Disclosure of pricing methodologies

This document represents our disclosures for our pricing year starting on 1 July 2012 in relation to our pricing methodologies, as required by clause 2.4.1 in the Gas Transmission Information Disclosure Determination 2012 issued by the Commerce Commission. The terms "MDL", "we", "us" and "our" in this document refer to the Gas Transmission Business of Maui Development Limited.

pricing methodology

The current pricing methodology used by MDL is set out in the Maui Pipeline Operating Code (MPOC). The principles for setting our tariffs are set out in Schedule 10 of the MPOC, as presented below.

SCHEDULE 10 TARIFF PRINCIPLES

MDL will set the Transmission Charges in accordance with the standard practice adopted by utilities businesses in New Zealand.

Accordingly, MDL will recover the cost and return of capital as follows. MDL will

(a) calculate the Maui Pipeline's Optimised Deprival Value or Optimised Depreciated Replacement Cost and multiply this value by a nominal WACC, and then subtract any revaluation gains/losses on the asset ("Required Return");

(b) calculate the return of capital based on the useful life of the asset ("Depreciation");

(c) aggregate the Required Return and Depreciation to derive the "Required Revenue";

(d) derive a GJ.km tariff ("Tariff 1"); and

(e) apply Tariff 1 across the Maui Pipeline Shippers on the basis of quantity of Gigajoules of Gas transported multiplied by the distance of Gigajoules of Gas transported.

In any given year, in the event that MDL's total revenues are more or less than its required revenue then Tariff 1 may be adjusted for the following years in a manner that endeavours to reduce pricing volatility for Shippers.

The approach adopted by MDL to recover operating expenditure is to:

(a) aggregate the Maui Pipeline's operating costs ("Operational Expenditure");

(b) allocate Operational Expenditure across every Gigajoule of Gas delivered from the Maui Pipeline.

In any given year, in the event that MDL's total Operational Expenditure recovery is more or less than its required recovery then Tariff 2 may be adjusted for the following years in a manner that endeavours to reduce pricing volatility for Shippers.

The effect of these tariff principles is that Tariff 1 is intended to provide for a return on our asset base, while Tariff 2 is intended to cover the costs of our operational expenditure.

The procedure for calculating tariffs payable by specific consumers of gas transmission services, i.e. Shippers, is set out in clause 19.1 of the MPOC, as extracted below.

19.1 Each Shipper shall pay to MDL the Throughput Charges being the sum of A + B + C

where

(a) **A** is the **AQ Fee** being:

Tariff M x AQ Volume

where

Tariff M = Tariff 1 multiplied by the distance between the southern and the northern end of each AQ Zone specified in that Shipper's AQ, less any agreed percentage discount for a long term AQ commitment specified in a TSA provided that the AQ Fee shall be reduced to the extent that an AQ is curtailed on a Day in accordance with section 8 and to the extent that the Shipper trades its AQ in accordance with section 7.7; and

(b) **B is** Tariff 1 x $\sum$ (Q_i – AQ Volume_i) x D_i

where

Q_i is the net quantity of Gas being transported between two adjacent Welded Points for that Shipper according to its Approved Nominations at each of those Welded Points; and

AQ $\textbf{Volume}_i$ is that Shipper's AQ Volume between the two adjacent Welded Points to which the relevant quantity of Gas (Q) relates; and

D_i is the distance between the two adjacent Welded Points to which the relevant quantity of Gas (Q) relates

provided that if (Q_i – AQ Volume_i) is less than zero, then (Q_i – AQ Volume_i) for that D_i shall equal zero; and

(c) **C** is Tariff 2 multiplied by the sum of that Shipper's Approved Nominations at Physical Delivery Points regardless of distance.

AQ Fees are not in effect at present. AQ stands for an Authorised Quantity specified in a Shipper's Transmission Services Agreement with MDL. A Shipper may have more than one AQ. Each AQ consists of an AQ Zone, an AQ Volume and an AQ Expiry Date. Nominations by a Shipper within its AQ would have priority over non-AQ nominations. (Details of the AQ regime are set out in section 7 of the MPOC.) To date, we have never received a request from any Shipper for a non-zero AQ.

In practice this also means that for all our pricing years to date AQ Volumes for all Shippers have been and are zero.

changes in prices and target revenues

Our prices and target revenues for our current pricing year (with numbers in millions of dollars and rounded to three decimals, unless indicated otherwise) were calculated in accordance with the MPOC pricing methodology as follows.

	Jul 2011 – Jun 2012	Jul 2012 – Jun 2013
Tariff 1		
Pipeline Asset Value	301.002	299.847
WACC (post-tax)	8.38%	7.14%
Revaluation gains/(losses)	6.033	5.424
Required Return	19.191	15.971
Depreciation	7.262	7.168
Taxation Adjustment	8.795	8.379
Required Revenue	35.247	31.518
T1 Under/(Over)-recovery Adjustment	1.701	5.574
T1 Smoothing Adjustment	1.500	0
Tariff 1 Target Revenue	38.448	37.092
Throughput Forecast (TJ.km)	20,502,004	18,996,941
Tariff 1 ($ / GJ.km)	0.001875	0.001953
Tariff 2		
Operational Expenditure Forecast	11.580	14.692
T2 Under/(Over)-recovery Adjustment	(5.866)	(1.831)
T2 Smoothing Adjustment	(0.400)	(1.100)
Tariff 2 Target Revenue	5.314	11.761
Throughput Forecast (TJ)	136,675	149,683
Tariff 2 ($ / GJ)	0.039	0.079
Combined		
Total Target Revenue	**43.762**	**48.853**

The inputs in the calculations for our current prices were based on the following information, assumptions and statistics.

- Pipeline Asset Value: was based on an independent ODRC Valuation for 31 December 2006 with annual adjustments for subsequent asset additions, revaluations based on CPI, and depreciation.
- WACC: was a post-tax WACC, after a 75th percentile adjustment, based on parameters in the Commerce Commission's "Determination of the cost of capital for suppliers of gas distribution and gas transmission services under Part 4 of the Commerce Act 1986" dated 22 December 2011.

- Revaluation gains: were based on a CPI increase of 1.8%.
- Depreciation: was based on the asset value at start of year divided by average remaining useful life, which was based on standard physical asset lives determined by the Commerce Commission.
- Taxation Adjustment: was based on assumed corporate taxation of 28% on forecast income.
- Tariff 1 Under/(Over)-recovery Adjustments: was based on actual revenues from Tariff 1 versus Tariff 1 Target Revenues in prior years.
- Operational Expenditure Forecast: was based on approved Operator budgets for 2012 with a 2.0% inflation allowance for 2013.
- Tariff 2 Under/(Over)-recovery Adjustments: was based on actual revenues from Tariff 2 versus actual operating expenses in prior years.
- Smoothing Adjustments: can be introduced to reduce tariff volatility between years. The negative $1.1 million smoothing adjustment for Tariff 2 cancelled the remaining balance from a positive $1.5 million smoothing adjustment for the 2010/2011 pricing year. After this, we have no more outstanding balances for future smoothing adjustments.
- Throughput Forecasts: were based on an independent gas demand report prepared by Arête Consulting Limited plus Commercial Operator data.

The main reasons for changes in our prices were as follows.

- Tariff 1 Target Revenue was a mainly mechanical calculation flowing forward from the inputs and prior year results.
- The increase in Operational Expenditure Forecast for Tariff 2 included the following significant components.
    - $ 1.300 million for enhanced intelligent pigging. Pipeline pigging is performed infrequently. The choice to perform enhanced intelligent pigging was in response to the Maui pipeline outage of 2011.
    - $ 1.431 million for a Front-End Engineering and Design Study for a pipeline relocation project at White Cliffs.
    - $ 1.485 million as estimated budget for compressor fuel gas after expiry during the latter half of 2012 of an earlier facility to obtain fuel gas at very low cost.
- Changes in the Throughput Forecasts. Increase in the GJ forecast was mainly due to assumed consumption increase by Methanex. Decrease in the GJ.km forecast was caused by an assumed decline in average distance from 150km to 127 km. This is a result of a declining proportion of gas being sourced from Oaonui and the additional gas for Methanex being sourced from production stations that are near to it.

MDL does not allocate target revenue to consumers.

pricing principles

The pricing principles determined by the Commerce Commission were not applicable to MDL when the pricing methodology set out in the MPOC was established. They also were not applicable to us when we set our prices and target revenues for our current pricing year. Any inconsistency between our pricing methodology and the Commission’s pricing principles can, therefore, be explained by the fact that those principles were simply not considered.

As a consequence, we believe it is not realistically feasible for us to completely demonstrate the extent to which our current pricing methodology is consistent with pricing principles determined by the Commerce Commission. Nevertheless, we believe it is consistent to the extent that:

- our prices have been subsidy free;
- the pricing methodology in the MPOC was determined transparently as part of an industry-wide consultation process;
- we have historically made smoothing adjustments in setting our annual tariffs with the intent to promote price stability and with regard to the effect on our consumers.

pricing strategy

Our Directors have not yet made any recorded decisions on MDL's plans or strategy to amend or develop prices in the future. (Other than maintaining compliance with the MPOC and any applicable regulations.) As a result, MDL does not have a defined pricing strategy at present.

Our pricing will become subject to price-quality path determinations by the Commerce Commission with effect from 1 July 2013. We anticipate this may lead to a new pricing methodology and/or pricing strategy in the future. At present, however, such determinations have not yet been made.

non-standard contracts

The terms of Transmission Services Agreements are identical for all Shippers on the Maui pipeline. Indeed, clause 2.1(a) of the MPOC stipulates that "...every TSA with a Shipper shall include only the terms and conditions of this Operating Code and necessary individual information...". As a result, MDL does not have and cannot offer any non-standard contracts to Shippers.

views of consumers

We did not directly seek the views of our consumers in calculating our current prices. The MPOC is a multilateral agreement that was extensively negotiated among all gas industry participants before that start of the open access regime for the Maui pipeline. Therefore, we expect that the views of our consumers are already reflected in our current pricing methodology and approach.

certification

The required certification for this disclosure is attached.

27 February 2013

Certification for Disclosures at the Beginning of a Pricing Year

Clause 2.9.2

We, Murray Eric Jackson and David John Alexander McGuire, being directors of Maui Development Limited certify that, having made all reasonable enquiry, to the best of our knowledge-

a) the following attached information of Maui Development Limited prepared for the purposes of clause 2.4.1 of the Gas Transmission Information Disclosure Determination 2012 in all material respects complies with that determination;

b) the prospective financial or non-financial information included in the attached information has been forecast on a basis consistent with regulatory requirements or recognised industry standards.

27 February 2013