



COMPLIANCE STATEMENT

**Maui pipeline gas transmission services:
Default price-quality path compliance**

Fifth assessment period



Introduction

First Gas operates 2,500km of gas transmission pipelines (including the Maui pipeline), and more than 4,800km of gas distribution pipelines across the North Island. These gas infrastructure assets transport gas from Taranaki to major industrial gas users, electricity generators, businesses and homes, and transport around 20 percent of New Zealand's primary energy supply.

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

Compliance statement

This document is a Compliance Statement prepared pursuant to section 11 of the *Gas Transmission Services Default Price-Quality Path Determination 2013* (consolidating all amendments as of 26 March 2014) (DPP Determination) issued by the Commerce Commission on 28 February 2013. This Compliance Statement covers the Fifth Assessment Period for the Maui Gas Transmission Business (GTB), which is from 1 July 2017 to 30 September 2017.

The following documents are provided with this compliance statement:

- Calculations for price path compliance
- Calculations for quality standard compliance
- Director certification
- KPMG assurance report

This compliance statement was prepared on 20 November 2017.

Compliance status for Fifth Assessment Period

Compliance with Price Path	Yes
Compliance with Quality Standards	Yes

Further information

For further information regarding this compliance statement, please contact:

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Disclaimer

For presentation purposes, some numbers in the Compliance Statement have been rounded. This may cause small discrepancies or rounding inconsistencies when aggregating some of the information presented in the Compliance Statement. These discrepancies do not affect the overall compliance calculations which are based on the more detailed information.

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1. Price path compliance

First Gas is pleased to confirm that the price path in clause 8 of the DPP Determination for the Maui gas transmission pipeline (referred to as Maui Development Limited (MDL) in the DPP Determination) has been complied with for the Fifth Assessment Period.

On 2 May 2017, First Gas announced that it would be maintaining tariffs for the Fifth Assessment Period (1 July – 30 September 2017) at the same levels as set for the Fourth Assessment Period (1 July 2016 – 30 June 2017). First Gas elected to maintain the current prices in order to align future Maui Pipeline Operating Code (MPOC) tariff changes with the Commerce Commission's 2017 – 2022 DPP. This meant that the next change to MPOC tariffs (if required) would take effect from 1 October 2017.

1.1 Allowable Notional Revenue

The DPP requires First Gas' Allowable Notional Revenue for all Assessment Periods other than the first Assessment Period to be calculated as follows:

$$ANR_t = ANR_{t-1} (1 + \Delta CPI_t) (1 - X)$$

where:

t is the year in which the Pricing Period ends;

ANR_t is the allowable notional revenue for the Pricing Period ending in year t ;

ANR_{t-1} is the allowable notional revenue for the Pricing Period ending the year prior to year t ;

ΔCPI_t is the derived change in the CPI to be applied for the Pricing Period ending in year t , in accordance with a prescribed formula in the DPP;

X is the rate of change, which is specified in the DPP as zero.

The Pricing Period covered by this compliance statement is the same as the Fifth Assessment Period, i.e. 1 July 2017 to 30 September 2017 (three months). However, to determine the correct " t ", we have treated the period as a full year which would extend to 2018. Therefore, t is the year 2018.

Our allowable notional revenue for the Pricing Period ending on 30 June 2017 was \$42.264 million.

The change in CPI calculated in accordance with the prescribed formula was 0.6462%.

Accordingly, our Allowable Notional Revenue for the Fifth Assessment Period was:

$$\begin{aligned} ANR_{2018} &= ANR_{2017} (1 + \Delta CPI_{2017}) (1 - 0) \\ &= 42.264 \text{ million } (1 + 0.6462\%) \times 1 \\ &= \$42.537 \text{ million} \end{aligned}$$

1.2 Notional Revenue

Notional revenues are not the same as actual revenues or expected revenues. The DPP requires Notional Revenue for a Pricing Period to be calculated as follows:

$$NR_t = \sum_i P_{i,t} Q_{i,t-2} - (K_t + V_t)$$

where:

- NR_t is the Notional Revenue for the Pricing Period.
- t is the year in which the Pricing Period ends.
- i is each Price relating to a Gas Transmission Service.
- P_{i,t} is the ith Price for any part of the Pricing Period ending in year t.
- Q_{i,t-2} is the Quantity corresponding to the ith Price during the Pricing Period ending two years prior to year t.
- K_t is the sum of all Pass-through Costs for the Pricing Period ending in year t.
- V_t is the sum of all Recoverable Costs for the Pricing Period ending in year t.

First Gas charges two prices for Gas Transmission Services on the Maui transmission pipeline:

- 1) **Tariff 1** charged by GJ.km, i.e. on quantity of gas in GJ multiplied by shipping distance in km. Tariff 1 for the Pricing Period was \$0.001578 per GJ.km; and
- 2) **Tariff 2** charged by GJ, i.e. on throughput quantity of gas in GJ. Tariff 2 for the Pricing Period was \$0.072061 per GJ.

These prices are the same for all consumers of Gas Transmission Services (referred to as "Shippers" under the MPOC). Quantities for both prices are based on Approved Nominations by Shippers to transport gas between points on the Maui Pipeline.

The price quantities Q_{i,t-2} invoiced by MDL for the 1 July 2015 to 30 June 2016 period were:

17,447,630 TJ.km	(based on Tariff 1 revenues for that period of \$27.532 million)
155,125 TJ	(based on Tariff 2 revenues for that period of \$11.178 million)

The Pass-through Costs and Recoverable Costs applied for the Pricing Period were:

K ₂₀₁₇ of \$0 million
V ₂₀₁₇ of -\$3.741million

As a result, (with 1 TJ being 1,000 GJ) Notional Revenue for the Fifth Assessment Period in \$million was:

$$\begin{aligned}
 NR_{2018} &= (0.001578 \times 10^3 \times 17,447,630 + 0.072061 \times 10^3 \times 155,125) / 10^6 - \\
 &\quad (0.0 - 3.741) = \\
 &\quad (27,532,361 + 11,178,496) / 10^6 + 3.741 \\
 &= \$42.452 \text{ million}
 \end{aligned}$$

1.3 Pass-through Costs and Recoverable Costs

Pass-through costs and recoverable costs that could be applicable for First Gas in the Fifth Assessment Period were those for rates and levies, and those for balancing gas respectively. According to the DPP Determination, such costs must:

- be ascertainable at the time when we set our Prices for a Pricing Period;
- not have already been passed through or recovered in a previous Pricing Period; and
- not relate to costs incurred prior to the Regulatory Period, i.e. prior to 1 July 2013.

First Gas set the Prices on 2 May 2017. To be prudent, and confident that we only included costs that were ascertained, we only considered costs incurred between 1 January 2016 to 31 December 2016. In the previous Pricing Period, we applied costs incurred up to 31 December 2015.

In order to keep MPOC prices constant for the Fifth Assessment Period (as discussed above), First Gas made the decision to defer some of its pass-through and recoverable costs. The decision was made in line with the applicable Input Methodologies for GTBs.

Pass-through costs

Pass-through costs applicable for First Gas were those for:

- rates on pipeline assets paid or payable to a local authority under the Local Government (Rating) Act 2002; and
- levies payable:
 - under regulations made under section 53ZE of the Commerce Act 1986, for activities of the Commerce Commission;
 - under regulations made under the Gas Act 1992, for activities of the Gas Industry Company Limited; and
 - to Utility Disputes Limited (previously called the Electricity and Gas Complaints Commissioner Scheme).

First Gas did not recover any pass-through costs via prices for the Fifth Assessment Period.

Recoverable costs

The only recoverable costs that apply for First Gas at present are for balancing gas. For the period 1 January 2016 to 31 December 2016 these costs (rounded, with credits represented by a negative number) were:

Recoverable Costs 2016 (\$million)	1 Jan – 31 Dec 2016
Cash outs – pipeline buy	1.063
Cash outs – pipeline sell	-4.271
Call balancing gas	0.0
Put balancing gas	-0.633
Transmission adjustment	0.058
Trading fee adjustment	0.042
Total recoverable cost/(income)	-3.741

The DPP Determination also allows (but does not require) First Gas to make a time-value-of-money adjustment to the amount of Pass-through and Recoverable Costs. This is at a prescribed annual rate of 5.38%. First Gas chose not to apply such an adjustment.

1.4 Compliance

Compliance with the price path requires that notional revenue must not exceed allowable notional revenue for each Assessment Period. As calculated above, NR_{2018} is less than ANR_{2018} .

$$0.25 \times NR_{2018} < 0.25 \times ANR_{2018}$$

$$0.25 \times 42.452 \text{ million} < 0.25 \times \$42.537 \text{ million}$$

$$\$10.613 \text{ million} < \$10.634 \text{ million}$$

Therefore, First Gas has complied with the price path for the Fifth Assessment Period.

2. Quality standards compliance

We are pleased to confirm that the quality standard in clause 9 of the DPP Determination has been complied with during the Fifth Assessment Period for the Maui GTB (referred to as MDL in the Determination).

2.1 Calculations

Clause 9 requires us to provide information on 'response time to emergencies' ('RTE') relating to incidents and responses that could fall under this clause and has the following quality assessment formula:

- a) A GTB's RTE values for an Assessment Period must be such that:

$$RTE_{180} / (RTE_t - RTE_{excl}) = 1$$

- b) For the purposes of calculating the RTE values in (a):

RTE_{180} is the total number of Emergencies in the Assessment Period where the GTB's RTE was less than or equal to 180 minutes;

RTE_t is the total number of Emergencies in the Assessment Period; and

RTE_{excl} is the total number of Emergencies in the Assessment Period for which the Commission has granted exclusion in writing.

Emergency is defined in the DPP Determination as follows:

Emergency means an incident:

- a) that is required to be reported under the "Guidelines for a Certificate of Fitness for High-Pressure Gas and Liquids Transmission Pipeline;" and
- b) for which the GTB considers a representative of the GTB is required to immediately respond to".

The "Guidelines for a Certificate of Fitness for High-Pressure Gas and Liquids Transmission Pipelines"¹ define incidents to be reported as:

"...all incidents that have occurred on or in the near vicinity of the pipeline, including leaks, third party damage, near-miss incidents, equipment failure, overpressure, etc."

Emergencies are uncommon events on gas transmission systems and there were **none** in this assessment period. Therefore, RTE_t and RTE_{180} both equal zero.

As per the formula described above in, First Gas may exclude RTE events for which the Commerce Commission has granted a written exclusion. First Gas did not apply to the Commerce Commission for an exclusion from RTE during this period. Therefore, RTE_{excl} equals zero.

Therefore, when applying the formula, the result is zero.

$$\begin{aligned} & RTE_{180} / (RTE_t - RTE_{excl}) \\ & 0 / (0 - 0) \\ & = 0 \end{aligned}$$

¹ Published by the Ministry of Business, Innovation and Employment (then Department of Labour) in 2002. These requirements form Section 4.9 of the Guideline.

2.2 Policies and procedures

All gas transmission network integrity data (including RTE) is recorded and compiled by our Gas Control Team at our Gas Transmission Operations Centre at Bell Block in Taranaki. This is done following a prescriptive set of processes that have been developed to ensure accuracy and consistency of reporting. These processes are documented together in our Gas Transmission Operating Standard – Event Logging.

An Emergency event is triggered by the Gas Transmission Duty Manager declaring an emergency. Circumstances which lead to an emergency being declared are summarised in **Appendix 2**. These are consistent with the Emergency definition in the Determination.

RTE statistics (in line with the RTE definition in the DPP Determination) for each emergency event are entered into an information system and the data is retained for reporting and analysis. Our Gas Control Team completes Quality Control (QC) and remediation work in line with the detailed procedures outlined in the Operating Standard mentioned above. RTE performance (if applicable) is monitored monthly.

2.3 Compliance

As calculated above, the quality standard for the Fifth Assessment Period for the GTB has been complied with.

Appendix 1: Maui pipeline recorded events from 1 July 2017 to 30 September 2017

Event date	Event time	Location	Description	Emergency (Y/N)	Consumers interrupted	Event cause	Response time	RTE
16/08/2017	09:30 (DST)	Mokau CS	Gas Leak on MLV-13503	NO	0	Equipment Failure	0	-
27/09/2017	16:55 (DST)	Mokau CS	Gas Leak on M-13501 (inlet filter separator)	NO	0	Equipment Failure	0	-
29/09/2017	14:02 (DST)	Pohokura PS	Pohokura Plant Trip	NO	0	Third Party	0	-
29/09/2017	08:17 (DST)	Oaonui PS	Maui B Platform Trip	NO	0	Third Party	0	-

Appendix 2: Gas transmission emergency classification

Emergency incident: an incident that has a major effect on a gas pipeline asset or its ability to supply gas, and may threaten public and/or building safety.

Transmission emergency incidents include but are not limited to:

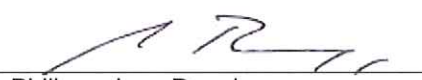
- Potential or actual gas supply critical contingency
- Uncontrolled escape of gas
- Any structural damage to a transmission pipeline
- Unplanned supply interruption to multiple end users
- Off specification gas including under or over odourisation
- Significant chemical or odorant spill
- Potential or actual serious harm to personnel, public or property
- Missing persons
- Explosion or fire
- Civil Defence emergency (includes natural disaster, civil unrest)
- Terrorism
- Incident affecting the use of airways, rail or major roadways

This will require:

- Stakeholder management;
- Internal and external notifications; and
- A full investigation and review.

Appendix 3: Director certificate for compliance

We, Philippa Jane Dunphy and Euan Richard Krogh, being Directors of First Gas Limited certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached compliance statement of First Gas Limited, and related information, prepared for the purposes of the *Gas Transmission Services Default Price-Quality Path Determination 2013* has been prepared in accordance with all the relevant requirements.



 Philippa Jane Dunphy
 Director

06 December 2017

 Date



 Euan Richard Krogh
 Director

06 December 2017

 Date

Appendix 4: Auditor assurance



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

Conclusion

We have concluded that, in all material respects, the Compliance Statement for Maui pipeline gas transmission services: Default price-quality path compliance for the fifth assessment period commencing 1 July 2017 and ending 30 September 2017 ("the Compliance Statement") has been prepared in accordance with clause 11 of Gas Transmission Services Default Price-Quality Path Determination 2013 NZCC5 and all subsequent amendments NZCC6 ("the Determination").

Information subject to assurance

We have performed an engagement to provide reasonable assurance in relation to First Gas Limited's Compliance Statement for the assessment period commencing 1 July 2017 and ending 30 September 2017.

Criteria

Our engagement relates to the Compliance Statement prepared by First Gas Limited to provide reasonable assurance that the Maui pipeline's fifth assessment period Default Price-Quality Path is in compliance with clause 11 of the Determination during the assessment period 1 July 2017 to 30 September 2017.

In relation to the price path set out in clause 8 of the Determination, our assurance engagement included examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages 4 to 7 of the Compliance Statement.

In relation to the quality standard set out in clause 9 of the Determination, our assurance engagement included examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages 8 and 9 of the Compliance Statement.

Our assurance engagement also included assessment of the significant estimates and judgments, if any, made by First Gas Limited in the preparation of the Compliance Statement and assessment of whether the basis of preparation has been adequately disclosed.

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 *Compliance Engagements*. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion. In accordance with those standards we have:

- used our professional judgement to assess the risk of material misstatement and plan and perform the engagement to obtain reasonable assurance that the Compliance Statement is free from material misstatement, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express a conclusion on the effectiveness of these controls; and
- ensured that the engagement team possesses the appropriate knowledge, skills and professional competencies.

How to interpret reasonable assurance and material misstatement

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

Misstatements, including omissions, within the Compliance Statement 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 Compliance Statement.

Use of this assurance Report

Our report should not be regarded as suitable to be used or relied on by any parties other than First Gas Limited and the New Zealand Commerce Commission in relation to clause 11 of the Determination, for any purpose or in any context. Any party other than First Gas Limited or the New Zealand Commerce Commission who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk.

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

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

Directors' responsibility for the Compliance Statement

The directors of the company are responsible for the preparation and fair presentation of the Compliance Statement in accordance with clause 11 of the Determination. This responsibility includes such internal control as the directors determine is necessary to enable the preparation of the Compliance Statement that is free from material misstatement whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion to the directors and on the preparation and presentation of the Compliance Statement in accordance with clause 11 of the Determination.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our reasonable assurance conclusion.

Our independence and quality control

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

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

Our firm has also provided 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.

The KPMG logo, consisting of the letters 'KPMG' in a stylized, handwritten font, with a small dot to the right.

KPMG
Auckland

6 December 2017