

**First Gas Limited**

42 Connett Road West, Bell Block  
Private Bag 2020, New Plymouth, 4342  
New Zealand

**P** +64 6 755 0861

**F** +64 6 759 6509

## Notification of First Gas' distribution prices effective 1 October 2017

Here at First Gas we are excited to announce our distribution prices, to come into effect on October 1<sup>st</sup> 2017.

First Gas has developed our understanding of gas distribution networks and the challenges faced by consumers over the 18 months we have owned the networks. This has led to the introduction of a fully variable residential pricing option from 1 October 2017. This new offering does not replace or impact the historical fixed/variable pricing that is available for residential consumers, but offers an alternative for those consumers installing a suitable gas load.

First Gas' finalised prices represent a 20% decrease in overall revenue. The reduction in revenue is a result of the default price-quality path reset announced by the Commerce Commission in May 2017. The magnitude of price changes varies across consumer groups, due to the new cost allocation model that First Gas has developed to reflect our cost drivers. We have only deviated from the results of our cost allocation model where prices would have increased by more than CPI (which was the case for our large industrial consumer group). We have chosen to instead cap the price increase to any consumer group to be no more than CPI, given the overall 20% reduction in our revenue. This has resulted in a small increase in the costs allocated to other consumer groups (the net impact of this reallocation is less than 4% of total costs allocated to other consumer groups).

The finalised prices result in weighted average impacts on consumer groups the vary from -35.9% through to 0.75% increases. Individual consumer's impacts will vary by different levels based on the consumption.

### Purpose of this document

First Gas owns and operates the natural gas distribution networks in the upper North Island (excluding 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 2017 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](#).

## How we set prices

We recover the cost of owning and operating our gas distribution network through a combination of standard (published), 16 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 Distribution Pricing Methodology disclosure, available [here](#).

A key feature of a gas distribution systems is that they are networks 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**; All residential customers. Fully variable consumers must be installing at least continuous flow hot water or central heating and be new connections to the network from 1 October 2017.
- 2) **Business customers** – Less than or equal to 10 scm/h<sup>2</sup> ;
- 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 2017 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”.

At the end of each regulatory period (every 5 years) any efficiency gains are shared with customers through lower prices. This year marks the start of a new regulatory period, which has resulted in a 20% decrease in our allowable revenue.

We have also reallocated our costs between consumer groups based on the improved knowledge we have gained regarding our network. We have identified cost drivers and allocated the cost between consumer groups using these drivers. This has resulted in varying changes for individual consumer groups from a 0.75% increase through to a 35.92% decrease.

We have taken the opportunity to reallocate our costs appropriately at the same time as the overall allowable revenue was decreased by 20% to avoid any upward price shocks to consumers.

Prices from 1 Oct 2016			Prices from 1 Oct 2017			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	0.357	0.0261	GN0R	0.34	0.021	-4.80%	-19.5%	-12.67%
			GN0V	0.00	0.05	n/a	n/a	n/a
GN01	0.650	0.0165	GN01	0.62	0.0073	-4.6%	-55.8%	-35.92%
GN02	1.154	0.0133	GN02	1.08	0.0076	-6.4%	-42.9%	-33.33%
GN03	4.951	0.0102	GN03	4.79	0.007	-3.3%	-31.4%	-23.94%
GN04	15.190	0.0068	GN04	14.05	0.0064	-7.5%	-5.9%	-6.19%
GN05	209.800	0.0015	GN05	220.00	0.0014	4.9%	-6.7%	0.75%

First Gas has calculated an overall weighted average decrease in prices of residential consumers of 12.67%, and identified the reduction as being on average \$2.91 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	0.34
	GN0R-24UC	Variable	\$/kWh	0.021
GN0V	GN0V-24UC	Variable	\$/kWh	0.05

#### General

Price Category	Code	Description	Units	Rate
GN01	GN01-FIXD	Fixed	\$/day	0.620
	GN01-24UC	Variable	\$/kWh	0.0073

#### Commercial

Price Category	Code	Description	Units	Rate
GN02	GN02-FIXD	Fixed	\$/day	1.08
	GN02-24UC	Variable	\$/kWh	0.0076
GN03	GN03-FIXD	Fixed	\$/day	4.79
	GN03-24UC	Variable	\$/kWh	0.007

#### Industrial

Price Category	Code	Description	Units	Rate
GN04	GN04-FIXD	Fixed	\$/day	14.05
	GN04-24UC	Variable	\$/kWh	0.0064
GN05	GN05-FIXD	Fixed	\$/day	220.00
	GN05-24UC	Variable	\$/kWh	0.0014