



**COMPLIANCE STATEMENT**

**Gas transmission services –  
Compliance with price path**

**Assessment Period 1 October 2019 – 30 September 2020**



## Introduction

First Gas operates 2,500 kilometres of gas transmission pipelines (including the Maui pipeline), and more than 4,600 kilometres of gas distribution pipelines across the North Island. These gas infrastructure assets transport gas from Taranaki to major industrial gas users, electricity generators, businesses and homes, and transport around 20 percent of New Zealand's primary energy supply. For further information on First Gas, please visit our website [www.firstgas.co.nz](http://www.firstgas.co.nz).

The First Gas Group also owns energy infrastructure assets across New Zealand through our affiliate Gas Services NZ Limited (GSNZ), a separate business with common shareholders that owns the Ahuroa gas storage facility and Rockgas. These businesses were both added to the First Gas Group in the past 12 months, providing valuable perspectives from different parts of the gas supply chain for our regulated transmission business.

The Ahuroa gas storage facility (trading as Flex Gas) can store up to 18 PJ of gas, with expansion planned over the next two years to increase the injection and withdrawal rates of the facility. Visit the website [www.flexgas.co.nz](http://www.flexgas.co.nz). Rockgas has over 80 years' experience providing LPG to 100,000 customers throughout New Zealand. Visit the website [www.rockgas.co.nz](http://www.rockgas.co.nz).

## Compliance statement

This document is a Compliance Statement prepared pursuant to clauses 11.1 – 11.3 of the *Gas Transmission Services Default Price-Quality Path Determination 2017* (DPP Determination) issued by the Commerce Commission on 29 May 2017. This Compliance Statement covers the third Assessment Period from 1 October 2019 to 30 September 2020.

First Gas has been working with stakeholders on the implementation of a single transmission code, the Gas Transmission Access Code (GTAC). The GTAC IT systems are still under development and the GTAC is expected to come into force on 1 April 2020.

First Gas will retain the structure of the prices under the Maui Pipeline Operating Code (MPOC) and Vector Transmission Code (VTC) for the first six months of the gas year (GY) year beginning 1 October 2019. There have been no pricing structure changes for the MPOC or the VTC. MPOC prices are unchanged from those applied during GY2019. VTC prices have been adjusted to reflect the lower level of capacity reservations requested by shippers under that code over the spring and summer months.

First Gas will apply the GTAC pricing methodology when the GTAC comes into force, which is expected to be 1 April 2020. First Gas consulted on the GTAC pricing methodology in 2019 and issued a final methodology on 30 June 2019. This pricing methodology and notified prices will apply for the second six months of GY2020.

The revenue earned from transmission services provided under the MPOC, VTC and GTAC has been updated to reflect changes in allowable revenue, forecast transmission quantities, pass-through and recoverable costs.

A Directors' certificate is provided with this compliance statement.

## Further information

For further information regarding this compliance statement, please contact:

Karen Collins  
Regulatory Policy Manager  
First Gas Limited  
[Karen.Collins@firstgas.co.nz](mailto:Karen.Collins@firstgas.co.nz)  
04 979 5368

**Disclaimer**

For presentation purposes, some numbers in the compliance statement have been rounded. This may cause small discrepancies or rounding inconsistencies when aggregating some of the information presented in this statement. These discrepancies do not affect the overall compliance calculations which are based on more detailed information.

## Table of contents

Introduction .....	2
1. Price setting for gas transmission services .....	5
1.1 Price path for GTBs .....	5
1.2 Forecast Revenue from Prices .....	5
1.3 Forecast Allowable Revenue.....	9
1.4 Compliance.....	10
2. Additional compliance requirements .....	11
2.1 Certification.....	11
2.2 Statement date .....	11
Appendix 1: Methodology for forecasting 2019/20 quantities.....	12
Appendix 2: Directors' certification .....	16

## 1. Price setting for gas transmission services

First Gas is pleased to confirm that we have set gas transmission prices to comply with the price path in clause 8.3 of the DPP Determination for the Assessment Period from 1 October 2019 to 30 September 2020.

### 1.1 Price path for GTBs

The DPP determination sets out that the Forecast Revenue from Prices of a GTB for each Assessment Period must not exceed the Forecast Allowable Revenue for the Assessment Period.

$$\text{Forecast Revenue from Prices} \leq \text{Forecast Allowable Revenue}$$

### 1.2 Forecast Revenue from Prices

As specified in Schedule 3 of the DPP Determination, when a GTB sets prices for an Assessment Period, the GTB must calculate the Forecast Revenue from Prices for the Assessment Period.

Forecast Revenue from Prices is defined as:

$$\text{Forecast Revenue from Prices} = \text{sum of each price multiplied by each corresponding forecast Quantity}$$

The GTB must prepare a forecast of Quantities for the Assessment Period to which the Prices for the Assessment Period will apply. All forecast Quantities used to calculate the Forecast Revenue from Prices must be reasonable.

#### **First Gas transmission business**

For the pricing year commencing 1 October 2019 (GY2020), First Gas has elected to continue to apply the existing pricing methodologies for the Maui and Non-Maui gas transmission systems for the first six months of the year (ending on 31 March 2020). First Gas will then apply the new Gas Transmission Access Code (GTAC) pricing methodology for the second six months of the year (beginning on 1 April 2020). While these apply different methodologies, we have incorporated them into one disclosure document because First Gas has a single regulated revenue cap for our Gas Transmission Business (GTB).

This means that the way we charge transmission customers will change for the second half of GY2020. A full overview of our charging can be found in our TPM in section 4.<sup>1</sup> We have prepared a forecast of volumes for each contract period, across standard products and non-standard contracts. We have also developed estimates of overrun and underrun volumes for each pricing node and developed a view on incentive fee revenue for the gas year. The combination of standard product revenue, incentive fee revenue and any non-standard contract revenue form the basis of our Forecast Revenue from Prices for the year. Revenue from Prices is set out in the following table.

---

<sup>1</sup> The Transmission Pricing Methodology for the year commencing 1 October 2019 can be found here: <https://firstgas.co.nz/about-us/regulatory/transmission/>

**Table 1: Forecast Revenue from Prices**

	Amount			
	1 Oct 2019 - 31 Mar 2020	1 Apr 2020 - 30 Sep 2020	Total	Proportion of Target Revenue
<b>Target Revenue</b>				
Standard MPOC revenue for the period 1 October 2019 to 31 March 2020	\$16,226,805		\$16,226,805	12.5%
Standard VTC revenue for the period 1 October 2019 to 31 March 2020	\$31,643,515		\$31,643,515	24.4%
Standard GTAC revenue for period 1 April 2020 to 30 September 2020		\$56,161,363	\$56,161,363	43.3%
Non-Standard Pricing (SA and ICA Revenue)	\$25,672,556		\$25,672,556	19.8%
<b>Target Revenue</b>	<b>\$129,704,239</b>		<b>\$129,704,239</b>	<b>100%</b>

Standard Prices and Revenue for the year are as per the table below.

**Table 2: MPOC Standard prices and revenue (1 October 2019 to 31 March 2020)**

	Unit	Price (\$)	Quantity	Revenue
<b>Tariff 1</b>	\$ / GJ.km	0.001601	6,882,972,814 GJ.km	\$ 11,019,639
<b>Tariff 2</b>	\$ / GJ	0.073132	71,202,284 GJ	\$ 5,207,165

**Table 3: VTC Standard prices and revenue (1 October 2019 to 31 March 2020)**

Pricing Region	2019/2020		Revenue		Total Revenue (\$)
	TPF (\$/GJ)	CRF (\$/GJ.MDQ)	TPF (\$)	CRF (\$)	
Taranaki	\$0.10	\$87	\$53,583	\$159,915	<b>\$213,498</b>
Waikato South	\$0.10	\$384	\$268,254	\$3,673,521	<b>\$3,941,775</b>
Auckland	\$0.10	\$373	\$703,302	\$9,957,202	<b>\$10,660,505</b>
Northland	\$0.10	\$567	\$12,972	\$242,174	<b>\$255,146</b>
Waikato North	\$0.10	\$384	\$108,263	\$1,921,751	<b>\$2,030,014</b>
South Taranaki - Whanganui	\$0.10	\$362	\$71,475	\$1,039,486	<b>\$1,110,961</b>
Manawatu - Horowhenua	\$0.10	\$373	\$134,010	\$1,865,063	<b>\$1,999,073</b>
Hawkes Bay	\$0.10	\$384	\$113,284	\$1,415,752	<b>\$1,529,035</b>
Kapiti - Wellington	\$0.10	\$461	\$209,670	\$2,861,166	<b>\$3,070,836</b>
Waikato East	\$0.10	\$384	\$37,927	\$682,069	<b>\$719,995</b>
Bay of Plenty West	\$0.10	\$472	\$54,445	\$694,268	<b>\$748,712</b>
Bay of Plenty South	\$0.10	\$494	\$85,246	\$1,501,374	<b>\$1,586,620</b>
Bay of Plenty East	\$0.10	\$516	\$65,557	\$1,262,721	<b>\$1,328,279</b>
Eastland	\$0.10	\$538	\$24,163	\$320,974	<b>\$345,137</b>
Hamilton	\$0.10	\$178	\$87,062	\$463,566	<b>\$550,628</b>
Frankley Road	\$0.29	n/a	\$1,553,301	\$0	<b>\$1,553,301</b>

**Table 4: GTAC Standard prices and revenue (1 April 2020 to 30 September 2020)**

Code	Delivery Zone / Individual Delivery Point	DNC Fee (\$/GJ)	DNC (GJ)	Underruns (GJ)	Overruns (GJ)	DNC Revenue (\$)	Underrun Revenue (\$)	Overrun Revenue (\$)	Total Revenue (\$)
NTHL	Te Tai Tokerau (Northland)	<b>\$2.20</b>	142,582	4,034	4,557	\$313,680	(\$4,438)	\$15,038	<b>\$324,281</b>
AUCK	Tāmaki-makaurau (Auckland)	<b>\$1.93</b>	8,704,355	96,293	98,202	\$16,799,405	(\$92,923)	\$284,295	<b>\$16,990,777</b>
WKTN	Waikato ki te Raki (Waikato North)	<b>\$1.91</b>	1,148,494	54,447	62,507	\$2,193,623	(\$51,997)	\$179,084	<b>\$2,320,709</b>
HMTN	Kirikiri-roa (Hamilton)	<b>\$1.37</b>	893,618	28,328	31,863	\$1,224,257	(\$19,405)	\$65,479	<b>\$1,270,331</b>
KING	Te Rohe Pōtae-Taupiri (King Country-Taupiri)	<b>\$1.91</b>	392,457	22,625	25,993	\$749,592	(\$21,607)	\$74,470	<b>\$802,455</b>
WKTS	Waikato ki te Tonga (Waikato South)	<b>\$2.02</b>	2,474,656	48,948	56,186	\$4,998,805	(\$49,438)	\$170,243	<b>\$5,119,610</b>
TNGA	Tauranga	<b>\$2.22</b>	583,845	6,676	6,848	\$1,296,137	(\$7,410)	\$22,805	<b>\$1,311,532</b>
TAPO	Central Plateau	<b>\$2.22</b>	909,095	16,739	18,972	\$2,018,192	(\$18,580)	\$63,176	<b>\$2,062,788</b>
WHAK	Whakatane	<b>\$2.25</b>	717,365	35,434	40,734	\$1,614,071	(\$39,864)	\$137,477	<b>\$1,711,684</b>
EAST	Te Tai Rawhiti (Eastland)	<b>\$2.86</b>	252,872	7,587	8,601	\$723,214	(\$10,850)	\$36,898	<b>\$749,262</b>
TKIE	Taranaki ki Uta (Inland Taranaki)	<b>\$0.42</b>	6,651,872	67,039	67,146	\$2,793,786	(\$14,078)	\$42,302	<b>\$2,822,010</b>
TKIW	Taranaki ki Tai (Coastal Taranaki)	<b>\$0.42</b>	9,057	119	125	\$3,804	(\$25)	\$79	<b>\$3,857</b>
ATEA	Aotea (South Taranaki-Whanganui)	<b>\$1.76</b>	757,974	35,465	40,502	\$1,334,035	(\$31,209)	\$106,925	<b>\$1,409,751</b>
TRUA	Tararua (Manawatu-Horowhenua)	<b>\$1.84</b>	1,415,639	52,303	59,485	\$2,604,776	(\$48,119)	\$164,178	<b>\$2,720,835</b>
HWKB	Kahungunu (Hawkes Bay)	<b>\$1.91</b>	1,214,723	22,816	25,954	\$2,320,121	(\$21,789)	\$74,357	<b>\$2,372,689</b>
WGTN	Whanganui- a- tara / Kapiti (Kapiti-Wellington)	<b>\$2.05</b>	2,210,140	40,383	44,075	\$4,530,788	(\$41,392)	\$135,530	<b>\$4,624,925</b>
BERD	Bertrand Road (Waitara Valley)	<b>\$0.12</b>	8,490,391	84,904	84,904	\$1,018,847	(\$5,094)	\$15,283	<b>\$1,029,035</b>
FAUD	Faull Road	<b>\$0.12</b>	7,429,092	74,291	74,291	\$891,491	(\$4,457)	\$13,372	<b>\$900,406</b>
HUPS	Huntly Power Station	<b>\$0.37</b>	13,266,235	132,662	132,662	\$4,908,507	(\$24,543)	\$73,628	<b>\$4,957,592</b>
MAND	Mangorei Delivery Point	<b>\$0.11</b>	565,302	5,653	5,653	\$62,183	(\$311)	\$933	<b>\$62,805</b>
NGRD	Ngatimaru Rd Delivery	<b>\$0.11</b>	23,348,574	233,486	233,486	\$2,568,343	(\$12,842)	\$38,525	<b>\$2,594,027</b>



### Total Forecast Revenue from Prices

The total Forecast Revenue from Prices is **\$129.750 million**.

$$\begin{aligned}
 \text{Forecast Revenue from Prices} &= \text{Forecast Revenue from MPOC Prices (1 October 2019 – 31 March 2020)} \\
 &+ \text{Forecast Revenue from VTC Prices (1 October 2019 – 31 March 2020)} \\
 &+ \text{Forecast Revenue from GTAC Prices (1 April 2020 to 30 September 2020)} \\
 &= \$16.227 \text{ million} + \$44.392 \text{ million} + \$69.086 \text{ million} \\
 &= \$129.704 \text{ million}
 \end{aligned}$$

### 1.3 Forecast Allowable Revenue

Schedule 5 sets out that Forecast Allowable Revenue must be determined in accordance with the following formula.

$$\begin{aligned}
 \text{Forecast Allowable Revenue} &= \text{forecast net allowable revenue} + \\
 &\text{forecast pass-through and recoverable costs} + \\
 &\text{opening balance of the wash-up account}
 \end{aligned}$$

where:

<i>forecast net allowable revenue</i>	is the amount specified in Schedule 4;
<i>forecast pass-through and recoverable costs</i>	is the sum of all the forecast Pass-through Costs and forecast Recoverable Costs, excluding any Recoverable Cost that is a <i>revenue wash-up draw down amount</i> calculated as specified in paragraph 5 of Schedule 7; and
<i>opening balance of the wash-up account</i>	is the amount calculated as specified in paragraph 3 of Schedule 8.

### Forecast Net Allowable Revenue

As established in schedule 4 of the DPP Determination, the Forecast Net Allowable Revenue for the Assessment Period ending 30 September 2020 is **\$126.456 million**.

### Forecast Pass-through Costs and Recoverable Costs

The DPP Determination states that all forecasts of Pass-through Costs and Recoverable Costs must be reasonable.

For the year beginning 1 October 2019, First Gas has forecast the following costs as shown in Table 3.

**Table 3: Forecast pass-through and recoverable costs**

Forecast Pass-through and Recoverable Costs	\$million
Rates and levies	\$2.539
Balancing gas costs and revenues	(\$0.295)
Mokau Compressor fuel gas costs	\$1.247
CAPEX Wash-up Adjustment	\$0.755
ERM charge revenue <sup>2</sup>	(\$0.234)
<b>Total</b>	<b>\$4.012</b>

All of the forecast Pass-through Costs and Recoverable Costs included above meet the definitions set out in clause 3.1.2 and 3.1.3 of the applicable Input Methodologies.

### **Opening balance of the wash-up amount**

The *opening wash-up account balance* for the third Assessment Period is **(\$0.719) million**. This is equal to the *closing wash-up account balance* of the first Assessment Period adjusted for the time value of money as specified in schedule in schedule 8 of the DPP determination.

### **Calculation of Forecast Allowable Revenue**

First Gas has calculated Forecast Allowable Revenue as follows:

$$\begin{aligned} \text{Forecast Allowable Revenue} = & \text{forecast net allowable revenue} + \\ & \text{forecast pass-through and recoverable costs} + \\ & \text{opening balance of the wash-up account} \end{aligned}$$

$$\begin{aligned} \text{Forecast Allowable Revenue} = & \$126.456 \text{ million} + \$4.012 \text{ million} + (\$0.719 \text{ million}) \\ & \$129.750 \text{ million} \end{aligned}$$

## **1.4 Compliance**

Based on the calculations set out in sections 1.1 and 1.2 above, First Gas will comply with the price path of the DPP Determination.

Forecast Revenue from Prices  $\leq$  Forecast Allowable Revenue

$$\$129.704 \text{ million} \leq \$129.750 \text{ million}$$

<sup>2</sup> Excess running mismatch (ERM) charges are part of the gas balancing regime under the GTAC. Users are expected to balance their receipt and deliveries of gas. As an incentive for users to balance their gas position, they are charged if their running mismatch is greater than their mismatch tolerance for the day. More detail is provided on this charge in section 3.2 of our transmission pricing methodology.

## **2. Additional compliance requirements**

### **2.1 Certification**

The required certification for this Compliance Statement is attached in **Appendix 3**.

### **2.2 Statement date**

This Compliance Statement was prepared on 12 September 2019.

## **Appendix 1: Methodology for forecasting 2019/20 quantities**

### **Methodology for flow quantities**

Aretê Consulting Limited (Aretê) was employed by First Gas to forecast the gas flows across the network (completed by Aretê Consulting Limited), which was peer reviewed by First Gas staff. This forecast used statistical timeseries approaches to forecasting smaller loads on the system and potential growth. Deterministic methods were used for large loads using data from large users. First Gas' knowledge of large additional loads on the system was also used to forecast growth in large loads.

Aretê's forecast was assessed for reasonability by First Gas management and found to be reasonable.

### **Reasonability assessment of Aretê's forecast**

Aretê's forecast was assessed historic trends and First Gas' knowledge of demand changes for 2019/20. The comparison of the forecast 2019/20 and 2017/18 loads was used to assess the reasonableness of the Aretê forecast with the results shown in the table below. Any changes in flows were either minor (underlying growth or attrition of small loads or could be explained by variances in large loads. These changes are annotated in the table below. The forecast was therefore considered to be reasonable.

### **Methodology for capacity reservation quantities**

Since the VTC will continue to apply for the first six months of GY2020, First Gas needed a forecast of reserved capacity over this period to set prices. Given the difficulty in forecasting reservations over a six-month period (since the VTC has historically only applied 12 month reservations), VTC shippers agreed to provide confirmed capacity reservations before VTC prices were finalised. These capacity reservations provided on 06 September were used in the calculation of final prices.

**Table A: Forecast quantities**

	GY 2018 total deliveries (GJ)	Step volume change (GJ) GY 2020	Total	Forecast GY2020	Other adjustments following consultation	Final Forecast	Variance GY18 versus forecast	Comments
<b>Delivery Zones</b>								
Te Tai Tokerau (Northland)	302,597		302,597	296,228		296,693	-11%	Change in volumes due to interplay between probabilistic and deterministic forecasts
Tāmaki makaurau (Auckland)	15,760,141	290,000	16,050,141	16,403,213	(1,021,578)	15,381,634	-4%	Additional Capacity due to known load increases. Countered by reduction due to Pohokura outage programmed for March 2020 (affects VTC/MPOC revenues only).
Waikato ki te Raki (Waikato North)	1,851,144	200,000	2,051,144	2,164,317		2,164,317	6%	Additional Capacity at due to known load increases
Kirikiri roa (Hamilton)	1,634,566		1,634,566	1,684,009		1,684,009	3%	
Te Rohe Pōtae-Taupiri (King Country-Taupiri)	693,907		693,907	739,578		739,578	7%	
Waikato ki te Tonga (Waikato South)	4,400,226		4,400,226	4,663,448		4,663,448	6%	
Tauranga	1,092,948		1,092,948	1,100,247		1,100,247	1%	
Central Plateau	1,704,100		1,704,100	1,713,175		1,713,175	1%	
Whakatane	1,185,319		1,185,319	1,351,862		1,351,862	14%	High variability in timeseries for dairy loads. Potential for variation between dairy seasons.
Te Tai Rawhiti (Eastland)	474,641		474,641	476,533		476,533	0%	
Taranaki ki Uta (Inland Taranaki)	12,767,603		12,767,603	12,535,343		12,535,343	-2%	
Taranaki ki Tai (Coastal Taranaki)	17,868		17,868	17,067		17,067	-4%	

	GY 2018 total deliveries (GJ)	Step volume change (GJ) GY 2020	Total	Forecast GY2020	Other adjustments following consultation	Final Forecast	Variance GY18 versus forecast	Comments
Aotea (South Taranaki-Whanganui)	1,381,277		1,381,277	1,428,390		1,428,390	3%	
Tararua (Manawatu-Horowhenua)	2,548,188		2,548,188	2,667,748		2,667,748	5%	
Kahungunu (Hawkes Bay)	2,201,639		2,201,639	2,289,125		2,289,125	4%	
Whanganui- a- tara / Kapiti (Kapiti-Wellington)	4,075,920		4,075,920	4,164,973		4,164,973	2%	
<i>Total Delivery Zones</i>	<i>52,092,084</i>	<i>490,000</i>	<i>52,582,084</i>	<i>53,695,256</i>	<i>-</i>	<i>53,695,256</i>	<i>2%</i>	
<b>Individual Delivery Points</b>								
Bertrand Road (Waitara Valley)	15,433,180		15,433,180	16,000,000	(1,021,578)	14,978,422	-3%	Reduction due to Pohokura outage programmed for March 2020 (affects VTC/MPOC revenues only).
Faull Road	7,669,072		7,669,072	14,000,000		14,000,000	83%	Reduced Flows in GY 2018 due to ongoing Pohokura issues. This forecast reflects normal operational levels.
Huntly Power Station	24,731,288		24,731,288	21,000,000	2,142,585	23,142,585	-6%	Adjusted to 25,000,000 from Arete forecast based on submission information by Genesis. Countered by reduction due to Kupe outage programmed for November 2019 (affects VTC/MPOC revenues only).
Mangorei Delivery Point	-	500,000	500,000	237,500	262,500	500,000	n/a	New delivery point; estimate based on email discussions. Changed to 500 TJ from Arete forecast based on further discussions with Nova.


	GY 2018 total deliveries (GJ)	Step volume change (GJ) GY 2020	Total	Forecast GY2020	Other adjustments following consultation	Final Forecast	Variance GY18 versus forecast	Comments
Ngatimaru Rd (Delivery)	38,669,546		38,669,546	44,000,000		44,000,000	14%	Reduced Flows in GY 2018 due to ongoing Pohokura issues. This forecast reflects normal operational levels.
<i>Total Individual Delivery Points</i>	<i>86,503,086</i>	<i>500,000</i>	<i>87,003,086</i>	<i>95,237,500</i>	<i>4,262,500</i>	<i>99,500,000</i>	<i>14%</i>	
<b>Supplementary Agreements</b>								
Total Supplementary Agreements	22,987,374	42,000	23,029,374	22,712,379	-	22,739,914	-1%	
<b>Grand Total</b>	<b>161,582,544</b>	<b>1,032,000</b>	<b>162,614,544</b>	<b>171,645,135</b>	<b>4,262,500</b>	<b>175,907,635</b>	<b>6%</b>	

**Appendix 2: Directors' certification**



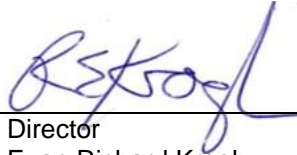
## Directors' certification

We Philippa Jane Dunphy and Euan Richard Krogh being Directors 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 2017* has been prepared in accordance with all the relevant requirements, and all forecasts used in the calculations of Forecast Revenue from Prices and Forecast Allowable Revenue are reasonable.



---

Director  
Philippa Jane Dunphy



---

Director  
Euan Richard Krogh

12 September 2019

---

Date

12 September 2019

---

Date