

**Maui Pipeline
Gas Transmission Services
Default Price Quality
Compliance Statement**

Introduction

This document is a Compliance Statement prepared pursuant to section 11 of the Gas Transmission Services Default Price-Quality Path Determination 2013 ('DPP Determination') issued by the Commerce Commission. This Compliance Statement covers the Third Assessment Period for Maui Development Limited ('MDL'), which is from 1 July 2015 to 30 June 2016.

First Gas is providing this compliance statement as a result of our acquisition of the Maui pipeline and related assets from MDL on 14 June 2016

Price path compliance

We are pleased to confirm that the price path in clause 8 of the DPP Determination for MDL has been complied with for the Assessment Period.

MDL set new prices with effect from 1 July 2015. In order to comply with a requirement of the Maui Pipeline Operating Code (MPOC) to provide at least 60 days' prior written notice of changes in prices, the new prices were notified by MDL on 30 April 2015.

Allowable Notional Revenue

The DPP Determination requires Allowable Notional Revenue for MDL 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 Third Assessment Period for MDL, i.e. 1 July 2015 to 30 June 2016. Therefore, t is the year 2016.

The allowable notional revenue for MDL for the Pricing Period ending on 30 June 2015 was \$41.630 million.

The change in CPI calculated in accordance with the prescribed formula was 1.228%.

Accordingly, Allowable Notional Revenue for the Third Assessment Period for MDL was:

$$ANR_{2016} = ANR_{2015} (1 + \Delta CPI_{2016}) = 41.630 (1 + 1.228\%) = \$42.141 \text{ million}$$

Notional Revenue

Notional revenues are not the same as actual revenues or expected revenues. The DPP Determination 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.

The MPOC prescribes two prices for Gas Transmission Services provided on the Maui 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 2016 Pricing Period for MDL was \$0.001578 per GJ.km
2. Tariff 2 charged by GJ, i.e. on throughput quantity of gas in GJ. Tariff 2 for the 2016 Pricing Period for MDL was \$0.076779 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 July 2013 to June 2014 period were:

18,791,742 TJ.km (based on Tariff 1 revenues for that period of \$28.282 million)

163,497 TJ (based on Tariff 2 revenues for that period of \$12.916 million)

The Pass-through Costs and Recoverable Costs applied for the 2016 Pricing Period for MDL were:

K_{2016} of \$ 0.709 million

V_{2016} of \$ -0.643 million (representing a net income)

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

$$\begin{aligned} NR_{2016} &= (0.001578 \times 10^3 \times 18,791,742 + 0.076779 \times 10^3 \times 163,497) / 10^6 - \\ & (0.709 - 0.643) = \\ & (29,653,368 + 12,553,136) / 10^6 - 0.066 = 42.141 \end{aligned}$$

Pass-through Costs and Recoverable Costs

Pass-through Costs and Recoverable costs that could be applicable for the Third Assessment Period for MDL 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 Prices for a Pricing Period are set;
- 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.

MDL set Prices during April 2015. In order to be prudent, and confident that it only included costs that were ascertained, MDL only included costs it incurred up to 31 December 2014. In the previous Pricing Period for MDL it applied costs incurred up to 31 December 2013. Accordingly, MDL for the current Pricing Period applied costs incurred between 1 January 2014 and 31 December 2014.

Pass-through Costs applicable for MDL 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;
 - to the Electricity and Gas Complaints Commissioner Scheme.

These costs (rounded) for MDL for the January to December 2014 period were:

Pass-through Costs 2014 (\$)	Jan-Jun	Jul-Dec	Jan-Dec
Local Government rates	170,518	184,385	354,903
Commerce Commission levies	148,539	142,784	291,323
GIC levies	0	30	31
EGCC levies	4,568	4,645	9,213
Total	323,625	331,845	655,470

The only Recoverable Costs that applied for MDL were for balancing gas. For the July to December 2014 period these costs for MDL (with credits represented by a negative number) were:

Recoverable Costs 2014 (\$)	Jan-Jun	Jul-Dec	Jan-Dec
Balancing Gas Calls by MDL	+260,850	+402,845	+663,695
Balancing Gas Puts by MDL	-120,725	-452,525	-573,250
Imbalance Gas purchased from MDL	-274,963	-376,135	-651,098
Imbalance Gas sold to MDL	+31,269	+56,961	+88,230
Incentives Pool Debit charges	-40,074	-90,329	-130,403
Incentives Pool Credit claims	-	-	-
Total Cost/(Income)	-143,643	-459,183	-602,827

The DPP Determination also allows (but does not require) 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%.

Pass-through and Recoverable Costs incurred in January-June periods of a calendar year are lagged by 2 years from the July-June pricing year for MDL for which they are calculated. Costs incurred for July-December periods are lagged by 1 year. With that approach, MDL applied a time-value-of-money adjustment calculated as follows.

Pass-through/Recoverable Costs 2014 (\$)	Jan-Jun	Jun-Dec	total
Pass-through Costs unadjusted	323,625	331,845	655,470
time-value-of-money adjustment	35,759	17,853	53,612
Pass-through Costs adjusted	359,383	349,698	709,082
Recoverable Costs unadjusted	-143,643	-459,183	-602,827
time-value-of-money adjustment	-15,872	-24,704	-40,576
Recoverable Costs adjusted	-159,515	-483,887	-643,402
Total time-value-of-money adjustment	19,887	-6,851	13,036

Compliance

Compliance with the price path requires that notional revenue must not exceed allowable notional revenue for each Assessment Period. As calculated above, NR₂₀₁₆ is equal to ANR₂₀₁₆. Therefore, the price path for the Third Assessment Period for MDL has been complied with.

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 Third Assessment Period for MDL.

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

$$\text{RTE}_{180} / (\text{RTE}_t - \text{RTE}_{\text{excl}}) = 1$$

- (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."

Relevant incidents for the Maui pipeline recorded during the Third Assessment Period for MDL are set out in Appendix 1 below. This shows 1 Emergency: the Pohokura Production Station trip on 24 May 2016 that led to a Critical Contingency on the same day. Therefore, $\text{RTE}_t = 1$.

No applications were made to exclude any Emergencies for the purpose of meeting the quality standard. Therefore, $\text{RTE}_{\text{excl}} = 0$.

The Pohokura Production Station trip emergency was responded to immediately. (The Critical Contingency Operator was present when the Emergency was declared.) The response was logged 7 minutes after the Emergency was declared. Therefore, $\text{RTE}_{180} = 1$.

As a result:

$$\text{RTE}_{180} / (\text{RTE}_t - \text{RTE}_{\text{excl}}) = 1 / (1 - 0) = 1$$

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.

Policies and procedures

All gas transmission network integrity data (including RTE), including data for the Maui pipeline², is recorded and compiled by our Gas Control Team based in our Gas Transmission Control Room 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 DPP 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 on a monthly basis.

Compliance

As calculated above, the quality standard for the Third Assessment Period for MDL has been complied with.

Certification

The required certification for this Compliance Statement is attached. This certification is made in reliance on historical data obtained from MDL with respect to costs incurred and charges made for the Maui pipeline prior to the date of our acquisition.

Auditor report

The required report on this Compliance Statement that is signed by an Auditor is attached.

Statement date

This Compliance Statement was prepared on 29 August 2016.

² This was already the case prior to our acquisition from MDL, when we were working under contract as MDL's Technical Operator for the Maui pipeline.

Appendix 1 Maui pipeline recorded events from 01 July 2015 to 30 June 2016

Event Date	Event Time	Location	Description	Emergency (Y/N)	Consumer Interrupt (Y/N)	Event Cause	Response Time	RTE
13.07.15	03:10	Tikorangi Tie-In Station (Underground)	Pohokura PS Loss of supply	N	N	Third Party	03:10	-
22.07.15	11:43	Oaonui Outlet MLV	Oaonui Export Gas Production Loss	N	N	Third Party	11:56	-
29.07.15	16:09	Oaonui Outlet MLV	Oaonui Export Gas Production Loss	N	N	Third Party	16:13	-
09.08.15	11:05	Tikorangi Mixing Station	Pohokura Field outage	N	N	Third Party	11:07	-
26.08.15	10:24	Oaonui Outlet MLV	Oaonui Unplanned shut Down	N	N	Third Party	10:27	-
05.09.15	15:50	Tikorangi Tie-In Station (Underground)	Pohokura PS Unplanned Shut Down	N	N	Not an Event	15:56	-
22.09.15	08:28	Pungarehu Delivery point	Reported smell of gas	N	N	Equipment Failure	08:29	-
09.10.15	13:20	Tikorangi Tie-In Station (Underground)	Pohokura Prod Stn no flow	N	N	Third Party	14:21	-
26.12.15	05:10	Tikorangi Tie-In Station (Underground)	Pohokura PS Unplanned Shut Down	N	N	Third Party	06:01	-
19.01.16	08:00	Oaonui Outlet MLV	Oaonui Outage	N	N	Third Party Equipment Failure	08:35	-
04.02.16	15:35	Tikorangi Tie-In Station (Underground)	Pohokura Outage	N	N	Third Party Equipment Failure	16:35	-
05.02.16	17:43	Pukearuhe	Reported smell of gas	N	N	Not an Event	17:50	-
29.02.16	12:30	Tikorangi Tie-In Station (Underground)	Pohokura PS power outage	N	N	Third Party Equipment Failure	13:20	-
19.03.16	18:26	Waitara Valley Offtake	Waitara Valley Offtake Hissing Sound	N	N	Equipment Failure	18:26	-
17.05.16	17:16	Tikorangi Tie-In Station (Underground)	Pohokura Production Outage	N	N	Third Party	17:27	-
24.05.16	16:28	Tikorangi Tie-In Station (Underground)	Pohokura Production Stn Trip	Y	N	Third Party	16:35	0:07
20.06.16	18:50	Oaonui Outlet MLV	Oaonui Gas Production trip	N	N	Third Party	19:02	-

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:

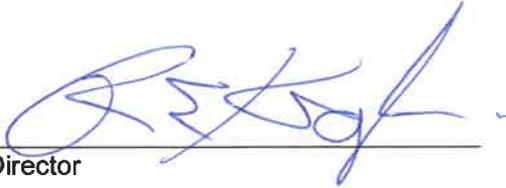
- Potential or actual gas supply critical contingency
- Uncontrolled escape of gas
- Any structural damage to a transmission pipeline
- Unplanned supply interruption to multiple end users
- Off specification gas including under or over odorisation
- Significant chemical or odorant spill
- Potential or 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.

Certificate for Compliance Statement

I, Euan Richard Krogh, being a Director of First Gas Limited certify that, having made all reasonable enquiry, to the best of my/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.



Director

29 August 2016

Date



Auditor's report to the Commerce Commission and the Directors of First Gas Limited on the Default Price-Quality Path Compliance Statement

We have performed our assurance engagement in relation to the attached statement, which is a Compliance Statement in respect of the default price-quality path for the assessment period ended on 30 June 2016 and dated 29 August 2016 for the purposes of clause 11 of the Gas Transmission Services Default Price-Quality Path Determination 2013 ("the Determination").

Directors' responsibilities

The Directors of First Gas Limited are responsible for the preparation of the Compliance Statement in accordance with the Determination and for such internal control as the Directors determine is necessary to enable the preparation of a Compliance Statement that is free from material misstatement, whether due to fraud or error.

Auditor's qualifications

We are qualified as an auditor as defined in the Determination.

Auditor's responsibilities

Our responsibility is to express an opinion on the Compliance Statement based on our assurance engagement. We conducted our assurance engagement in accordance with the Standard on Assurance Engagement 3100 – *Compliance Engagements* (SAE 3100) and the International Standard on Assurance Engagements (New Zealand) 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (ISAE (NZ) 3000 (Revised)). Those standards require that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance about whether the compliance statement is free from material misstatement.

An assurance engagement involves performing procedures to obtain evidence about the amounts and disclosures in the compliance statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Compliance Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the compliance statement in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An assurance engagement also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the Compliance Statement.

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 3 to 5 of the Compliance Statement.

In relation to the quality path 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 6 to 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.

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

Independence

Our firm also provided financial statement audit and other regulatory assurance services to First Gas Limited, formerly known as Vector Gas Limited. These matters have not impaired our independence as auditor of First Gas Limited pursuant to the Determination. Our firm has also provided regulatory assurance and financial information review services to Maui Development Limited, who were previously responsible for regulatory reporting in respect to the Maui Gas Pipeline.

Limitation of scope

Quality path information as set out in clause 9 of the Determination has been maintained by a third party, in their capacity as Technical Operator for First Gas Limited. For these items, our procedures were limited to confirming that the information in the Compliance Statement agree to the third party records provided to us.

Conclusion

In our opinion, the Compliance Statement of First Gas Limited in respect of the default price-quality path for the assessment period ended on 30 June 2016, has been prepared, in all material respects, in accordance with the Determination.

Our assurance engagement was completed on 29 August 2016 and our opinion is expressed as at that date.

Restriction of distribution and use

Our report should not be regarded as suitable to be used or relied on by any party other than the Commerce Commission and the Directors of First Gas Limited in accordance with the Commerce Act 1986 for any purpose or in any context. Any party other than the Commerce Commission and Directors of First Gas Limited 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 the Commerce Commission and the Directors of First Gas Limited for our work, for this independent reasonable assurance report, or for the conclusions we have reached.

Our report is released to the Commerce Commission and the Directors of First Gas Limited's own internal purposes) or in part, without our prior written consent.

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