



Information disclosure for the gas transmission business

Year ending 30 September 2021



Introduction

First Gas Limited (Firstgas) operates 2,500 kilometres of gas transmission pipelines and more than 4,900 kilometres of gas distribution pipelines across the North Island. These gas infrastructure assets transport natural gas from Taranaki to major industrial gas users, electricity generators, businesses and homes, and transport around 20 percent of New Zealand's primary energy supply. Our distribution network services approximately 66,000 consumers across the regions of Northland, Waikato, Central Plateau, Bay of Plenty, Gisborne, and Kapiti Coast.

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

The Ahuroa gas storage facility (trading as Flexgas) is New Zealand's only underground gas storage facility. Rockgas has over 80 years' experience providing LPG to over 100,000 customers throughout New Zealand. Rockgas is New Zealand's largest LPG retail business and supplies its customers with LPG from both domestic and imported services.

Firstgas is committed to helping Aotearoa achieve its climate change goal of zero carbon emissions by 2050. Our gas transmission and distribution networks are ideally placed to support the development, transfer and use of emerging fuels such as hydrogen or biogas. For more information, visit our website: www.gasischanging.co.nz.

Information disclosure

This document contains Firstgas' annual information disclosure for the gas transmission business, for the year ending on 30 September 2021, as required by the *Gas Transmission Information Disclosure Determination 2012* consolidating all amendments as of 3 April 2018 ("the Determination") issued by the Commerce Commission.

The following documents are provided with this compliance statement:

- Schedules 1-10: Financial and technical schedules
- Schedules 14-15: Mandatory and voluntary explanatory notes, including information on related party transactions
- Schedule 19: Director Certification
- KPMG assurance report

This information disclosure was prepared on 17 February 2022.

Further information

For further information regarding this compliance statement, please contact:

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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.



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

Company Name

First Gas Limited (Transmission)

Disclosure Date

31 March 2022

Disclosure Year (year ended)

30 September 2021

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

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Company Name **First Gas Limited (Transmission)**For Year Ended **30 September 2021****SCHEDULE 1: ANALYTICAL RATIOS**

This schedule calculates expenditure, revenue and service ratios from the information disclosed. The disclosed ratios may vary for reasons that are company specific and, as a result, must be interpreted with care. The Commerce Commission will publish a summary and analysis of information disclosed in accordance with the ID determination. This will include information disclosed in accordance with this and other schedules, and information disclosed under the other requirements of the determination.

This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref

1(i): Expenditure Metrics

	Ratio of expenditure to quantity of gas delivered (\$ per TJ)	Ratio of expenditure to system length (\$ per km)
Operational expenditure	424	24,710
Network	138	8,034
Non-network	286	16,676
Expenditure on assets	113	6,592
Network	179	10,418
Non-network	(66)	(3,826)

1(ii): Service Intensity Measures

Volume density	58	Quantity of gas delivered per km of system length (TJ/km)
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1(iii): Composition of Revenue Requirement

	(\$000)	% of revenue
Operational expenditure	62,112	47.44%
Pass through and recoverable costs excluding financial incentives and wash-ups	7,100	5.42%
Total depreciation	34,267	26.17%
Total revaluations	41,735	31.88%
Regulatory tax allowance	12,482	9.53%
Regulatory profit/(loss) including financial incentives and wash-ups	55,432	42.34%
Total regulatory income	130,930	

1(iv): Reliability

Interruption rate	0.5570	Interruptions per 100km of system length
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Company Name **First Gas Limited (Transmission)**
For Year Ended **30 September 2021**

SCHEDULE 2: REPORT ON RETURN ON INVESTMENT

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

ROI – comparable to a post tax WACC

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

	CY-2 30 Sep 19 %	CY-1 30 Sep 20 %	Current Year CY 30 Sep 21 %
Reflecting all revenue earned	5.35%	4.65%	7.33%
Excluding revenue earned from financial incentives	5.35%	4.65%	7.33%
Excluding revenue earned from financial incentives and wash-ups	5.28%	4.65%	7.62%

Mid-point estimate of post tax WACC

25th percentile estimate
75th percentile estimate

25th percentile estimate	4.88%	4.07%	3.54%
75th percentile estimate	4.17%	3.36%	2.83%
	5.58%	4.78%	4.24%

ROI – comparable to a vanilla WACC

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

Reflecting all revenue earned	5.81%	4.98%	7.58%
Excluding revenue earned from financial incentives	5.81%	4.98%	7.58%
Excluding revenue earned from financial incentives and wash-ups	5.75%	4.98%	7.86%

WACC rate used to set regulatory price path

WACC rate used to set regulatory price path	6.41%	6.41%	6.41%
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Mid-point estimate of vanilla WACC

25th percentile estimate
75th percentile estimate

25th percentile estimate	5.34%	4.40%	3.78%
75th percentile estimate	4.64%	3.70%	3.07%
	6.05%	5.11%	4.49%

2(ii): Information Supporting the ROI

(\$'000)

Total opening RAB value
plus Opening wash-up account balance
Opening RIV

Total opening RAB value	849,688
plus Opening wash-up account balance	(4,040)
Opening RIV	845,648

Line charge revenue
plus Wash-up amount
Adjusted line charge revenue

Line charge revenue	130,802
plus Wash-up amount	2,293
Adjusted line charge revenue	133,095

Expenses cash outflow
plus Assets commissioned
less Asset disposals
plus Regulatory tax allowance
less Other regulated income

Expenses cash outflow	69,212
plus Assets commissioned	18,813
less Asset disposals	1,634
plus Regulatory tax allowance	12,482
less Other regulated income	127

Mid-year net cash outflows

98,745

Term credit spread differential allowance

1,271

Total closing RAB value
less Adjustment resulting from asset allocation
less Lost and found assets adjustment
plus Closing wash-up account balance

Total closing RAB value	874,465
less Adjustment resulting from asset allocation	130
less Lost and found assets adjustment	-
plus Closing wash-up account balance	1,962

Closing RIV

876,297

ROI – comparable to a vanilla WACC

7.58%

Leverage (%)
Cost of debt assumption (%)
Corporate tax rate (%)

42%
2.05%
28.0%

Company Name **First Gas Limited (Transmission)**
 For Year Ended **30 September 2021**

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sch ref

63

ROI – comparable to a post tax WACC

7.33%



Company Name **First Gas Limited (Transmission)**
 For Year Ended **30 September 2021**

SCHEDULE 2: REPORT ON RETURN ON INVESTMENT

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sch ref

2(iii): Information Supporting the Monthly ROI

Opening RIV

N/A

(\$000)

	Line charge revenue	Expenses cash outflow	Assets commissioned	Asset disposals	Other regulated income	Monthly net cash outflows
Month 1						-
Month 2						-
Month 3						-
Month 4						-
Month 5						-
Month 6						-
Month 7						-
Month 8						-
Month 9						-
Month 10						-
Month 11						-
Month 12						-
Total						-

Regulatory tax allowance

N/A

Term credit spread differential allowance

N/A

Closing RIV

N/A

Monthly ROI – comparable to a vanilla WACC

N/A

Monthly ROI – comparable to a post tax WACC

N/A

2(iv): Year-end ROI rates for comparison purposes

Year-end ROI – comparable to a vanilla WACC

6.86%

Year-end ROI – comparable to a post tax WACC

6.62%

* The year-end ROI values are comparable to the ROI reported in pre 2012 disclosures by GTBs 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

Revenue wash-up draw down amount

Other wash-ups

Wash-up costs

(3,240)

Impact of wash-up costs on ROI

(0.29%)

800

(4,040)

Company Name **First Gas Limited (Transmission)**
 For Year Ended **30 September 2021**

SCHEDULE 3: REPORT ON REGULATORY PROFIT

This schedule requires information on the calculation of regulatory profit for the GTB for the disclosure year. GTBs 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	130,802	
10	plus Gains / (losses) on asset disposals	127	
11	plus Other regulated income (other than gains / (losses) on asset disposals)	-	
12			
13	Total regulatory income	130,930	
14	Expenses		
15	less Operational expenditure	62,112	
16			
17	less Pass-through and recoverable costs excluding financial incentives and wash-ups	7,100	
18			
19	Operating surplus / (deficit)	61,718	
20			
21	less Total depreciation	34,267	
22			
23	plus Total revaluations	41,735	
24			
25	Regulatory profit / (loss) before tax	69,186	
26			
27	less Term credit spread differential allowance	1,271	
28			
29	less Regulatory tax allowance	12,482	
30			
31	Regulatory profit/(loss) including financial incentives and wash-ups	55,432	
32			
33	3(ii): Pass-through and Recoverable Costs excluding Financial Incentives and Wash-Ups		(\$000)
34	Pass through costs		
35	Rates	1,506	
36	Commerce Act levies	922	
37	Industry Levies	34	
38	CPP specified pass through costs	-	
39	Recoverable costs excluding financial incentives and wash-ups		
40	Balancing gas costs	3,201	
41	Urgent project allowance	-	
42	Mokau compressor fuel gas costs	1,438	
43	Other recoverable costs excluding financial incentives and wash-ups	-	
44	Pass-through and recoverable costs excluding financial incentives and wash-ups	7,100	
45			
46			
47	3(iv): Merger and Acquisition Costs		
48			(\$000)
49	Merger and acquisition expenditure		
50			
51	Provide commentary on the benefits of merger and acquisition expenditure to the gas transmission business, including required disclosures in accordance with section 2.7, in Schedule 14 (Mandatory Explanatory Notes)		
52			
53	3(v): Other Disclosures		
54			(\$000)
55	Self-insurance allowance		



Company Name **First Gas Limited (Transmission)**
 For Year Ended **30 September 2021**

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. GTBs must provide explanatory comment on the value of their RAB in Schedule 14 (Mandatory Explanatory Notes). This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref

4(i): Regulatory Asset Base Roll Forward

for year ended	RAB 30 Sep 17 (\$000)	RAB 30 Sep 18 (\$000)	RAB 30 Sep 19 (\$000)	RAB 30 Sep 20 (\$000)	RAB 30 Sep 21 (\$000)
Total opening RAB value	784,033	824,222	829,884	834,976	849,688
less Total depreciation	29,058	31,148	32,786	34,954	34,267
plus Total revaluations	15,365	15,652	12,154	12,037	41,735
plus Assets commissioned	55,154	21,427	25,819	37,682	18,813
less Asset disposals	1,191	79	-	53	1,634
plus Lost and found assets adjustment					-
plus Adjustment resulting from asset allocation	(81)	(190)	(93)	(0)	130
Total closing RAB value	824,222	829,884	834,976	849,688	874,465

4(ii): Unallocated Regulatory Asset Base

	Unallocated RAB *	RAB
	(\$000)	(\$000)
Total opening RAB value	850,616	849,688
less Total depreciation	34,389	34,267
plus Total revaluations	41,777	41,735
plus Assets commissioned (other than below)	2,974	2,766
Assets acquired from a regulated supplier		
Assets acquired from a related party	16,047	16,047
Assets commissioned	19,021	18,813
less Asset disposals (other than below)	1,753	1,634
Asset disposals to a regulated supplier		
Asset disposals to a related party		
Asset disposals	1,753	1,634
plus Lost and found assets adjustment		
plus Adjustment resulting from asset allocation		130
Total closing RAB value	875,272	874,465

* The 'unallocated RAB' is the total value of those assets used wholly or partially to provide gas transmission services without any allowance being made for the allocation of costs to services provided by the supplier that are not gas transmission services. The RAB value represents the value of these assets after applying this cost allocation. Neither value includes works under construction.

Company Name **First Gas Limited (Transmission)**
 For Year Ended **30 September 2021**

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. GTBs 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_t

1,106

55

CPI_t⁻⁴

1,054

56

Revaluation rate (%)

4.93%

57

58

59

Unallocated RAB *

RAB

(\$000)

(\$000)

(\$000)

(\$000)

60

Total opening RAB value

850,616

849,688

61

less Opening value of fully depreciated, disposed and lost assets

3,819

3,742

62

Total opening RAB value subject to revaluation

846,797

845,946

63

Total revaluations

41,777

41,735

64

65

66

4(iv): Roll Forward of Works Under Construction

67

Works under construction—preceding disclosure year

Unallocated works under construction

45,813

Allocated works under construction

45,705

68

plus Capital expenditure

7,061

16,873

69

less Assets commissioned

19,021

18,813

70

plus Adjustment resulting from asset allocation

71

Works under construction - current disclosure year

33,853

43,765

72

73

Highest rate of capitalised finance applied

4.21%

74

75



Company Name **First Gas Limited (Transmission)**
 For Year Ended **30 September 2021**

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. GTBs must provide explanatory comment on the value of their RAB in Schedule 14 (Mandatory Explanatory Notes). This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref

4(v): Regulatory Depreciation

	Unallocated RAB *		RAB
	(\$000)	(\$000)	(\$000)
Depreciation - standard	29,427		29,427
Depreciation - no standard life assets	4,962		4,840
Depreciation - modified life assets			
Depreciation - alternative depreciation in accordance with CPP			
Total depreciation		34,389	34,267

4(vi): Disclosure of Changes to Depreciation Profiles

(\$000 unless otherwise specified)

Asset or assets with changes to depreciation	Reason for non-standard depreciation (text entry)	Depreciation charge for the period (RAB)	Closing RAB value under 'non-standard' depreciation	Closing RAB value under 'standard' depreciation

* include additional rows if needed

4(vii): Disclosure by Asset Category

(\$000 unless otherwise specified)

	Pipes	Stations	Compressors	Main-line valves	Special crossings	Other network assets	Non-network assets	Total
Total opening RAB value	529,718	112,579	49,608	12,080	47,292	70,968	27,442	849,688
less Total depreciation	18,762	5,090	3,171	659	1,960	1,447	3,178	34,267
plus Total revaluations	26,085	5,550	2,427	596	2,333	3,496	1,248	41,735
plus Assets commissioned	5,406	6,253	1,899	1,042	-	472	3,742	18,813
less Asset disposals	-	-	-	-	-	-	1,634	1,634
plus Lost and found assets adjustment	-	-	-	-	-	-	-	-
plus Adjustment resulting from asset allocation	-	-	-	-	-	-	130	130
plus Asset category transfers	-	-	-	-	-	-	-	-
Total closing RAB value	542,447	119,292	50,763	13,058	47,665	73,490	27,750	874,465

Asset Life

Weighted average remaining asset life	34.7	30.8	25.4	42.5	27.7	22.2	20.4	(years)
Weighted average expected total asset life	79.0	36.6	33.6	50.3	80.0	28.9	24.8	(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.

* Workings to be provided in Schedule 14

In Schedule 14, Box 5 and Box 6, provide descriptions and workings of items recorded in the asterisked categories in Schedule 5a(i).

(\$000)

Opening tax losses	-	
<i>plus</i> Current period tax losses	-	
<i>less</i> Utilised tax losses	-	
Closing tax losses		

(\$000)

Opening sum of regulatory tax asset values		205,340	
<i>less</i>	Tax depreciation	22,469	
<i>plus</i>	Regulatory tax asset value of assets commissioned	20,303	
<i>less</i>	Regulatory tax asset value of asset disposals	807	
<i>plus</i>	Lost and found assets adjustment		
<i>plus</i>	Adjustment resulting from asset allocation	226	
<i>plus</i>	Other adjustments to the RAB tax value		
Closing sum of regulatory tax asset values			202,593

Company Name

First Gas Limited (Transmission)

For Year Ended

30 September 2021

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		31,216
9			
10	Market value of asset disposals		
11			
12	Service interruptions, incidents and emergencies	696	
13	Routine and corrective maintenance and inspection	13,349	
14	Asset replacement and renewal (opex)	-	
15	Compressor fuel	-	
16	Land management and associated activity	1,660	
17	Network opex		15,704
18	System operations	3,816	
19	Network support	6,002	
20	Business support	-	
21	Operational expenditure		25,522
22	Consumer connection	286	
23	System growth	1,010	
24	Asset replacement and renewal (capex)	23,941	
25	Asset relocations	864	
26	Quality of supply	-	
27	Legislative and regulatory	-	
28	Other reliability, safety and environment	85	
29	Expenditure on non-network assets		207
30			
31	Expenditure on assets		26,393
32	Cost of financing		
33	Value of capital contributions		
34	Value of vested assets		
35	Capital expenditure		26,393
36	Total expenditure		51,914
37	Other related party transactions		
38	5b(iii): Total Opex and Capex Related Party Transactions		
39			Total value of transactions (\$000)
40	Name of related party	Nature of opex or capex service provided	
41	Gas Services NZ	Service interruptions, incidents and emergencies	696
42	Gas Services NZ	Routine and corrective maintenance and inspection	13,349
43	Gas Services NZ	Land management and associated activity	1,660
44	Gas Services NZ	System operations	3,816
45	Gas Services NZ	Network support	6,002
46	Gas Services NZ	Consumer connection	286
47	Gas Services NZ	System growth	1,010
48	Gas Services NZ	Asset replacement and renewal (capex)	23,941
49	Gas Services NZ	Asset relocations	864
50	Gas Services NZ	Expenditure on non-network assets	207
51	Gas Services NZ	Other reliability, safety and environment	85
52			
53			
54			
55	Total value of related party transactions		51,914
56	* include additional rows if needed		
57			

Company Name **First Gas Limited (Transmission)**
 For Year Ended **30 September 2021**

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%	185,111,728	191,540,083	277,668	(105,778)
2021 USPP 9yr	23/03/2021	10/03/2021	9.0	2.59%	165,626,282	172,275,729	496,879	(147,223)
2021 USPP 10yr	23/03/2021	24/11/2020	10.0	2.32%	107,619,458	102,754,156	403,573	(107,619)
2021 USPP 12yr	23/03/2021	24/11/2020	12.0	2.42%	286,985,220	271,600,886	1,506,672	(334,816)
2021 USPP 15yr	23/03/2021	24/11/2020	15.0	BKBM +200bps	225,000,000	223,636,000	1,687,500	(300,000)
* include additional rows if needed						961,806,854	4,372,292	(995,437)

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

Gross term credit spread differential

3,376,855

Total book value of interest bearing debt

961,806,854

Leverage

42%

Average opening and closing RAB values

862,076

Attribution Rate (%)

0%

Term credit spread differential allowance

1,271

Company Name **First Gas Limited (Transmission)**
 For Year Ended **30 September 2021**

SCHEDULE 5d: REPORT ON COST ALLOCATIONS

This schedule provides information on the allocation of operational costs. GTBs must provide explanatory comment on their cost allocation in Schedule 14 (Mandatory Explanatory Notes), including on the impact of any reclassifications. This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref

5d(i): Operating Cost Allocations		Value allocated (\$000s)				
		Arm's length deduction	Gas transmission services	Non-gas transmission services	Total	OVABAA allocation increase (\$000s)
Service interruptions, incidents and emergencies						
	Directly attributable		696			
	Not directly attributable				-	
	Total attributable to regulated service		696			
Routine and corrective maintenance and inspection						
	Directly attributable		13,182			
	Not directly attributable				-	
	Total attributable to regulated service		13,182			
Asset replacement and renewal						
	Directly attributable					
	Not directly attributable				-	
	Total attributable to regulated service		-			
Compressor fuel						
	Directly attributable		4,657			
	Not directly attributable				-	
	Total attributable to regulated service		4,657			
Land management and associated activity						
	Directly attributable		1,660			
	Not directly attributable				-	
	Total attributable to regulated service		1,660			
System operations						
	Directly attributable		3,816			
	Not directly attributable				-	
	Total attributable to regulated service		3,816			
Network support						
	Directly attributable		3,825			
	Not directly attributable				-	
	Total attributable to regulated service		3,825			
Business support						
	Directly attributable		13,671			
	Not directly attributable	6,036	20,605	2,860	29,501	
	Total attributable to regulated service		34,276			
Operating costs directly attributable						
			41,507			
Operating costs not directly attributable						
		6,036	20,605	2,860	29,501	-
Operational expenditure						
			62,112			

Company Name **First Gas Limited (Transmission)**
 For Year Ended **30 September 2021**

SCHEDULE 5d: REPORT ON COST ALLOCATIONS

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

47	5d(ii): Other Cost Allocations	Value allocated (\$000s)				OVABAA allocation increase (\$000s)
		Arm's length deduction	Gas distribution services	distribution services	Total	
48	Pass through and recoverable costs					
49	Pass through costs					
50	Directly attributable		2,461			
51	Not directly attributable					
52	Total attributable to regulated service		2,461			
53	Recoverable costs					
54	Directly attributable		4,639			
55	Not directly attributable					
56	Total attributable to regulated service		4,639			

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

61	Change in cost allocation 1			(\$000)	
				CY-1	Current Year (CY)
62	Cost category		Original allocation		
63	Original allocator or line items		New allocation		
64	New allocator or line items		Difference		
65					
66	Rationale for change				
67					
68					
69					
70	Change in cost allocation 2			(\$000)	
71	Cost category		Original allocation	CY-1	Current Year (CY)
72	Original allocator or line items		New allocation		
73	New allocator or line items		Difference		
74					
75	Rationale for change				
76					
77					
78					
79	Change in cost allocation 3			(\$000)	
80	Cost category		Original allocation	CY-1	Current Year (CY)
81	Original allocator or line items		New allocation		
82	New allocator or line items		Difference		
83					
84	Rationale for change				
85					
86					

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

† include additional rows if needed

Company Name **First Gas Limited (Transmission)**For Year Ended **30 September 2021****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. GTBs 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

7	5e(i): Regulated Service Asset Values	
8		Value allocated (\$000s)
9		Gas transmission services
10	Pipes	
11	Directly attributable	542,447
12	Not directly attributable	
13	Total attributable to regulated service	542,447
14	Stations	
15	Directly attributable	119,292
16	Not directly attributable	
17	Total attributable to regulated service	119,292
18	Compressors	
19	Directly attributable	50,763
20	Not directly attributable	
21	Total attributable to regulated service	50,763
22	Main-line valves	
23	Directly attributable	13,058
24	Not directly attributable	
25	Total attributable to regulated service	13,058
26	Special crossings	
27	Directly attributable	47,665
28	Not directly attributable	
29	Total attributable to regulated service	47,665
30	Other network assets	
31	Directly attributable	73,490
32	Not directly attributable	
33	Total attributable to regulated service	73,490
34	Non-network assets	
35	Directly attributable	16,937
36	Not directly attributable	10,813
37	Total attributable to regulated service	27,750
38		
39	Regulated service asset value directly attributable	863,651
40	Regulated service asset value not directly attributable	10,813
41	Total closing RAB value	874,465

Company Name **First Gas Limited (Transmission)**
 For Year Ended **30 September 2021**

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. GTBs 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

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5e(ii): Changes in Asset Allocations* †**Change in asset value allocation 1**

Asset category	
Original allocator or line items	
New allocator or line items	

Original allocation
 New allocation
 Difference

(\$000)

CY-1	Current Year (CY)
-	-

Rationale for change

Change in asset value allocation 2

Asset category	
Original allocator or line items	
New allocator or line items	

Original allocation
 New allocation
 Difference

(\$000)

CY-1	Current Year (CY)
-	-

Rationale for change

Change in asset value allocation 3

Asset category	
Original allocator or line items	
New allocator or line items	

Original allocation
 New allocation
 Difference

(\$000)

CY-1	Current Year (CY)
-	-

Rationale for change

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

† include additional rows if needed

Company Name **First Gas Limited (Transmission)**
 For Year Ended **30 September 2021**

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.

GTBs 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		
8	Consumer connection	(\$000)	(\$000)
9	System growth		286
10	Asset replacement and renewal		1,010
11	Asset relocations		23,941
12	Reliability, safety and environment:		864
13	Quality of supply		
14	Legislative and regulatory		
15	Other reliability, safety and environment	85	
16	Total reliability, safety and environment		85
17	Expenditure on network assets		26,186
18	Expenditure on non-network assets		(9,616)
19			
20	Expenditure on assets		16,569
21	plus Cost of financing		1,265
22	less Value of capital contributions		961
23	plus Value of vested assets		-
24			
25	Capital expenditure		16,873
26	6a(ii): Subcomponents of Expenditure on Assets(where known)		
27	Research and development		210
28	6a(iii): Consumer Connection		
29	Connection types defined by GTB*	(\$000)	(\$000)
30	Direct Connect	286	
31			
32			
33			
34			
35	* include additional rows if needed		
36	Consumer connection expenditure		286
37			
38	less Capital contributions funding consumer connection expenditure		
39	Consumer connection less capital contributions		286

Company Name **First Gas Limited (Transmission)**
 For Year Ended **30 September 2021**

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.

GTBs must provide explanatory comment on their expenditure on assets in Schedule 14 (Explanatory notes to templates).

This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref

40	6a(iv): System Growth and Asset Replacement and Renewal		
41			
42		System Growth	Asset Replacement and Renewal
43		(\$000)	(\$000)
44	Pipes	7	13,069
45	Compressor stations	-	1,907
46	Other stations	1,003	4,821
47	SCADA and communications	-	200
48	Special crossings	-	0
49	<i>Components of stations (where known)</i>		
50	Main-line valves	-	279
51	Heating system	-	2,183
52	Odourisation plants	-	158
53	Coalescers	-	7
54	Metering system	-	1,084
55	Cathodic protection	-	101
56	Chromatographs	-	133
57	System growth and asset replacement and renewal expenditure	1,010	23,941
58	<i>less</i> Capital contributions funding system growth and asset replacement and renewal		367
59	System growth and asset replacement and renewal less capital contributions	1,010	23,575
60			
61	6a(v): Asset Relocations		
62	<i>Project or programme*</i>	(\$000)	(\$000)
63	400line SH3 Rapanui Crossing Remediation	67	
64	402line recoat and protection	111	
65	200 Line Ladies Mile Pipeline Realignment	71	
66	Transmission Gully Pipeline relocations	67	
67	800 Pipeline Tauriko Business Estate Re-alignment	15	
68	<i>* include additional rows if needed</i>		
69	All other projects or programmes - asset relocations	532	
70	Asset relocations expenditure		864
71	<i>less</i> Capital contributions funding asset relocations	595	
72	Asset relocations less capital contributions		269
73	6a(vi): Quality of Supply	(\$000)	(\$000)
74	<i>Project or programme*</i>		
75	Nil		
76			
77			
78			
79			
80	<i>* include additional rows if needed</i>		
81	All other projects or programmes - quality of supply		
82	Quality of supply expenditure		-
83	<i>less</i> Capital contributions funding quality of supply		
84	Quality of supply less capital contributions		-

Company Name **First Gas Limited (Transmission)**
 For Year Ended **30 September 2021**

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.

GTBs must provide explanatory comment on their expenditure on assets in Schedule 14 (Explanatory notes to templates).

This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref

6a(vii): Legislative and Regulatory

Project or programme*

Nil

(\$000)

(\$000)

* include additional rows if needed

All other projects or programmes - legislative and regulatory

Legislative and regulatory expenditure

less Capital contributions funding legislative and regulatory

Legislative and regulatory less capital contributions

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

Project or programme*

Gas Transmission Emergency Response Plan

Management of Change TX FY21

Compressors critical spares

(\$000)

(\$000)

* include additional rows if needed

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

Other reliability, safety and environment expenditure

less Capital contributions funding other reliability, safety and environment

Other reliability, safety and environment less capital contributions

6a(ix): Non-Network Assets

Routine expenditure

Project or programme*

Equipment

ICT

Vehicles

Building Refurbishment

Right-of-use Assets

(\$000)

(\$000)

* include additional rows if needed

All other projects or programmes - routine expenditure

Routine expenditure

Atypical expenditure

Project or programme*

Nil

(\$000)

(\$000)

* include additional rows if needed

All other projects or programmes - atypical expenditure

Atypical expenditure

Expenditure on non-network assets

Company Name

First Gas Limited (Transmission)

For Year Ended

30 September 2021

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

This schedule requires a breakdown of operational expenditure incurred in the disclosure year. GTBs must provide explanatory comment on their operational expenditure in Schedule 14 (Explanatory notes to templates). This includes explanatory comment on any atypical operational expenditure and assets replaced or renewed as part of asset replacement and renewal operational expenditure, and additional information on insurance.

This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

sch ref

		(\$000)	(\$000)
7	6b(i): Operational Expenditure		
8	Service interruptions, incidents and emergencies	696	
9	Routine and corrective maintenance and inspection	13,182	
10	Asset replacement and renewal	-	
11	Compressor fuel	4,657	
12	Land management and associated activity	1,660	
13	Network opex		20,195
14	System operations	3,816	
15	Network support	3,825	
16	Business support	34,276	
17	Non-network opex		41,917
18			
19	Operational expenditure		62,112
20	6b(ii): Subcomponents of Operational Expenditure (where known)		
21	Research and development		459
22	Insurance		



Company Name **First Gas Limited (Transmission)**
 For Year Ended **30 September 2021**

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.

GTBs 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	129,254	130,802	1%
10	7(ii): Expenditure on Assets	Forecast (\$000) ²	Actual (\$000)	% variance
11	Consumer connection	1,530	286	(81%)
12	System growth	1,632	1,010	(38%)
13	Asset replacement and renewal	23,321	23,941	3%
14	Asset relocations	2,856	864	(70%)
15	Reliability, safety and environment:			
16	Quality of supply		-	-
17	Legislative and regulatory		-	-
18	Other reliability, safety and environment	510	85	(83%)
19	Total reliability, safety and environment	510	85	(83%)
20	Expenditure on network assets	29,849	26,186	(12%)
21	Expenditure on non-network assets	17,384	(9,616)	(155%)
22	Expenditure on assets	47,233	16,569	(65%)
23	7(iii): Operational Expenditure	Forecast (\$000) ²	Actual (\$000)	% variance
24	Service interruptions, incidents and emergencies	747	696	(7%)
25	Routine and corrective maintenance and inspection	14,581	13,182	(10%)
26	Asset replacement and renewal		-	-
27	Compressor fuel	5,313	4,657	(12%)
28	Land management and associated activity	1,572	1,660	6%
29	Network opex	22,213	20,195	(9%)
30	System operations	3,378	3,816	13%
31	Network support	3,884	3,825	(2%)
32	Business support	16,107	34,276	113%
33	Non-network opex	23,369	41,917	79%
34	Operational expenditure	45,582	62,112	36%
35				
36	7(iv): Subcomponents of Expenditure on Assets (where known)	Forecast (\$000) ²	Actual (\$000)	% variance
37	Research and development	-	210	-
38				
39	7(v): Subcomponents of Operational Expenditure (where known)	Forecast (\$000) ²	Actual (\$000)	% variance
40	Research and development	-	459	-
41	Insurance	-	-	-
42				

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

² from the CY+1 nominal dollar expenditure forecasts disclosed in accordance with clause 2.6.6 for the forecast period starting at the beginning of the disclosure year (the second to last disclosure of Schedules 11a and 11b)



Company Name **First Gas Limited (Transmission)**
 For Year Ended **30 September 2021**

SCHEDULE 8: REPORT ON BILLED QUANTITIES AND LINE CHARGE REVENUES

This schedule requires disclosure of the delivered quantities and number of offtake points for each type of connection on the GTB's network, and the energy delivered to these offtake points, for the disclosure year. It also requires the billed quantities and associated line charge revenues for each contract type used by the GTB, for the disclosure year.

sch ref

8(i): Billed quantities by contract type

Contract type	Billed quantities - Gas throughput billed*	Billed quantities - Reserved capacity billed*	Billed quantities - Overrun charges billed*	Billed quantities - Approved Nominations billed**	Billed quantities - Σ (Approved Nominations x distance) billed**	Other quantities billed
	TJ	TJ	TJ	TJ	TJ.km	TJ.km
Standard	67,875.01	60,081.65	370.20	139,045.08	14,526,554.80	
Non-standard	16,373.62	17,946.82	34.77			
Add extra rows for additional contract types as necessary						
Totals for all contracts	84,249	78,028	405	139,045	14,526,555	-

8(ii): Line charge revenues (\$000) by contract type

Contract type	Total line charge revenue in disclosure year	Gas throughput revenue*	Reserved capacity revenue*	Overrun charges revenue*	Approved Nominations revenue**	Σ (Approved Nominations x distance) revenue**	Other line charge revenue	Notional revenue foregone from posted discounts (if applicable)
Standard	\$114,891	\$12,750	\$62,442	\$3,620	\$10,575	\$24,187	\$1,317	n/a
Non-standard	\$15,912	\$808	\$14,993	\$111	-	-	-	n/a
Add extra rows for additional contract types as necessary								
Totals for all contracts	\$130,802	\$13,558	\$77,434	\$3,731	\$10,575	\$24,187	\$1,317	-

*Vector only

**MDL only

Company Name

First Gas Limited (Transmission)

For Year Ended

30 September 2021

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

	Asset category	Asset class	Units	Items at start of year (quantity)	Items at end of year (quantity)	Net change	Data accuracy (1–4)
7	Pipes	Protected steel pipes	km	2,517	2,514	(3)	3
8	Pipes	Special crossings	km	8	9	1	3
9	Stations	Compressor stations	No.	9	9	-	3
10	Stations	Offtake point	No.	132	132	-	3
11	Stations	Scraper stations	No.	14	14	-	3
12	Stations	Intake points	No.	11	11	-	3
13	Stations	Metering stations	No.	5	5	-	3
14	Compressors	Compressors—turbine driven	No.	4	4	-	3
15	Compressors	Compressors—electric motor driven	No.	2	2	-	3
16	Compressors	Compressors—reciprocating engine driven	No.	14	14	-	3
17	Main-line valves	Main line valves manually operated	No.	75	75	-	3
18	Main-line valves	Main line valves remotely operated	No.	11	11	-	3
19	Heating systems	Gas-fired heaters	No.	110	108	(2)	3
20	Heating systems	Electric heaters	No.	4	4	-	3
21	Odourisation plants	Odourisation plants	No.	22	24	2	3
22	Coalescers	Coalescers	No.	41	41	-	3
23	Metering systems	Meters—ultrasonic	No.	10	10	-	3
24	Metering systems	Meters—rotary	No.	61	62	1	3
25	Metering systems	Meters turbine	No.	77	78	1	3
26	Metering systems	Meters—mass flow	No.	1	2	1	3
27	SCADA and communications	Remote terminal units (RTU)	No.	89	89	-	3
28	SCADA and communications	Communications terminals	No.	3	3	-	3
29	Cathodic protection	Rectifier units	No.	49	49	-	3
30	Chromatographs	Chromatographs	No.	11	11	-	3

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

S9b.Asset Age Profile

Company Name

First Gas Limited (Transmission)

For Year Ended

30 September 2021

SCHEDULE 9c: REPORT ON PIPELINE DATA

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

sch ref

7	Transmission system	System length (km) (at year end)	Weighted average pipe diameter (mm)	Max monthly	Max weekly	Total gas conveyed (TJ per year)	Gas conveyed for Persons not involved in the GTB (TJ per year)	Number of connection points
				quantity entering the system (TJ per month)	quantity entering the system (TJ per week)			
8	South - Kapuni - Frankley Road (SKF)	1,035	3,652	3,652	2,409	32,482	32,265	64
9	Bay of Plenty (BOP)	607	1,002	1,002	479	9,489	9,436	34
10	North (NORTH)	539	2,669	2,669	1,245	27,398	27,168	39
11	Te Awamutu North (TAN)	11	63	63	46	416	416	3
12	Minor (MINORS)	16	36	36	15	288	286	19
13	Maui Pipeline	307	747	12,104	2,888	124,568	124,290	27
14	Total	2,514						
15	Length by assigned location class (km)							
				Secondary location class				
16					Common			
					Infrastructure			
					Corridor (CIC)			
17	Primary location class Rural (R1) land	Sensitive Use (S)	Industrial (I)	Heavy Industrial (HI)	Submerged (W)	Total (km) (at year end) *	Percentage of total	
18	Primary location class Rural Residential (R2) land	9	13	7	5	2,202	87.31%	
19	Primary location class Residential (T1) land	12	0	2	4	175	6.93%	
20	Primary location class High Density (T2) land	38	18	1	2	145	5.76%	
21	* The total km is not the same as the sum of the secondary location classes as a pipeline section may only have a primary location class.						-	

Company Name **First Gas Limited (Transmission)**
 For Year Ended **30 September 2021**

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

9d(i): New Connections

Connection types defined by GTB	Number of new connections
Distribution System	-
Direct Connect	-
Receipt Point	-
* include additional rows if needed	
Connections total	-

9d(ii): Gas Volumes and Connections

Connection types defined by GTB	Intake volume (TJ)	Quantity of gas delivered (TJ)	Number of connection points
Receipt Point	147,133	-	15
Direct Connect	-	112,739	37
Distribution System	-	33,832	108
	-	-	-
* include additional rows if needed			
Total	147,133	146,571	160

9d(iii): Gas conveyed

	(TJ)
Intake volume (TJ)	147,133
Quantity of gas delivered (TJ)	146,571
Gas used in compressor stations (TJ)	653
Gas used in heating systems (TJ)	123
Change in line pack (TJ)	1
Vented gas (TJ)	4
Unaccounted for gas (TJ)	(217)
Total gas conveyed (TJ)	147,351

9d(iv): Unaccounted for Gas

Transmission system	Gas entering the system (TJ)	Unaccounted for gas (TJ)	Unaccounted for gas (%)	Intake volume (TJ)	Interconnected system intake (TJ)	Interconnected intake systems (name)
Combined systems	147,133	(217)	(0.15%)	147,133		
	-		-			
	-		-			
	-		-			
	-		-			
	-		-			
Total				147,133	-	

Company Name	First Gas Limited (Transmission)
For Year Ended	30 September 2021
Network	Maui

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

9d(i): New Connections

Connection types defined by GTB	Number of new connections
Intake Point (excluding Bi-directional Points)	-
Offtake Point (excluding Bi-directional Points and Compressor Stations)	-
Bi-Directional Point	-
Compressor Station	-
* include additional rows if needed	
Connections total	-

9d(ii): Gas Volumes and Connections

Connection types defined by GTB	Intake volume (TJ)	Quantity of gas delivered (TJ)	Number of connection points
Intake Point (excluding Bi-directional Points)	122,451	-	7
Offtake Point (excluding Bi-directional Points and Compressor Stations)	-	115,500	18
Bi-Directional Point	2,160	8,790	1
Compressor Station	-	-	1
* include additional rows if needed			
Total	124,611	124,290	27

9d(iii): Gas conveyed

(TJ)
Intake volume (TJ)
Quantity of gas delivered (TJ)
Gas used in compressor stations (TJ)
Gas used in heating systems (TJ)
Change in line pack (TJ)
Vented gas (TJ)
Unaccounted for gas (TJ)
Total gas conveyed (TJ)

9d(iv): Unaccounted for Gas

Transmission system	Gas entering the system (TJ)	Unaccounted for gas (TJ)	Unaccounted for gas (%)	Intake volume (TJ)	Interconnected system intake (TJ)	Interconnected intake systems (name)
Maui Pipeline	124,611	52	0.04%	124,611		
	-	-	-	-		
	-	-	-	-		
	-	-	-	-		
	-	-	-	-		
	-	-	-	-		
Total				124,611	-	

Company Name	First Gas Limited (Transmission)
For Year Ended	30 September 2021
Network	Non-Maui

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

9d(i): New Connections

Connection types defined by GTB	Number of new connections
Distribution System	-
Direct Connect	-
Bi-Directional	-
Receipt Point	-
* include additional rows if needed	
Connections total	-

9d(ii): Gas Volumes and Connections

Connection types defined by GTB	Intake volume (TJ)	Quantity of gas delivered (TJ)	Number of connection points
Distribution System	-	34,556	113
Direct Connect	-	27,349	24
Bi-Directional	11,526	7,667	4
Receipt Point	58,294	-	18
* include additional rows if needed			
Total	69,820	69,572	159

9d(iii): Gas conveyed

(TJ)
Intake volume (TJ)
Quantity of gas delivered (TJ)
Gas used in compressor stations (TJ)
Gas used in heating systems (TJ)
Change in line pack (TJ)
Vented gas (TJ)
Unaccounted for gas (TJ)
Total gas conveyed (TJ)

9d(iv): Unaccounted for Gas

Transmission system	Gas entering the system (TJ)	Unaccounted for gas (TJ)	Unaccounted for gas (%)	Intake volume (TJ)	Interconnected system intake (TJ)	Interconnected intake systems (name)
South-Kapuni-Frankley Road (SKF)	33,472	140	0.42%	33,472		
Bay of Plenty (BOP)	9,527	39	0.41%	8,661	866	SKF, TAN
North (NORTH)	26,976	(428)	(1.59%)	26,976		
Te Awamutu North (TAN)	422	3	0.71%	422		
Minor (MINORS)	289	-	-	289		
Total				69,820	866	

Company Name **First Gas Limited (Transmission)**
 For Year Ended **30 September 2021**

SCHEDULE 10a: REPORT ON NETWORK RELIABILITY AND INTERRUPTIONS

This schedule requires a summary of the key measures of network reliability (interruptions, compressor availability) for the disclosure year
 GTBs must provide explanatory comment on their network reliability for the disclosure year in Schedule 14 (Explanatory Notes to Templates).

sch ref

10a(i): Interruptions and Reliability

Total number of planned interruptions

5

Service incidents and emergencies

Number of incidents

248

Unplanned interruptions in transmission systems

Description and cause of Interruption	Transmission systems affected	Date	Duration (hrs)

*Add rows as necessary

Number of interruption or curtailment events:

due to insufficient capacity
 due to consumer flows exceeding approved quantities
 caused by equipment failure
 caused by third parties
Total

-
-
-
14
14

10a(ii): Compressor Availability

Compressor station code/name	Compressor unit ID	Number of hours the compressor ran	Number of hours compressor was available for service	Number of instances where the compressor failed to start	Number of instances where a compressor was required but unavailable for service
Mokau	Unit #1	6,865	8,519	13	2
Mokau	Unit #2	1,589	7,177	-	1
Henderson	1	2,775	8,556	-	7
Henderson	2	2,042	8,573	1	5
Kaitoke	1	3,486	8,477	2	1
Kaitoke	2	502	8,586	-	-
Kapuni	2	2,851	7,872	1	-
Kapuni	3	5,486	7,836	4	-
Kapuni	5	4,236	7,082	30	-
Kawerau	1	71	8,437	2	-
Kawerau	2	91	8,310	5	-
Mahoenui	1	256	8,404	1	-
Mahoenui	2	66	8,117	3	-
Mahoenui	3	51	8,338	3	-
Pokuru	1	6,556	8,447	-	-
Pokuru	2	2,690	6,955	1	-
Rotowaro	3	7,049	7,587	-	1
Rotowaro	4	6,916	7,567	-	1
Rotowaro	5	149	7,423	-	-
Rotowaro	6	1,379	7,056	1	1

*Add rows as necessary

Company Name	First Gas Limited (Transmission)
For Year Ended	30 September 2021

Schedule 14 Mandatory Explanatory Notes

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

1. This schedule requires GTBs to provide explanatory notes to information provided in accordance with clauses 2.3.1, 2.4.20 and subclause 2.5.1(1)(e).
2. This schedule is mandatory— GTBs 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 GTBs to give additional explanation of disclosed information should they elect to do so.

Mandatory explanatory notes

Return on Investment (Schedule 2)

4. In the box below, comment on return on investment as disclosed in Schedule 2. This comment must include information on reclassified items in accordance with subclause 2.7.1(2).

Box 1: Explanatory comment on return on investment

In FY2021, the vanilla ROI for our gas transmission business was 7.58%. This is above the ROI of 4.98% reported for FY2020. This increase in ROI is primarily due to the significant increase in CPI in FY2021. The CPI for FY2021 was 4.93% compared to only 1.44% in FY2020.

We note that during FY2021, Firstgas incurred material atypical expenditure relating to the decision not to proceed with the Gas Transmission Access Code (GTAC) implementation project (see box 10). If this atypical expenditure was excluded, the vanilla ROI for our transmission business would have been 9.12%.

The ROI calculation assumes revenue from a TCSD allowance because Firstgas has extended its debt financing to beyond 10 years. However, because this extension in the term of our debt occurred within the current regulatory period actual revenues earned in FY2021 do not include this allowance.

Reclassification of items:

The inclusion of Software as a Service (SaaS) costs in operating expenditure (Opex) from FY2021 has not had a significant effect on the ROI. See box 10 for further detail.

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

Box 2: Explanatory comment on regulatory profit

There are no items of other regulated income and no reclassified items.

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

6. If the GTB 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 GTB.

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 combined initial RAB's of both the Non-Maui transmission system and the Maui transmission system, with adjustments made for additions, disposals, depreciation and revaluation in accordance with the applicable Input Methodologies.

Re-categorised items

There were no re-categorised items in FY2021.

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

8. In the box below, provide descriptions and workings of the material permanent differences included in the following items, as recorded in the asterisked categories in 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 mainly of the Gas Transmission Access Code (GTAC) project which did not proceed and has given rise to a non-deductible write off. Other immaterial amounts making up permanent differences are non-deductible professional and entertainment expenses and an adjustment for transfer pricing on interest.

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

9. In the box below, provide descriptions and workings of the material temporary differences included in the following items, as recorded in the asterisked categories in 5a(i) of Schedule 5a:
- 9.1 Income not included in regulatory profit / (loss) before tax but taxable
 - 9.2 Expenditure or loss in regulatory profit / (loss) before tax but not deductible
 - 9.3 Income included in regulatory profit / (loss) before tax but not taxable
 - 9.4 Expenditure or loss deductible but not in regulatory profit / (loss) before tax

Box 6: Temporary differences

Temporary differences include immaterial movements in provisions and accruals.

Cost allocation (Schedule 5d)

10. In the box below, comment on cost allocation as disclosed in Schedule 5d. This comment must include information on reclassified items in accordance with subclause 2.7.1(2).

Box 7: Cost allocation in schedule 5dApproach to cost allocation

Firstgas (transmission) is part of the Firstgas Group of companies. Business support functions are provided to other companies within the Group. 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 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. This is based on management's experience and knowledge, and an analysis of each of the cost areas.

Only one allocation method is used for each 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.

Reclassification of costs

There has been no reclassification of costs in the FY2021 disclosure period.

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.

There have been no re-classified items.

Capital expenditure in FY2021

Our focus continues to be on maintaining and improving the resilience of the gas transmission system and security of supply. This focus was reflected in the work programme that was undertaken in FY2021. Major works included:

- Continuation of the Gilbert Stream project, including the construction of the realigned section of pipeline within the culvert, with final tie-ins expected in FY2022.
- Continuing the programme to inspect, and replace if required, aging water bath heaters across stations. This is part of a programme to extend the life of the stations and ensure pressure equipment management targets continue to be met.
- In-line-inspection (pigging) of the transmission system. This is an ongoing programme of work, with the frequency that individual pipelines are intelligently pigged driven by our Pipeline Integrity Management Plan. To maintain our certificate of fitness for the network, our pipeline certifier (Lloyds) requires that we conduct the pigging at our specified intervals across all our piggable pipelines.
- Continuing a programme to upgrade or modify pigging facilities to improve operational safety and enabling equipment to better accommodate in-line equipment technology.
- Continuing development of the compression strategy front end engineering studies.

During FY2021, Firstgas decided not to proceed with the Gas Transmission Access Code (GTAC) implementation project due to challenges experienced with the project and changes in the external environment facing the gas sector. This decision is reflected in our financial and regulatory accounts for FY2021 through a negative CAPEX adjustment (removing costs from Work in Progress).

Further detail on our expenditure for FY2021, and our future work programme is available in our 2021 Asset Management Plan (AMP) Update published on the Firstgas website here:

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

Change in the treatment of Software as a Service costs

From FY2021, Software as a Service (SaaS) costs are reported as Opex. Previously they were included as non-network Capex. More detail on this change in treatment is provided in box 10.

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 Schedule 6b(i)
- 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 was no asset replacement and renewal operational expenditure this year.

Change in the treatment of Software as a Service costs

In FY2021, Firstgas has changed its accounting policy in response to the International Financial Reporting Standards Interpretation Committee (IFRIC) decision¹ on Software as a Service (SaaS) products. The decision requires that where a customer does not control a Software-as-a-Services (SaaS) product, customisations and configurations are required to be expensed rather than capitalised.

As a result, SaaS costs that were previously accounted for as non-network Capex are now treated as business support Opex costs. SaaS costs fluctuate year to year. To illustrate this, in FY2020 approximately \$71,000 of SaaS costs were included in non-network Capex. In FY2021, \$3.5 million of SaaS costs were included in Opex.

Atypical expenditure

Firstgas has incurred material atypical expenditure in FY2021. As outlined above, Firstgas decided not to proceed with the Gas Transmission Access Code (GTAC) implementation project due to challenges experienced with the project and changes in the external environment facing the gas sector. This decision is reflected in our financial and regulatory accounts for FY2021 through the inclusion of \$12.8 million in business support OPEX.

Research and development expenditure

Firstgas is committed to supporting New Zealand's transition to a net zero carbon economy. We are investigating how gas networks can support this transition, while still maintaining and improving the resilience and security of supply of the existing gas transmission network.

In FY2021, we have continued with our work programme investigating zero or low-carbon gases. The following work was undertaken through our contribution of \$459,000 allocated to research and development, and partial funding from project partners:

- *Hydrogen trial:* In March 2021, we released our report² into whether green hydrogen can be used in New Zealand and transported via the existing gas pipeline network. Our report concluded that hydrogen is viable in a zero-carbon energy system and that it is feasible to convert Firstgas pipelines to hydrogen — initially as a blend, and then to 100% in the future. Work has now moved to phase 1, developing the technical and strategic plans to enable Firstgas to undertake hydrogen blending trials in select locations. This work programme will continue over the coming years.
- *BECA Biogas study:* In June 2021, we released a joint Biogas study³ with Beca, Fonterra and EECA which revealed that biomethane is a viable, untapped solution to decarbonising New Zealand's natural gas network right now, with the potential to replace nearly 20% of New Zealand's total gas usage by 2050.
- *Biomethane pre-feasibility studies:* We have undertaken development work with external biogas companies over the year to explore options for building anaerobic digestion plants in different locations across the country, upgrading biogas, and injecting the resulting biomethane into the gas network.
- *Emissions study:* In FY2021, we have developed fugitive gas emissions models. These models are intended to be used to report methane emissions to MBIE, in addition to providing a more standardised method for estimating all Firstgas emissions.

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

Overall, our capital works programme associated with expenditure on network assets was aligned with the FY2020 Asset Management Plan (AMP) for the FY2021 period, with expenditure on assets of \$26.1 million compared with expenditure forecast in the AMP for this period of \$29.8 million.

Expenditure on assets (Capex)

Further COVID-19 lockdowns during FY2021 impacted the timing of our Capital works programme; however, we were able to achieve most of our planned works. The underspend in Capex was attributed to expenditure associated with projects driven by third party needs: asset relocations, system growth and customer connections.

The main change in the FY2021 work programme from that planned relates to the 600 series pipelines. This was an emerging project that was not in the 2020 AMP. The 600 pipelines are looped sections of the 100 line that supplies gas from Taranaki to the lower North Island and Hawkes Bay regions. Following the in-line inspection and subsequent investigation into the internal condition of the 600 series pipelines, it has been determined that a pressure reduction is required to safely operate the 600 series pipelines. This project required the building of new assets and equipment to prolong the life of the existing asset.

Operational expenditure

Expenditure associated with the network Opex is largely aligned with the forecast in the 2020 AMP for the FY2021.

The variance between the forecast expenditure for Non-network Opex and actual expenditure for FY2021 is largely a result of overspend under business support. In FY2021, Firstgas undertook a marketing campaign to highlight the ongoing need for gas through the transition to net-zero carbon economy (\$1.5 million).⁴

SaaS (Software-as-a-service): The International Financial Reporting Standards Interpretation Committee (IFRIC) has issued a decision *on Configuration or Customisation Costs in a Cloud Computer Arrangement* (IAS 38 Intangible Assets). The decision requires that where a customer does not control a Software-as-a-Services (SaaS) product, customisations and configurations are required to be expensed rather than capitalised. The Group's accounting policy has historically been to capitalise all costs related to SaaS arrangements as intangible assets in the Statement of Financial Position.

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

¹ See IFRIC's decision on Configuration or Customisation Costs in a Cloud Computer Arrangement (IAS 38 Intangible Assets).

² *Bringing Zero Carbon Gas to Aotearoa: Hydrogen Feasibility Study – Summary Report*, Firstgas Group, 29 March 2021, <https://gasischanging.co.nz/our-path-to-zero-carbon-gas/hydrogen-trial-results/>

³ *Biogas and Biomethane in New Zealand*. The report is available through the Beca website: <https://www.becca.com/ignite-your-thinking/ignite-your-thinking/july-2021/biogas-and-biomethane-in-nz-report>

⁴ \$1.8 million allocated between Firstgas' transmission and distribution businesses.

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 actual revenue of \$130.8 million is approximately 1% more than our target (forecast) revenue of \$129.3 million for the FY2021 disclosure period. This small variance to forecast has been largely driven by higher than forecast capacity reservations, partially offset by lower volumes of gas required by Huntly Power Station than forecast.

Further information on how we forecast target revenue is available from our transmission pricing methodology and *ex-ante* price setting compliance statements. These documents are available on the Firstgas website at <https://firstgas.co.nz/about-us/regulatory/transmission/>



16. If prices or price category codes (as applicable) have been changed in a disclosure year, please explain in the box below the effect of this on the allocation of quantities and revenues between connection types or contract types (as applicable) disclosed in Schedule 9d(ii) and Schedule 8.

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

There have been no changes to price category codes. However, prices were changed on 1 October 2020, in line with the price path calculation specified in the *Default Price-Quality Path Determination for transmission services, 2017 – 2022*.

The change of price does not affect the allocation of quantities between connection or contract types as disclosed in Schedule 8 and Schedule 9d(ii).

For the FY2021 disclosure period, we have continued to operate under the Maui Pipeline Operating Code (MPOC) and the Gas Transmission Code (GTC)⁵ for the Maui and Non-Maui pipelines respectively.

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.

⁵ This commercial code was previously referred to as the Vector Transmission Code (VTC) but was renamed as the Gas Transmission Code, effective 9 August 2021.

Box 14: Commentary on network reliability for the disclosure year**Incidents and interruptions**

A total of 248 incidents were recorded on the gas transmission system during the FY2021 disclosure period, compared to 274 incidents in FY2020. Most of the incidents in this disclosure period relate to near miss events, station equipment failures, gas specification excursions by gas producers, natural gas odour reported in vicinity of pipelines and unauthorised work over the pipeline.

In FY2021, we have seen a continued decrease in the number of unauthorised work events with only 26 reported events in FY2021, compared to 33 the previous year - despite similar levels of construction activity around the network. Firstgas continues our focus on landowner and contractor communications to raise awareness of pipeline safety process requirements including contacting us for easement permits and requesting information on the location of assets before they dig. Satisfaction surveys conducted during the year have indicated landowners and contractors working within our easements have high awareness of the pipeline safety process and continue to report positive interactions with Firstgas.

An interruption is a subset of incidents and occurs when gas supply to a consumer stops for at least one minute. There were no unplanned interruptions in this disclosure period.

There were five planned interruptions on the gas transmission system during FY2021. These related to planned maintenance and site upgrade activities, that were aligned with downstream customer planned outages.

Curtailments

There were 14 curtailment events recorded in the FY2021 disclosure period, compared to 40 in the prior year. All of these curtailments were caused by third parties. Firstgas has no control over these curtailments and their number is affected by the number of production station outages, or mismatch between nominated and actual gas flows by system users.

Compressor stations and performance

In Schedules 9a and 9b, we have disclosed 20 compressors situated at 9 compressor stations. In Schedule 10a, we have reported operating data for 20 compressors at 8 stations. The reason for the difference is that Schedules 9a and 9b account for all stations owned by Firstgas, whereas Schedule 10 accounts for all stations and compressors currently operational.

The number of instances when a compressor was required but unavailable for service has increased in this disclosure period (from 17 instances in FY2020 to 19 in FY2021). The cause of this increase was primarily due to a higher number of interruptions to the power supply for the Henderson compressors. The availability of the Henderson compressors when required worsened this year due to a higher number of electrical supply issues on the network supplying the compressor station.

Emergency events

There were no emergency events during this disclosure period.

Product control

We have seen a decrease in the number of product control incidents relating to gas specification, with 43 incidents recorded in FY2021 compared to 64 in FY2020. This has been an increased area of focus for FY2021, with Firstgas increasing our engagement with the gas producers supplying the transmission system. This has taken the form of various workshops, business to business discussions over specific events and regular compliance monitoring.

Insurance cover

18. In the box below, provide details of any insurance cover for the assets, including-
- 18.1 The GTB'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 all assets in the gas transmission system, including policies for material damage, business interruption and contract works insurance.

Insurance costs are allocated to the gas transmission 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 (Transmission)
For Year Ended	30 September 2021

Schedule 15 Voluntary Explanatory Notes

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

1. This schedule enables GTBs to provide, should they wish to-
 - 1.1 additional explanatory comment to reports prepared in accordance with clauses 2.3.1, 2.4.20, 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**Separate schedules for demand**

In FY2021, Firstgas has disclosed separate demand schedules (Schedule 9d) for the Maui and Non-Maui systems, and a third schedule for the full gas transmission business (GTB). This is the second disclosure that includes a Schedule 9d disclosure for the full GTB.

The Maui and Non-Maui transmission systems operated under separate access codes for the FY2021 disclosure period – the Maui Pipeline Operating Code (MPOC) and Gas Transmission Code (GTC).⁶ Whilst disclosing separate schedules for demand provides greater transparency, it does not provide the amalgamated amount of gas conveyed for the single transmission business. Quantities of gas are transferred between the systems under the access codes, therefore adding the demand quantities together double counts some gas flows.

In completing the FY2021 Information Disclosure, Firstgas has continued to provide information on the separate systems and has included a third version of Schedule 9d reflecting the amalgamated demand across the entire transmission business. The amalgamated schedule for the GTB removes the quantities of gas transferred between the systems under the separate access codes. The ratios in Schedule 1 where the quantity of gas delivered (TJs) is used, refers to the TJs disclosed in the amalgamated GTB schedule.

Exemptions

Firstgas received an exemption from the Commerce Commission from procuring an Independent Appraisers report for our gas transmission business' related party transactions (RPTs) for FY2021.

Firstgas disclosed its first Independent Appraisers report for our gas transmission business in FY2019. Clause 2.8.5(1) of the ID Determination states that we must also provide an IA report in any of the intervening years⁷ where the value of our RPTs as a proportion of total OPEX or CAPEX increases by more than 5%.

Firstgas tested the likely movement in proportion of RPTs for FY2021. Whilst the change in RPTs is more than 5% above FY2019, this is caused by the abnormal write-off of the GTAC project in FY2021. The Commerce Commission agreed that our RPTs have not materially changed since the base year and exempted us from the requirement to obtain an Independent Appraiser's report.

Asset information

There has been no physical change in pipeline length during FY2021. The minor reduction in length (3 kilometres) is due to:

- The Pariroa Pipeline 400T has now been tagged as a Special crossing in GIS as the Pariroa by-pass better fits with the definition of a special crossing. In the past, it had been attributed to pipeline length. The pipeline length was reduced, with the corresponding increase in special crossing (0.8 kilometres).
- Routine GIS maintenance identified a section of pipe that had been double counted. This has been corrected.

The reduction in heaters count is due to new dual burner single heaters being installed at Belmont and Hastings Delivery points. Historically these sites had 2 separate heaters.

Related party transactions

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 its related parties for the FY2021 disclosure year.

⁶ Previously known as the Vector Transmission Code.

⁷ An Independent Appraiser's test is required every three years as our GTB meets the full disclosure requirements for RPTs.



REGULATORY DISCLOSURE

Gas transmission services: Information disclosure for related parties

For the year ended 30 September 2021



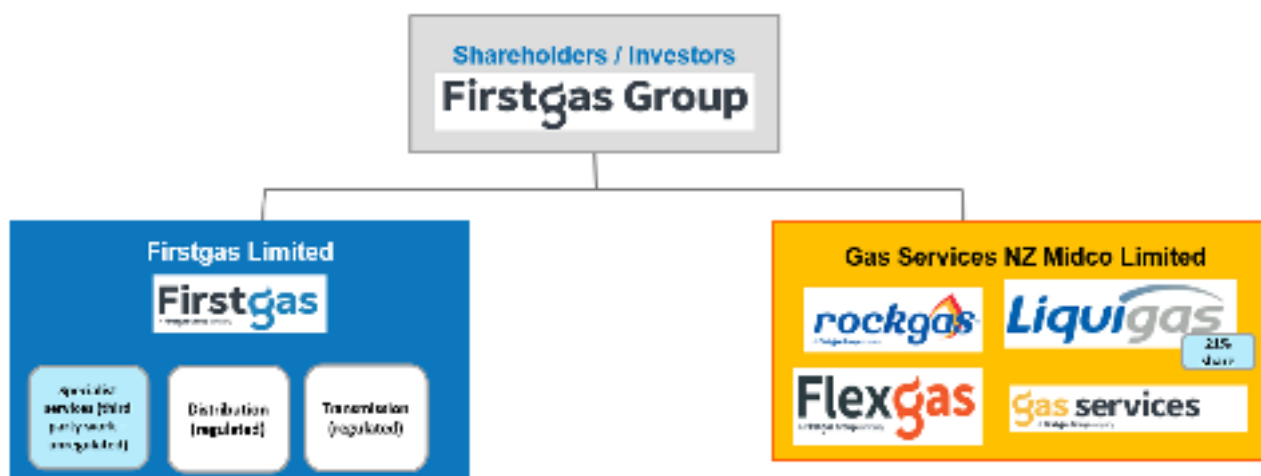
Introduction

First Gas Limited (Firstgas) operates 2,500 kilometres of gas transmission pipelines and more than 4,900 kilometres of gas distribution pipelines across the North Island. These gas infrastructure assets transport natural gas from Taranaki to major industrial gas users, electricity generators, businesses and homes, and transport around 20 percent of New Zealand's primary energy supply. Our distribution network services approximately 66,000 consumers across the regions of Northland, Waikato, Central Plateau, Bay of Plenty, Gisborne, and Kapiti Coast.

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

The Ahuroa gas storage facility (trading as Flexgas) is New Zealand's only underground gas storage facility. Rockgas has over 80 years' experience providing LPG to over 100,000 customers throughout New Zealand. Rockgas is New Zealand's largest LPG retail business and supplies its customers with LPG from both domestic and imported services.

Figure 1: Structure of the Firstgas Group for disclosure year 2021¹



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

Firstgas is committed to helping Aotearoa achieve its climate change goal of zero carbon emissions by 2050. Our gas transmission and distribution networks are ideally placed to support the development, transfer, and use of emerging fuels such as hydrogen or biogas. For more information, visit our website: www.gasischanging.co.nz.

Information disclosure requirements

This disclosure is made on behalf of Firstgas' transmission business. Firstgas (transmission) procures operations and maintenance (O&M) services from its related party, Gas Services New Zealand Midco Limited (GSNZ Midco). The extent of these and other purchases from the wider Firstgas Group mean that

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

Firstgas (transmission) procures more than 65% of its operating expenditure (Opex) and capital expenditure (Capex) from a related party.

Given this use of related parties, Firstgas (transmission) is subject to the full disclosure requirements for related parties under the *Gas Transmission 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 (transmission)
- 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 17 February 2022 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

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1. Summary of Firstgas' related party relationships and transactions

Clause 2.3.8 of the ID Determination requires that:

“if a GTB has had related party transactions involving a procurement from a related party during that disclosure year, the GTB must publicly disclose a diagram or a description that shows the connection between the GTB 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 GTB and the related party*
- (2) *the principal activities of the related party*
- (3) *the total annual expenditure incurred by the GTB with the related party.*

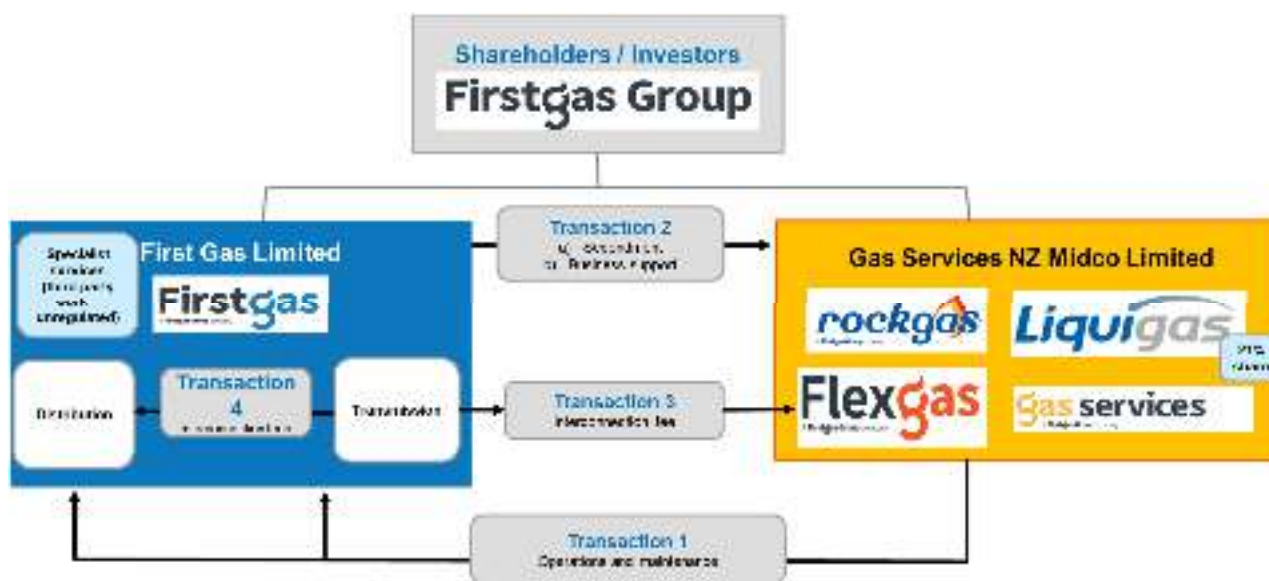
In FY2021, Firstgas (transmission):

- Procured operations and maintenance (O&M) services from its related party, Gas Services New Zealand (Midco) Limited (GSNZ Midco)
- Supplied interconnection services to Flexgas and Firstgas (distribution).²

Firstgas provides unregulated services to GSNZ Midco. In the FY2021 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 related party transactions are illustrated in Figure 2³.

Figure 2: Related party transactions in disclosure year 2021



The following table describes the connection between Firstgas (transmission) and its related parties with which it has had transactions with during the 2021 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.

³ Given the de minimis level of sales to third parties by specialist services Firstgas applies a cost-based approach to allocating costs to the provision of regulated and unregulated businesses.

Table 1: The nature and extent of related party transactions in disclosure year 2021

Related Party	Nature of relationship	Principle activities of the related party	FY2021 expenditure/revenue between Firstgas (transmission) and its related party
GSNZ Midco (Transaction 1)	Firstgas (transmission) and GSNZ Midco have the same ultimate shareholders	GSNZ Midco supplies operations and maintenance (O&M) services to Firstgas (transmission) Services are provided principally to Firstgas under an O&M agreement between Firstgas and GSNZ Midco. Costs are directly attributable to Firstgas (transmission).	Network Capex \$26.186 million Non-Network Capex \$0.207 million Network Opex \$15.704 million System operations Opex \$3.816 million and network support Opex \$6.002 million
GSNZ Midco (Transaction 2)	Firstgas 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 \$30,969 million is included in Schedule 5b for the provision of these services. This unregulated income is included in <i>total regulatory income</i> in schedule 5b (and is not included in Schedule 2 or Schedule 3). ⁴
Flexgas (Transaction 3)	Firstgas (transmission) and Flexgas have the same ultimate shareholders	Flexgas provides gas storage facilities to contracted third parties.	Other income received of \$0.014 million for interconnection fees. Flexgas' gas storage facility at Ahuroa connects to the gas transmission network.
Firstgas (distribution) (Transaction 4)	Firstgas (transmission) and Firstgas (distribution) are regulated businesses both owned by Firstgas	Firstgas (distribution) provides gas distribution services across the central North Island.	Other income received of \$0.234 million for interconnection fees to connect Firstgas (distribution) assets to the gas transmission network.

Gas Services (Midco) New Zealand Limited

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. GSNZ Midco also owns Flexgas which operates the gas storage facility at Ahuroa, and Rockgas a supplier of LPG.



⁴ Costs directly attributable to the provision of the unregulated services are removed from the Firstgas regulated accounts. This reduces the level of business support costs remaining that are subsequently allocated to the regulated transmission and distribution businesses.

In the 2021 disclosure year, GSNZ Midco provided 156%⁵ of the Firstgas (transmission) total Capex and 41% of all Operating Expenditure (Opex) under an Operations and Maintenance agreement (O&M agreement).

Services provided under the O&M agreement include:

- Management of the gas transmission 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
- Gas control services
- 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 Midco under the CFSA.

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

Operations and Maintenance (O&M) Agreement

Firstgas procures almost all of its network capital expenditure, most of its network Opex, and all 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 transmission services across the North Island, under the O&M 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.

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 Midco⁶ and Australian gas pipeline services provider OSD (the Gas Services JV) to provide O&M services to Firstgas under an O&M agreement.

The O&M agreement was negotiated on an 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 MIDCO), the role of OSD as operator of the Gas Services JV overcame many of the usual concerns about the discipline on related parties to negotiate balanced arrangements.



⁵ The increase in the proportion of related party transactions (RPTs) in FY2021 compared to FY2019 exceeds 5%. The driver of the large increase in the proportion of RPTs in FY2021 is the atypical expenditure relating to the decision not to proceed with the Gas Transmission Access Code (GTAC) implementation project. This reduces the total Capex but not the value of related party transactions. The Commerce Commission has granted Firstgas an exemption from providing an independent appraiser report for FY2021. The exemption letter is available on the Commerce Commission's website:

https://comcom.govt.nz/_data/assets/pdf_file/0028/268732/First-Gas-ID-exemption-request-response-13-October-2021.pdf

⁶ Gas Services New Zealand Limited is the owner of Gas Services New Zealand (Midco) Limited

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 Midco released OSD from the joint venture. This decision was made to reflect that Firstgas had emerged from the transition phase and significant improvements had been made in project delivery and putting robust processes in place. While this brought an end to the involvement of an independent party in delivering O&M services for Firstgas, the O&M service contract has remained in place (incorporating amendments to reflect the release of OSD).

Costs incurred under the O&M agreement are directly attributable to either the gas transmission or the gas distribution business.

2. Summary of Firstgas' procurement policy

Clause 2.3.10 of the ID Determination requires that:

"if a GTB has had related party transactions involving a procurement from a related party during that disclosure year, the GTB 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.⁷

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, the 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.⁸

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 Midco 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 for Firstgas | Making quality decisions that consider the life of the contract (or whole-of-life cost) not just selecting the lowest price. |
| • Play by the Rules | Building trust and relationships with suppliers and keeping a reputation as a fair buyer. |

These principles all contribute to producing efficient and effective infrastructure for the long-term benefit of our business and our customers. While we seek competitive outcomes, we believe consumers equally value least-cost over the lifetime of the asset and Firstgas always places the health and safety of our employees and contractors above other criteria. For example, we may not select the lowest price quote or tender if the supplier cannot meet our safety and quality standards or if the life-cycle cost of the asset is higher than other options.

⁷ Document 08843 Firstgas Group procurement policy and document 09410 Firstgas Group procurement guidelines

⁸The 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 will be supported, at a minimum, with quotations from several suppliers⁹. High value works will be supported by an open competitive process such as a request for proposal or invitation to tender where possible. This process is undertaken by GSNZ 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 transmission 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 period (for example the O&M Agreement with GSNZ Midco)
- **OEM / warranty arrangement:** Where sole source is required contractually.

The sole sourcing procurement option requires formal justification and approval in line with delegated authorities.

Monitoring and compliance

The Firstgas Group procurement team is responsible for monitoring compliance with the procurement policy for Firstgas and reporting any breaches of this policy to the Executive. The procurement team will undertake reviews of Firstgas’ procurement activity especially around the compliance with the policy and the application of procurement processes. Reviews may include review of the procurement process undertaken by GSNZ Midco 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 the whistle blower policy enables anyone to report identified breaches of the procurement 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.

⁹ 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 GTB has had related party transactions involving a procurement from a related party during that disclosure year, the GTB must publicly disclose-

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

In the 2021 disclosure period, Firstgas (transmission) has procured goods and services from GSNZ Midco under the O&M agreement.

Firstgas has contracted GSNZ Midco as the sole provider of operations and maintenance services. GSNZ Midco acts on behalf of Firstgas when project managing and purchasing required goods and services while carrying out its responsibilities under the O&M agreement.

The section considers the procurement of goods and services under the O&M contract.

3.1 Purchase of Opex and Capex services from our related party GSNZ Midco

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 transmission network or management of the assets on the transmission 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 Midco) provides a range of expertise and experience guiding and supporting our transmission 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 appraisers¹⁰ 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)¹¹. The AMP provides the asset management framework for Firstgas' transmission 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 transmission 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 Midco 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

¹⁰ 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 FY2020 or FY2021 disclosures.

¹¹ Firstgas (transmission) publishes an AMP or AMP update annually. These documents are available from our website <https://firstgas.co.nz/about-us/regulatory/transmission/>

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.

In practice, this means that Firstgas may accept in full or challenge any part of the budget provided by GSNZ Midco. 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 FY2021, we have largely relied on benchmarking work undertaken for FY2019. 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 2020¹². 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 prices charged by GSNZ Midco 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 FY2019 Firstgas engaged independent experts to:

- Confirm the margin charged by GSNZ Midco under the O&M agreement was within the range of providers of similar services
- Cross-checked that GSNZ Midco 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 Midco 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.

¹² 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.

For FY2021, our O&M agreement remains aligned with current market practices and prices. This was tested in October 2020 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 FY2019. The sample taken in October 2020 comes from within the larger sample set used in FY2019.

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 FY2019 was updated in October 2020 where further information was available. This benchmarking confirmed expected FY2021 costs for Firstgas (transmission) 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 Midco incurs undertaking the responsibilities of the O&M agreement are charged to Firstgas monthly and include a commercial mark up to enable a modest commercial profit. Benchmarking undertaken in 2019 and reviewed for the FY2021 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 Midco notifies that the assets have been commissioned.

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

- (2) *a description of any policies or procedures of the GTB 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 transmission services;*

To work on or near Firstgas' transmission network, a contractor must be deemed competent and authorised to complete the work undertaken to meet operating standard requirements. This is very specialised work, and we require any work up to the delivery point on the transmission network be completed by Gas Services (a part of GSNZ Midco).

Customers that contribute to the cost of new developments or upgrades on our network are therefore required to use Gas Services to complete the works. Our capital contribution policy is available at <https://firstgas.co.nz/about-us/regulatory/transmission/>.

5. Representative examples of how the procurement policy is applied

5.1 Regulatory requirements

Section 2.3.12 of the ID Determination for our GTB specify that:

*within 6 months after the end of each **disclosure year**, if a **GTB** has had **related party transactions** involving a procurement from a **related party** during that **disclosure year**, the **GTB** 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 **GTB** last tested the arm's-length terms of those transactions; and*
- (5) *separate representative example transactions where the **GTB** has applied the current policy for the procurement of assets or goods or services from a **related party** significantly differently between expenditure categories.*

5.2 Representative examples

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

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 FY2021 and this disclosure.

Table 2: Representative example transactions of costs in Schedule 5b

Expenditure category	Representative example	Procurement method	How and when were the arm's length terms last tested
<p>All network Capex categories</p> <p>All network Opex categories excluding the purchase of fuel gas</p> <p>System operations and network support</p> <p>Non-network assets</p>	<p>Network Opex and Capex and system operations and network support across the network.</p> <p>We provide examples below of procurement undertaken by GSNZ Midco on our behalf under the O&M agreement</p>	<p>Direct procurement from a 'sole supplier' under the existing O&M agreement.</p>	<p>The arm's length terms were tested as part of a benchmarking process that was undertaken during the 2019 disclosure year.</p> <p>In FY2019 Firstgas engaged an independent expert to benchmark:</p> <ul style="list-style-type: none"> • The margins applied to the costs of O&M services provided by GSNZ Midco to Firstgas • Total service costs against comparable businesses. <p>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.</p> <p>Margin benchmarking was reviewed in October 2020 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 FY2021 as applied in FY2019.</p> <p>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.</p> <p>Terms of the O&M agreement were provided to the independent appraiser in FY2019 and our auditors as part of their review of the related party valuation requirements in FY2019 and in subsequent years. There has been no change to the O&M agreement across years.</p> <p>Benchmarking was undertaken with the permission of GSNZ Midco. Benchmarking is allowed for under the O&M agreement.</p> <p>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.</p>

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.

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

Major projects

All projects are managed by GSNZ Midco. The project delivery manager is responsible for delivering project work from the project approval and front-end engineering design (FEED) phase through to the final delivered and commissioned project.

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 further approval from Firstgas' Chief Executive and Board.¹³

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 more expensive 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 timeframe specified in any procurement contract for materials or services. Progress is reported to GSNZ MIDCO management. Progress on major projects may be reported to Firstgas at established intervals.

A formal project close-out process occurs on completion of the project.

We have provided two examples to illustrate the delivery of major projects by GSNZ Midco under the O&M contract:

- Relocating, recoating and protection of the "402 transmission" line
- Wall Road Geohazard drainage upgrade

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

Example 1: Recoating and protection of the “402 transmission” line

Between April and May 2021, Firstgas excavated a short segment of the “402 transmission line”¹⁴ (402 line) that runs from Te Kowhai to Horotiu East. The development of an industrial park near Te Rapa meant our pipeline would require increased protection to remain compliant with requirements of the gas pipeline operating standard (AS/NZS 2885). At the same time, we took the opportunity to improve the coating on the excavated section of pipeline.

As communities grow and require greater services, we see industrial and urban expansion occur that from time to time may impact our networks. Our pipelines may need to move to facilitate growth in the area or have additional protection to meet AS/NZS 2885 requirements if there has been a change in land classification.¹⁵

During FY2021, Firstgas received notification from a landowner of a proposed new industrial park near Te Rapa, adjacent to our 402 line. The land would be reclassified from Rural to Rural industrial and a new roadway would be installed over a small section of the 402 line.

GSNZ Midco’s engineering team advised that the pipeline under the proposed roadway would need additional protection to allow for the dynamic loading on the land due to traffic load. At the same time, GSNZ Midco’s engineers advised that during regular surveys small defects in the pipeline coating had been indicated on the 402 line. With a section of line excavated, Firstgas should take the opportunity to recoat the exposed section of the line.

Firstgas requires a contribution to costs whenever we are required to move or change our network at the request of a third-party. GSNZ Midco liaised with the developer of the proposed industrial park on our behalf and agreed the level of contribution required for the project.

Project name:	402 line recoat and protection
Project date	The project scope was issued in March 2021 with the works completed by the end of May 2021.
Project or work order number:	P11166
Project expenditure (estimated)	\$0.245 million ¹⁶ from initial scoping through to commissioning of the assets and project close-out.
Project cost type	Asset relocation Capex ¹⁷
Project managed by:	GSNZ Midco acting on behalf of Firstgas under the O&M agreement
Subcontractors:	Consultants and contractors were required to deliver the project. LogiCamms completed the pipeline stress report and Energy Works completed the civil works, recoating of the line and installation of a new cathodic protection test point.

¹⁴ Our transmission network has a historic naming convention where the main lines through the North Island will begin 100, 200, 300, 400 etc. Where lines (or laterals) come from the main line, they follow the naming convention of the main line. This allows for easy identification in our systems. The 400 line runs north from Taranaki to Auckland, and the 402 line is a lateral running from the 400 line.

¹⁵ Firstgas clearly identifies where pipes are underground and works closely with the respective landowners to ensure that we are informed where there is any change in land classification or any proposed excavation of the land.

¹⁶ The developer contributed to the costs of the protection portion of the project. The \$0.245 million is the cost of the full project and does not include the developer’s contribution. The cost of the project, less the developer’s contribution, was added to Firstgas’ regulated asset base (RAB) in FY2021.

¹⁷ Whilst we did not have to relocate the assets as such, the primary driver of this project was a third-party request for a change to the assets for the purpose of allowing roading.

	Reinstatement of the land including installation of the concrete slab over the pipeline was carried out by developer.
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Planning:

Asset relocation Capex is driven by third party requests. Each year Firstgas budgets for relocation Capex in its Asset Management Plan (AMP) based on any known upcoming works and trends in this category of expenditure¹⁸. Costs are predominantly covered by the party requiring the work and budgeted as capital contributions in the AMP forecast. Where possible, we align any maintenance or asset replacement and renewal Capex with the third party requested works.

The cathodic protection on this section of line had been signalled as potentially failing. Whilst the work to investigate and remediate had not been considered urgent, it was registered on Firstgas' Risk Item Register (RIR) after anomalies had been found in an earlier DCVG¹⁹ survey of the pipeline. GSNZ Midco maintains the RIR on behalf of Firstgas. The items on the RIR are reviewed weekly by the GSNZ Midco risk governance team to prioritise remedial works. Amounts are budgeted annually within the AMP for remedial work of RIR items.

Once the AMP has been approved by Firstgas' Chief Executive Officer and Firstgas' Board of Directors, work plans and budgets are provided to GSNZ Midco. Where expenditure is allowed for, but projects are not specifically stated in the budget such as remedial RIR work, senior management from GSNZ Midco can approve expenditure within the budget and to their level of delegated authority.

The notification of a change in land use and proposed roadway over a short segment of the 402 line was handed to GSNZ Midco's engineering team to consider the scope of work. They advised that the pipeline under the proposed roadway would need additional protection to allow for the dynamic loading on the land due to traffic load and maintain compliance with AS /NZS 2885. The engineering team recommended a protective concrete slab cover be installed over the pipeline to protect it from traffic load and provide additional physical protection during road construction. This was the most cost-effective resolution to protect the pipeline and did not have the construction risk that other options presented. Firstgas' has a design Standard for concrete slab protective covers and GSNZ Midco engineers recommended a pipeline stress analysis report be sought to confirm our Standard was sufficient to meet the future load requirements.

GSNZ Midco's management agreed we should take advantage of the excavation work to recoat the section of the exposed 402 line and by March 2021 the front-end engineering team had developed a scope of work specifying the requirements for the project. This was considered a reasonably minor project and GSNZ Midco believed it could be completed by the end of May 2021 to meet the developers timing.

In April 2021, GSNZ Midco's senior management approved expenditure based on the scope of works of \$0.245 million.

Completion of works:

Before any physical works could begin, a pipeline stress analysis report (the report) was required. The report would confirm the suitability of Firstgas' design Standard for the thickness of the concrete slab protective cover or specify any additional requirements needed to meet AS / NZS 2885.

¹⁸ Further information on our relocation Capex is available on the Firstgas website, <https://firstgas.co.nz/about-us/regulatory/transmission/>

¹⁹ DCVG or Direct Current Voltage Gradient, refers to an above ground survey of buried pipelines that is used to assess coating integrity by detecting coating defects

LogiCamms was selected to complete the pipeline stress analysis report. LogiCamms is one of Firstgas' preferred consultants ²⁰for this type of work as they are familiar with our transmission network and the gas pipeline operating standards we are bound by. LogiCamms confirmed their availability to deliver the report to meet the tight one-week timeframe for the work.

GSNZ Midco's project team met with LogiCamms to review the scope and GSNZ Midco's engineers were responsible for confirming any technical queries. The report provided by LogiCamms was reviewed by GSNZ Midco's project manager and engineers. The report confirmed the thickness of the concrete slabs specified by GSNZ Midco was sufficient, with no additional work required.

Energy Works Limited (Energy Works) was selected to complete the civil and remedial works required:

- Excavation of the pipeline to facilitate the removal of the existing coating (pipeline wrap) and replace with the new coating.
- Removal and disposal of the existing following Worksafe's Approved Code of Practice for Management and Removal of Asbestos.
- Backfilling the excavated site up to the concrete slab elevation
- Installing a new cathodic protection test site.

Energy Works is a preferred supplier for Firstgas for civil and recoating works. The GSNZ Midco project manager worked closely with Energy works and the developer to set timing and minimise costs. We were able to gain synergies in mobilisation costs and timing as Energy Works were already working on a nearby site. All works were to be completed within the month of May 2021.

Energy Works provided a schedule of activities to execute the work required and communicated progress daily. GSNZ Midco personnel attended site to witness points of active as outlined in the scope of works. At the completion of the works, Energy Works provided an asbestos clearance certificate evidencing the safe disposal of the asbestos wrapping had been removed and disposed of appropriately.

The developer elected to add the concrete slab physical barrier themselves prior to reinstating the site and constructing the roadway. GSNZ Midco maintained oversight of the installation of the barrier and confirmed it was completed to our specifications.

Once the project began, project costs were paid and tracked within the financial system after being approved by the project manager. Project costs and progress were monitored by the GSNZ Midco project team and reported to the Chief Operating Officer for GSNZ Midco and the Firstgas executive team monthly.

Market testing:

The primary driver of this project was the proposed new industrial park and roadway. These types of projects are often completed to meet the developers timing. With this project, the GSNZ Midco team would liaise regularly with the developer to ensure we could meet their timing. The required time from project scope to completion was only two months.

The tight timing requirements influenced the procurement of services. GSNZ Midco elected to procure the pipeline stress analysis report (the report) and the civil and remedial works were procured via the sole sourcing option permitted under Firstgas' procurement policy. This option was taken rather than a more extensive tender process as:

²⁰ Our preferred consultants have previously completed works for Firstgas and met our stringent requirements for health and safety, quality, and delivery. They have completed the pre-qualification requirements in relation to the works they complete and where applicable have met the requirements to work near or on our networks.

- The compressed timing to meet the developers needs did not allow for an extensive procurement process
- The pipeline stress analysis report would require experience with our gas network and the requirements of AS /NZ 2885
- The civil and recoating work was reasonably minor project with low complexity but also required personnel experienced and trained to work on our pipeline
- The relative low budget for the project did not justify the cost of a tender process

Sole sourcing means we select contractors and consultants from Firstgas' list of preferred suppliers for the work required. These suppliers have done extensive work for Firstgas previously and usually will have a Master Services Agreement in place that outlines terms and expectations around rates.

Sole sourcing of the report

LogiCamms was selected to provide the report. As a preferred supplier for design work on our transmission network LogiCamms has an existing consultancy agreement with Firstgas.

LogiCamms includes OSD pipelines. OSD pipelines have been involved in the successful installation of thousands of kilometres gas pipelines throughout Australasia. One of their areas of excellence is in pipeline design, including applying the requirements of AS2885.

LogiCamms was approached and a quote requested in line with the scope of work. The quote provided was aligned with expected costs and LogiCamms confirmed their availability to complete the work within the one-week period specified in the scope of work.

Sole sourcing of civil and remedial works

The civil works and remedial works included two sections of work:

- Excavating the pipeline
- Recoating and protecting approximately 25 metres of the 402 pipeline and establishing a new cathodic protection test site. This included the removal and disposal of the existing pipeline wrap. All works were to be completed within the first two weeks of May 2021.

Energy Works was selected to complete the civil and remedial works. Energy works is one of Firstgas' preferred suppliers for civil and recoating works. Energy Works provides specialist piping and equipment services to the industrial sector and has worked extensively on Firstgas' network completing minor to complex works.

Energy Works agreed the timing for the work. Energy Works submitted quotes for each section of the work in line with the scope of works for the project and the existing Master Services Agreement in place with Firstgas.

Outcomes:

The scope of works was completed below budget and within the tight timeframe required. Lower mobilisation costs and lower design requirements than initially anticipated resulted in cost savings.

A subsequent DCVG²¹ survey on the rewrapped section of the 402 line confirmed that no defects were found on the newly wrapped section of pipe.

²¹ Supra, note 18

Example 2: Wall Road geohazard drainage upgrade

Firstgas' transmission pipelines run the length of the North Island, with areas of geotechnical risk posing a problem for our pipelines. Addressing geohazard risk is therefore a priority for us. Firstgas monitors potential geohazards²² and we prioritise our work plans to remediate the risks. Geohazard monitoring and reporting is largely completed for us by GSNZ Midco, who regularly report back to Firstgas. Monitoring and reporting from GSNZ Midco is used to support the prioritisation of remediation projects. GSNZ Midco develop the detailed scopes of work for remediation works as required and manage subsequent work programmes.

The following example is provided to illustrate the procurement process followed by GSNZ Midco for a major remediation project in FY2021.

Project name:	Wall Road geohazard drainage upgrade
Project date	The concept design was completed in October 2019 with works completed in February 2021 and formal handover in March 2021
Project or Work order number:	P10629
Project expenditure (estimated)	\$0.346 million from initial scoping and design through to commissioning of the assets and project close-out.
Project cost type	Asset replacement and renewal Capex
Project managed by:	GSNZ Midco acting on behalf of Firstgas under the O&M agreement.
Subcontractors:	Concept design was completed by Pattle Delamore Partners Limited (PDP). BTW Company Limited (BTW) completed the detailed design works and managed the drainage upgrade. Alex Fields completed the civil works, and The Proffit Trust completed the planting required at the Wall Road site.

Planning:

Firstgas reports geohazard risks in our Asset Management Plan (AMP) each year. Our AMPs are available on the Firstgas website.²³ The forecast for geohazard work includes a fund for lower cost projects that are not explicitly detailed in the AMP but will form part of the works programme. These lower cost projects are prioritised as part of Firstgas' risk management process. The work at Wall Road was included in the FY2020 AMP, with work scheduled and budgeted for the summer of FY2021.

Firstgas' Oaonui – Rotowaro pipeline (400C Line) passes through an area of previous land instability at Wall Road at Mahoenui. Work on this site was completed in 2014 to reduce landslide soil head loading on the pipeline and to install French drains to reduce ground water levels within the landslide. In 2016, the

²² Geo-hazard risk Geo-hazard is the term we use for land instability events, such as landslides, erosion or movement of rocks or debris, that has the potential to affect the integrity of transmission pipelines. Our geo-hazard management processes consider the risks posed by activities that can result in a geo-hazard event, including: – Earthquake – Landslides – Heavy rainfall – Human activity. For example, surface erosion may result in a loss of pipeline cover leaving the pipeline exposed and at risk to operating outside minimum code requirements, or damage from being struck by debris or machinery.

²³ <https://firstgas.co.nz/about-us/regulatory/transmission/>

pipeline was excavated to investigate bending strains, complete coating repairs and improve the backfill material. The site is part of Firstgas' geohazard monitoring programme undertaken by GSNZ Midco. Part of this monitoring requires regular reporting to Firstgas and signalling areas of increasing risk of failure.

Ongoing monitoring and site investigations conducted by GSNZ Midco raised concerns about existing drainage contributing to erosion. In August 2019, Pattle Delamore Partners Limited (PDP) were engaged to complete a concept design to correct the drainage and remediate erosion and existing evidence of landslide on the slope of the work completed in 2014. The Wall Road site was one of many in the programme of work undertaken by PDP at this time. PDP Firstgas' preferred supplier in first response to geohazard analysis.

GSNZ Midco completed the project scope definition in October 2019, relying on PDP's concept design work and estimated budget. The project was included in the FY2020 AMP with costs scheduled against FY2021 to allow time for the detailed concept design to occur.

The AMP was subject to challenge from the GSNZ Midco Chief Operating Officer before being presented to the Firstgas Executive team. After further review and challenge from the Firstgas team and subsequently the Firstgas Board of Directors, the AMP was approved.

AMPs are disaggregated into long-term plans and annual workplans. The annual workplans are presented to Firstgas and once approved, form the work plan and budget for the year. The GSNZ Midco project management team responsible for the remediation works at the Wall Road site developed the business case specifying the requirements for the works and the costs. The business case and costs of \$0.346 million were approved under the GSNZ Midco financial authorities and by the Chief Executive Officer of Firstgas.

Completion of works:

Prior to the business case being approved, BTW Company (BTW) was engaged to complete detailed design works. In April 2020, a request for proposal (RFP) was issued to two companies. Under the Firstgas group procurement policy, an RFP is used where we are open to supplier innovation to deliver the outcomes. BTW were selected to complete the detailed design, largely due to the innovative solution using matting rather than concrete. The solution met Firstgas' technical specifications and the landowner's request for a green, natural finish.



With the completion of the detailed design and approval of the business case in November 2020, the project management team could proceed with an RFP for the civil works to remediate the slope instability and control the drainage discharge. The RFP included the requirement for work to be completed between January and February 2021.

GSNZ Midco worked with the landowner on our behalf to ensure we could achieve access to the site with minimal impact to the landowner's business. Works were scheduled over the summer in 2021 as it is dryer so less damage to access routes and is outside of lambing season.

Once the project began, project costs were paid and tracked within the financial system after being approved by the project manager. Project costs and progress were monitored by the GSNZ Midco project team and reported to the Chief Operating Officer for GSNZ Midco. Progress against projects and budgeted costs is reported to the Firstgas executive team monthly.

Market testing:

The geohazard drainage upgrade work at Wall Road was considered challenging, and sections of the work were completed by different companies. The procurement policy followed by the Firstgas group requires at

least two quotes from vendors, unless sole sourcing is undertaken for any procurement of services over \$10,000. For works under \$10,000, one written quote is considered sufficient.

Quote requested from a Sole Source supplier of the concept design

Firstgas' procurement policy allows for the selection of a supplier of services under a sole sourcing approach. The supplier must have an existing agreement with Firstgas that was the outcome of a competitive process. Often a sole source approach is used where timing of delivery is important.

PDP is one of Firstgas' preferred consulting²⁴ companies for initial geohazard surveys and work. The site at Wall Road had been signalled for remediation works. In April 2019, PDP was engaged under its consultancy agreement with Firstgas to undertake concept designs for several sites including the Wall Road site. Concept designs for all sites were to be completed within two months.

A quote was requested from PDP to align with the consultancy agreement in place for such works. The quote was reviewed by the project manager and accepted.

A request for proposal (RFP) was issued to two companies for the:

- Detailed design works
- Civil works required to remediate the slope instability and control the drainage discharge was issued.

Under the Firstgas group procurement policy, an RFP is used to seek proposals from the market for goods or services where we are open to supplier innovation to deliver the outcomes.

RFP for detailed design works

The RFP was issued to two companies with experience in the technical design of similar remediation works. GSNZ Midco and Firstgas have found both firms to be very efficient and professional, providing sound advice and considered options.

BTW was selected to complete the detailed designed work largely based on engineering solution they proposed. BTW suggested a solution that produced a green finish and promoted vegetation growth over the area. This solution was preferred by the landowner and met the technical requirements specified by GSNZ Midco in line with Firstgas technical standards. This solution had the added advantage of being lower cost than alternative solutions provided. BTW were also able to resource field work from their Hamilton office which meant there would be no requirement for inter-regional travel. This was a consideration due to the uncertainty around regional lockdowns resulting from the on-going COVID pandemic.

BTW continued to oversee the project to ensure the works were completed to the design specification.

RFP for civil works

In November 2020, an RFP was issued to two companies considered to have sufficient skills to complete the challenging civil works. Both companies were local to the area which meant travel costs were lower and they understood the terrain. With both companies presenting similar costs and able to complete the work required in the given time frame the decision was made to use Alex Field Limited based on their previous work at the same site.

²⁴ Our preferred consultants have previously completed works for Firstgas and met our stringent requirements for health and safety, quality and delivery. They have completed the pre-qualification requirements in relation to the works they complete and where applicable have met the requirements to work near or on our networks.

A quote was sought from a local supplier for the provision and planting of several hundred plants over the mesh and new earthworks. The plantings assist in stabilising the earthworks and beautifying the area. It was important to the landowner that the site works looked as natural as possible.

Outcomes:

The remediation project was completed on-time and under the original budgeted cost.

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 GTB has had related party transactions involving a procurement from a related party during that disclosure year, the GTB must publicly disclose a map of its gas transmission 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 2.3.15²⁵, 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.²⁶

Largest Opex activities

Figure 3 sets out the location of the largest ten activities in the AMP planning period (FY2022-FY2031), with greater detail in Table 3. All network Opex, except for the purchase of compressor fuel, is forecast to be completed by our related party, Gas Services New Zealand Midco Limited (GSNZ Midco) under the Operations and Management (O&M) agreement between Firstgas and GSNZ Midco. This agreement will be reviewed by September 2022. GSNZ Midco manages a number of third-party contractors to deliver this

²⁵ 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.

²⁶ <https://firstgas.co.nz/about-us/regulatory/transmission/>

network Opex. All activities are network related works, and none are a result of future network or equipment constraints.

Figure 3: Largest Opex projects in the AMP planning period (2022-2031)



Table 3: Description of the largest Opex projects in the AMP planning period

Activity	Description	Region	Cost (constant \$)	Period
Compressor fuel costs	We are facing an increased cost for our ongoing compressor fuel requirements. The compression strategy may offset some of these costs in the future. When the opportunity presents itself, we will look to source low-carbon compressor fuel gas in the future.	System wide	\$85.0 million	FY2022 – FY2031
Kapuni Gas Treatment Plant (KGTP) maintenance	Ongoing Maintenance requirements to ensure reliability. KGTP compressors are strategic for the 100 and 200 pipelines	Taranaki	\$11.0 million	FY2022 – FY2031
Geohazard management	Ongoing maintenance costs associated with identifying, assessing, and monitoring geotechnical issues on the transmission system	System wide	\$9.0 million	FY2022 – FY2031
Defect excavation	Pipeline coatings are the primary protection against corrosion. Each year several defects are excavated to carry our coating remediations	System wide	\$6.5 million	FY2022 – FY2031
Rotowaro Compressor Station maintenance	Ongoing Maintenance requirements to ensure reliability. Rotowaro compressor station is a strategic compressor station for the northern system.	Waikato region	\$5.6 million	FY2022 – FY2031
Future fuels Trials	To take the first steps towards replacing natural gas with hydrogen by utilising the existing gas transmission and distribution assets. It must be demonstrated that there are no adverse effects to gas consumers or gas transportation assets. This allocation is included in the forecast to support these trials	System wide	\$3.6 million	FY2022 – FY2031
Vegetation Management	Operational costs associated with management of vegetation in pipeline easements	System Wide	\$3.4 million	FY2022 – FY2031
Mokau Compressor Station maintenance	Ongoing maintenance is required on our assets to ensure reliability. Mokau compressor station is a strategic compressor site to the 400 pipeline	Northern Taranaki	\$3.0 million	FY2022 – FY2031
Henderson Compressor Station	Ongoing maintenance is required on our assets to ensure reliability.	North Auckland	\$2.6 million	FY2022 – FY2031
Kaitoke Compressor Station	Ongoing maintenance is required on our assets to ensure reliability. Kaitoke compressor station is a strategic site for the 100 and 600 pipelines, providing additional compression for the southern section of the transmission system	Manawatu/Whanganui region	\$2.0 million	FY2022 – FY2031

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 (FY2022 to FY2031) 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 Midco) under an operations and management (O&M) agreement between Firstgas and GSNZ Midco. This O&M agreement was entered into with the change in ownership of the transmission business in 2016 and will be reviewed before September 2022. GSNZ MIDCO manages several third-party contractors to deliver this network Capex.

Table 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 ten-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.

Figure 4: Largest Capex projects in the AMP planning period (2022-2031)

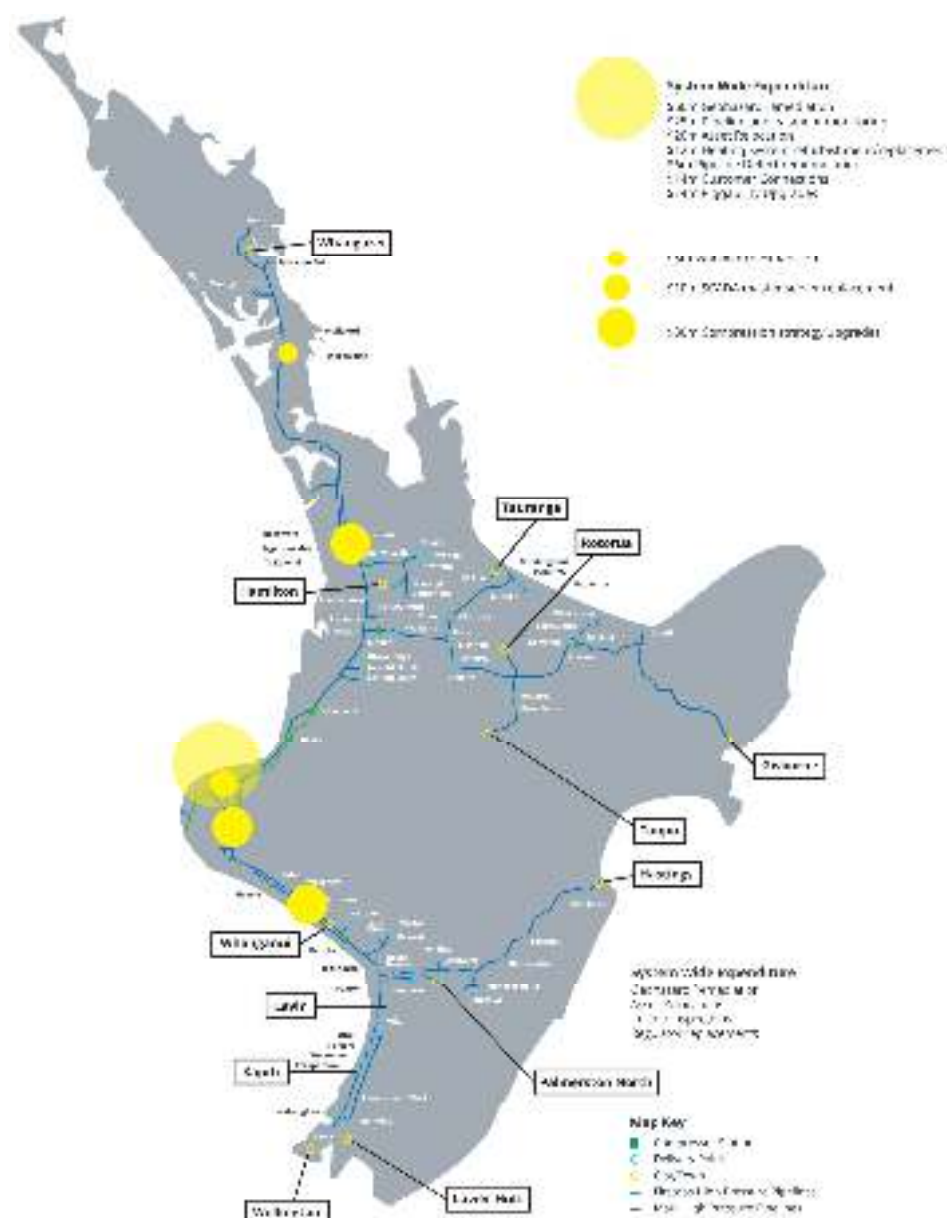


Table 4: Description of the largest Capex projects in the AMP planning period

Project	Description	Region	Cost (constant \$)	Period
Geohazards risk remediation	Risk remediation projects resulting from geotechnical hazards	System wide	\$57 million	FY2022-FY2031
Compression strategy	Upgrade and standardisation of ageing fleet of compressors	Strategic compression sites	\$30 million	FY2022-FY2025
Pipeline and easement condition monitoring	Pipeline pigging operations and easement UAV surveillance	System wide	\$25 million	FY2022-FY2025
Asset relocations	Relocation of Infrastructure	System wide	\$20 million	FY2022-FY2031
Heating systems	Cost associated with overhaul and replacement of Water bath heaters	System wide	\$12 million	FY2022-FY2031
Pipeline defects	Forecast cost to effect repairs associated with pipeline defects identified through Inline inspections or other condition monitoring	System wide	\$6 million	FY2022-FY2031
Customer connections	Supporting connecting new customers	System wide	\$14 million	FY2022-FY2031
Piggability upgrades	Upgrading facilities and or pipelines to enable pigging operations	System wide	\$14 million	FY2024-FY2031
SCADA and Communications	Upgrade and replacement of SCADA master server	North Taranaki	\$10 million	FY2022-FY2024
Warkworth Expansion	Increasing pipeline capacity to meet increase in demand	Northern System	\$5 million	FY2022-FY2023

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, 2.4.20, 2.5.1 and 2.7.1 of the *Gas Transmission 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 its 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 Transmission Information Disclosure Determination 2012* and clauses 2.2.11(1)(g) and 2.2.11(5) of the *Gas Transmission 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 Transmission 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 Transmission 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 Transmission Information Disclosure Determination 2012*.



Director : Mark Adrian Ratcliffe



Director : Fiona Ann Oliver

Thursday 17 February 2022

Date

Thursday 17 February 2022

Date



Independent Reasonable Assurance Report to the Directors of First Gas Limited ('the company') and to the New Zealand Commerce Commission

Opinion

Our reasonable assurance opinion has been formed on the basis of the matters outlined in this report.

In our opinion, in all material respects, Schedules 1, 2, 3, 4, 5 (a-g), 6 (a-b), 7, and 14 (boxes 1 – 12) of the First Gas Limited Gas Transmission Information Disclosure Requirements Information Templates (the 'schedules'), have been prepared, in accordance with the Commerce Commission Gas Transmission Information Disclosure Determination 2012 (amended as of 3 April 2018) and the related Reasons Paper and Input Methodologies (together 'the determination') for the year ended 30 September 2021.

In our opinion, in all material respects, First Gas Limited's basis for valuation of related party transactions in the year ended 30 September 2021 has complied, with clause 2.3.6 of the Gas Transmission Information Disclosure Determination 2012 (amended as of 3 April 2018) and clauses 2.2.11(1)(g) and 2.2.11(5) of the related Input Methodologies.

In our opinion, in all material respects, First Gas Limited's additional disclosure information for related parties for the year ended 30 September 2021 ('Information Disclosures for Related Parties') has complied with clauses 2.3.8, 2.3.10, 2.3.11 and 2.3.12 of the Gas Transmission Information Disclosures Determination 2012 (amended as of 3 April 2018).

As far as appears from an examination of them:

- proper records to enable the complete and accurate compilation of the schedules and Information Disclosures for Related Parties for the year ended 30 September 2021 have been kept by First Gas Limited; and
- the information used in the preparation of the schedules and Information Disclosures for Related Parties for the year ended 30 September 2021 has been properly extracted from First Gas Limited's accounting and other records and has been sourced, where appropriate, from First Gas Limited's financial and non-financial systems.

Information subject to assurance

We have performed an engagement to provide reasonable assurance in relation to First Gas Limited's schedules and Information Disclosures for Related Parties for the year ended 30 September 2021.

Criteria

We have performed an engagement to provide reasonable assurance in relation to the schedules 1, 2, 3, 4, 5 (a-g), 6 (a-b), 7, 14 (boxes 1 – 12) and the Information Disclosures for Related Parties that have been prepared in accordance with the determination for the year ended 30 September 2021.

Key Assurance Matters

Key assurance matters are those matters that, in our professional judgement, were of most significance in our reasonable assurance engagement in relation to First Gas Limited's schedules in the current regulatory period. We summarise below those matters and our key procedures to address those matters in order that the directors and the New Zealand Commerce Commission may better understand the process by which we arrived at our opinion. Our procedures were undertaken in the context of and solely for the purpose of our opinion on the schedules and Information Disclosures for Related Parties as a whole and we do not express discrete opinions on separate elements of the schedules and Information Disclosures for Related Parties.

The key assurance matter

How the matter was addressed in our assurance

1. Capitalisation of assets into the regulatory assets base ('RAB'). Refer to Schedule 4 and Schedule 6a.

Capitalisation of assets into the RAB (capital expenditure during the year of \$17 million and assets commissioned of \$19 million) is a key assurance matter due to the following significant judgements involved:

- Assessment whether an asset meets the definition of network or non-network asset;
- Allocation of non-directly attributable assets to the gas transmission business. Specifically, this judgement relates to the selection of allocators which appropriately align to the cause of the expenditure.

Our procedures included, amongst others:

- Examining the operating effectiveness of controls related to the approval of capital expenditure;
- Checking a sample of costs to invoice to determine whether the description of the expenditure met the capitalisation criteria in the determination and is consistent with their presentation as either network or non-network assets;
- Comparing RAB assets commissioned to those commissioned for financial reporting purposes and obtaining explanation for any significant differences; and
- Examining and challenging the allocators used to allocate non-directly attributable assets into the RAB. This includes an assessment of whether the allocator is an appropriate reflection of the cause of the expenditure.

We found no material errors in the amounts capitalised in the period.

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

The allocation of shared and other costs (\$21 million of not directly attributable expenditure within the total of \$62 million of operating expenditure) into operating expenditure is a key assurance matter due to:

- The fact that First Gas operates across a number of businesses, both regulated services (gas transmission and gas distribution) and non-regulated services. A number of operating costs can therefore be shared across these businesses.
- Allocation of shared and other costs into the gas transmission business requires judgement. Specifically, this judgement relates to the selection of allocators which appropriately align to the cause of the expenditure.

The procedures we performed to evaluate the allocation of non-directly attributable costs included, among others;

- Examining and challenging the allocators used to record shared and other costs into operating expenditure. This includes an assessment of whether the allocator is an appropriate reflection of the cause of the expenditure;
- Comparing the total amount of shared and other costs to that recorded for financial reporting purposes and obtaining and validating explanations for any significant differences; and
- Examining shared and other costs and obtaining and validating explanations for any significant movement compared to historic levels or our understanding of the current business model and strategy.

We found no material errors in the amounts of shared and other costs allocated to First Gas's gas transmission business in the period.

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

The valuation of transactions with related parties (\$31 million of unregulated income, \$26 million of operating expenditure and \$26 million of capital expenditure incurred with related parties in the period) is a key assurance matter due to (1) the significant judgement in forming a view of related party pricing in the absence, or insufficiency, of publicly available information about pricing and terms of certain services and (2) the ownership structure of First Gas and its owners is complex and there may be a number of trading relationships that meet the definition of a related party.

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

- Comparison of the related party sales recorded by First Gas to ensure a) it is the price achieved by the gas transmission business b) the selling price is not materially lower than that charged to customers who are not related;
- Comparison of the related party expenditure recorded by First Gas to ensure a) it is the price incurred by the gas transmission business b) the purchase price is not materially higher than that charged to customers who are not related;
- Comparison of the terms and conditions extended by First Gas to related parties (or vice versa) to the standard terms and conditions of the customer, and investigation where a material difference exists;
- Understand and assess the need for an Independent Appraiser's report in RY21, in light of the extent to which the proportion of Related Party transactions in RY21 compares to the proportion of Related Party transactions in RY20. If the increase is in excess of 5% an Independent Appraiser is required. In RY21 an Independent Appraiser was not required as an exemption had been granted by the Commerce Commission; and
- We reperformed the application of rates to be applied to related party transactions, with reference to the Independent Appraiser report and Company analysis undertaken in RY19 and changes in rates in FY21 (if any). This included checking a sample of related party transactions (both sales and expenditure) to underlying evidence.

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

- Challenging whether all related party transactions had been included by comparing to our understanding of First Gas's operating model; and
- Ensuring that all related party transactions recorded for financial reporting purposes had been correctly identified and disclosed.

We found no material errors in relation to the valuation or completeness of related party transactions in the period.



Standards we followed

We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) ISAE (NZ) 3000 (Revised) *Assurance Engagements other than audits or reviews of historical financial information* and Standard on Assurance Engagements SAE 3100 (Revised) *Assurance Engagements on Compliance*. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. In accordance with those standards we have:

- used our professional judgement to assess the risk of material misstatement and plan and perform the engagement to obtain reasonable assurance that the schedules and Information Disclosures for Related Parties are free from material misstatement, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express an opinion on the effectiveness of these controls; and
- ensured that the engagement team possesses the appropriate knowledge, skills and professional competencies.

How to interpret reasonable assurance and material misstatement

Reasonable assurance is a high level of assurance but is not a guarantee that it will always detect a material misstatement when it exists.

Misstatements, including omissions, within the schedules and Information Disclosures for Related Parties are considered material if, individually or in the aggregate, they could reasonably be expected to influence the relevant decisions of the intended users taken on the basis of the schedules and Information Disclosures for Related Parties.

Use of this assurance Report

Our report should not be regarded as suitable to be used or relied on by any party other than First Gas Limited and the New Zealand Commerce Commission in relation to section 2.8.1 of the Gas Transmission Information Disclosure Determination 2012 (amended as of 3 April 2018) for any purpose or in any context. Any party other than First Gas Limited and the New Zealand Commerce Commission who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk.

To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than First Gas Limited and the New Zealand Commerce Commission for our work, for this independent reasonable assurance report, or for the opinions we have reached.

Our report is released to First Gas Limited and the New Zealand Commerce Commission on the basis that it shall not be copied, referred to or disclosed, in whole (save for First Gas Limited's own internal purposes) or in part, without our prior written consent.

Management's responsibility for the schedules and Information Disclosures for Related parties

Management of the company is responsible for the preparation and fair presentation of the schedules and Information Disclosures for Related Parties in accordance with the Determination. This responsibility includes such internal control as First Gas Limited determine is necessary to enable the preparation of the schedules and Information Disclosures for Related Parties that is free from material misstatement whether due to fraud or error.

Our responsibility

Our responsibility is to express an opinion to the directors and the New Zealand Commerce Commission on the preparation and presentation of the schedules and Information Disclosures for Related Parties in accordance with the Determination.



Our independence and quality control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 (Amended) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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

A handwritten signature of 'KPMG' in dark ink, appearing as if written with a pen or marker.

KPMG
Auckland
17 February 2022