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Geoff Evans
General Manager
GasNet
PO Box 7149
Wanganui 4540**Addendum to GasNet Initial RAB Engineer's Report**

This Addendum to the Engineer's Report on GasNet's Initial RAB dated 27 September 2011 provides further explanations and follows queries identified by the Commerce Commission in its "Updated Process Paper of 19 June 2012" with regard to adjustments of the regulatory asset base in the Engineer's Report on GasNet's Initial RAB dated 27 September 2011.

Please note that the Engineer's Report summarised and certified GasNet's Initial RAB calculations, which were detailed in a set of spreadsheets that formed together with the Engineer's Report an integral documentation of the methodology and the applied calculation steps.

1. Query relating to Network Spares

The following is a breakdown of spares:

Others			
Components	Value	Stated Value	Comment
Easements	HC	\$71,000	No change
Stores	HC	\$168,387	No change
Spares	HC	\$6,260	Discussed below
		\$245,647	

Source: Engineer's Report at section 3.3, page 11 and "GasNet Val Model – Initial RAB – V1.xls" at worksheet tab "Initial RAB".

The "Reasons Paper" dated December 2010 indicated that GPBs should include network spares as additions to the regulatory asset base, where they were held in appropriate quantities considering the historical reliability of the equipment and the number of items installed on the network. GasNet holds two EC-AT correctors (one refurbished) as spares at a total value of \$6,260 as shown above.

GasNet considers two spare correctors entirely appropriate for reasons of operational flexibility, responsiveness to potential faults and its stand-alone business structure.

2. Query relating to additional information in the Summary Tables

The following table is extracted from the Engineer's Report at section 3.3, page 11

Summary	30 June 2008	Adjustment	1 July 2008
Class of Asset		Value Reported	
	under NZ IFRS	under NZ IFRS	under NZ IFRS
Infrastructural assets			
Mains	\$14,986,818	\$507,979	\$15,494,797
Services	\$5,512,365	-\$275,890	\$5,236,475
Facilities	\$284,244	-\$29,432	\$254,811
Crossings	not included	\$344,846	\$344,846
Others	\$239,387	\$6,260	\$245,647
Network Valves	not included	\$96,432	\$96,432
Impairment credit from EV	not included	\$38,423	\$38,423
Totals	\$21,022,814	\$688,618	\$21,711,431

The adjustments are detailed as follows:

Changes						
Class of Asset	Asset life	Change in Quantity	Value Reported	Value Reported	Impairment	Value Reported
	yrs	m or No.	under RC	under DRC	under NPV	under NZ IFRS
Mains (m)	50-70	11,686	\$182,636	\$502,511	\$5,468	\$507,979
Services (m)	50-70	-25,071	-\$557,557	-\$246,406	-\$29,484	-\$275,890
Facilities	10-40	7	-\$11,038	-\$29,432	\$0	-\$29,432
GMS	n/a	n/a	\$0	\$0	\$0	\$0
Crossings (Crgs)	40-70	44	\$677,426	\$344,846	\$0	\$344,846
Others	10-40	2	\$6,260	\$6,260	\$0	\$6,260
Network Valves	50-70	154	\$158,360	\$96,432	\$0	\$96,432
Impairment credit from EV	n/a	n/a	\$0	\$0	\$38,423	\$38,423
Totals			\$456,087	\$674,211	\$14,407	\$688,618

As expressed in the Engineer's Report at section 3.3 page 11, the major changes relate to the classes of mains, services, crossings and network valves. The data for these asset classes is sourced from GIS extracts, which improved their accuracy (combination of length, material and diameter data adjustments).

The use of GIS data provided not only improved physical accuracy but also better installation history, i.e. a change in age profile, which was an additional reason for the observed DRC value changes.

3. Query regarding Impairment “Credit”

In accordance with the ODV methodology, GasNet performed an economic adjustment of marginal assets as follows:

Summary					
	Location	ODRC	EV	ODRC Writedown	EV add on
Case 1	Dickens Lane	\$ 40,892	\$ 1,983	\$ 38,909	\$ 1,983
Case 2	Longbeach Drive/ Golf Vue	\$ 63,165	\$ 14,544	\$ 48,620	\$ 14,544
Case 3	Pickwick Road	\$ 48,518	\$ 1,496	\$ 47,022	\$ 1,496
Case 4	Riverbank Road/Anzac Parade	\$ 73,494	\$ 4,564	\$ 68,931	\$ 4,564
Case 5	George_ Street, Bulls	\$ 41,853	-\$ 374	\$ 41,853	\$ -
Case 6	Parewanui Road (Flockhouse)	\$ 194,303	\$ 15,836	\$ 178,467	\$ 15,836
		\$ 462,225	\$ 38,049	\$ 423,802	\$ 38,423

Source: GasNet Valuation Model “EV Calcs” sheet

In accordance with this worksheet, six mains and associated services were partly or totally written off by a total of **\$423,802**. The calculation methodology was the following:

- a) ODRC calculation
- b) EV assessment
- c) ODRC write-down
- d) “EV add-on”, where the assets had some remaining economic value. This calculation was balancing adjustment as a consequence of the spreadsheet setup. The exception was George Street, Bulls with negative economic value (making losses), which was completely written off and not included in the “EV Add-On” summary.

4. Query regarding the legitimacy of ORDC and EV Adjustments

As explained in the Initial RAB Report, optimisation adjustments and economic write-downs as explained above followed GasNet’s conservative approach in asset valuations and are entirely legitimate in accordance with the Commerce Act.

Yours sincerely

Guenter Wabnitz
Principal Consultant
guenter.wabnitz@aecom.com

Mobile: +64 21 61 62 55
Direct Dial: +64 4 382 2975
Direct Fax: +64 4 382 2998