

GASNET LIMITED

CAPITAL CONTRIBUTIONS POLICY

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1.0 INTRODUCTION

This policy describes the funding arrangements and obligations for consumer and third party initiated connections, extensions and upgrades to GasNet Limited's (GasNet) natural gas distribution network. It includes a description of the circumstances under which GasNet may require a Capital Contribution and the methodology for determining these contributions.

For completeness, third party initiated requests requiring relocation of the gas distribution network have been included as they technically constitute a Capital Contribution, typically requiring a payment to be made to GasNet for all, or part of, the cost associated with the relocation works whilst not generating any new revenue.

2.0 SCOPE

This policy applies to all new connections, modifications to existing connections, new subdivisions, and requests to relocate GasNet's distribution network.

3.0 PURPOSE

This document sets out the principles and policy to be applied by GasNet when calculating a Capital Contribution for works associated with the following activities (hereinafter referred to as "the works"):

- installing a new consumer connection;
- modifying an existing consumer connection;
- modifying or extending the existing gas distribution network to support a new consumer connection, modified consumer connection, or new subdivision development; or
- relocation of part of GasNet's distribution network at the request of a party other than GasNet.

This policy is published in accordance with, and to satisfy the requirements of, section 2.4.6 of the Gas Distribution Disclosure Determination 2012.

4.0 DEFINITIONS

In the context of this Policy:

Capital Contribution

Capital Contributions are payments in cash, in-kind, or a combination of both which are charged or received from a consumer or other party to fund connections, extensions, or modifications to GasNet's gas distribution network such that the incremental costs are borne by the requesting party and not the existing consumers.

Customer

The Customer is the person or organisation for whom GasNet will undertake the works. The term Customer is to be read synonymously with the terms "consumer", "energy retailer", "developer", or "subdivider".

Pricing Principles

Has the same meaning as section 2.5.2 of the Commerce Commission "Commerce Act (Gas Distribution Services Input Methodologies) Determination 2010", Decision No. 711 dated 22 December 2010, which for ease of reference has been extracted to Appendix 1.

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5.0 SUPPORTING DOCUMENTS

- GasNet’s “Pricing Methodology”, latest version available at www.gasnet.co.nz
- Commerce Commission “Commerce Act (Gas Distribution Services Input Methodologies) Determination 2010”, Decision No. 711
- Commerce Commission “Cost of capital determination for default price-quality paths for suppliers of gas distribution and gas transmission services, and customised price-quality path proposals made by Vector Limited and GasNet Limited [2012] NZCC 38, dated 20 December 2012
- Commerce Commission “Gas Distribution Information Disclosure Determination 2012”, Decision No. NZCC 23 dated 1 October 2012

6.0 PARTIES TO A CAPITAL CONTRIBUTION

The party to which a Capital Contribution may apply will depend upon the nature of the works and the requesting party, and may be one of the following:

- a) a new or existing consumer that seeks a new or upgraded connection to their premises or relocation of an existing connection or gas distribution network;
- b) an energy retailer that has, or is seeking to establish, a UoSA with GasNet;
- c) a developer who seeks natural gas reticulation within a new subdivision, or a new or upgraded consumer connection;
- d) a Local Authority (council), Road Control Authority (NZTA), Regional Council or other third party seeking relocation of existing GasNet gas distribution network assets.

7.0 CAPITAL CONTRIBUTIONS METHODOLOGY

7.1 Investment Analysis

GasNet will conduct an economic investment analysis of the works to determine whether or not the investment to be made by GasNet is economic.

Specifically the analysis:

- a) calculates the expected new revenue to be generated from the works;
- b) estimates the incremental cost of providing the works;
- c) calculates the Net Present Value, or NPV, of the investment to be made by GasNet, based on the expected new revenue less the incremental cost of the works, discounted to reflect the time value of money;

This can be expressed mathematically as follows:

$$NPV = PV(\text{Incremental Revenue}) - PV(\text{Incremental Cost})$$

where incremental revenue, incremental costs, and the present value calculations are described in 0, 7.3 and 7.4 respectively.

Where the economic investment analysis yields a positive Net Present Value, no Capital Contribution will be required from the Customer; however where the economic investment analysis yields a negative Net Present Value, the Customer will be required to pay a Capital Contribution equal to the amount required to yield a Net Present Value of zero.

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7.2 Incremental revenue

The incremental revenue is based on GasNet's network charges with allowance for any reasonable future price adjustments and the estimated additional consumption. GasNet will take into account information provided by the Customer in relation to the estimated additional consumption but may vary the estimate for the Capital Contribution assessment in 7.1 above having regard to the consumption and/or capacity requirements for similar consumers currently supplied from GasNet's gas distribution network.

Where the works relate to a new subdivision for which there are no confirmed connections, GasNet will base the incremental revenue on the likely connection rate based on the timing of any phased development and GasNet's experience with previous developments of a similar nature, size, and location.

7.3 Incremental Cost

Incremental costs are those costs that GasNet would incur as a direct consequence of the Customer requested work, which GasNet would not have incurred had the Customer not requested the work in the first instance. These costs typically relate to dedicated assets used solely by the Customer, but could also relate to assets that may be shared with other existing consumers on the gas distribution network.

For most standard residential and small commercial connections, identifying specific upstream network costs can be extremely difficult and is generally expected to be immaterial. However, where they can be clearly identified and are considered material, they shall be included in the incremental cost determination.

The scope of work required to meet the Customer's requirements, from which an assessment will be made to identify the associated incremental costs, will be based on the optimal practical works required to meet the request. Where GasNet chooses to undertake work to meet requirements greater than what is required by the Customer, such as to allow for future growth, the additional costs shall be excluded from the incremental cost determination.

Where costs can be directly or fairly allocated in the case of shared assets affected by the Customer requested work, they will be attributed to the incremental costs in the Capital Contribution assessment in 7.1 above based on the capacity requirements and the length, and/or quantity, of shared assets.

Where the works result in additional benefit to GasNet, for instance in terms of network security, GasNet may choose at its sole discretion, to fund a portion of the works.

Where the work requires upgrading of existing assets, the incremental cost associated with the upgraded assets will be net of any salvage value of the existing assets where such assets have remaining useful life and can be utilised elsewhere on GasNet's gas distribution network. In determining the likely salvage value, GasNet will be guided by the residual value of the individual asset in GasNet's Regulatory Asset Base (RAB) less any costs associated with its removal and preparation for its return to service.

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7.4 Present Value

The Present Value, or PV, is calculated using the PV formula in MS Excel and inputs as follows:

7.4.1 Interest

A discount rate based on GasNet's approved regulatory vanilla weighted average cost of capital (WACC) of 7.44%, being the Vanilla WACC (75th percentile) as determined by the Commerce Commission in its "Cost of capital determination for default price-quality paths for suppliers of gas distribution and gas transmission services, and customised price-quality path proposals made by Vector Limited and GasNet Limited [2012] NZCC 38" dated 20 December 2012.

7.4.2 Assessment Period

An assessment period of 40 years for residential consumers and 20 years for all others, which represents a reasonable expectation with regard to the average life of the assets and the period of time before Customers are likely to seek capacity enhancements.

GasNet may choose to apply shorter assessment periods if it reasonably considers that the works are characterised by:

- i. a short asset life or risk of asset stranding which relates to assets that may not be fully utilised by the consumer, or future consumers at that site; or
- ii. a high risk of default in relation to an otherwise economic connection, which could result in GasNet not recovering the assumed revenue from that connection over the full term of the standard investment timeframes.

8.0 STANDARD WORKS AND CAPITAL CONTRIBUTIONS

For ease of administration and cost effectiveness, GasNet may establish standard rules which apply for specific works that meet a set of criteria established by GasNet, such as a "free" residential consumer connection up to a defined service length where the consumer installs gas appliances of a particular type.

Rules and criteria will be established to ensure consistency with this policy and reviewed at sufficient frequency to maintain compliance.

9.0 IN-KIND CAPITAL CONTRIBUTIONS

In some cases Customers may provide in-kind Capital Contributions (non-cash) which serve to reduce the incremental cost associated with the works and therefore the likelihood or extent of any Capital Contribution. Typically this will occur where a property owner or subdivider excavates backfills and reinstates a trench to GasNet's technical specifications within which new pipe may be laid.

10.0 OWNERSHIP OF ASSETS

For the purpose of clarity GasNet will own all distribution network assets that have been funded by Capital Contributions, regardless of whether the Capital Contribution is made by the Requesting Party as a financial payment, an In Kind Capital Contribution, or a combination of both.

11.0 HIGHER STANDARD OF WORK

Where the Customer requests works that are in some way completed to a higher standard than GasNet would normally build, the difference between the standard

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works and better-than standard works will be charged at full cost to the Customer and clearly disclosed to the Customer as such prior to acceptance and payment of any Capital Contribution.

12.0 PAYMENT

Payment of a Capital Contribution must be made prior to commissioning. Where a capacity upgrade requires a Capital Contribution, payment must be paid prior to the upgrade commencing.

13.0 PRUDENTIAL REQUIREMENTS

GasNet may impose a prudential requirement in addition to a Capital Contribution in relation to a new or upgraded connection, which may take (but is not restricted to) one or more of the following forms:

- a) financial guarantees or bonds;
- b) service charge pre-payments; and / or
- c) minimum service charges or quantities for an agreed period.

The value of a prudential requirement will be in addition to the amount of the Capital Contribution.

14.0 REAPPORTIONING CAPITAL CONTRIBUTIONS

Where a new Customer is connected to a part of the network for which another Customer has made a Capital Contribution, a portion of the original Capital Contribution may be refunded to the original Customer taking into account the following:

- a) past contributions are non-refundable. However, new Customers wishing to connect to the network extension shall pay a Reapportionment Charge to GasNet who will refund the full amount to the present owners of the premises which made the original contribution;
- b) no refund will be payable after 10 years from the original commissioning of the assets. The impracticality of administering such a scheme on an infinite basis requires that some time limit be placed on the period over which Capital Contributions can attract refunds from future Customers;
- c) refund calculations will be based on the value of the original Capital Contribution discounted by 10% per annum, straight line (ie the discounted value will be zero after year 10) with no monetary adjustments for interest, etc;
- d) refunds will be determined on an equitable basis and depend on the estimated proportion of assets to be effectively shared by the new connection, taking into account the suitability of size, type, and location of the asset with regard to the new Customer's requirements;
- e) new Customer(s) wishing to connect to the network extension shall pay a Reapportionment Charge to GasNet who will refund the present owners of the premises that contributed toward this assets;
- f) refunds will be payable to the owner of the land that contains the original installation at the time of the refund. Although the land owner may not be the person who paid the original Capital Contribution, this reflects the likelihood that a gas supply enhances the value of the land and would have been reflected in the sale and purchase price;
- g) all Customers affected by sharing of a Capital Contribution will be sent a copy of the calculations.
- h) refunds are not payable:
 - i. to a property which has been disconnected from the network, has ceased to use gas and which has not contributed sufficient revenue over the time that it was connected to recover the original

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- incremental costs. In this instance there will be no Reapportionment Charge payable by the new Customer(s) for the refund that would have been payable to the original Customer;
- ii. where a subdivider had requested the network extension for the purposes of subdivision;
 - iii. on assets that are replaced because of failure or network upgrade, even if this occurs within five years;
 - iv. on Capital Contributions paid prior to 31 December 2012 as they were subject to a different methodology to that specified within this policy. Prior to 31 December 2012 the economic investment analysis referred to in section 7.1 included an allowance for forecast revenue attributed to possible future new connections, such that any Capital Contributions payable under the previous methodology were effectively pre-apportioned;
 - v. for amounts less than \$1000. In such instances GasNet will not collect by way of a Reapportionment Charge any money that it will not redistribute to past contributors.

GasNet Limited reserves the right to make all reapportionment decisions using its absolute discretion.

15.0 RELOCATION WORKS

This section describes the policy arrangements that apply when a Customer requests that GasNet relocates part of its gas distribution network.

15.1 Relocations in the Road Reserve

Sections 33 & 34 of the Gas Act 1992 apply to the moving of the gas distribution network in the road reserve when requested by persons or organisations having jurisdiction over the road, such as a Local Authority (council) or a Controlling Authority (NZ Transport Agency or NZTA).

In accordance with the Act, where the request is from a Local Authority the costs of the relocation works are treated on a causer pays basis whereas requests from NZTA requires that the cost of the gas pipe and fittings be met by GasNet and all other costs paid by NZTA.

Where GasNet elects to reconstruct the works to specifications different to the original, for example to replace a smaller pipe with one of a materially greater size, GasNet will pay for all of the additional costs that arise from the changed specification. Similarly, where GasNet elects to install additional works, GasNet will pay for all of the additional costs that arise as a direct result of the additional works.

Where GasNet is requested or required to reconstruct the works to specifications different to the original, the requesting party shall pay for all of the additional costs that arise from the changed specification.

15.2 Private Land Owner and Occupier Requests

Section 36 of the Gas Act 1992 allows land owners or occupiers to request the movement of works on private land. GasNet may not unreasonably withhold approval for the relocation, however the full cost of relocation, including the cost of creating any necessary easements, is payable by the land-owner, or occupier. GasNet may also set reasonable conditions for moving the works.

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15.3 Other Requests

Gas distribution network owners have no legal obligation to move works in the road reserve at the request of private individuals, but will consider any such request on a case by case basis.

16.0 USE OF INDEPENDENT CONTRACTORS

In accordance with GasNet's Safety Management System and in the interest of public safety, only persons who have the required skills, qualifications and experience and who are approved by GasNet may undertake works on it gas distribution network. GasNet considers that this is warranted and reasonable given the very specific obligations imposed on it under the Gas (Safety and Measurement) Regulations 2010 and the Health and Safety Employment Act 1992, to ensure that no person is harmed during the execution of contract works or operation of the gas distribution network.

However, there are elements of the work activity such as those described in 9.0 above, where a Customer, or persons working for the Customer, may be able to undertake preparatory work provided that the work is performed to the relevant GasNet standards by appropriately trained and competent persons.

It should be noted that whilst property owners have relative freedom to do what they wish within their own property boundaries (within the extent to which the law allows), the requirements for working beyond their property within the road reserve and public land are controlled by the Local Authority (council), and the NZ Transport Agency in the case of State Highways, so any proposed works within these areas must be discussed with the relevant authorities first.

17.0 COMPLIANCE WITH THE PRICING PRINCIPLES

GasNet considers that the policies outlined within this document are consistent with the Commerce Commission's Pricing Principles in that:

- a) the provision of Capital Contributions is within the subsidy free range meaning that the contributions are at least equal to the incremental cost of the works and in all instances less than the standalone costs. Capital Contributions also ensure that distribution prices will be above incremental capital costs to connect a customer to the network; and
- b) Capital Contributions inherently reflect the available service capacity as they are calculated with reference to assets of a certain specification and capacity; and
- c) this Capital Contributions Policy provides an immediate price signal to consumers where a network extension or upgrade is required regarding the costs faced by GasNet in connecting them to the network; and
- d) Capital Contributions are primarily based on the asset capacity utilisation characteristics and not on consumer willingness to pay; and
- e) Capital Contributions are less than the standalone costs and therefore discourage uneconomic bypass; and
- f) the Capital Contributions process allows bypass issues and negotiation of price and quality trade-offs to be resolved prior to connection of new consumers; and
- g) this policy transparently sets out the criteria and methodology for Capital Contributions, and is publicly available via GasNet's website www.gasnet.co.nz.

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18.0 QUESTIONS AND COMPLAINTS

If Customers have a query or complaint about our service, they should contact us in the first instance. GasNet's in-house complaints handling process is confidential and free to use. For more information about our in-house complaints handling process, visit www.gasnet.co.nz.

GasNet is a member of the Electricity and Gas Complaints Commissioner Scheme ("EGCC") which is free and independent. If Customers are dissatisfied with the outcome of a complaint, or if we have not resolved a complaint within twenty (20) working days, they have the option of contacting the Electricity and Gas Complaints Commissioner on 0800 22 33 40 or www.egcomplaints.co.nz.

19.0 CHANGES TO POLICY

GasNet Limited, acting reasonably, reserves the right to change this policy from time to time.

20.0 POLICY HISTORY

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1.0	15/04/2013	Issued

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Pricing Principles

The following extract is from the Commerce Commission “Commerce Act (Gas Distribution Services Input Methodologies) Determination 2010”, Decision No. 711.

2.5.2 Pricing principles

- (1) *Prices are to signal the economic costs of service provision, by-

 - (a) being subsidy free, that is, equal to or greater than incremental costs and less than or equal to standalone costs, except where subsidies arise from compliance with legislation and/or other regulation;
 - (b) having regard, to the extent practicable, to the level of available service capacity; and
 - (c) signalling, to the extent practicable, the effect of additional usage on future investment costs.*
- (2) *Where prices based on „efficient“ incremental costs would under-recover allowed revenues, the shortfall is made up by prices being set in a manner that has regard to consumers’ demand responsiveness, to the extent practicable.*
- (3) *Provided that prices satisfy (1) above, prices are responsive to the requirements and circumstances of consumers in order to-

 - (a) discourage uneconomic bypass; and
 - (b) allow negotiation to better reflect the economic value of services and enable consumers to make price/quality trade-offs or non-standard arrangements for services.*
- (4) *Development of prices is transparent, promotes price stability and certainty for consumers, and changes to prices have regard to the effect on consumers.*

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