



MAUI PIPELINE

**Disclosure under the Gas (Information Disclosure)
Regulations 1997**





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1. INTRODUCTION

1.1 The Maui Pipeline

The Maui Pipeline was installed in 1978 for the purpose of delivering Gas to the Buyer under the Maui Gas Contract, signed in 1973. From the commencement of deliveries under the Maui Gas Contract in 1979 until the start of the Maui Open Access Regime in October 2005, the Maui Mining Companies used the Maui Pipeline solely for transporting Gas from the Maui field to the various Delivery Points used by the Buyer.

The progressive depletion of the Maui field meant that the continuation of the highly flexible Maui gas supply could not be taken for granted. There was a pressing need to create the physical and commercial conditions under which new gas could enter the market.

1.2 The Maui Open Access Regime

Under the Maui Open Access Regime introduced in October 2005, parties other than the Maui Mining Companies can ship gas through the Maui pipeline. The terms and conditions governing access are set out in the Maui Pipeline Operating Code (MPOC). This Code, which is published at <https://www.oatis.co.nz/> in the Public Domain Information Exchange portion of the site, contains the detailed rules governing the operation of the Maui pipeline, processes, responsibilities, and the timing of key information exchanges.

Maui Development Limited (MDL) is owned by the Maui Mining Companies (Shell Petroleum Mining Company, OMV New Zealand Limited and Todd Petroleum Mining Limited). It is a bare nominee company which holds the Maui assets on behalf of the Maui Mining Companies. As agent for the Maui Mining Companies, MDL is the contracting party with all parties who wish to obtain gas transport services on, or connect with, the Maui Pipeline. MDL administers the MPOC with operational functions contracted to the Technical, System and Commercial Operators as appropriate.

1.3 Disclosure Requirements

The Gas (Information Disclosure) Regulations 1997 require the disclosure of certain information by pipeline owners. With the commencement of the Maui Open Access Regime, MDL is required to disclose the information contained in this document. For the sake of completeness, comparative data has been provided for the final quarter of Calendar Year 2005, and for the full Calendar Years 2006 to 2010. Comparative data was previously disclosed in accordance with the Gas (Information Disclosure) Regulations 1997 in May 2009.

There is a great deal of other publicly available information about the Maui pipeline and its operations. Interested parties should consult the Public Domain Information Exchange portion of the site at the <https://www.oatis.co.nz/>. Information on the balancing gas market is available on www.bgx.co.nz. Information is also available on the Maui Pipeline web-site at <http://www.mauipipeline.co.nz>.



2. REGULATIONS 15 AND 16: FINANCIAL AND EFFICIENCY PERFORMANCE

2.1 Definition of Maui Pipeline Notional Entity

The Maui pipeline is owned by the Maui Mining Companies (an unincorporated joint venture). As the joint venture's services company, Maui Development Limited holds the pipeline assets as a bare nominee. Given this ownership situation, the best and most practical method of calculating the financial performance and efficiency measures was to calculate stand-alone accounts for the Maui pipeline business and derive the measures required from them.

The Maui Pipeline notional accounts were constructed as follows:

- Income was derived from the tariff income for shipments through the pipeline.
- Expenses were derived from the expenses charged by the Commercial, Technical and System Operators, including the cost of services provided to them, together with the expenses charged by the Balancing Agent and the Incentives Pool Trustee who operate under the terms of the MPOC. These were all considered to be pipeline related.
- Assets include any assets owned by MDL and used for pipeline related purposes, but also include the estimated ODRC value of the Maui pipeline assets.
- Depreciation is charged on the MDL assets and the pipeline ODRC values. The depreciation charge for the pipeline and other pipeline assets is based on that determined by the most recent ODRC valuation report.
- Currently in the notional accounts tax is charged at the normal company rate. This is assumed to be equal to the "Cash Tax" amount used for the purposes of calculating the accounting rate of profit. A corresponding tax payable is recognised in the balance sheet for the notional amount. No actual liability exists and the resulting cumulative balance is not required to be repaid. Given this, tax payable balances are reversed out through retained earnings in the subsequent period.
- The notional entity has no debt. Any debt held in the individual Maui Mining Companies is unable to be directly or indirectly attributed to the Maui pipeline.

The notional accounts do not include provision for the following costs:

- Costs associated with the governance of Maui Development Limited's pipeline business by the Maui Mining Companies. These governance services are currently provided at no charge. These costs are unlikely to significantly affect the results given below.
- Costs associated with the provision of Balancing Gas services for the Maui pipeline before December 2008. Before this time the Balancing Gas service was provided principally by the Maui Mining Companies at no charge to Maui Pipeline users. MPOC legacy provisions were removed in early December 2008 and MDL now recovers balancing gas costs from Maui Pipeline users. The new arrangements are still evolving although in 2009 and 2010, MDL cost recovery mechanisms calculated full cost recovery with a significant reduction in the use of balancing gas with usage by volume at less than half of 2008 levels. Balancing Gas costs are included in the 2010 notional accounts.



A consequence of constructing the notional accounts in this way is that there are no indirect costs (as defined in the Regulations).

2.2 Estimates, Assumptions and Adjustments

- An ODRC pipeline value as at 1 October 2005 was estimated using the ODRC values prepared by Maunsell Limited for 31 December 2005 and 31 December 2006. The method used was to project the trend in the December valuations back 3 months.
- The ODRC value at 31 December 2007- 2010 has been estimated by indexing the value at 31 December 2006 by the change in the Consumer Price Index between the respective December quarters. This is consistent with the Commerce Commission's accepted principles for adjusting ODRC values between valuations under the "building blocks regime" for tariff regulating purposes. The weighted average CPI for 2010 was 2.0% (the weighted average CPI for 2007 – 2009 ranged from 2.0% - 3.4%).
- Similarly the ODRC depreciation for the calendar years 2006 - 2010 was prepared using the valuations prepared by Maunsell Limited for 31 December 2005 and 31 December 2006 respectively. ODRC depreciation has been calculated by adjusting prior year amount for CPI.
- Other Income, Expenses and Balance Sheet figures were obtained from the accounts prepared for the Maui Mining Companies by the Commercial Operator. These accounts are not audited, but are peer reviewed by an accounting firm monthly.

2.3 Financial Performance measures

	<i>Oct- Dec 2005</i>	<i>Jan- Dec 2006</i>	<i>Jan- Dec 2007</i>	<i>Jan- Dec 2008</i>	<i>Jan- Dec 2009</i>	<i>Jan- Dec 2010</i>
Accounting Return on Total Assets (%)	4.9	8.1	9.4	8.9	9.1	9.8
Accounting Return on Equity (%)	3.3	5.4	6.3	6.3	6.4	6.9
Accounting Rate of Profit (%)	8.6	11.1	9.8	10.0	8.6	9.1

The Accounting Rate of Profit figures were affected by the increases in the ODRC pipeline valuations resulting from the valuations conducted by Maunsell Limited and subsequent CPI adjustments to the ODRC value. Without these revaluations, the Accounting Rates of Profit for these periods would be 5.4%, 6.3%, 6.3%, 6.4%, and 6.8% for calendar years 2006 - 2010 respectively.



2.4 Efficiency Performance measures

	<i>Oct-Dec 2005</i>	<i>Jan-Dec 2006</i>	<i>Jan-Dec 2007</i>	<i>Jan-Dec 2008</i>	<i>Jan-Dec 2009</i>	<i>Jan-Dec 2010</i>
Direct Line Costs per km (\$)	32,475	26,549	41,429	38,858	46,603	32,349
Indirect Line Costs per Gas Customer (\$)	0.00	0.00	0.00	0.00	0.00	0.00

- Note that Direct Costs do not include netting off of balancing gas income.

3. REGULATION 17: ENERGY DELIVERY EFFICIENCY PERFORMANCE MEASURES AND STATISTICS

3.1 Estimates, Assumptions and Adjustments

- Gas flow figures have been extracted from the Quarterly Statistical Returns filed with the MED and the Statistics Department.
- The calculation of Total Amount of Gas Conveyed for Wholesalers or Retailers is based on the quantity of gas supplied to Welded Points controlled by a wholesaler, but excludes gas supplied to Welded Points directly supplying electricity generation facilities, petrochemical plants or gas production facilities. It is based on gas metered out of the system.
- Total Amount of Gas Conveyed is gas metered into the pipeline system.
- Negative Unaccounted-for gas means that more gas was metered out of the system than metered in after taking into account changes in the line pack inventory and gas used for compressor fuel.
- The customer numbers are averaged over the relevant period as required by the Regulations. There were 8 customers at the end of 2006 and 13 at the end of 2007 – 2010.

3.2 Energy Delivery Efficiency Performance Measures

	<i>Oct-Dec 2005</i>	<i>Jan-Dec 2006</i>	<i>Jan-Dec 2007</i>	<i>Jan-Dec 2008</i>	<i>Jan-Dec 2009</i>	<i>Jan-Dec 2010</i>
Load Factor (%)	96.8	88.2	84.5	85.1	89.6	88.3
Unaccounted-for Gas Ratio (%)	-0.72	-0.75	-0.40	-0.25	-0.37	-0.05



3.3 Statistics

	<i>Oct-Dec 2005</i>	<i>Jan-Dec 2006</i>	<i>Jan-Dec 2007</i>	<i>Jan-Dec 2008</i>	<i>Jan-Dec 2009</i>	<i>Jan-Dec 2010</i>
System Length (km)	308.77	308.277	308.277	308.277	308.277	308.277
Maximum Monthly Flow (GJ)	8,148,000	10,834,000	13,523,931	13,035,190	12,487,882	12,144,460
Total Amount of Gas Conveyed (GJ)	23,657,000	114,627,000	137,116,559	133,152,233	134,266,062	128,637,477
Total Amount of Gas Conveyed for Wholesalers or Retailers (GJ)	18,188,000	79,101,000	81,278,360	82,889,762	104,170,089	66,179,474
Total Customers	4.0	10.5	13.0	13.0	12.5	12.0

4. REGULATION 18: RELIABILITY PERFORMANCE MEASURES

4.1 Estimates, Assumptions and Adjustments

For the Maui pipeline, unplanned interruptions have been counted in four ways:

1. An interruption in the supply of Maui gas into the pipeline, whether or not there was any effect on users. Figures are available up to the end of October 2006. This measure became inadequate as substantial amounts of gas from non-Maui sources became available.
2. A curtailment of a nominated shipment through the pipeline for any reason. This measure has been used since November 2006. The possible reasons for curtailment include matters outside the pipeline operator's control such as failure of a party to supply gas as scheduled, or failure of a party to take gas from the pipeline as scheduled, or force majeure events affecting pipeline delivery or off take. A curtailment may only affect some pipeline customers, with others unaffected.
3. A curtailment or interruption due to the failure of the pipeline or pipeline equipment. There have been no failures of this type in the periods reported on.
4. High pressure incidents considered are those that required curtailment to mitigate an over pressure situation.

Records kept using the different methods are not directly comparable.



4.2 Unplanned Interruptions

	<i>Oct-Dec 2005</i>	<i>Jan-Oct 2006</i>
Unplanned Maui outages affecting the pipeline (hrs)	1.0	16.5

<i>Curtailments by cause (hours)</i>	<i>Nov-Dec 2006</i>	<i>Jan- Dec 2007</i>	<i>Jan-Dec 2008</i>	<i>Jan-Dec 2009</i>	<i>Jan-Dec 2010</i>
Delivery points flow significantly less than nominated – high pressure	107	95	10.5	4	80
Loss of Supply (MPOC Sec. 15.1)	-	11	20	-	24
Initiated by a Welded Party (MPOC Sec 15.2)	16	54	56	46	52
Total Curtailments (hrs)	123	160	86.5	50	156

5. REGULATION 20: PRICING METHODOLOGY

5.1 Tariff methodology

The following methodology for setting tariffs is set out in Schedule 10 of the Maui Pipeline Operating Code (MPOC):

Maui Development Limited (MDL) will set the Transmission Charges in accordance with the standard practice adopted by utilities businesses in New Zealand.

Accordingly, MDL will recover the cost and return of capital as follows. MDL will

- a) calculate the Maui Pipeline's Optimised Deprival Value or Optimised Depreciated Replacement Cost and multiply this value by a nominal WACC, and then subtract any revaluation gains/losses on the asset ("Required Return");
- b) calculate the return of capital based on the useful life of the asset ("Depreciation");
- c) aggregate the Required Return and Depreciation to derive the "Required Revenue";
- d) derive a GJ.km tariff ("Tariff 1"); and
- e) apply Tariff 1 across the Maui Pipeline Shippers on the basis of quantity of Gigajoules of Gas transported multiplied by the distance of Gigajoules of Gas transported.

In any given year, in the event that MDL's total revenues are more or less than its required revenue, then Tariff 1 may be adjusted for the following years in a manner that endeavours to reduce pricing volatility for Shippers.

The approach adopted by MDL to recover operating expenditure is to:



- a) aggregate the Maui Pipeline's operating costs ("Operational Expenditure");
- b) allocate Operational Expenditure across every Gigajoule of Gas delivered from the Maui Pipeline.

In any given year, in the event that MDL's total Operational Expenditure recovery is more or less than its required recovery, then Tariff 2 may be adjusted for the following years in a manner that endeavours to reduce pricing volatility for Shippers.

5.2 Tariffs

Tariff rates are posted on the OATIS website at <https://www.oatis.co.nz/> in the Public Domain Information Exchange portion of the site. The tariffs applied are set out in the following table:

	<i>October 2005 to May 2007</i>	<i>June 1 2007 to May 31 2008</i>	<i>June 1 2008 to June 30 2009</i>	<i>Jul 1 2009 to 30 June 2010</i>	<i>Jul 1 2010 to 31 Dec 2010</i>
Tariff 1 (c/GJ.km)	0.1149	0.1341	0.1492	0.1346	0.1675
Tariff 2 (c/GJ)	9.6	9.2	9.7	9.4	3.9



6. CERTIFICATES

6.1 Certification of Performance Measures by Auditor

We have examined the attached information on pages 4 and 5, being...

(a) Financial performance measures, as reported in table 2.3, specified in clause 1 of Part 2 of Schedule 1 of the Gas (Information Disclosure) Regulations 1997: and

(b) Financial components of the efficiency performance measures, as reported in table 2.4, specified in clause 2 of Part 2 of that schedule

and having been prepared by the Pipeline owner and dated 30 May 2011 for the purposes of regulations 15 and 16 of those regulations.

Our procedures do not constitute an audit but comprised ensuring that the financial performance measures and financial components of the efficiency performance measures were extracted appropriately from the financial information prepared by the Pipeline owner.

We certify that, having made all reasonable enquiry, to the best of our knowledge, that information has been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

KPMG



**6.2 Certification of Financial Statements, Performance Measures, and Statistics
Disclosed by Pipeline Owners Other than the Corporation**

We, _____

and _____,

directors of Maui Development Limited, certify that, having made all reasonable enquiry, to the best of our knowledge,---

The attached information, being financial performance measures, efficiency performance measures, energy delivery performance measures and statistics, and reliability performance measures in relation to Maui Development Limited, and having been prepared for the purposes of regulations 15 to 19 of the Gas (Information Disclosure) Regulations 1997, complies with the requirements of those regulations.

Signatures of Directors



6.3 Statutory Declaration in Respect of Statements and Information Supplied

I, _____,

of _____,

being a director of Maui Development Limited solemnly and sincerely declare that, having made all reasonable enquiry, to the best of my knowledge, the information attached to this declaration is a true copy of information made available to the public under the Gas (Information Disclosure) Regulations 1997.

And I make this solemn declaration conscientiously believing the same to be true, and by virtue of the Oaths and Declarations Act 1957.

.....

Declared at _____ this _____ day of _____.

.....

Justice of the Peace (or Solicitor or other person authorised to take a statutory declaration).