by Electrix for the scope of work.

The business case was developed and approved by GSNZ Midco management and Chief Operating Officer. Once the AMP is approved, and the budget for the remedial works is set then GSNZ Midco can approve expenditure based on the strategy up to their delegated authority. The initial business case for $0.510 million was approved in April 2022.

Completion of works:

With the capital expenditure authorised, Electrix was engaged to complete the project under the Service Agreement (SA) in place between Firstgas and Electrix. Electrix confirmed resources would be available in April 2022 with expected completion date of the new pipeline scheduled for September 2022.

Electrix was responsible for the day-to-day project management of the site works. The project remained under the oversight of GSNZ Midco, and any technical queries were answered by its engineers. Once the project began, project costs were paid and tracked within the financial system after being approved by the GSNZ 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 monthly.

The project was delayed with a target date moved to December 2022 due to poor weather conditions. Due to the location of the underground services, plant and equipment was required to be on the road reserve instead of on the berm, as a result of this traffic management costs were higher than expected, however this did not impact the overall budgeted project cost.

Market testing:

Electrix was selected as the supplier to complete the scope of works for the replacement of assets. Electrix is the incumbent supplier of O&M services for Firstgas. While the Service Agreement with Electrix allows Firstgas to tender out work, we considered there would be no benefit to going out to tender for this project.

Outcomes:

Although the project was delayed and the scope of works slightly changed, the project was completed under 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 2.3.15*[16]*, 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.[17]

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

[16] 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.

[17] https://firstgas.co.nz/about-us/regulatory/distribution/

related party, Gas Services New Zealand Midco Limited (GSNZ) under the Operations and Management (O&M) agreement between Firstgas and GSNZ.

Currently no network constraints have been identified that will result in Opex between FY2023 and 2032.

Figure 3: Largest Opex projects in the AMP planning period

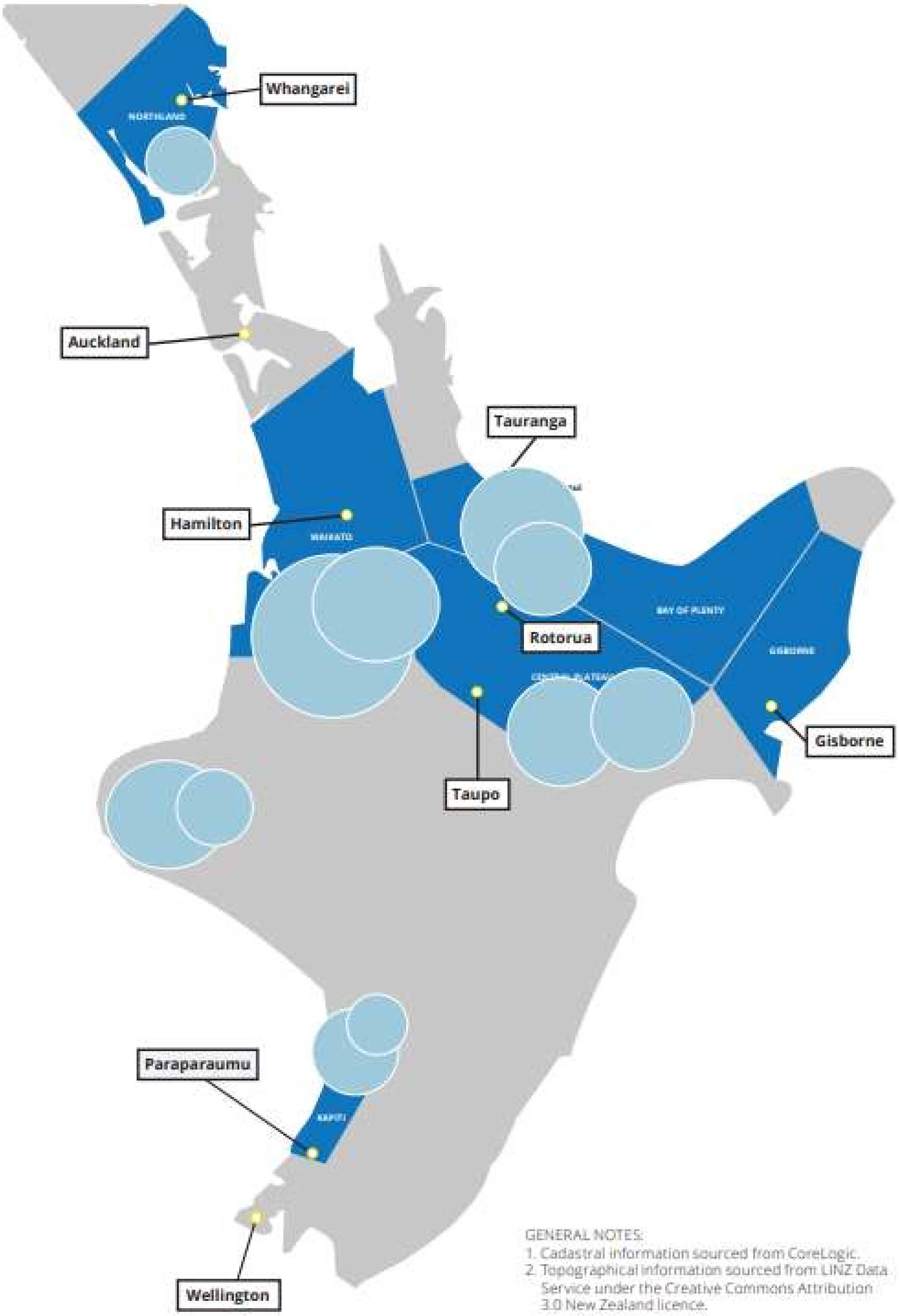


Table 3: Description of Opex in the AMP planning period (2023-2032) by region

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 ($12 million) Bay of Plenty ($2 million) Central Plateau ($2 million) Kapiti ($2 million) Northland ($2 million) Gisborne ($2 million)	$23 million	FY2023-FY2032
Routine and corrective maintenance and inspection	Ongoing costs directly associated with operating and maintaining the Gas Distribution System.	Waikato ($12 million) Bay of Plenty ($2 million) Central Plateau ($2 million) Kapiti ($2 million) Northland ($2 million) Gisborne ($2 million)	$23 million	FY2023-FY2032
System operations and network support	Ongoing costs to support the management and operation of the network.	New Plymouth	$31 million	FY2023-FY2032
Business support	Ongoing costs to support the Distribution Operations.	New Plymouth	$30 million	FY2023-FY2032

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 (FY2023 to FY2032) 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. GSNZ manages a number of third-party contractors to deliver this network Capex. Figure 4 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

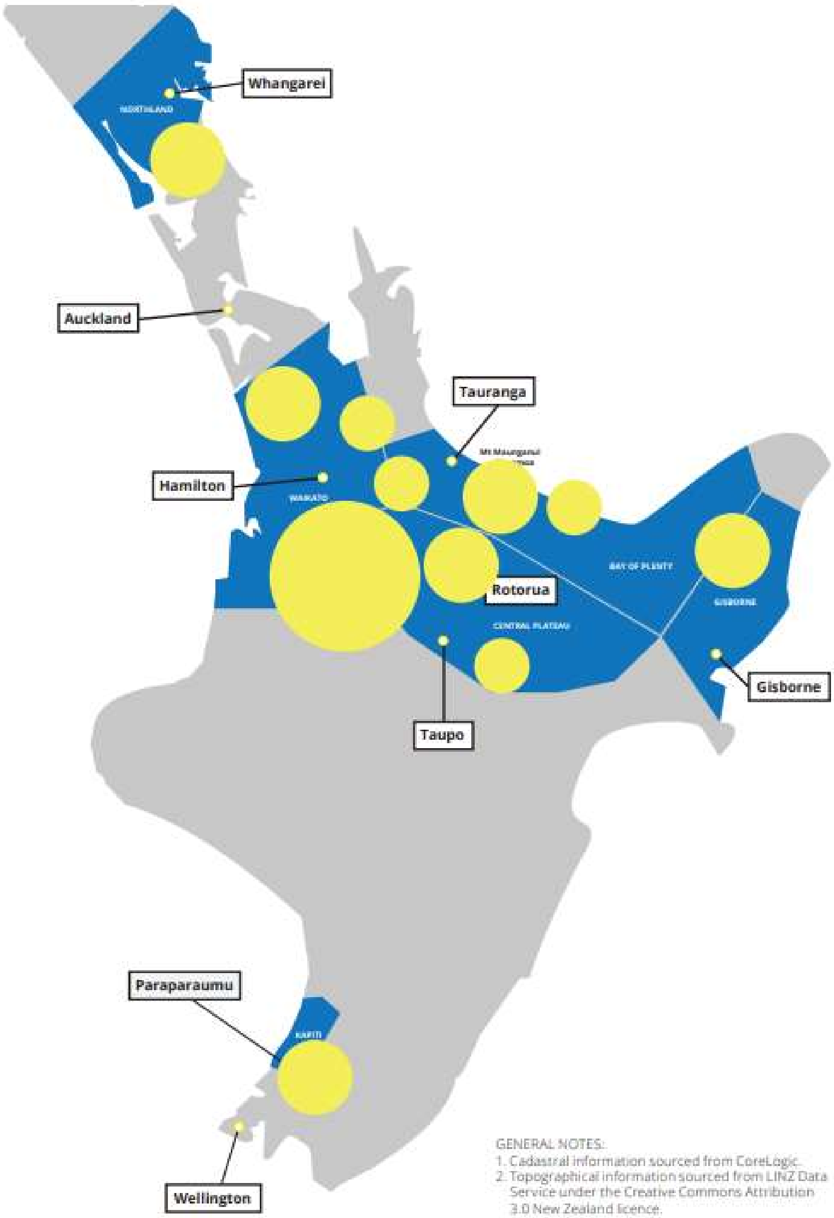


Table 4: Description of the largest Capex projects in the AMP planning period (2023-2032)

Project	Description	Region	Cost (constant $)	Period
Pre-85 replacement programme	As discussed in section 7 of our FY2022 AMP Update, replacement of pre-1985 PE pipe will occur throughout the planning period.	Waikato, Hamilton ($13 million) Bay of Plenty ($2 million) Kapiti ($2 million) Central Plateau ($2 million)	$19 million	FY2023-FY2032
Mains and subdivision urban growth	To address anticipated urban growth development plan.	Waikato, Taupo, Tauranga, Kapiti	$31 million	FY2023-FY2032
Consumer connections	To meet the short-term growth and customer connections in the regions in the near term.	Waikato, Taupo, Tauranga, Kapiti	$44 million	FY2023-FY2032

Independent Appraiser's Report

To the Directors of First Gas Limited and the Commerce Commission

Independent Appraiser Report on Related Party Transactions Pursuant to Gas Distribution Information Disclosure Determination 2012

Opinion

We have undertaken a reasonable assurance engagement in respect of the compliance of First Gas Limited (the 'Company') with the related party requirements, as set out in the Gas Distribution Information Disclosure Determination 2012 amended as of 3 April 2018 (the 'Information Disclosure Determination') for the disclosure year ended 30 September 2022 where we are required to report on:

- whether the Company's basis for valuation of related party transactions ('valuation of related party transactions'), has complied, in all material respects, with clause 2.3.6 of the Information Disclosure Determination, and clauses 2.2.11(1)(g) and 2.2.11(5) of the Gas Distribution Services Input Methodologies Determination 2012 ('the Input Methodologies Determination'); and
- whether the steps taken by the Company, as specified under the *"Summary of steps and analysis undertaken by the Company to test compliance"* are considered to be, in all material respects, reasonable in the circumstances.

In our opinion:

- the basis for valuation of related party transactions for the disclosure year ended 30 September 2022 complies, in all material respects, with the Information Disclosure Determination and the Input Methodologies Determination; and
- the steps undertaken by the Company, as specified under the 'Summary of steps and analysis undertaken *by the Company to demonstrate compliance*' are considered to be, in all material respects, reasonable in the circumstances.

Basis for Opinion

We have conducted our engagement in accordance with Standard on Assurance Engagements (SAE) 3100 (Revised) *Compliance Engagements* ("SAE 3100 (Revised)"), issued by the New Zealand Auditing and Assurance Standards Board. An engagement conducted in accordance with SAE (NZ) 3100 (Revised) requires that we comply with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.

We believe the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our approach

Materiality

Our assurance engagement is designed to obtain reasonable assurance about the Company's qualitative and quantitative compliance, in all material respects, with the Information Disclosure Determination and the Input Methodologies Determination.

Quantitative materiality level was determined as 2% of total related party transactions. Qualitative factors were also considered when assessing the arm's length valuation rules on related party transactions.

The scope of our assurance engagement was influenced by our application of materiality.

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 the related party information as a whole.

Key assumptions we made in carrying out our procedures
In carrying out our procedures as the independent appraiser for the disclosure year ended 30 September 2022, we have relied on the Company's internal control environment relating to the identification of related party transactions and the valuation of related party transactions, that we understood during our audit of the First Gas Group financial statements for the year ended 30 September 2022.

How we sampled the Company's related party transactions
We obtained the Company's assessment of their compliance with the relevant related party valuation requirements in the Information Disclosure Determination and Input Methodologies Determination.

We selected related party transaction flows 1 (Operations and Maintenance) and 2 (Secondment and business support income) on the basis of materiality and assessed the supporting information provided by the Company to demonstrate the independent and objective measure used for those transactions and services, to determine whether it has been valued in accordance with the related party valuation requirements in the Information Disclosure Determination and the Input Methodologies Determination.

Steps and analysis undertaken in testing compliance

Step 1) Identifying related party relationships and transactions

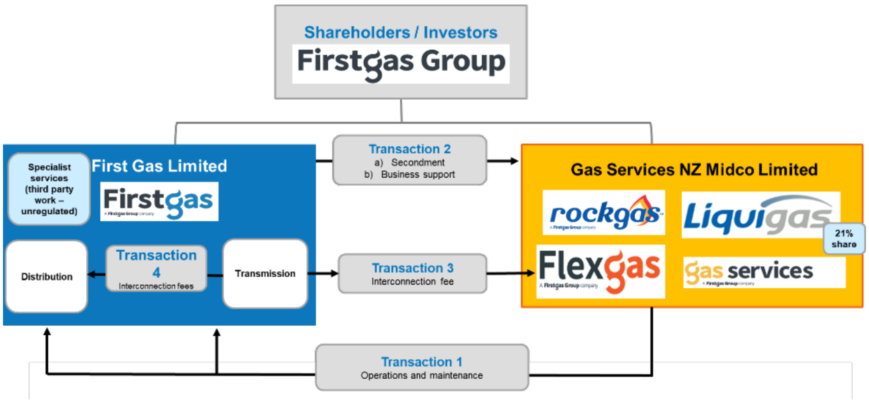
Summary of steps undertaken by the Company to demonstrate compliance

The Company identified all related party relationships and transaction flows in accordance with the Information Disclosure Determination and disclosed these in Gas distribution services: Appendix A Information disclosure for related parties as prepared and published under the Information Disclosure Determination.

In disclosure year 2022, Firstgas (distribution):

- Procured operations and maintenance (O&M) services from its related party, Gas Services New Zealand (Midco) Limited (GSNZ Midco) under an Operations & Maintenance Agreement – Transaction 1 $20.0m.
- Provided unregulated services, including seconded staff and business support services to GSNZ Midco under a Corporate Functions and Secondment Services Agreement (CFSA) – Transaction 2 $2.1m.
- Procured interconnection services from Firstgas (transmission) – Transaction 4 $0.2m.

A summary of the related party relationships and transaction flows is shown below:



Our procedures undertaken

We have tested the completeness and accuracy of the related party relationships and transactions by:

- Agreeing the disclosures within Schedule 5(b) to the audited accounting records for the year ended 30 September 2022, investigating any differences and determining whether any such differences are justified.
- Applying our understanding of the business structure against the related party definition in Input Methodologies Determination clause 1.1.4(2) to assess management's identification of any "unregulated parts" of the entity.

Step 2) Outlining the relationship with GSNZ Midco and the intent behind the key related party contracts

Summary of steps undertaken by the Company to demonstrate compliance

GSNZ Midco and Firstgas are part of the wider Firstgas Group and have the same ultimate shareholders. GSNZ Midco owns Gas Services, a contracting company providing operations and maintenance services. All such services are provided under an Operations & Maintenance Agreement (O&M Agreement).

Under the terms of the agreement, GSNZ Midco 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. In the 2022 disclosure year, GSNZ Midco provided 100% of the Firstgas (distribution) total Capex and 70% of all Operating Expenditure (Opex) under the terms of the agreement.

Part of the policy intent of the new related party rules is to address concerns that related parties may be inefficient which may cause the Company to overcharge consumers. Firstgas notes that the intent of the O&M Agreement was to allow Firstgas to access a broader range of experience and capability for operating their gas pipeline businesses and was originally negotiated on an arm's length basis with an independent party.

In addition, First Gas provides business support services to support the operations of GSNZ Midco (and its subsidiaries Flexgas and Rockgas) and seconds staff to GSNZ Midco to undertake O&M services. These services are provided under a Corporate Functions and Secondment Services Agreement (the CFSA). The provision of the corporate function and secondment services is to assist GSNZ Midco with the provision of the O&M services outlined above. The shared service model allows the group to benefit from economies of scale and obtain benefits from increased staff utilisation and experience across the group.

Our procedures undertaken

The background information provided by Firstgas is in line with our understanding of the intent behind the group structure and agreements entered between Firstgas and GSNZ Midco.

- We obtained the O&M Agreement and the CSFA and noted that the agreements were both signed dated 17 December 2019. The agreements were effective for the entire disclosure period and terms are consistent with the understanding obtained from management.
- We have reviewed board and committee meeting minutes noting appropriate review, discussion and approval of budgets, business plans and asset management plans.
- We note from our procedures performed that GSNZ carried out an agreed Capital and Maintenance works programme resulting in 100% of total expenditure on assets and 70% of the total operating expenditure being with GSNZ.

Step 3) Assessing compliance with the definition of an arm's length transaction (in accordance with ISA (NZ) 550)

From 1 April 2018, a principles-based approach to the valuation of related party transactions is being applied. All related party transactions must meet the arm's length valuation rule for ID disclosures, based on the following definition of arm's length transaction from the International Standard for Auditing (NZ) 550: *"a transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and are acting independently of each other and pursuing their own best interests".*

Summary of steps undertaken by the Company to demonstrate compliance

To demonstrate compliance with the definition of arm's length, including the 'willing buyer and willing seller' criteria, the company engaged an independent third party to perform benchmarking of the margins applied to the costs of O&M services provided by GSNZ Midco to Firstgas, the margins applied to the services performed by Firstgas under the CFSA and the total service costs incurred by the Company.

The purpose of the benchmarking was to test that the margins applied to related party transactions during disclosure year 2022 were consistent with margins observed in comparable arm's length transactions in competitive markets. Due to the limited competition and available information in NZ, the margin benchmarking compared services supplied by GSNZ Midco to companies providing similar services across the United Kingdom, United States, Australia, and New Zealand. Total costs were compared to similar companies in Australia. Benchmarking against comparable businesses demonstrates that the costs of Firstgas' underlying services are comparable with arm's length transactions.

Firstgas considers that the related party structure is a benefit to customers, as it allows the Company to provide reliable and specialised services at a cost that is no more than would be incurred from a third party. Additionally, by providing corporate functions to the unregulated companies within the wider Firstgas Group at an arm's length rate, the shared services model allows corporate activity to be streamlined, reducing the Group's overall costs to serve and encourages efficiency. The Company notes that lower costs to serve are in the longer-term interests of consumers.

Our procedures undertaken

We have considered the following in our assessment over the arm's length definition:

- We have considered the business and group structure and reviewed the key terms and conditions within the O&M agreement and the CFSA with GSNZ Midco. No non-standard terms were identified in the arrangements.
- We obtained the margin and benchmarking reports prepared by management's experts. Based on the evidence provided, the margin's applied are considered consistent with comparable entities indicating that the parties are acting consistent with the principle of willing buyer and willing seller who are unrelated and acting in their own best interests.

Step 4) Obtaining independent and objective measures to support the arm's length principle

Summary of steps undertaken by the Company to demonstrate compliance

As outlined in step 3 above, the company utilised an independent third party to perform benchmarking and comparable pricing to ensure that the value of goods or services acquired from a related party are not greater than if it had been acquired under the terms of an arm's length transaction with an unrelated party, and the supply to a related party are not valued at an amount less than if it had been sold or supplied under the terms of an arm's-length transaction with an unrelated party.

A summary of benchmarking and comparable pricing exercise undertaken for each related party transaction flow is summarised below:

<table>
<tr><th>RPT Category</th><th>Description</th><th>Arm's-length valuation approach</th><th>Test for Independent and objective measures</th></tr>
<tr><td>Transaction 1</td><td>Firstgas acquires operations and maintenance services from GSNZ Midco.</td><td rowspan="2">Comparable pricing by applying a margin to the cost of goods sold (i.e., a cost-plus approach) results in prices charged that are substantially the same as the prices paid for similar services by peers.</td><td rowspan="2">For FY2022, Firstgas have:
• Used an independent consultant to advise of the range of applicable margins
• Applied EBIT mean margins within the range of applicable margins
• Used margin benchmarking to confirm that costs are comparable with peers.</td></tr>
<tr><td>Transaction 2</td><td>Firstgas supplies corporate function services and secondment of staff to GSNZ Midco. Rockgas and Flexgas, as subsidiaries of GSNZ Midco, also receive corporate function services from Firstgas.</td></tr>
<tr><td>Transaction 4</td><td>Firstgas Distribution purchases interconnection services from Firstgas Transmission</td><td>Comparable pricing using the rates paid via standard connections agreement for interconnection to Firstgas gas transmission pipeline to demonstrate that terms and conditions and pricing approach are consistent across consumers.</td><td>Confirmed that the value at which the services are provided to Firstgas Distribution i.e., the interconnection rates, are on the same basis as that used for all other unrelated interconnected parties entering such agreements in the same period.</td></tr>
</table>

Our procedures undertaken

Our procedures were tailored based on the identified related party transaction flows, including consideration of the materiality of each transaction flow, and aligned to the method management had applied to evidence that the related party transactions are at an arms' length value. We have addressed our procedures below:

- Obtained and understood the O&M agreement and the CFSA with GSNZ Midco.
- Tested compliance with the procurement policy/process as disclosed in Appendix A to the Information Disclosure Schedules.
- Obtained the margin and benchmarking reports prepared by management's experts.
- Confirmed that the management's expert qualification and experience is adequate to perform the benchmarking.
- Confirmed that the management expert is independent from Firstgas.
- Considered the appropriateness of the comparable entities used within the benchmarking.
- Verified on a sample basis, that the margins applied to each distinct services provided and/or received are in line with the independent expert margins obtained.
- Recalculated the margins determined by the independent expert based on external data.
- Benchmarked costs against comparable businesses to confirm that total costs are consistent with an arm's length transaction.

Director's Responsibilities

The Directors are responsible on behalf of the Company for:

- the identification of related-parties and related-party transactions during the disclosure year ended 30 September 2022;
- compliance with the Information Disclosure Determination and the valuation of related party transactions in accordance with the Information Disclosure Determination and the Input Methodologies Determination; and
- the identification of risks that threaten such compliance and controls which will mitigate those risks and monitor ongoing compliance.

Our Independence and Quality Management

We have complied with the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* or other professional requirements, or requirements in law or regulation, that are at least as demanding, which include independence and other requirements founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires our firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of the Company. Our firm carries out other services for the Company in the areas of Gas Distribution Services: Default price-quality path compliance statement and Disclosure Information, Gas Transmission Services: Compliance with the wash-up amount calculation and quality standards compliance statement and Disclosure Information, including as independent appraiser of related party transactions. Additionally, we have performed agreed upon procedures on distribution pricing and corporate models, and modelling services for the Future Gas Working Group, of which First Gas is a member. The provision of these other services has not impaired our independence.

Assurance Practitioner's responsibilities
Our responsibility is to prepare an independent appraiser report in accordance with clause 2.8.4 of the Information Disclosure Determination. In preparing the report we are required to express an opinion on whether, for the disclosure year ended 30 September 2022, the basis for valuation of related party transactions complies, in all material respects, with the with clause 2.3.6 of the Information Disclosure Determination, and clauses 2.2.11(1)(g) and 2.2.11(5) of the Input Methodologies Determination, and whether the steps taken by the Company to test whether it complies, are considered to be, in all material respects, reasonable in the circumstances. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain reasonable assurance about whether the Company has complied, in all material respects, with the Information Disclosure Determination and the Input Methodologies Determination.

An assurance engagement to report on the Company's compliance with clause 2.3.6 of the Information Disclosure Determination, and clauses 2.2.11(1)(g) and 2.2.11(5) of the Input Methodologies Determination involves performing procedures to obtain evidence about the compliance activity and controls implemented. The procedures selected depend on our judgement, including the identification and assessment of risks of material non-compliance.

Inherent Limitations
Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error or non-compliance may occur and not be detected. A reasonable assurance engagement throughout the specified period does not provide assurance on whether compliance with clause 2.3.6 of the Information Disclosure Determination, and clauses 2.2.11(1)(g) and 2.2.11(5) of the Input Methodologies Determination will continue in the future.

Use of Report
This report has been prepared for the Directors and the Commerce Commission in accordance with clause 2.8.4 of the Information Disclosure Determination and is provided solely to assist you in establishing that compliance requirements have been met

Our report should not be used for any other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for any reliance on this report to anyone other than the Directors of the Company, as a body, and the Commerce Commission or for any purpose other than that for which it was prepared.

PricewaterhouseCoopers.

Chartered Accountants
23 February 2023

Christchurch, New Zealand

Independent Assurance Report

To the Directors of First Gas Limited and the Commerce Commission

Assurance report pursuant to Gas Distribution Information Disclosure Determination 2012

Opinion

We have undertaken a reasonable assurance engagement in respect of the compliance of First Gas Limited (the “Company”) with the Gas Distribution Information Disclosure Determination 2012 amended as of 3 April 2018 (the “Information Disclosure Determination”) for the disclosure year ended 30 September 2022 where we are required to opine on:

- whether the Company has complied, in all material respects, with the Information Disclosure Determination, in preparing the information disclosed under schedules 1 to 4, 5a to 5g, 6a and 6b, 7, 10a(ii), the related party transactions information disclosed in Appendix A, and the explanatory notes disclosed in boxes 1 to 11 in Schedule 14 (‘the Disclosure Information’); and
- whether the Company’s basis for valuation of related party transactions (‘valuation of related party transactions’), has complied, in all material respects, with clause 2.3.6 of the Information Disclosure Determination and clauses 2.2.11(1)(g) and 2.2.11(5) of the Gas Distribution Services Input Methodologies Determination 2012 (‘the Input Methodologies Determination’).

In our opinion, in all material respects:

- as far as appears from an examination of them, proper records to enable the complete and accurate compilation of the Disclosure Information have been kept by the Company;
- as far as appears from an examination, the information used in the preparation of the Disclosure Information has been properly extracted from the Company’s accounting and other records and has been sourced, where appropriate, from the Company’s financial and non-financial systems;
- the Disclosure Information complies with the Information Disclosure Determination; and
- the basis for valuation of related party transactions complies with the Information Disclosure Determination and the Input Methodologies Determination.

Basis for Opinion

We have conducted our engagement in accordance with Standard on Assurance Engagements (SAE) 3100 (Revised) *Compliance Engagements* (“SAE 3100 (Revised)”), issued by the New Zealand Auditing and Assurance Standards Board. An engagement conducted in accordance with SAE (NZ) 3100 (Revised) requires that we comply with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.

We believe the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our Assurance Approach
Overview

Our assurance engagement is designed to obtain reasonable assurance about the Company's compliance, in all material respects, with the Information Disclosure Determination and Input Methodologies Determination.

Quantitative materiality levels are determined for testing purposes within individual schedules included in the Disclosure Information based on the nature of the information set out in the schedules. These thresholds are determined based on our assessment of errors that could have a material impact on key measures within the Disclosure Information:

- Financial information – any impact resulting in +/-1% of the Return of Investment ('ROI').
- Performance based schedules – 5% of the individual measure.
- Related party transactions – 2% of total related party transactions.

When assessing overall material compliance with the Information Disclosure Determination, qualitative factors are considered such as the combined impact on ROI and other key measures as well as assessing the arm's length valuation rules on related party transactions, which may impact on users' assessment on whether the purpose of Part 4 of the Commerce Act 1986 has been met.

We have determined that there are three key assurance matters:

- Regulatory Asset Base
- Cost and Asset Allocation
- Related Party Transactions

Materiality
The scope of our assurance engagement was influenced by our application of materiality.

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 the Disclosure Information as a whole.

Scope
Our procedures included analytical procedures, evaluating the appropriateness of assumptions used and whether they have been consistently applied, agreement of the Disclosure Information to, or reconciling with, source systems and underlying records, an assessment of the significant judgements made by the Company in the preparation of the Disclosure Information and valuing the related party transactions, and evaluation of the overall adequacy of the presentation of supporting information and explanations. These procedures have been undertaken to form an opinion as to whether the Company has complied, in all material respects, with the Information Disclosure Determination in the preparation of the Disclosure Information for the disclosure year ended 30 September 2022, and whether the basis for valuation of related party transactions complies, in all material respects, with the Information Disclosure Determination and the Input Methodologies Determination.

Key Assurance Matters

Key assurance matters are those matters that, in our professional judgement, were of most significance in carrying out the assurance engagement during the current disclosure year. These matters were addressed in the context of our assurance engagement as a whole, and in forming our opinion. We do not provide a separate opinion on these matters.

<table>
<tr><th>Key assurance matter</th><th>How our procedures addressed the key assurance matter</th></tr>
<tr><td>

Regulatory Asset Base
The Regulatory Asset Base (RAB), as set out in Schedule 4, reflects the value of the Company's gas distribution assets. These are valued using an indexed historic cost methodology prescribed by the Information Disclosure Determination. It is a measure which is used widely and is key to measuring the Company's return on investment and therefore important when monitoring financial performance.

The RAB inputs, as set out in the Input Methodologies Determination, are similar to those used in the measurement of fixed assets in the financial statements, however, there are a number of different requirements and complexities which require careful consideration.

Due to the importance of the RAB within the regulatory regime, the incentives to overstate the RAB value, and complexities within the regulations, we have considered it to be a key assurance matter.</td><td>We obtained an understanding of the compliance requirements relevant to the RAB as set out in the Information Disclosure Determination and the Input Methodologies Determination.

We have performed the following procedures:

Assets commissioned
• We reconciled the assets commissioned as per the regulatory fixed asset register to the asset additions disclosed in the financial statements and investigated any material reconciling items.
• We considered the nature of the assets commissioned during the period, as per the regulatory fixed asset register, to identify any specific cost or asset type exclusions, as set out in the Information Disclosure Determination, which are required to be removed from the RAB.
• We tested a sample of assets commissioned during the disclosure period for appropriate asset category classification.

Depreciation
• We compared the standard asset lives by asset category to those set out in the Input Methodologies Determination.
• For assets with no standard asset lives we assessed the reasonableness of the lives used by reference to the accounting depreciation rates used in preparing the financial statements.
• We performed a reasonableness test to ensure regulatory depreciation expense is calculated in line with Input Methodologies Determination clause 2.2.5.

Revaluation
• We recalculated the revaluation rate set out in the Input Methodologies Determination</td></tr>
</table>

Key assurance matter	How our procedures addressed the key assurance matter
	using the relevant Consumer Price Index indices taken from the Statistics New Zealand website. ● We tested the mathematical accuracy of the revaluation calculation performed by management.
Cost and Asset Allocation The Information Disclosure Determination relates to information concerning the supply of gas distribution services. The Company operates both transmission and distribution businesses and also provides other unregulated services. As set out in schedules 5d, 5e, 5f and 5g, costs and asset values that relate to gas distribution services regulated under the Information Disclosure Determination should comprise: ● all of the costs directly attributable to the regulated goods or services; and ● an allocated portion of the costs that are not directly attributable. The Input Methodologies Determination set out rules and processes for allocating costs and assets which are not directly attributable to either regulated or unregulated services. A number of screening tests apply which must be considered when deciding on the appropriate allocation method. The Company has applied the Accounting-Based Allocation Approach Methodology (ABAA) utilising causal and proxy cost and causal asset allocators to allocate the operating costs and asset values that are not directly attributable. Given the judgement involved in the application of the cost and asset allocation methodologies we consider it a key assurance matter.	We obtained an understanding of the Company's cost and asset allocation processes and the methodologies applied. Our procedures over cost and asset allocation included: ● Reconciling the regulated and unregulated financial information to the Company's audited financial information. **Classification as directly/not directly attributable** ● Considering the appropriateness of the costs allocated as directly attributable, based on the nature and our understanding of the business to determine the reasonableness of the directly attributable classification. ● Testing a sample of operating expense transactions to ensure their classification as either directly attributable or not directly attributable costs are appropriate and in line with the Information Disclosure Determination. ● Inspecting the fixed asset register to identify any asset classes which based on their nature and our understanding of the business could be considered assets directly attributable to a specific business unit. ● Testing a sample of assets commissioned to ensure their classification as either directly attributable or not directly attributable are appropriate and in line with the Information Disclosure Determination. **Appropriateness of the allocators used for not directly attributable costs and assets** ● Considering the appropriateness of the cost and asset causal and proxy allocators used in applying the ABAA to not directly

Key assurance matter	How our procedures addressed the key assurance matter
	attributable costs including inspecting supporting documentation and recalculating proxy allocators. ● Understanding why causal relationships could not be identified in allocating some costs and ensuring appropriate disclosure has been included outlining these in Schedule 14. ● Recalculating the split between not directly attributable costs and asset values allocated to gas distribution services and non-gas distribution services.
Related party transactions Disclosures over related party transactions including related party relationships, procurement policies/processes, application of these policies/processes and examples of market testing of transaction terms as required under the Information Disclosure Determination and the Input Methodologies Determination are set out in Appendix A. The Information Disclosure Determination and the Input Methodologies Determination require the Company to value its transactions with related parties, disclosed in Schedule 5b, in accordance with the principles-based approach to the arm's length valuation rule. This rule states that the value of goods or services acquired from a related party cannot be greater than if it had been acquired under the terms of an arm's length transaction with an unrelated party, nor may it exceed the actual cost to the related party. A sale or supply to a related party cannot be valued at an amount less than if it had been sold or supplied under the terms of an arm's-length transaction with an unrelated party. Arm's-length valuation, as defined in the Input Methodologies Determination, is the value at which a transaction, with the same terms and conditions, would be entered into between a willing seller and a willing buyer who are unrelated and who are acting independently of each other and pursuing their own best interests.	We have obtained an understanding of the compliance requirements relevant to related party transactions as set out in the Information Disclosure Determination and the Input Methodologies Determination. We have ensured Schedule 5(b) and Appendix A includes all required disclosures including current procurement policies, descriptions of how they are applied in practice, representative example transactions and when and how market testing was last performed. We have performed the following procedures over Schedule 5(b) and Appendix A. **Completeness and accuracy of related party relationships and transactions** We have tested the completeness and accuracy of the related party relationships and transactions by: ● Agreeing the disclosures within Schedule 5(b) to the audited accounting records for the year ended 30 September 2022, investigating any differences and determining whether any such differences are justified. ● Applying our understanding of the business structure against the related party definition in Input Methodologies Determination clause 1.1.4(2) to assess management's identification of any "unregulated parts" of the entity.

Key assurance matter	How our procedures addressed the key assurance matter
The Company is required to use an objective and independent measure to demonstrate compliance with the arm's-length principle. In the absence of an active market for similar transactions, assigning an objective arm's length value to a related party transaction is difficult and requires significant judgement. We have identified related party transactions at arm's-length as a key assurance matter due to the judgement involved.	**Practical application of procurement policies** ● Testing a sample of operating expenditure and capital expenditure transactions disclosed in Schedule 5(b) by inspecting supporting documentation to determine compliance with the disclosed procurement policy and practices. **Arm's length valuation rule** We obtained the Company's assessment of the available independent and objective measures used in supporting the arm's length valuation principle and performed the following procedures: ● Re-performed the calculations and agreed key inputs and assumptions to supporting documentation. ● Where benchmarking or other market information was used as independent and objective measures, we assessed whether the related party transaction values fell within an acceptable range. Qualitative factors were considered in determining the appropriate range.

Director's Responsibilities
The Directors are responsible on behalf of the Company for compliance with the Information Disclosure Determination, for the identification of risks that may threaten compliance with the Information Disclosure Determination, controls that would mitigate those risks, and monitoring the Company's ongoing compliance.

Our Independence and Quality Management
We have complied with the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* or other professional requirements, or requirements in law or regulation, that are at least as demanding, which include independence and other requirements founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires our firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of the Company. Our firm carries out other services for the Company in the areas of Gas Distribution Services: Default price-quality path compliance statement and independent appraiser of related party transactions, Gas Transmission Services: Compliance with the wash-up amount calculation and quality standards compliance statement and Disclosure Information, including as independent appraiser of related party transactions. Additionally, we have performed agreed upon procedures on distribution pricing and corporate models, and modelling services for the Future Gas Working Group, of which First Gas is a member. The provision of these other services has not impaired our independence.

Assurance Practitioner's responsibilities

Our responsibility is to express an opinion on whether the Company has complied, in all material respects, with the Information Disclosure Determination in the preparation of the Disclosure Information for the disclosure year ended 30 September 2022 and on whether the basis for valuation of related party transactions complies, in all material respects, with the Information Disclosure Determination and the Input Methodologies Determination, and report our opinion to you. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain reasonable assurance about whether the Company has complied, in all material respects, with the Information Disclosure Determination and the Input Methodologies Determination .

An assurance engagement to report on the Company's compliance with the Information Disclosure Determination and the Input Methodologies Determination involves performing procedures to obtain evidence about the compliance activity and controls implemented. The procedures selected depend on our judgement, including the identification and assessment of risks of material non-compliance.

Inherent Limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error or non-compliance may occur and not be detected. A reasonable assurance engagement throughout the specified period does not provide assurance on whether compliance with the Information Disclosure Determination and the Input Methodologies Determination will continue in the future.

Use of Report

This report has been prepared for the Directors and the Commerce Commission in accordance with clause 2.8.1(1) of the Information Disclosure Determination and is provided solely to assist you in establishing that compliance requirements have been met

Our report should not be used for any other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for any reliance on this report to anyone other than the Directors of the Company, as a body, and the Commerce Commission or for any purpose other than that for which it was prepared.

PricewaterhouseCoopers.

Chartered Accountants
23 February 2023

Christchurch, New Zealand

Schedule 19 Certification for Year-end Disclosures

Clause 2.9.3

We, Mark Adrian Ratcliffe and Fiona Ann Oliver, being directors of First Gas Limited, certify that, having made all reasonable enquiry, to the best of our knowledge:

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: Mark Adrian Ratcliffe	Director: Fiona Ann Oliver
22 February 2023	22 February 2023
Date	Date