



Compliance Statement

This document forms our Compliance Statement as required by section 11 of the Gas Transmission Services Default Price-Quality Path Determination 2013 (DPP) issued by the Commerce Commission. The terms "MDL", "we", "us" and "our" in this document refer to the Gas Transmission Business (GTB) of Maui Development Limited. This Compliance Statement covers the Second Assessment Period for MDL, which is from 1 July 2014 to 30 June 2015.

Price path compliance

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

MDL set new prices with effect from 1 July 2014. 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 on 30 April 2014.

Allowable Notional Revenue

The DPP requires MDL's Allowable Notional Revenue 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 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 Second Assessment Period, i.e. 1 July 2014 to 30 June 2015. Therefore, t is the year 2015.

Our allowable notional revenue for the Pricing Period ending on 30 June 2014 was \$41.163 million.

The change in CPI calculated in accordance with the prescribed formula was 1.134%.

Accordingly, our Allowable Notional Revenue for the Second Assessment Period was:

$$ANR_{2015} = ANR_{2014} (1 + \Delta CPI_{2015}) = 41.163 (1 + 1.134\%) = \$41.630 \text{ million}$$

Notional Revenue

Notional revenues are not the same as actual revenues or expected revenues. The DPP 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 i^{th} Price for any part of the Pricing Period ending in year t .

$Q_{i,t-2}$ is the Quantity corresponding to the i^{th} 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 .

MDL charges two prices for Gas Transmission Services:

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 2015 Pricing Period was \$0.001685 per GJ.km
2. Tariff 2 charged by GJ, i.e. on throughput quantity of gas in GJ. Tariff 2 for the 2015 Pricing Period was \$0.076058 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 2012 to June 2013 period were:

18,041,733 TJ.km (based on Tariff 1 revenue for that period of \$35.236 million)

148,506 TJ (based on Tariff 2 revenues for that period of \$11.732 million)

The Pass-through Costs and Recoverable Costs applied for the 2015 Pricing Period were:

K_{2015} of \$ 0.324 million

V_{2015} of \$ -0.257 million (representing a net income)

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

$$\begin{aligned} NR_{2015} &= (0.001685 \times 10^3 \times 18,041,733 + 0.076058 \times 10^3 \times 148,506) / 10^6 - \\ & (0.324 - 0.257) = \\ & (30,400,320 + 11,295,069) / 10^6 - 0.067 = 41.628 \end{aligned}$$

Pass-through Costs and Recoverable Costs

Pass-through Costs and Recoverable costs that could be applicable for MDL in the Second Assessment Period were those for rates and levies, and those for balancing gas respectively. According to the DPP, such costs must:

- be ascertainable at the time when we set our Prices for a Pricing Period;

- 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.

We set our Prices during April 2014. In order to be prudent and confident that we only included costs that were ascertained, we only included costs incurred up to 31 December 2013. We had not applied any Pass-through Costs or Recoverable Costs in the previous Pricing Period. Accordingly, we applied costs incurred between 1 July 2013 and 31 December 2013.

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 for the July to December 2013 period were:

Pass-through Costs 2013 (\$)	Jul-Dec
Local Government rates	170,656
Commerce Commission levies	148,539
GIC levies	469
EGCC levies	4,491
Total	324,155

The only Recoverable Costs applicable for MDL were for balancing gas. Specifically, the costs or credits arising from purchases or sales of balancing gas, to the extent they were not recovered from or credited to persons with an interconnection agreement (referred to as "Welded Parties" under the MPOC). For the July to December 2013 period these costs, credits and recoveries were:

Recoverable Costs 2013 (\$)	Jul-Dec
Balancing gas purchased by MDL	439,880
Balancing gas sold by MDL	-208,165
Imbalance gas purchased from MDL	-521,499
Imbalance gas sold to MDL	76,198
Incentives Pool Debit charges	-43,176
Incentives Pool Credit claims	0
Total Recoverable Costs/(Income)	-256,762

The sum of Pass-through Costs and Recoverable Costs applicable for the 2015 Pricing Period was \$67,393. We did not apply an adjustment for the time value of money to these costs.

Compliance

Compliance with the price path requires that notional revenue must not exceed allowable notional revenue for each Assessment Period. As calculated above, NR_{2015} is \$ 0.002 million less than ANR_{2015} . Therefore, MDL has complied with the price path for the Second Assessment Period.

Quality standards compliance

We are pleased to confirm that MDL has complied during the Assessment Period with the quality standard in clause 9 of the DPP.

Calculations

Clause 9 requires MDL to provide information 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

$$RTE_{180} / (RTE_t - RTE_{excl}) = 1$$

- (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 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 recorded for the assessment period are set out in Appendix 1 below. As the table indicates, none of the relevant recorded incidents were classified as emergencies. Actual emergencies are rare events on gas transmission systems and as such it is not possible to literally apply the equation above. In the absence of emergencies we consider that the result from the equation should equal zero.

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.

Procedures

All gas transmission network performance, including pipeline incidents, is recorded by the Vector Gas Limited Gas Control Team in its capacity as Technical Operator for MDL. This is achieved following a prescriptive set of processes that have been developed to ensure accuracy and consistency of reporting under Vector's policies and procedures as set in Vector document 3208354 – Gas Transmission Operating Standard – Event Logging.

One of the purposes of this document is to ensure that data is captured accurately and consistently for preparing data for compliance statements to satisfy the DPP Determination for both MDL and Vector Gas Limited. The document includes aspects including event definition, collection/capture of data in computer systems, requirements for data capture and data quality requirements. The quality standard in the DPP determination is identical for both Vector's and MDL's GTB.

Compliance

MDL did not have any Emergency incidents and as such has complied with the quality standard during this Second Assessment Period.

Certification

The required certification for this Compliance Statement is attached. This certification is made in reliance on incident data provided by Vector Gas Limited in their capacity as Technical Operator for MDL, and on the basis that this data is recorded in accordance with the same policies and procedures used by Vector Gas Limited for compliance of its own GTB with the quality standards in the DPP Determination.

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 8 September 2015

Appendix 1 – Recorded Events 01 July 2014 to 30 June 2015

Date	Time	Location	Description	Report By	Report Method	Emergency (Y/N)	Consumer Interrupt (Y/N)
22/07/2014	12:27	Ngaruawahia Delivery Point	Public report of Gas Smell	Public	Telephone	N	N
28/07/2014	17:48	Ngaruawahia Delivery Point	Smell of gas reported	Public	Telephone	N	N
1/08/2014	12:00	Huntly Offtake Rotowaro	Instrument Fitting leaks	Vector	On Site	N	N
13/08/2014	11:28	Tikorangi Station Tie-In	Pohokura PS Outage	Vector	SCADA Alarm	N	N
5/09/2014	1:24	Tikorangi Station Tie-in	Todd McKee PS Outage	Producer	SCADA Alarm	N	N
5/09/2014	2:26	Tikorangi Station Tie-in	Pohokura PS Outage	Producer	SCADA Alarm	N	N
6/09/2014	16:06	Tikorangi Station Tie-in	Pohokura PS Outage	Producer	SCADA Alarm	N	N
8/10/2014	12:52	Mokau Compressor Station	Backflow Valve Isolated	Vector	On site	N	N
16/10/2014	12:00	Frankley Rd Interchange	LPT leaking	Vector	On Site	N	N
25/11/2014	14:53	Tikorangi Station Tie-In	Pohokura PS Outage	Producer	SCADA Alarm	N	N
19/03/2015	18:29	Tikorangi Station Tie-in	Pohokura PS Outage	Producer	SCADA Alarm	N	N
25/03/2015	9:06	Oaonui Outlet MLV	Oaonui PS Outage	Producer	SCADA Alarm	N	N
1/05/2015	11:37	Oaonui Outlet MLV	Oaonui PS Outage	Vector	SCADA Alarm	N	N
31/05/2015	21:01	Oaonui Outlet MLV	Oaonui PS Outage	Producer	Telephone	N	N
3/06/2015	13:09	Oaonui Outlet MLV	Oaonui PS Outage	Third Party Pipeline	Telephone	N	N
11/06/2015	13:21	Tikorangi Station Tie-In	Pohokura PS Outage	Producer	SCADA Alarm	N	N

Certificate for Compliance Statement

I, Murray Eric Jackson

being a Director of Maui Development Limited certify that, having made all reasonable enquiry, to the best of my knowledge and belief, the attached compliance statement of Maui Development 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.



8 September 2015

Note: Section 103(2) of the Commerce Act 1986 provides that no person shall attempt to deceive or knowingly mislead the Commission in relation to any matter before it. It is an offence to contravene section 103(2) and any person who does so is liable on summary conviction to a fine not exceeding \$10,000 in the case of an individual or \$30,000 in the case of a body corporate.



Auditor's report to the Commerce Commission and the Directors of Maui Development 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 prepared by Maui Development Limited for the assessment period ended on 30 June 2015 and dated 8 September 2015 for the purposes of clause 11 of the Gas Transmission Services Default Price-Quality Path Determination 2013 ("the Determination").

Directors' responsibilities

The Directors of Maui Development 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 1, 2 and 3 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 3 and 4 of the Compliance Statement.



Our assurance engagement also included assessment of the significant estimates and judgments, if any, made by Maui Development 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 has also provided other regulatory assurance and financial information review services to Maui Development Limited. These matters have not impaired our independence as auditor of Maui Development Limited pursuant to the Determination. We have no other relationship with, or interests in Maui Development Limited.

Limitation of scope

Quality path information as set out in clause 9 of the Determination has been provided by a third party, in their capacity as Technical Operator for Maui Development 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 Maui Development Limited in respect of the default price- quality path for the assessment period ended on 30 June 2015, has been prepared, in all material respects, in accordance with the Determination.

Our assurance engagement was completed on 8 September 2015 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 Maui Development 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 Maui Development 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 Maui Development 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 Maui Development Limited on the basis that it shall not be copied, referred to or disclosed, in whole (save for Maui Development Limited's own internal purposes) or in part, without our prior written consent.

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