



GasNet Limited

2019 Default Price-Quality Path Annual Compliance Statement Gas Distribution Network Services

**For the Second Assessment Period of the Second Regulatory Period
(1 October 2018 to 30 September 2019)**

Pursuant to:
Gas Distribution Services Default Price-Quality Path Determination 2017
Issued 29 May 2017

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1.0 PRICE PATH AND QUALITY STANDARDS COMPLIANCE STATEMENTS

1.1 Price Path

GasNet has complied with its price path for the Second Assessment Period by ensuring that Notional Revenue of \$4,329,480 is less than the Allowable Notional Revenue of \$4,339,491 by a margin of \$10,011 or 0.23%.

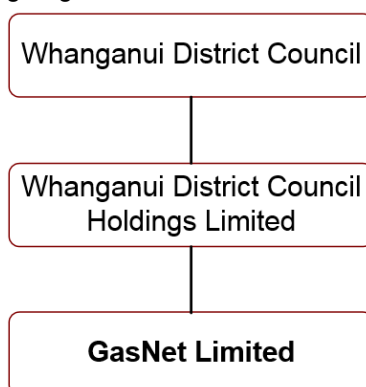
1.2 Quality Standards

GasNet has complied with both quality standards in respect to GasNet's response to the two Emergencies that occurred during the Assessment Period, with response times of 7 and 54 minutes and therefore within the 60 minute and 180 minute thresholds.

2.0 INTRODUCTION

2.1 About GasNet

GasNet Limited is 100% owned by Whanganui District Council Holdings Limited, a "Council Controlled Trading Organisation".



GasNet Limited ("GasNet") commenced trading on 1 July 2008 after purchasing the network and metering business from Wanganui Gas Limited. Previously GasNet had been operating as an independent trading division of Wanganui Gas Limited and was responsible for managing the network and metering assets for the company.

On 30 June 2017 Wanganui Gas Limited and GasNet Limited were amalgamated to become GasNet Limited.

2.2 Supply Area Coverage

GasNet's natural gas distribution network comprises approximately 10,000 connections across 5 discrete distribution systems located within the Wanganui, Rangitikei and South Taranaki regions serving the following areas:

- Wanganui;
- Marton;
- Bulls;
- Flockhouse; and
- Waitotara.

With its origins as far back as the late 1800's when gas was manufactured from coal, the Wanganui distribution system extends to virtually every street within the city, whilst the other 4 systems have all been constructed since the introduction of natural gas in the 1970's and as a result, are not as extensive within the urban areas.

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2.3 Default Price-quality Path Regime

As a natural monopoly service provider, GasNet is subject to government regulation under the Commerce Act 1986. Pursuant to the requirements of this Act the Commerce Commission has set a default-price quality path ("DPP") which applies to all suppliers of gas pipelines services as defined in the Act.

The default price-quality path requirements are set out in the Gas Distribution Services Default Price-Quality Path Determination 2017 ("DPP Determination").

2.4 Annual Compliance Statement

This Annual Compliance Statement has been prepared in accordance with the DPP Determination to demonstrate GasNet's compliance or otherwise, with the requirements of the determination and covers the 12 month period from 1 October 2018 to 30 September 2019.

This statement has been prepared on 6 December 2019.

3.0 ALLOWABLE NOTIONAL REVENUE

In accordance with Equation 2 of Schedule 4 of the DPP Determination the Allowable Notional Revenue for the Pricing Period ending in 2019 (ANR_{2019}) is equal to:

$$ANR_{2019} = (\sum_i P_{i,2018} \times Q_{i,2017} - (K_{2018} + V_{2018}) + (ANR_{2018} - NR_{2018})) \times (1 + \Delta CPI_{2019}) \times (1 - X)$$

Where:

$\sum_i P_{i,2018} \times Q_{i,2017}$	is the revenue from all Load Groups based on the 2017 quantities and the 2018 prices for each individual Load Group as calculated in the Prices & Quantities Schedule in Appendix 1 (\$1,895,652 for the Fixed Charges and \$2,480,935 for the Variable Charges); and
K_{2018}	is the sum of all Pass-through Costs for the Pricing Year ending in 2018 as previously disclosed and shown in Appendix 2 (\$112,311); and
V_{2018}	is the sum of all Recoverable Costs for the Pricing Year ending in 2018, as previously disclosed and shown in Appendix 2 (\$nil); and
ANR_{2018}	is the Allowable Notional Revenue for the Pricing Period ending in 2018 (ANR_{2018}) as previously disclosed and shown in Appendix 2 (\$4,192,149); and
NR_{2018}	is the Notional Revenue for the Pricing Period ending in 2018 as previously disclosed and shown in Appendix 2 (\$4,184,852); and
ΔCPI_{2019}	is the derived change in the CPI to be applied for the pricing Period ending in 2019 being equal to:

$$\begin{aligned}\Delta CPI_{2019} &= \frac{(CPI_{Jun\ 2017} + CPI_{Sep\ 2017} + CPI_{Dec\ 2017} + CPI_{Mar\ 2018})}{(CPI_{Jun\ 2016} + CPI_{Sep\ 2016} + CPI_{Dec\ 2016} + CPI_{Mar\ 2017})} - 1 \\ &= \frac{(1000 + 1005 + 1006 + 1011)}{(983 + 986 + 990 + 1000)} - 1 \\ &= 0.0159\end{aligned}$$

X is the rate of change specified in Schedule 2 of the DPP Determination (0).

Therefore:

$$\begin{aligned}ANR_{2019} &= ((\$4,376,587 - (\$112,311 + 0) + (\$4,192,149 - \$4,184,852)) \times (1 + 0.0159) \times (1 - 0)) \\ &= \$4,339,491\end{aligned}$$

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4.0 PASS-THROUGH COSTS

Pass-through Costs incurred by GasNet Limited include rates on system fixed assets payable to territorial local authorities, levies payable for the Utilities Disputes Scheme (previously Electricity and Gas Complaints Commission Scheme), and levies payable under the Commerce (Levy for Control of Natural Gas Services) Regulations 2005.

The following table provides the breakdown of Pass-through Costs incurred by GasNet Limited for the Pricing Year ending in 2019.

	Timing of Payment			Total
	Prior to 1 October 2018		1 October 2018 to 30 September 2019	
	Cost Incurred	Time Value Adjustments	Cost Incurred	
Commerce Commission	\$ 18,934.90	\$ 901.30	\$ -	\$ 19,836.20
Utilities Disputes Scheme	\$ 5,222.29	\$ 248.58	\$ -	\$ 5,470.87
Rates	\$ 19,790.70	\$ 942.04	\$ 30,061.06	\$ 50,793.80
	\$ 43,947.89	\$ 2,091.92	\$ 30,061.06	\$ 76,100.87

5.0 NOTIONAL REVENUE

In accordance with Clause 8.4 of the determination the Notional Revenue for the Pricing Period ending in 2019 (NR₂₀₁₉) is equal to:

$$NR_{2019} = \sum_i P_{i,2019} \times Q_{i,2017} - (K_{2019} + V_{2019})$$

Where:

$\sum_i P_{i,2019} \times Q_{i,2017}$ is the revenue from all Load Groups based on the 2017 quantities and the 2019 prices for each individual Load Group as calculated in the Prices & Quantities Schedule in Appendix 1 (\$1,912,296 for the Fixed Charges and \$2,493,285 for the Variable Charges); and

K_{2019} is the sum of all Pass-through Costs for the Pricing Year ending in 2019 as calculated in Pass-through Costs (Section 4.0) above (\$76,101); and

V_{2019} is the sum of all Recoverable Costs for the Pricing Year ending in 2019, which is nil as GasNet incurred no such costs.

Therefore:

$$NR_{2019} = \$1,912,296 + \$2,493,285 - (76,101 + 0)$$

$$= \$4,329,480$$

6.0 COMPLIANCE WITH THE PRICE PATH

In accordance with Clause 8.4 of the DPP Determination the Notional Revenue for the Assessment Period must not exceed the Allowable Notional Revenue for the same period:

$$ANR_{2019} \geq NR_{2019}$$

Where:

ANR_{2019} is the Allowable Notional Revenue for the Pricing Period ending in 2019 as calculated above (\$4,339,491); and

NR_{2019} is the Notional Revenue for the Pricing Period ending in 2019 as calculated above (\$4,329,480); and

Therefore:

$$\$4,339,491 > \$4,329,480$$

So the condition is satisfied

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7.0 EMERGENCIES DURING THE ASSESSMENT PERIOD

There were two events that occurred during the Assessment Period that met the criteria as an Emergency pursuant to the DPP Determination.

An event occurred on 18 October 2018 when a civil works contractor working on a road reconstruction in Whanganui damaged a medium pressure 25mm diameter polyethylene gas service pipe. The pipe operating at a pressure of 210kPa was ruptured in the road reserve by an excavator while digging for other services. Due to the report of a large release of gas and location close to residential houses GasNet requested Fire Service attendance to control the public and traffic. The service pipe that was damaged supplied a property that had no meter installed and was on standby.

A telecommunications contractor drilled through a 32mm diameter polyethylene gas main in Marton on 5 February 2019. The gas main operating at a pressure of 210 k Pa was ruptured by a directional drill, interrupting gas supplies to 22 consumers for 3.5 hours each. The Fire Service were called to control public and traffic and ensure safety on site until GasNet's Technicians could isolate the gas.

Date of Event	Type of Event	Emergency Criteria			Response Time
		Emergency Services Involved	Number of Supplies (ICP's) Affected	Properties Evacuated	
18 October 2018	Gas escape after third party damage to service pipe	Fire Service	-	Nil	7 mins
5 February 2019	Gas escape after third party damage to main pipe	Fire Service	22	Nil	54 mins

Average Response Time 30.5 mins

8.0 COMPLIANCE WITH THE QUALITY STANDARDS

In accordance with Clause 9.1 of the DPP Determination GasNet's Response Time to Emergencies (RTE) for the Assessment Period must be such that:

$$(i) \frac{RTE_{60}}{RTE} \geq 0.80 ; \text{ and}$$

$$(ii) \frac{RTE_{180}}{(RTE - RTE_{excl})} = 1$$

Where:

RTE is the total number of Emergencies in the Assessment Period (total count of 2 as stated above);

RTE_{excl} is the total number of Emergencies in the Assessment Period for which the Commission has granted an exclusion in writing, which is nil for GasNet for this Assessment Period;

RTE₆₀ is the total number of Emergencies in the Assessment Period where GasNet's RTE was less than or equal to 60 Minutes (total count of 2 as stated above); and

RTE₁₈₀ is the total number of Emergencies in the Assessment Period where GasNet's RTE was less than or equal to 180 Minutes (total count of 2 as stated above).

Therefore:

$$(i) \frac{RTE_{60}}{RTE} = \frac{2}{2} = 1 \geq 0.80 \text{ so condition is satisfied; and}$$

$$(ii) \frac{RTE_{180}}{(RTE - RTE_{excl})} = \frac{2}{(2-0)} = 1 \text{ so condition is satisfied.}$$

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9.0 POLICIES & PROCEDURES FOR RESPONDING TO EMERGENCIES

Notifications of an emergency or event on the network are received at GasNet's offices in Cooks Street, Wanganui during business hours and at GasNet's after-hours service provider outside business hours. Information received at the time of the initial report including event details, date and time the call was received is recorded in the company's work management system and then a response is initiated.

All personnel involved in telephone call handling are trained to record the details of the emergency, provide the standard safety information and under no circumstance transfer a call and risk losing it

A telephone management system logs call information and is used for collection and reporting of call statistics.

During business hours the details of the emergency are provided to the designated Emergency Response Coordinator (ERC) or the Technician depending on the nature of the event. A response is initiated based on the event type and procedural requirements. Using mobile devices the responding Technicians have access to the work management system and the ability to progressively update the records adding information as actions are taken, including such details as arrival on site time, departure time and interruption to supply times.

In order to ensure the necessary date and time information has been recorded to enable GasNet to meet its obligations for reporting SAIDI and SAIFI, the attending Technician is required to complete a specific form. A check is made when a job is completed that the form has been submitted.

Outside business hours the details of the emergency are recorded by the after-hours service provider and then relayed by telephone to the designated On Call Technician with a text sent to their mobile phone as a backup and to provide verification that the details are correct. An email is sent by the after-hour's provider to senior GasNet personnel shortly after the first call was received and followed up with an email when the Technician has arrived on site, and another when he has left the site. Regular welfare checks are made to ensure their ongoing safety by contacting the Technician via mobile phone every 30 minutes.

All unplanned events and emergencies are subject to an investigation in accordance with the Company's Incident Reporting and Investigation Policy and recorded in GasNet's Risk Management software application.

All incident information is reviewed and managed by the Engineering Manager to ensure correct decisions have been made on reporting criteria including reliability, interruption classes, system condition and integrity based on company Work Instructions.

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Appendix 1 – Price and Quantities Schedule

Load Group	Fixed Charges (\$ per day)				
	Q ₂₀₁₇	P ₂₀₁₈	P ₂₀₁₉	P ₂₀₁₈ × Q ₂₀₁₇	P ₂₀₁₉ × Q ₂₀₁₇
G12	3,558,194	\$ 0.430	\$ 0.435	\$ 1,530,023	\$ 1,547,814
G50	41,179	\$ 1.500	\$ 1.500	\$ 61,769	\$ 61,769
G180	12,265	\$ 5.160	\$ 5.160	\$ 63,287	\$ 63,287
G450	2,346	\$ 40.000	\$ 40.000	\$ 93,840	\$ 93,840
G1000 (C12323)	365	\$ 41.548	\$ 40.081	\$ 15,165	\$ 14,630
G1000 (C12329)	365	\$ 18.119	\$ 18.691	\$ 6,613	\$ 6,822
G1000 (C12337)	365	\$ 27.719	\$ 26.057	\$ 10,117	\$ 9,511
G1000 (C16459)	365	\$ 14.362	\$ 15.169	\$ 5,242	\$ 5,537
G1000 (C26262)	365	\$ 26.761	\$ 25.021	\$ 9,768	\$ 9,133
G1000 (C26444)	365	\$ 22.099	\$ 15.697	\$ 8,066	\$ 5,729
G1000 (C26779)	365	\$ 156.199	\$ 154.798	\$ 57,013	\$ 56,501
G1000 (C31266)	365	\$ 52.565	\$ 51.536	\$ 19,186	\$ 18,811
G1000 (C31778)	365	\$ 42.635	\$ 51.816	\$ 15,562	\$ 18,913
G1000 (C32121)	-	\$ 121.610	\$ 123.761	\$ -	\$ -
	<u>3,617,269</u>			<u>\$ 1,895,652</u>	<u>\$ 1,912,296</u>
				$\Sigma_i P_{i,2018} \times Q_{i,2017}$	$\Sigma_i P_{i,2019} \times Q_{i,2017}$

Load Group	Variable Charges (\$ per GJ)				
	Q ₂₀₁₇	P ₂₀₁₈	P ₂₀₁₉	P ₂₀₁₈ × Q ₂₀₁₇	P ₂₀₁₉ × Q ₂₀₁₇
G12	246,423	\$ 7.252	\$ 7.274	\$ 1,787,062	\$ 1,792,484
G50	41,295	\$ 6.835	\$ 6.943	\$ 282,250	\$ 286,710
G180	68,484	\$ 4.852	\$ 4.881	\$ 332,284	\$ 334,270
G450	120,577	\$ 0.658	\$ 0.662	\$ 79,339	\$ 79,822
G1000 (C12323)	116,667	\$ -	\$ -	\$ -	\$ -
G1000 (C12329)	56,923	\$ -	\$ -	\$ -	\$ -
G1000 (C12337)	30,611	\$ -	\$ -	\$ -	\$ -
G1000 (C16459)	2,748	\$ -	\$ -	\$ -	\$ -
G1000 (C26262)	32,544	\$ -	\$ -	\$ -	\$ -
G1000 (C26444)	126,643	\$ -	\$ -	\$ -	\$ -
G1000 (C26779)	17,367	\$ -	\$ -	\$ -	\$ -
G1000 (C31266)	193,669	\$ -	\$ -	\$ -	\$ -
G1000 (C31778)	213,894	\$ -	\$ -	\$ -	\$ -
G1000 (C32121)	-	\$ -	\$ -	\$ -	\$ -
	<u>1,267,846</u>			<u>\$ 2,480,935</u>	<u>\$ 2,493,285</u>
				$\Sigma_i P_{i,2018} \times Q_{i,2017}$	$\Sigma_i P_{i,2019} \times Q_{i,2017}$

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Appendix 2 – Data from Previous Compliance Statements

The following supporting data, information and calculations were disclosed and published within the GasNet Limited “2018 Default Price-Quality Path Annual Compliance Statement – Gas Distribution Network Services”, a copy of which is available on GasNet’s website <http://www.gasnet.co.nz/gasnet-disclosures>.

Attribute	Description	Value
K₂₀₁₈	is the sum of all Pass-through Costs for the Pricing Year ending in 2018	\$112,311
V₂₀₁₈	is the sum of all Recoverable Costs for the Pricing Year ending in 2018	\$nil
ANR₂₀₁₈	is the Allowable Notional Revenue for the Pricing Period ending in 2018	\$4,192,149
NR₂₀₁₈	is the Notional Revenue for the Pricing Period ending in 2018	\$4,184,852

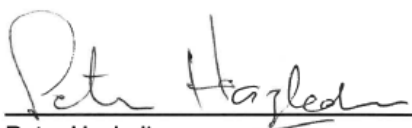
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Appendix 3 - Director Certification

(Pursuant to the Gas Distribution Services Default Price-Quality Path Determination 2017)

Schedule 7: Form of Directors' Certificate for Compliance Statement

We, Charles Peter Hazledine and Annette Kay Main, being Directors of GasNet Limited certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached compliance statement of GasNet Limited, and related information, prepared for the purposes of the Gas Distribution Services Default Price-Quality Path Determination 2017 has been prepared in accordance with all the relevant requirements.


Peter Hazledine
Director


Annette Main
Director

6 DECEMBER 2019
Date

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Appendix 4 – Auditors Report

Independent Assurance Report

To the directors of GasNet Limited and the Commerce Commission

The Auditor-General is the auditor of GasNet Limited (the company). The Auditor-General has appointed me, Debbie Perera, using the staff and resources of Audit New Zealand, to provide an opinion, on his behalf, on whether the annual Compliance Statement on pages 3 to 9 (the Compliance Statement) for the assessment period ended on 30 September 2019 complies, in all material respects, with the Gas Distribution Services Default Price-Quality Path Determination 2017 NZCC 15 (the Determination).

Directors' responsibilities for the Compliance Statement

The directors of the company 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.

Our responsibility for the Compliance Statement

Our responsibility is to express an opinion on whether the Compliance Statement has been prepared, in all material respects, in accordance with the Determination.

Basis of opinion

We conducted our engagement in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised): *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and the Standard on Assurance Engagements 3100 (Revised): *Assurance Engagements on Compliance* issued by the New Zealand Auditing and Assurance Standards Board. Copies of these standards are available on the External Reporting Board's website.

These standards require that we comply with ethical requirements and plan and perform our assurance engagement to provide reasonable assurance about whether the Compliance Statement has been prepared in all material respects in accordance with the Determination.

We have performed procedures to obtain evidence about the amounts and disclosures in the Compliance Statement. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the Compliance Statement, whether due to fraud or error or non-compliance with the Determination. In making those risk assessments, we considered internal control relevant to the company's preparation of the Compliance Statement in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

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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 3 - 5 of the Compliance Statement.

In relation to the annual quality assessment formula 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 6 to 7 of the Compliance Statement.

We also assessed the significant estimates and judgements, if any, made by the company in the preparation of the Compliance Statement.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of this report

This independent assurance report has been prepared solely for the directors of the company and for the Commerce Commission for the purpose of providing those parties with reasonable assurance about whether the Compliance Statement has been prepared, in all material respects, in accordance with the Determination. We disclaim any assumption of responsibility for any reliance on this report to any person other than the directors of the company or the Commerce Commission, or for any other purpose than that for which it was prepared.

Scope and inherent limitations

Because of the inherent limitations of a reasonable assurance engagement, and the test basis of the procedures performed, it is possible that fraud, error or non-compliance may occur and not be detected.

We did not examine every transaction, adjustment or event underlying the Compliance Statement nor do we guarantee complete accuracy of the Compliance Statement. Also we did not evaluate the security and controls over the electronic publication of the Compliance Statement.

The opinion expressed in this independent assurance report has been formed on the above basis.

Independence and quality control

When carrying out the engagement, we complied with the Auditor-General's:

- independence and other ethical requirements, which incorporate the independence and ethical requirements of Professional and Ethical Standard 1 (Revised) issued by the New Zealand Auditing and Assurance Standards Board; and
- quality control requirements, which incorporate the quality control requirements of Professional and Ethical Standard 3 (Amended) issued by the New Zealand Auditing and Assurance Standards Board.

We also complied with the independent auditor requirements specified in the Determination.

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The Auditor-General, and his employees, and Audit New Zealand and its employees may deal with the company on normal terms within the ordinary course of trading activities of the company. Other than any dealings on normal terms within the ordinary course of business, this engagement, the assurance report for the information disclosures, and the annual audit of the company's financial statements, we have no relationship with or interests in the company.

Opinion

In our opinion:

- as far as appears from an examination, the information used in the preparation of the Compliance Statement has been properly extracted from the company's accounting and other records, sourced from its financial and non-financial systems; and
- the Compliance Statement of company for the assessment period ended on 30 September 2019, has been prepared, in all material respects, in accordance with the Determination.

In forming our opinion, we have obtained sufficient recorded evidence and all the information and explanations we have required.



Debbie Perera
Audit New Zealand
On behalf of the Auditor-General
Palmerston North, New Zealand
6 December 2019

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