

First Gas Limited

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Notification of First Gas' distribution prices effective 1 October 2016

Here at First Gas we are proud to announce our first ever distribution prices, to come into effect on October 1st 2016.

As you may be aware, Vector sold its North Island gas distribution network earlier this year to First Gas Limited. First Gas is excited to be moving into the gas distribution space and we look forward to a long and successful relationship with our new customers.

First Gas' finalised prices incorporate a weighted average price increase of 1.9% from October 1 2016. Some minor adjustments have been made since the original forecast circulated to retailers which have led to prices being lower than we first proposed. The schedule of prices is included below.

The changes we are implementing to prices will result in varying levels of increases for consumer groups. This reflects the nature of how we set prices, with the ratio of fixed and variable tariffs changing across categories and therefore the overall impact varying as well. We have tried our best to smooth the price increases across all consumer groups, without drastic increases to any one category, whilst also trying to create prices that are reflective of our costs. Our calculations show that generally the price increase will be no greater than ~3%, however we know that some individual price increases will be greater than this.

Purpose of this document

First Gas owns and operates the natural gas distribution network in Auckland and supplies gas to approximately 60,000 homes and businesses. This document contains information to help you understand how we determine our gas distribution prices.

In this document, we:

1. Describe how we set our gas distribution prices;
2. Provide explanations and reasons for the changes in gas distribution prices;
3. Include our price schedule with our new prices and eligibility criteria; and
4. Provide tables comparing our prices before and after the 1 October 2016 price change.

We believe in transparency and hope you find this information useful. You can find more detailed information about our Pricing Methodology on our website at:

<http://firstgas.co.nz/wp-content/uploads/Distribution-Pricing-Methodology-Signed.pdf>

How we set prices

We recover the cost of owning and operating our gas distribution network through a combination of standard (published), 17 non-standard prices for gas distribution services, as well as some capital contributions for new connections. The revenue from our gas distribution prices is regulated by the Commerce Commission. We detail how we comply with these principles in our Pricing Methodology disclosure. A key feature of a gas distribution system is that it is a network of interconnected assets. Many customers on the network share assets and it is difficult to identify precisely who benefits from which assets. While this means that the allocation of costs between customers or groups of customers can be made in many different ways, it also means that the cost of providing the network is shared widely and therefore the cost of network services is generally low for each customer.

To recognise the key differences in the use and cost of our network, we separate customer connections into the following segments for pricing. These segments have been adopted as they are the same as previously used when Vector Ltd owned the pipelines.

- 1) **Residential customers;**
- 2) **Business customers** – Less than or equal to 10 scm/h² ;
- 3) **Small commercial customers** – Greater than 10scm/h and less than or equal to 40scm/h;
- 4) **Large commercial customers** – Greater than 40scm/h and less than or equal to 200scm/h;
- 5) **Industrial customers** – Greater than 200 scm/h; and
- 6) **Non-standard customers.**

To determine the amount of regulated revenue to recover from each customer segment, we consider how each segment uses our gas distribution network assets.

The way the network of assets has been built up over time is something that First Gas now has limited ability to change, however we are able to influence present and future investment decisions in the gas distribution network. Our distribution prices are designed, in line with the regulated pricing principles, to efficiently recover the cost of the existing gas distribution network and send efficient signals to users when new investments are required.

Reasons for Price Changes

For the pricing year beginning 1 October 2016 First Gas has set its prices to ensure that the revenue from our gas distribution network is no more than required to recover our costs as determined by the Commerce Commission in its Gas Distribution Services Default Price-Quality Path Determination 2013. This Determination sets the weighted average prices that First Gas is able to charge each year and also allows us to recover a number of costs outside of our control known as “pass through and recoverable costs”. Pass through and recoverable costs include council rates and regulatory levies payable by First Gas to both the Electricity and Gas Complaints Commission and the Commerce Commission. The regulatory regime reflects our operating costs and provides incentives for cost efficiency. At the end of each regulatory period (every 5 years) any efficiency gains are shared with customers through lower prices.

From 1 October 2016, the impact of splitting the North island Networks away from Auckland (1.5%), increases in pass-through and recoverable costs (0.1%), and increases to the regulated CPI (0.3%) result in an overall weighted average increase to our gas distribution prices of 1.9%. Changes to individual prices will vary from the weighted average price increase. This is due to individual consumption levels within price categories. We have limited the extent of these changes so that customers generally face price increases of no more than 3%, although we acknowledge that in some instances individual price increases may be greater than this. Our gas distribution prices are set out in the price schedule on the following page.

Increases to fixed charges

The intention for increasing the portion of our revenues that are recovered from fixed charges is to better reflect our costs.

Prices from 1 Oct 2015			Prices from 1 Oct 2016			Price change %		
Price Category	Fixed Price (\$/day)	Variable Price (\$/kWh)	Price Category	Fixed Price (\$/day)	Variable Price (\$/kWh)	Fixed Price Change (%)	Variable Price Change (%)	Estimated Total Price Change (%)
GN0R	0.34	0.0261	GN0R	0.357	0.0261	5.00%	0.0%	2.18%
GN01	0.62	0.0165	GN01	0.650	0.0165	4.84%	0.0%	1.82%
GN02	1.10	0.0133	GN02	1.154	0.0133	4.91%	0.0%	1.23%
GN03	4.72	0.0102	GN03	4.951	0.0102	4.89%	0.0%	1.25%
GN04	14.48	0.0068	GN04	15.190	0.0068	4.90%	0.0%	0.95%
GN05	200.00	0.0015	GN05	209.800	0.0015	4.90%	0.0%	3.08%

Consistent with our objectives to align our revenue with our costs, we have increased our fixed prices by 4.9%. Variable prices have not changed. The resulting percentage price changes for each price component will vary as a result of rounding (three decimal places). The estimated total price change for each price category is generally determined by the portion of charges that are fixed versus the portion that are variable.

First Gas has calculated an overall weighted average change in prices of 1.9%, and identified the impact on residential customers as being on average less than \$0.50 per month.

The final schedule of prices from 1 October is shown below:

Residential

Price Category	Code	Description	Units	Rate
GN0R	GN0R-FIXD	Fixed	\$/day	0.357
	GN0R-24UC	Variable	\$/kWh	0.0261

General

Price Category	Code	Description	Units	Rate
GN01	GN01-FIXD	Fixed	\$/day	0.650
	GN01-24UC	Variable	\$/kWh	0.0165

Commercial

Price Category	Code	Description	Units	Rate
GN02	GN02-FIXD	Fixed	\$/day	1.154
	GN02-24UC	Variable	\$/kWh	0.0133
GN03	GN03-FIXD	Fixed	\$/day	4.951
	GN03-24UC	Variable	\$/kWh	0.0102

Industrial

Price Category	Code	Description	Units	Rate
GN04	GN04-FIXD	Fixed	\$/day	15.190
	GN04-24UC	Variable	\$/kWh	0.0068
GN05	GN05-FIXD	Fixed	\$/day	209.800
	GN05-24UC	Variable	\$/kWh	0.0015