

28 June 2019

Dear Retailers,

## Notification of First Gas' distribution prices effective 1 October 2019

Here at First Gas we are excited to announce our distribution prices to come into effect 1 October 2019.

### 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 around 63,500 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 2019 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 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 2019, 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 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 third year of the regulatory period, which has resulted in relatively stable pricing.

## Application of Fully Variable Tariff

To ensure that the benefits of the fully variable residential tariff (GN0V) flow through to the end consumer, the following criteria will apply:

- a) The retailer must not charge a daily fee for the gas services (including network charges, metering and the retailers own internal costs); and
- b) The consumer must be installing either natural gas hot water or central heating; and
- c) The connection must be a new connection or reconnection of an ICP that has not been connected for 12 months;
- d) First Gas reserve the right to issue ICPs with under 9GJ (2,500 kWh) consumption in a 12-month period, or no consumption for 3 plus months, with a termination notice for the new connection variable tariff. These consumers will need to be transitioned to a different pricing category within 3 months, unless evidence is provided showing a change in circumstance that would make them compliant with the minimum usage criteria over the next 12 months;
- e) Consumers that qualify for the variable tariff will be allowed one change in pricing category per year- requested through the retailer and subject to approval from First Gas. However, circumstances like increased load or a new consumer at a site may mean that more than one change is accepted.

To identify eligible ICPs for the GN0V price category, we propose populating the currently unused “network price details” field in the gas registry. The information will simply acknowledge that the ICP does qualify for the GN0V category. We will also provide retailers a list of their eligible consumers upon request.

## Schedule of standard prices from 1 October 2019 (FY2020 prices)

| Price category | FY2020 prices        |                       | FY2019 prices        |                       | Estimated total price change* |
|----------------|----------------------|-----------------------|----------------------|-----------------------|-------------------------------|
|                | Fixed price (\$/day) | Volume price (\$/kWh) | Fixed price (\$/day) | Volume price (\$/kWh) |                               |
| GN0R           | 0.36                 | 0.021                 | 0.346                | 0.021                 | 2.0%                          |
| GN0V           | 0.000                | 0.05                  | 0.000                | 0.05                  | 0.0%                          |
| GN01           | 0.66                 | 0.0078                | 0.640                | 0.0076                | 2.9%                          |
| GN02           | 1.14                 | 0.0076                | 1.12                 | 0.0074                | 2.4%                          |
| GN03           | 5.00                 | 0.007                 | 4.950                | 0.0068                | 2.3%                          |
| GN04           | 14.50                | 0.0066                | 14.200               | 0.0063                | 4.2%                          |
| GN05           | 240.00               | 0.0016                | 231.000              | 0.00147               | 5.6%                          |

\*For an average consumer on each price category

## Non-standard prices from 1 October 2018

|                 | Justification                        | Standard tariff equivalent | Discount to standard |
|-----------------|--------------------------------------|----------------------------|----------------------|
| 0008000027NGD9C | Bypass                               | GN05                       | 92.2%                |
| 0008000029NGE07 | Bypass                               | GN05                       | 82.8%                |
| 0008000033NG63B | Bypass                               | GN05                       | 94.2%                |
| 0008000038NG8EF | Bypass                               | GN05                       | 64.0%                |
| 0008000040NGFA6 | Bypass                               | GN05                       | 80.3%                |
| 0008000051NG94E | Bypass                               | GN05                       | 16.4%                |
| 0008000072NG8DB | Bypass                               | GN05                       | 89.3%                |
| 0008000074NG954 | Bypass                               | GN05                       | 92.4%                |
| 0008000080NG849 | Transition to Standard               | GN05                       | 60.0%                |
| 0008000147NGB68 | Transition to Standard               | GN04                       | 35.5%                |
| 0008000249NGBF0 | Bypass                               | GN05                       | 93.9%                |
| 0008000300NGE00 | Bypass                               | GN05                       | 93.9%                |
| 0009001431NGDA6 | Bypass                               | GN04                       | 35.8%                |
| 1001294166NGCC4 | Cost of service higher than standard | GN05                       | -15%                 |
| 1001295720NG848 | Interconnection Fee + Bypass         | GN05                       | -66%*                |
| 0008000047NG26C | Measurement only                     | N/A                        | 0                    |
| 0008000032NGA7E | Measurement only                     | N/A                        | 0                    |

\*On estimated usage due as is a new load

### Contact person

For further information regarding our pricing, please contact:

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For further information on First Gas and its gas distribution and transmission businesses, please visit our website [www.firstgas.co.nz](http://www.firstgas.co.nz)