Pricing Methodology for Gas Distribution Services

From 1 October 2025 (Pricing Year 2026)

Pursuant to the *Gas Distribution Information Disclosure Determination 2012*

First Gas Limited
September 2025

Executive Summary

First Gas Limited (Firstgas) owns and operates gas distribution networks across the regions of Northland, Waikato, Central Plateau, Bay of Plenty, Gisborne and Kapiti. Our pricing policies seek to maximise network utilisation through efficient allocation of costs, to provide transparency, certainty, and to ensure that all network users benefit from network investments.

Firstgas recovers the cost of owning and operating our distribution networks predominantly through standard prices for gas distribution services, supplemented by 17 non-standard connection contracts. We also earn revenue from capital contributions for new gas connections. For further information on our capital contributions policy, please see our website here.

Pricing for year commencing 1 October 2025 (Pricing Year 2026)

There have been no substantive changes to Firstgas' Distribution Pricing Methodology (DPM) in the past 12 months.

Firstgas will continue to apply the same pricing methodology for Pricing Year 2026 (PY2026)[1] and has updated this methodology to ensure compliance with the price path set out in the Commerce Commission's *Default Price-Quality Path Determination 2022*[2] (the Determination). This approach results in fixed and variable tariffs for all customer groups increasing between approximately10.25% and 16.45%.

[1] 1 October 2024 to 30 September 2025.
[2] Commerce Commission *Gas Distribution Services Default Price-quality Path*, 31 May 2022.

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Glossary

Act	The Commerce Act 1986.
Allowable Notional Revenue (ANR)	The revenue determined under the Price-Quality Path Determination that Firstgas is allowed to earn during the pricing year based on historical quantities.
Cost Allocators	The measures used to allocate costs / target revenue among consumer groups.
CPI	Consumers Price Index, a measure of changes to the prices for consumer items purchased by New Zealand households giving a measure of inflation.
GDB	Gas Distribution Business
IDs	The *Gas Distribution Information Disclosure Determination 2012*, consolidating all amendments as of 3 April 2018, published by the Commerce Commission.
ICP	An installation control point being a physical point of connection on a local network which a distributor nominates as the point at which a retailer will be deemed to supply gas to a consumer
kWh	Kilowatt-hour, a unit of energy being the product of power in watts and time in hours.
DPP	The *Gas Distribution Services Default Price-Quality Path Determination 2022*, as published by the Commerce Commission.
Price component	The various prices, fees and charges that constitute the components of the total price paid, or payable, by a consumer.
Pricing Principles	The Pricing Principles specified in clause 2.5.2 of the *Gas Distribution Services Input Methodologies Determination 2012* (consolidating all amendments as of 3 April 2018) and included in section 16.
Pricing strategy	A decision made by the Directors of a Gas Distribution Business (GDB) on the GDB's plans or strategy to amend or develop prices in the future, and recorded in writing
Pricing Year (PY)	The annual period beginning on 1 October and ending on 30 September.
RAB	Regulatory Asset Base, the regulated value of the assets that Firstgas uses to provide gas distribution services.
scm/h	Standard cubic metres per hour, a measure of gas capacity based on the flow rate.
Target revenue	The revenue Firstgas expects to receive from prices during the pricing year based on forecast quantities.

1. About Firstgas

First Gas Limited (Firstgas) operates 2,500 kilometres of gas transmission pipelines and more than 4,900 kilometres of gas distribution pipelines across the North Island. These gas infrastructure assets transport natural gas from Taranaki to major industrial gas users, electricity generators, businesses and homes, and transport around 20 percent of New Zealand's primary energy supply. Our distribution network services approximately 68,000 consumers across the regions of Northland, Waikato, Central Plateau, Bay of Plenty, Gisborne, and Kapiti Coast.

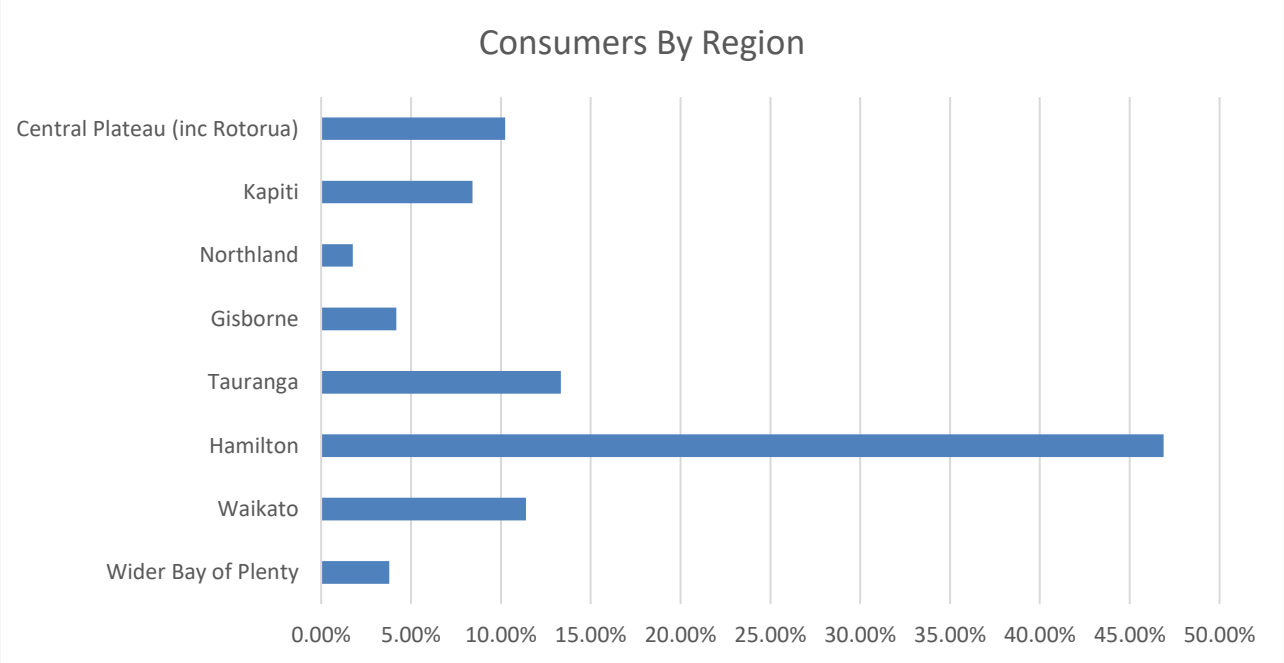
Firstgas is part of the wider Clarus group of companies. Clarus is one of New Zealand's largest energy groups. Whether it's transmission, distribution, supply or storage of energy, the companies within the Clarus group service nearly half a million homes and businesses of all sizes around New Zealand. We are proud to power Kiwi lives.

Firstgas is committed to helping Aotearoa achieve its climate change goal of zero carbon emissions by 2050. Our gas transmission and distribution networks are ideally placed to support the development, transfer and use of emerging fuels such as hydrogen or biogas.

1.1 Our approach to distribution pricing

Firstgas' prices are charged to retailers who then incorporate them into retail bills to end consumers. Due to this industry structure, Firstgas does not have direct control over the cost of energy to consumers.

Figure 1: Proportion of gas distribution consumers by region (as of 12 May 2025)



Our gas distribution services are regulated by the Commerce Commission under Part 4 of the *Commerce Act 1986*. These services are subject to price-quality path regulation and information disclosure requirements. Our regulatory disclosures can be found on the Firstgas website here.

Firstgas is focused on increasing the utilisation of our networks and thereby reducing the cost of providing distribution services to individual consumers. We believe that gas has an important role to play in New Zealand's energy future as an affordable, efficient, and environmentally responsible fuel, and are developing our network to be able to service the demand for net zero carbon gas.

1.2 Distribution pricing methodology

Every gas distribution business maintains a distribution pricing methodology. The purpose of this document is to describe how the business determines the prices that it charges each consumer group.

The methodology takes the target revenue for the business set by regulation and analyses the underlying costs that build up that revenue. The methodology then sets out how costs will be allocated among consumer groups and non-standard customers.

The methodology is updated annually as part of the annual pricing review, and feedback is sought from all retailers. The final distribution pricing methodology is published on the Firstgas website.[3]

1.3 Use of non-standard contracts

Firstgas generally recovers the cost of providing gas distribution services to existing consumers through standard prices. However, Firstgas also offers non-standard pricing and contracts to a small number of consumers in circumstances where standard prices on our distribution networks may not:

- Adequately reflect the costs of supplying a consumer;
- Reflect the economic value of the service to the consumer;
- Address the commercial risks associated with supplying that consumer.

Non-standard contracts allow tailored or specific prices and non-standard commercial arrangements to be applied to individual consumers on the distribution system.

1.4 Contact Firstgas

For any questions regarding the distribution pricing methodology, please contact:

Doug Cassey
Doug.cassey@firstgas.co.nz

For further information on Firstgas and our gas distribution and transmission businesses, please visit our website www.firstgas.co.nz.

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

2. Regulatory context

The development of Firstgas' distribution pricing methodology (DPM) is governed by our regulatory obligations under Part 4 of the *Commerce Act 1986*, enforced by the Commerce Commission. This section outlines the regulatory obligations that are relevant to this DPM.

2.1 Requirement to disclose a pricing methodology

The Commerce Commission's *Gas Distribution Information Disclosure Determination 2012* (IDs)[4] requires all gas distribution businesses to publicly disclose at the beginning of each pricing year, the methodology used to determine the prices payable for the provision of gas distribution services.

2.2 Alignment with pricing principles

The Commerce Commission's ID Determination requires Firstgas to disclose its pricing methodology and provide:

- An explanation of the extent of consistency of our pricing methodology with the Pricing Principles (which are defined in the Input Methodology)[5] or
- Reasons for any inconsistency between our pricing methodology and the Pricing Principles.[6]

The Commerce Commission's Pricing Principles are provided in section 16 of this DPM, along with an explanation of how we have reflected these principles in this pricing methodology.

In applying the Commerce Commission's Pricing Principles, Firstgas does not rank one objective higher than others but seeks to achieve the best balance between competing principles to achieve our business objectives. This approach will always have an element of judgement involved, and we seek to provide additional detail in this DPM where this judgement has been applied.

2.3 Allowable notional revenue

Firstgas' Allowable Notional Revenue (ANR) for each pricing year is calculated in accordance with the Commerce Commission's *Gas Distribution Services Default Price-quality Path Determination 2022* (DPP). The DPP sets a weighted average price cap that applies to Firstgas' gas distribution business. Firstgas' Notional Revenues (NR) must not exceed the Allowable Notional Revenue (ANR).

The term "notional" refers to the use of historical quantities that are used in the compliance calculations. The same (historical) quantities are used in the calculation of ANR and NR.

Target revenue is the revenue that Firstgas expects to receive in PY2026, based on the prices produced by the DPP methodology and our forecast quantities for PY2026 (as opposed to the historical quantities used for ANR and NR).

Further information on the IDs, DPP, and IMs that apply to Firstgas' distribution business can be found on the gas pipelines section of the Commerce Commission website.[7]

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[4] *Gas Distribution Information Disclosure Determination 2012 (consolidating all amendments as at 3 April 2018),* Commerce Commission, https://comcom.govt.nz/regulated-industries/gas-pipelines/information-disclosure-requirements-for-gas-pipelines

[5] Clause 2.5.2 of the *Gas distribution services input methodologies determination 2012 (consolidated all amendments as at 3 April 2018)*, Commerce Commission, https://comcom.govt.nz/__data/assets/pdf_file/0029/59717/Gas-distribution-services-input-methodologies-determination-2012-consolidated-April-2018-3-April-2018.pdf

[6] Clause 2.4.3(2).

[7] http://www.comcom.govt.nz/regulated-industries/gas-pipelines/

3. Pricing strategy and objectives

This section outlines the relevant business strategies and objectives that have been incorporated into our review of the DPM.

3.1 Pricing strategy

The *Commerce Act 1986* requires all gas distribution businesses to disclose in their DPM the linkages to a business 'pricing strategy' where applicable, and any changes to this strategy from preceding years[8]. Firstgas does not maintain a pricing strategy as defined in the IDs. Instead, we follow a series of pricing objectives and principles as outlined in section 3.1 of the DPM. In accordance with these objectives and principles, we have determined that the establishment of a fair and efficient pricing for our network services will be:

- Guided by high-level pricing objectives, as set out below and
- Compliance with the various regulatory frameworks mentioned in section 2 above.

For PY2026 Firstgas has moved away from a previous "constant price increase" approach, where all tariff components are increased by similar amounts. Firstgas has instead initiated a "rebalance" by where our PY2026 residential tariff has increased at a lower rate than those tariffs set for our commercial and industrial user groups. This action acknowledges the importance of and seeks to support the continuation of residential gas use in a transitioning energy environment. The intent over a five year strategy will be to progressively realign the proportional received revenues by user groups. This strategy will be reviewed annually and tested through consultation with stakeholders as well as the identification and monitoring of lead market indicators such as consumer and developer behaviours and electrification policy settings. The "rebalance" pricing strategy will be subject to regulatory and practical constraints.

To ensure that our prices result in an efficient allocation of costs between consumers we compare the revenue we expect to result from our prices for each consumer group to the cost allocation for that group. Table 4 on page 15 highlights these two methodologies, ensuring efficient allocation of costs between consumers.

3.2 Objectives for setting prices

When setting prices, we consider the overarching objectives of our pricing. The objectives need to be weighed up when determining the most appropriate pricing to set for any period. Firstgas does not rank one objective higher than others but seeks to achieve the best balance between competing objectives as required. This approach will always have an element of judgement involved, and we seek to provide additional detail in this DPM where this judgement has been applied.

Firstgas' DPM has been guided by the following objectives:

a) Cost-reflective pricing

All consumers should face prices that are reflective of the costs of providing gas distribution services to them. Prices for new consumers should recover the additional costs of connecting them to the network, including earning a fair return on the investment. This includes an appropriate alignment of fixed and variable revenue with sunk costs and incremental costs.

b) Clear and concise pricing structure

A simple pricing structure, with as few pricing categories as required, should allow the prices to be easily understood by both retailers and end consumers. Clear pricing, including full transparency on how prices were developed, should encourage consumers to stay connected and new consumers to connect where economic.

[8] Clause 2.4.4 of the ID Determination.

c) Encourage efficient growth

Pricing should encourage consumers to connect to and use the distribution network where economic and desirable. Customer growth generally improves asset utilisation since most of the costs of providing gas distribution services are fixed.

d) Achieve full recovery of the ANR

Full recovery of our ANR ensures that Firstgas is sufficiently resourced to deliver on our Asset Management Plan (AMP),[9] whilst delivering reasonable returns to our shareholders.

e) Discourage uneconomic bypass or alternative fuels

There has been significant sunk investment in the existing gas distribution networks. Pricing should ensure that customers with bypass or alternative fuels are not incentivised to make sub-optimal decisions that lead to efficiency losses, where there is available capacity on the distribution network.

f) Promote price stability and avoid price shocks

Firstgas' view is that a constant price increase approach for PY2025 minimises the 'price shock' effect for any one customer group over another.

g) Signal economic cost of service provision

Firstgas' pricing helps signal to potential consumers whether gas is an economic option for their demands. Firstgas note that pricing is a combination of this pricing methodology and Firstgas' capital contribution policy (available on our website[10]) and that these documents should be read together.

h) Pass the benefits of new pricing categories directly onto end consumers

Firstgas is aware that there are different drivers in the gas value chain, from production stations through to end consumers, and that not all drivers in the supply chain are directly aligned. All changes that Firstgas makes to its pricing have the intention of passing the effect on to the end consumers of gas. For this reason, the variable tariff has criteria other than peak load that must be met for a consumer to be eligible.

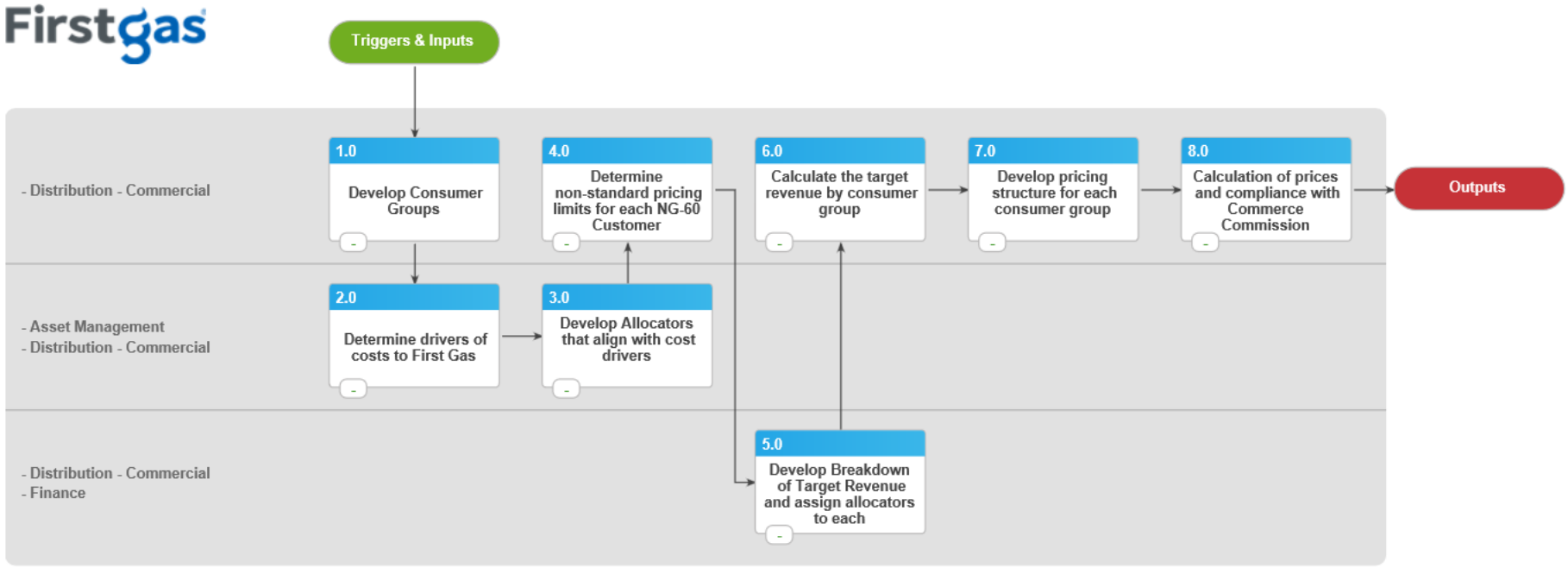
[9] Our Asset Management Plans (AMP) is updated yearly and available on our website here: https://firstgas.co.nz/about-us/regulatory/distribution/

[10] Our capital contributions policy is available on our website here: https://firstgas.co.nz/about-us/regulatory/distribution/

4. Overview of pricing methodology process

Firstgas' DPM process is summarised in the diagram below and expanded on further in the following sections. This process has involved close collaboration across different functional teams within Firstgas – our commercial team, our asset management team, and our finance team.

Figure 2: Pricing methodology process



5. Development of consumer groups

Our consumers are divided into four consumer groups based on the maximum flow rate of their connection, measured in standard cubic metres per hour (scm/h). We also have a consumer group for non-standard contracts. Maximum flow rate is deemed to be the most appropriate means to develop consumer groups as it accurately reflects capacity demand, or a share of use that the customer requires of the network.

Table 1 sets out the five consumer groups that we use for pricing. Consumer groups are mutually exclusive so a consumer can only fit within one group. However, there can be multiple price categories within the consumer group. Consumers within each group have broadly similar demand profiles, responsiveness to price changes and willingness to pay.

Table 1: Consumer groups

Consumer group	Flow rate (scm/h)
Mass market	< 10
Small commercial	10 < 40
Large commercial	40 < 200
Industrial	> 200
Non-standard	Varied

5.1 Customers on non-standard contracts

Firstgas currently has 17 non-standard customers across our network. Further details on our non-standard contracts are provided in **Appendix A**.

Firstgas assess requests for non-standard contracts (from new and existing customers) and will transition customers off non-standard contracts onto standard prices when circumstances suggest this is appropriate.

6. Allocation methodology

Firstgas maintains a cost-of-service model (or cost allocation model) that reflects the drivers of our business. We reassess the model each year to ensure it remains appropriate for our business. This cost-of-service model seeks to ensure that costs are efficiently allocated across consumer groups (as identified in section 5 above), based on a bottom-up assessment of cost drivers.

The allocation of costs to each consumer group is determined by an assessment of which consumers are the beneficiaries or exacerbators of various costs. For Firstgas, few costs can be directly attributed to an individual consumer group, as most of the costs relate to shared services. These shared service costs can be considered common to multiple consumer groups.

There is no single best way to allocate shared costs. Firstgas has taken a practical approach to cost allocation that uses cost allocators that are measurable based on currently available information. We prepared a full list of potential allocators, then reduced this down to the allocators that are currently measured. This process led several allocators to be removed, such as the average length of pipe per connection for each consumer group. While some of Firstgas' costs are related to the length of pipeline, due to the integrated nature of our consumers including across multiple consumer categories, it is not possible to determine the distinct length of pipeline (including mains) that serves any consumer or consumer group.

6.1 Allocators selected

The allocators we have used in this DPM are:

- Aggregate (consumer groups) peak monthly consumption (**Capacity**) and
- Number of active ICPs (**Number of Connections**).

Firstgas has proceeded with a **Capacity** allocator using the monthly peak. While we would ideally prefer to measure **Capacity** at a period that is appropriate to a gas network's operation (daily), data granularity varies across the network, from hourly for Time of Use (TOU) large sites to multiple months for some mass market connections. Monthly peak consumption is the lowest granularity possible that can be provided with consistent and measurable data. As smart metering data becomes widespread and accessible Firstgas will continue to investigate options to understand the coincident peak load information and each consumer group's impact on the network capacity.

7. Value of allocators

Each of the allocators have had the historical data for the previous year applied to determine appropriate allocation rates for each.

Industrial and non-standard customers have other characteristics that impact the level of cost recovery that Firstgas seeks from each customer. These include considerations such as bypass risk, alternative fuels, and available capacity in the network area.

One assumption that needs to be made at the start of this allocation process, is what costs non-standard customers contribute towards. Firstgas has applied the non-standard revenue pro-rata across all cost categories. This is not a precise assumption but is easy to implement and avoids remaining costs being weighted towards a particular consumer group.

The remaining revenue is then allocated against the totals of all groups excluding the non-standard consumers. The results are shown in the table below.

Table 2: Historical figures for determining allocation splits.

Allocator	Number of Consumers		Annual Load		Capacity
Units	ICP		GJ/Year		GJ/Month
Source	Schedule 8 IDs	%	Schedule 8 IDs	%	%
Mass Market	65,909	96.8%	1,418,000	32.3%	39.4%
Small Commercial	1,554	2.3%	473,000	10.8%	10.5%
Large Commercial	527	0.8%	914,000	20.8%	20.8%
Industrial	83	0.1%	1,579,000	36.0%	29.3%
Total	68,073	100.0%	4,384,000	100.0%	100.0%

8. Pricing for non-standard contracts

8.1 Level of non-standard contracts in PY2026

We currently have 17 active non-standard customers, two of which are equivalent to direct connects to the Transmission network. We recover revenue from the remaining 15 non-standard consumers. 12 of the non-standard consumers have discounts on standard pricing due to the criteria in 8.3 below, whilst 3 customers have higher than standard pricing to recover investment costs required to provide distribution services to those customers.

8.2 Revenue from non-standard contracts

Firstgas expects to recover notional revenue of approximately $1,925,939 from the 15 chargeable non-standard consumers in PY2026, which represents 4.3% of Firstgas' revenue for its distribution services.

8.3 Criteria for non-standard contracts

Consumers may be assessed for non-standard terms or pricing if they meet one or more of the following criteria:

- The total annual quantity of gas consumed or forecast to be consumed per annum (Annual Quantity or AQ) is greater than 20TJ or
- The AQ is between 10TJ to 20TJ and the consumer's point of connection to Firstgas' gas distribution network is close to the gas transmission system or
- It can be demonstrated that alternative sources of energy (including but not limited to wood, coal or electricity) could meet the consumer's requirements at a lower cost than our standard prices, are technically, operationally and commercially viable, and would have a reasonable prospect of being successfully implemented. In these circumstances, it would be uneconomic to connect the consumer on standard prices.
- The cost to serve is higher than the GN04 or GN05 would allow recovery on, and the consumer would prefer ongoing higher charges to a capital contribution.

Firstgas will continue to assess whether to apply non-standard pricing and the corresponding contractual arrangements to new consumers on a case-by-case basis. Generally, if a consumer does not meet at least one of the assessment criteria, they will be subject to published standard distribution prices. Meeting one or more of the assessment criteria does not mean that a non-standard arrangement will apply, but rather that the consumer may be reviewed to determine whether standard pricing and standard contractual terms are suitable, given the consumer's individual circumstances. A full summary of the current non-standard customers is available in **Appendix A**.

Firstgas' obligations and responsibilities to consumers in the event of a supply interruption is the same whether the consumer is on non-standard contracts or a standard contract.

9. Target cost allocation and allocators

This table sets out the costs that Firstgas expects to recover in PY2026 broken down by key components, together with the allocator that has been assigned to each cost category for the purposes of calculating the Target Allocation. The cost categories for PY2026 have been updated to more closely reflect our budgeting process.

Table 3: Target revenue broken down by cost categories

		PY2026	PY2025	
Cost Category	**Allocator**	**Cost allocated ($)**	**Cost allocated ($)**	**%**
Pass through Costs (Rates, Levies)	System peak	$1,118,050	$1,155,400	-3.34%
Business Support	Number of connections	$4,180,238	$4,114,521	1.57%
Service interruptions, incidents and emergencies	Number of connections	$3,368,273	$3,315,321	1.57%
Routine Maintenance	System Peak	$784,626	$772,291	1.57%
Corrective Maintenance	Number of connections	$505,680	$497,730	1.57%
System operations and network support	Number of connections	$2,195,067	$2,161,000	1.55%
Regulatory Tax	Number of connections	$3,628,406	$3,482,160	4.03%
Revaluations	System Peak	$5,927,365	$2,904,038	51.01%
Regulated Return on Investment	System Peak	$9,346,347	$9,128,434	2.33%
Depreciation on Regulated Asset Base	System Peak	$13,611,248	$12,860,605	5.51%
Target Revenue		**$44,665,300**	**$40,391,500**	**9.57%**

10. Revenue allocation by consumer group

We allocate target revenue using peak monthly consumption and ICP count to reflect how different consumer groups use the network. This approach ensures costs are shared fairly, aligns with cost drivers, and supports consistent, practical, and cost-reflective pricing.

Firstgas calculates a target allocation from each consumer group using the allocation methodology discussed in Section 6. The 'Target Allocations' that result from this process are shown in the table below. The 'Target Revenue' percentages show the proportion of revenue that we expect to recover from each consumer group as a result of our prices and forecast quantities. A comparison between Target Allocation and Target Revenue for each group allows for an assessment of the cost allocation efficiency that results from our prices. The table demonstrates strong alignment between Target Allocation and Target Revenue and therefore an efficient allocation of costs between consumer groups.

Table 4: Target Allocation of Revenue across Consumer Groups

Consumer group	Cost allocated	Target Allocation	Forecast Revenue
Small Business/Mass Market	$24,478,303	54.8%	64.8%
Small Commercial	$3,383,072	7.6%	6.7%
Large Commercial	$6,223,124	13.9%	10.8%
Industrial	$8,654,860	19.4%	13.3%
Non-standard	$1,925,939	4.3%	4.3%
Total	**$44,665,300**	**100.0%**	**100.0%**

11. Development of price categories

The following section provides an overview of the various price categories that Firstgas offers within each consumer group.

11.1 Mass-market consumer group

The mass market consumer group is split into two subgroups: residential and general/business. Residential consumers are more sensitive to fixed charges. Therefore, the residential group has a lower fixed charge than the general/business.

The subgroups map directly into price categories as set out in Table 6 below.

Table 5: Price categories within each consumer group

Consumer group	Price category code	Price category description
Mass market	GN0R GN01	Residential General/business
Small commercial	GN02	Small commercial
Large commercial	GN03	Large commercial
Industrial	GN04 GN05	Industrial Large industrial

11.2 Commercial consumer groups

The small and large commercial consumer groups map directly to price categories based on load.

11.3 Industrial consumer group

The industrial consumer group is split into two sub-groups: industrial and large industrial.

Firstgas has maintained the “large industrial” price category with a higher fixed price (GN05). This price category is suitable for consumers with annual consumption greater than approximately 16,500 MWh per annum, but who do not meet the “stand alone cost test”. Offering this price category reduces the administrative burden of offering these consumers’ individual non-standard prices. Industrial customers may opt for either a GN04 or GN05 tariff depending on their particular connection requirements, however they may not change tariff more than once in any 12-month period.

11.4 Overview of price components that Firstgas uses

Each price category has two price components for consumers, a fixed daily price ($/day) and a volume price ($/kWh).

Table 6: Description of price components

Price type	Price component	Code	Units	Description
Fixed	Daily	FIXD	$/day	Daily price applied to the number of days each consumer's point of connection is connected to the gas distribution network.
Variable	Volume	24UC	$/kWh	Volume price, applies to all gas distributed to each consumer.

11.5 How the price for each component is derived

Firstgas' price structure reflects the price sensitivity of our consumers. The fixed price for each price category increases with consumer capacity and consumption, i.e., the larger the consumer, the higher the fixed price.

Firstgas is aware of the effect of price changes for consumers. As in previous years, a first principles basis has been applied. The fixed and variable nature of our costs has not changed and the previous approach to fixed and variable pricing is sound.

Each consumer group is assessed on their impacts on Firstgas' costs. Small consumers, such as residential households have a higher (energy weighted) marginal cost to serve than larger consumers. It is therefore expected that the proportion of target revenue that is recovered through fixed costs increases as the size of the consumer load increases. The largest consumers (GN05) are on tariff structure that is highly fixed.

When deriving the pricing for the mass-market, consumers' willingness to pay is a significant driver and has been increasingly considered within a "rebalance" strategy. Small businesses appreciate stable costs and are more suited to a high proportion of fixed costs. Residential mass-market consumers on the other hand prefer to only pay for goods as services consumed. A highly variable pricing model suits these consumers more appropriately.

Table 7: Fixed and variable pricing allocation by price category

Consumer group	Price categories	Fixed prices Daily	Variable prices Volume
Mass Market	GN0R	55.15%	44.85%
	GN01	55.72%	44.28%
Small Commercial	GN02	40.02%	59.98%
Large Commercial	GN03	36.06%	63.94%
Industrial	GN04	18.75%	81.25%
	GN05	75.05%	24.95%

12. Proportion of Target Revenue by price component

The following table shows the forecast proportions of Target Revenue by price component.

Table 8: Proportion of Target Revenue by Consumer Group and Price Component

Consumer group	Price categories	Fixed	Variable	Total
Mass Market	GN0R	33.77%	27.46%	61.23%
	GN01	1.99%	1.58%	3.56%
Small Commercial	GN02	2.66%	3.99%	6.65%
Large Commercial	GN03	3.85%	6.84%	10.69%
Industrial	GN04	1.69%	7.31%	8.99%
	GN05	3.43%	1.14%	4.57%
Non-standard	NG60	3.81%	0.49%	4.30%
Total		100.00%		100.00%

13. Consultation process

Firstgas has initiated consultation with retailers on behalf of consumers, to discuss the changes to our pricing methodology and the resulting prices proposed for PY2026. Firstgas consults with retailers who act on behalf of their consumers. We do not have a direct contractual relationship with most consumers connected to our networks and distribution prices are usually bundled with energy costs and retailer costs in the charge to consumers. Draft prices were provided to all trading retailers on 9 June 2025 and responses were provided by 24 June 2025.

14. Impact of PY2025 price changes

For Pricing Year 2025, Firstgas has applied a "rebalance" approach where our PY2026 residential tariff has increased at a lower rate than those for commercial and industrial groups. This was further discussed in Section 3. Table 9 provides a breakdown of the price changes by price category. All price changes are line with the price path set out in the Commerce Commission's *Default Price-Quality Path Determination 2022.* Further information on our annual price review, including why prices have changed is available on the Firstgas website.[11]

The key drivers of the price changes are:

- Compliance with the DPP 2022 price path, which sets a cap on allowable revenue based on historical quantities and inflation-adjusted forecasts.
- Increases in operating expenditure, including network maintenance and compliance costs.
- Increases in capital expenditure to support asset renewal and network resilience.
- Inflation adjustments based on CPI, as permitted under the DPP framework.

Table 9: Price changes by price category

	FY2025 Prices		FY2026 Prices		Price change PY2025 to PY2026		
Price Category	Fixed Price ($/day)	Volume Price ($/kWh)	Fixed Price ($/day)	Volume Price ($/kWh)	Fixed Change	Variable Change	Estimated total price change*
GN0R	0.57597	0.033468	0.63526	0.03690	10.29%	10.24%	10.27%
GN01	1.09321	0.012928	1.27298	0.01505	16.44%	16.44%	16.44%
GN02	1.88708	0.012581	2.19737	0.01465	16.44%	16.45%	16.44%
GN03	8.28133	0.011559	9.64272	0.01346	16.44%	16.44%	16.44%
GN04	23.99321	0.010951	27.93657	0.01275	16.44%	16.44%	16.44%
GN05	396.96385	0.002647	462.22850	0.00308	16.44%	16.44%	16.44%

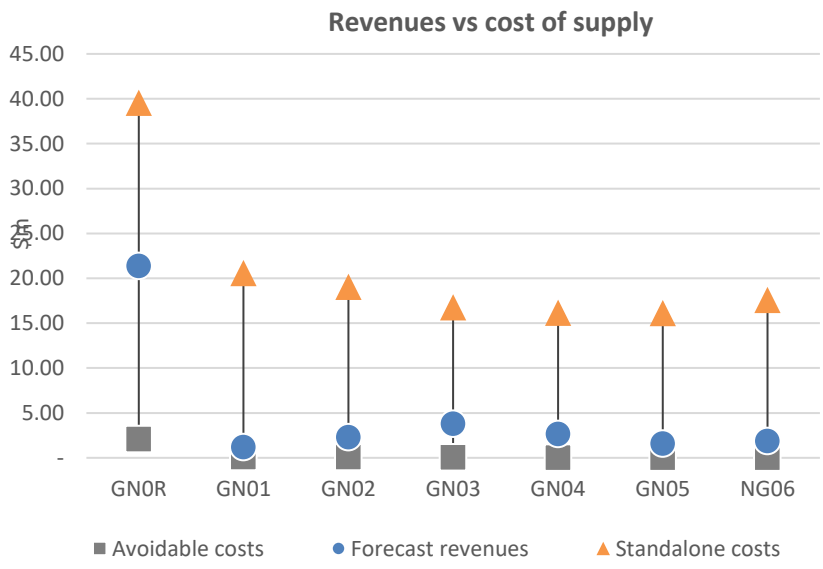
*For an average consumer on each price category

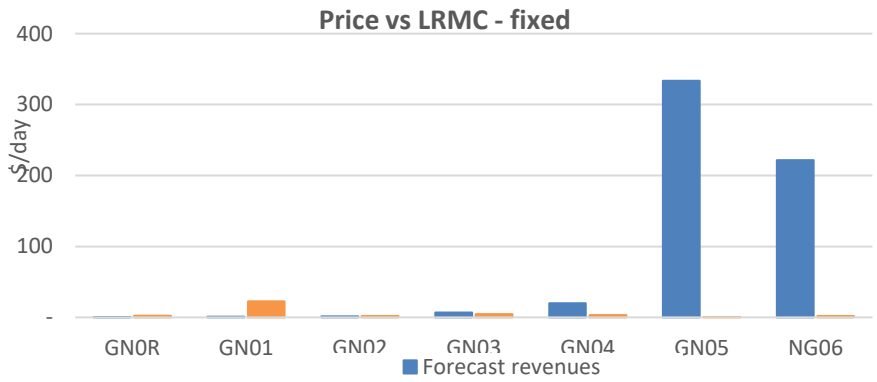
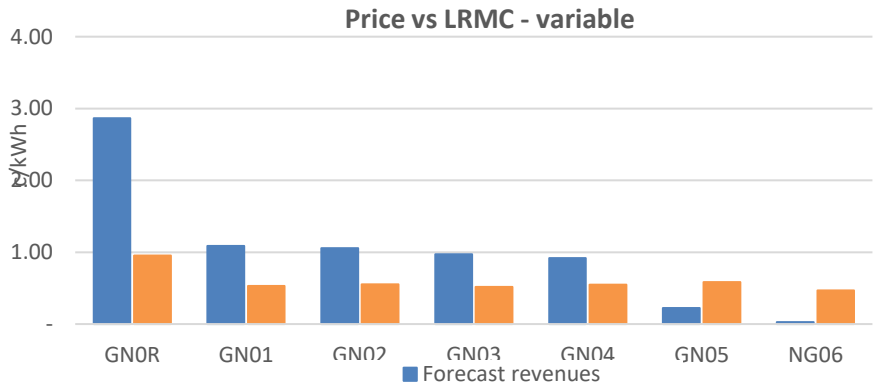
[11] https://firstgas.co.nz/about-us/regulatory/distribution/

15. Consistency with pricing principles

The Pricing Principles are specified in clause 2.5.2 of the *Gas Distribution Services Input Methodologies Determination 2012*. The table below assesses the compliance with each criteria. During 2024, Firstgas engaged external consultancy Farrierswier to complete a review of its Pricing Methodology. Included within the scope of the review was assessing that the Pricing Methodology remained fit for purpose and compliant with the Pricing Principles.

Table 10: Consistency with pricing principles

Pricing principle	Description of compliance
1) Prices are to signal the economic costs of service provision, by: a) Being subsidy free, that is, equal to or greater than incremental costs and less than or equal to standalone costs, except where subsidies arise from compliance with legislation and/or other regulation;	The Firstgas cost allocation model still accurately reflects Firstgas' business and brings the network pricing in line with the Firstgas costs. Quantitative analysis within the 2024 review determined that tariffs sat within the range of greater than incremental costs but less that standalone costs. Two of the allocators used by Firstgas are tied to consumer load, as constraints from the remaining capacity of the system often drives significant capital investments. Firstgas assess alternative fuel options, especially LPG and electricity, and has worked to ensure prices can be offered in the range between incremental and stand-alone costs. This is challenging for some potential new consumers (low use residential, or highly seasonal mass-market) and the capital contribution policy should be read in conjunction with this DPM to understand how only economic consumers, that will not require subsidies from other users, are connected to the network. 
b) Having regard, to the extent practicable, to the level of available service capacity; and c) Signalling, to the extent practicable, the effect of additional	Our prices include the provisions for returns on Capital Expenditure, as allowed by the Commerce Commission, which effectively allocates any investment in system capacity to the users who caused the constraint. Our network uses a single set of prices across all network areas which results in some limitations in compliance with principle 1(b). There were no significant differences identified in the costs of owning and operating networks across the

Pricing principle	Description of compliance
usage on future investment costs.	different locations, and we sought to keep pricing as simple as possible. Firstgas will continue to assess this approach as part of the annual pricing exercise. Non Standard pricing will be individually set for each customer. Pricing could be set lower than a standard tariff to acknowledge the economies of scale achieved with a high delivery of gas or alternatively to protect revenue due to a bypass risk of an alternative fuel. Pricing could be set higher due to significant costs to supply requiring greater than tariff revenues to ensure acceptable returns.  
2) Where prices based on 'efficient' incremental costs would under-recover allowed revenues, the shortfall is made up by prices being set in a manner that has regard to consumers' demand responsiveness, to the extent practicable.	Firstgas has considered consumers' demand responsiveness and factored that into the DPM. This assumption was further tested during the 2024 pricing review via a willingness to pay analysis. This willingness to pay analysis examined residential, commercial and industrial market conditions and demand elasticity. The review identified that the residential market was the sector most at risk of defection. This was a factor supporting the strategy to rebalance tariff groups. Firstgas believes that the pricing derived for commercial and industrial consumers under the 'efficient' allocation of incremental costs closely aligns with the demand responsiveness of these consumers. For the few consumers where this does not align, non-standard pricing is an option. The mass-market consumer group however has a slight disconnect between the 'efficient' incremental costs, and some consumers demand responsiveness.

Pricing principle	Description of compliance
	The mass-market issue is exacerbated by the fact that the distribution tariffs are only a portion of the costs charged to the end users. Energy costs and retailers' costs and margins are also included. Mass-market consumers have sensitivity to high daily charges, and the proportion of revenue that is recovered through fixed charges (at the retailer level) is substantial and drives some consumers away from natural gas as a fuel. To address this inconsistency between the pure cost allocation and the demand responsiveness, Firstgas is continuing its GN0V tariff, which is a fully variable tariff. To recognise that the purpose is to provide pricing aligned to mass-market consumers demand responsiveness, and aversion to fixed costs, the tariff code has a criterion that no additional fixed charge is applied by a retailer. The pricing must be fed through to the end consumer in a variable structure.
3) Provided that prices satisfy (1) above, prices are responsive to the requirements and circumstances of consumers in order to: a) Discourage uneconomic bypass; and b) Allow negotiation to better reflect the economic value of services and enable consumers to make price/quality trade-offs or non-standard arrangements for services.	Our non-standard contracts are continually reassessed to transition as many consumers back to standard network pricing where the justifications for non-standard pricing no longer apply, or the "efficient" incremental costs for a consumer have changed. We also continue to pursue higher-than-standard tariffs in some cases to ensure that there is no cross-subsidisation by existing users of the network. As described in this DPM, the non-standard consumers' revenue is removed from the allocation exercise, along with the non-standard consumers loads and number of connections to ensure all remaining costs are efficiently allocated to standard consumers.
4) Development of prices is transparent, promotes price stability and certainty for consumers, and changes to prices have regard to the effect on consumers.	Firstgas consults with retailers and key stakeholders when adjusting prices. We continue to make improvements to our pricing methodologies, documentation, and public disclosures in the interest of keeping these disclosures understandable for consumers and to reduce complexity. When considering changes to our pricing methodology, we consider it important to avoid significant step-changes where possible to avoid disruptions to market confidence.

Appendix A: Non-standard price summary

ICP	Reason	Standard tariff equivalent	Discount to standard
0008000027NGD9C	Bypass	GN05	94%
0008000029NGE07	Bypass	GN05	83%
0008000032NGA7E	Measurement Only	N/A	100%
0008000033NG63B	Bypass	GN05	93%
0008000038NG8EF	Bypass	GN05	83%
0008000040NGFA6	Bypass	GN05	84%
0008000047NG26C	Measurement Only	N/A	100%
0008000051NG94E	Bypass	GN05	48%
0008000072NG8DB	Bypass	GN05	93%
0008000080NG849	Transition to Standard	GN04	100%
0008000147NGB68	Transition to Standard	GN04	75%
0008000249NGBF0	Bypass	GN05	81%
0008000300NGE00	Bypass	GN05	93%
1001295720NG848	Interconnection Fee, Cost Recovery	GN05	96%
1001296139NG852	Interconnection Fee, Cost Recovery	GN04	-1%
1001303155NG034	Interconnection Fee , Cost Recovery	N/A	-117%
1001305387NG234	Bypass	N/A	N/A

*Note that a negative 'Discount to Standard' indicates that the non-standard tariff is higher than the standard tariff

Appendix B: Director certification

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

a) the following attached information of First Gas Limited prepared for the purposes of clause 2.4.1 of the *Gas Distribution Information Disclosure Determination 2012* in all material respects complies with that determination.

b) The prospective financial or non-financial information included in the attached information has been forecast on a basis consistent with regulatory requirements or recognised industry standards.

Director: Fiona Ann Oliver

Director: Mark Adrian Ratcliffe

13 Aug, 2025 12:55:31 PM GMT+12

Date

13 Aug, 2025 12:51:43 PM GMT+12

Date