

1 September 2020

Dear Retailers,

Notification of Firstgas distribution prices effective 1 October 2020

Here at Firstgas we are excited to announce our distribution prices to come into effect 1 October 2020.

Purpose of this document

Firstgas owns and operates the natural gas distribution networks in the upper North Island (excluding Auckland) and supplies gas to around 65,000 consumers. 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. Provide the rules and criteria on the Fully Variable Residential Tariff;
4. Include our price schedule with our new prices and eligibility criteria; and
5. Provide tables comparing our prices before and after the 1 October 2020 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) and 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 Distribution Pricing Methodology disclosure, available here.

A key feature of gas distribution system is that they are networks of interconnected assets. Many consumers 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 consumers or groups of consumers can be made in many ways, it also means that the cost of providing the network is shared widely. Therefore, the cost of network services is generally low for each consumer.

To recognise the key differences in the use and cost of our network, we separate consumer connections into the following segments for pricing:

1. Residential consumers: All residential consumers;
2. Business consumers: Less than or equal to 10 scm/h;
3. Small commercial consumers: Greater than 10scm/h and less than or equal to 40scm/h;
4. Large commercial consumers: Greater than 40scm/h and less than or equal to 200scm/h;
5. Industrial consumers: Greater than 200 scm/h; and
6. Non-standard consumers.

To determine the amount of regulated revenue to recover from each consumer 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 Firstgas 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 2020, Firstgas 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 2017. This Determination also allows us to recover several 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 consumers through lower prices. This year marks the fourth year of the regulatory period, which has resulted in relatively stable pricing.

Schedule of standard pricing from 1 October 2020 (FY2021 Prices)

Price Category	Category	PY2020 Prices		PY2021 Prices		Estimated total % change
		Fixed price (\$/day)	Volume price (\$/kWh)	Fixed price (\$/day)	Volume price (\$/kWh)	
GN0R	Residential Mass market, less than 10 scm/h	0.36	0.021	0.368	0.0214	2.07%
GN0V	Residential Mass market, full variable charge and less than 10 scm/h	0	0.05	0	0.052	2.00%
GN01	General Business Mass market, less than 10 scm/h	0.66	0.0078	0.677	0.008	2.57%
GN02	Small Commercial Between 10 and 40 scm/h	1.14	0.0076	1.169	0.00779	2.52%
GN03	Large Commercial Between 40 and 200 scm/h	5	0.007	5.13	0.00717	2.49%
GN04	Industrial Less than 200 scm/h	14.5	0.0066	14.86	0.00677	2.56%
GN05	Large Industrial More than 200 scm/h	240	0.0016	246	0.00164	2.50%

*for an average consumer on each price

Non-standard prices from 1 October 2020

ICP	Justification	Standard tariff equivalent	Discount to standard
0008000027NGD9C	Bypass	GN05	92.1%
0008000029NGE07	Bypass	GN05	77.3%
0008000033NG63B	Bypass	GN05	95.2%
0008000038NG8EF	Bypass	GN05	64.1%
0008000040NGFA6	Bypass	GN05	80.7%
0008000051NG94E	Bypass	GN05	25.5%
0008000072NG8DB	Bypass	GN05	91.2%
0008000074NG954	Bypass	GN05	92.9%
0008000080NG849	Transition to Std	GN05	68.5%
0008000147NGB68	Transition to Std	GN04	49.0%
0008000249NGBF0	Bypass	GN05	93.4%
0008000300NGE00	Bypass	GN05	94.0%
1001294166NGCC4	Cost of service higher than standard	GN05	-18%
1001295720NG848	ICF requirement, Bypass risk	GN05	-157%
1001296139NG852	ICF requirement, Bypass risk	GN05	N/A
0008000032NGA7E	Measurement only	N/A	0

0008000047NG26C	Measurement only	N/A	0
------------------------	------------------	-----	---

Contact details

For further information regarding our prices, please contact

Peter Sandston

Gas Distribution Commercial Manager

Peter.Sandston@firstgas.co.nz

027 472 7798

For further information on Firstgas and its gas distribution and transmission businesses, please visit our website www.firstgas.co.nz