



GasNet Limited

2014/15 Pricing Methodology Gas Distribution Network Services

Valid from 1 October 2014 to 30 September 2015

Pursuant to:
Gas Distribution Information Disclosure Determination 2012

Document No: GNM-001	Document Name: Pricing Methodology Gas Distribution Network – 1 October 2014	Approved: 30/07/2014	Version: 3.0
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1.0 EXECUTIVE SUMMARY

The pricing methodology and structure that has applied until now has remained virtually unchanged since it was first developed in the late 1990's when Wanganui Gas Limited, GasNet's predecessor, provided open access to its gas distribution for the first time. Although there have been changes made to the methodology and structure at various times over the years, they were minor in nature and not as a result of, nor intended to address, the significant changes that have occurred within the natural gas sector since then.

Since the 1990's the once consolidated gas distribution business has effectively separated network and measurement business activities, each now operating under quite separate commercial and regulatory regimes. In respect of the latter and following the Commerce Commissions Default Price-Quality Path Determination in February 2013, GasNet commenced a review of its existing pricing methodology and structure to ensure GasNet's pricing methodology satisfied the regulatory requirements, and to develop a new model and pricing structure that is 'fit for purpose' and meets the needs of GasNet, its customers (the energy retailers) and consumers.

On completion of the review a consultation paper was sent to the energy retailers in May 2013 along with an invitation to make submissions on GasNet's proposed changes to its pricing methodology and structure. Two submissions were received by the closing date and were subsequently reviewed prior to finalising the 2013/14 Pricing Methodology.

In accordance with its 2013/14 Pricing Methodology, GasNet plans to introduce a new pricing structure with a reduction in Load Groups that are closer aligned to that of other gas distribution network operators in New Zealand. In order to move to the new Load Groups and minimise price shock to consumers, GasNet has implemented transitional pricing for the 2013/14 and 2014/15 pricing years based on the existing Load Groups with expectations that the new structure will be implemented on 1 October 2015.

This document is intended to provide information relating to the existing and new pricing methodologies, the transitional period between the two, and the rationale behind the change.

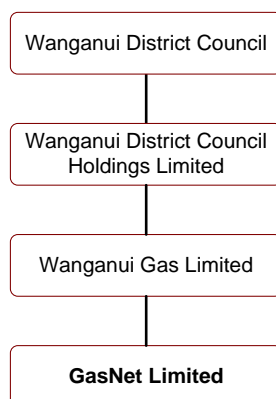
GasNet welcomes feedback from interested persons on any aspect of this Pricing Methodology document.

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2.0 BACKGROUND

2.1 About GasNet

GasNet Limited is 100% owned by Wanganui Gas Limited which is itself owned by Wanganui 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.

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.

2.3 Previous Pricing Methodology (effective to 30 September 2013)

The previous pricing methodology which applied up to 30 September 2013 was based on the original methodology developed in the late 1990’s when GasNet, then trading as Wanganui Gas Limited, provided open access to its gas distribution networks for the first time. Although there are distinct similarities between the previous and new methodologies the key focus of this document is to address the latter. While it is relevant to refer to the previous methodology for comparative purposes this document is not intended to provide a definitive comparison between the two.

Further information on the previous methodology can be found in GasNet’s “Network Pricing Methodology 1 October 2012” document which can be downloaded from GasNet’s website at www.gasnet.co.nz/disclosures.

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2.4 Regulatory Requirements

2.4.1 Pricing Principles

Whilst acknowledging that the previous pricing methodology was founded on pricing principles in the voluntary New Zealand Gas Pipeline Access Code published by Gas House on 14 July 1998, the new pricing methodology must now comply with the *Gas Distribution Services Input Methodologies Determination 2012* administered by the Commerce Commission. This regulation requires compliance with specified pricing principles in addition to disclosure of the extent of consistency with the principles and reasons for any inconsistency. The pricing principles are provided in section 11.0 along with an explanation of how they are reflected in this pricing methodology.

2.4.2 Information Disclosure

The new pricing methodology must be disclosed in accordance with the regulatory requirements imposed by the *Gas Distribution Information Disclosure Determination 2012* administered by the Commerce Commission. This regulation requires all gas distribution businesses to publicly disclose at the beginning of each Pricing Year, the methodology used to determine the prices payable for the provision of gas distribution services.

An extract of the specific requirements from the Commission's determination has been provided in Appendix 2.

2.5 Strategic Review Leading to New Pricing Methodology

The new Pricing Methodology and Pricing Structure specified within this document presents the results from a strategic review undertaken by GasNet in 2013 aimed at delivering a price structure that:

- a) more closely reflects the underlying costs incurred to service each consumer group by incorporating an updated cost allocation methodology;
- b) is streamlined where possible by removing unnecessary price options to improve administration efficiency;
- c) reflects the high fixed cost component of operating a gas distribution pipeline business;
- d) minimises, if not eliminates, the need to offer special "non-standard" prices;
- e) provides for the cessation of charges when a consumer's installation is physically isolated from GasNet's distribution network;
- f) is subject to an implementation plan that minimises price shock for consumers; and
- g) complies with the law, in particular the Commerce Commission's "Pricing Principles" (section 2.5.2 of the Commerce Act (Gas Distribution Services Input Methodologies) Determination 2010).

3.0 CONSULTATION ON NEW METHODOLOGY

In May 2013 GasNet invited submissions from its customers, the energy retailers, on proposed changes to its network Pricing Methodology and Price Structure to ensure that all changes are transparent and easily understood..

Two submissions were received, neither of which raised material concerns that, in GasNet's opinion, necessitated changes to the proposed Pricing Methodology. A summary of the submissions along with GasNet's responses can be viewed in the 2013/14 Pricing Methodology published on GasNet's website.

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4.0 EXISTING PRICING STRUCTURE

4.1 Large Sites

GasNet has 12 non-standard consumers, which are referred to as Large Sites. These consumers accounted for 8% of the 2012 target revenue requirement and over 67% of annual throughput on the network.

The criteria for deciding whether to enter into a non-standard contract were:

- annual throughput at the connection was greater than 10TJ; and/or
- there is a risk that the consumer may bypass the network to an alternative form of supply.

Individual pricing for each Large Site was based on each being allocated a share of the target revenue based on the value of the shared and dedicated assets used to transport the gas from the Sales Gate to the Large Site. The value of the assets was determined by either an apportionment of the original ODV of the assets employed, or an assessment of the value of optimum dedicated assets required to meet the consumer's requirements where there is a threat of network bypass. Charges for Large Sites were on a fixed daily charge basis, i.e. there were no variable charges.

With the exception of any contractually applicable annual price escalators, GasNet's obligations and responsibilities associated with Large Sites as non-standard pricing/contracts were identical to the Standard Sites referred to below.

4.2 Standard Sites

Consumers that were not classified as Large Sites were Standard Sites and as such were subject to fixed and variable charges as follows.

4.2.1 Service Charge (fixed daily charge)

Service Charges were based on an allocation of the target revenue apportioned by the value of the service pipe assets within each Load Group, where the asset value was determined from the original ODV valuation.

There are presently 10 Standard Site Load Groups each with its specific Service Charge, where the Load Groups are based on the rated capacity of the installed Gas Measurement System (GMS).

4.2.2 Supply Charge (variable charge)

Supply Charges were based on the balance of the target revenue after deducting the expected revenue from the Large Sites and the Service Charges, which was then divided by the throughput projection over the Pricing Year to provide the variable charge in \$/GJ.

For simplicity and ease of application and administration, the same Supply Charge was applied across all Standard Sites Load Groups each Pricing Year, irrespective of the capacity requirements or the utilisation of the consumers within the different Load Groups.

4.3 CNG Sites

Following the decline of the CNG market and with the eventual closure of the last remaining CNG outlet in Wanganui in 2012, the variable CNG Charge that applied to CNG Sites ceased in 2013 and is no longer applicable.

4.4 Existing Load Groups

With the exception of the Large Sites which are individually priced, the Standard Sites are assigned a Load Group category based on the capacity requirements of each consumer connection. GasNet does not distinguish between the types of consumers connected so does not provide pricing based on whether a consumer uses gas for residential, commercial, or industrial purposes.

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The existing Load Group structure is based on the capacity of the Gas Measurement System (GMS) installed at the consumer connection unless a specific capacity, the Maximum Hourly Quantity (MHQ), has been agreed between GasNet and the consumer's energy retailer.

The load groups were developed to align pricing with usage of network capacity, a key network cost driver.

Load Group	Criteria	Service Charge (fixed)	Supply Charge (variable)	Consumers (No.)	Throughput (GJ)
M6	Up to 6 scmh	✓	✓	9,367	226,577
M12	> 6 and ≤ 12 scmh	✓	✓	283	21,270
M23	> 12 and ≤ 23 scmh	✓	✓	68	23,590
M33	> 23 and ≤ 33 scmh	✓	✓	13	3,543
M43	> 33 and ≤ 43 scmh	✓	✓	29	17,386
M85	> 43 and ≤ 85 scmh	✓	✓	24	36,916
M142	> 85 and ≤ 142 scmh	✓	✓	12	30,218
M200	> 142 and ≤ 200 scmh	✓	✓	2	4,100
M300	> 200 and ≤ 300 scmh	✓	✓	-	-
M450	> 300 and ≤ 450 scmh	✓	✓	1	602
Large Sites	Individually priced with annual consumption >10TJ and/or at risk of bypass	✓	✗	12	784,690
				9,811	1,148,892

5.0 NEW PRICING STRUCTURE

Following conclusion of the strategic review outlined in 2.5 above, new Load Groups were determined after analysis of the range of different possible combinations and a desire to minimise sensitivity to a change in the number of consumers, throughput, or asset allocations, in any one group.

The following table provides the proposed transition from the existing to the new Load Groups.

Existing		From 1 October 2015			
Load Group	Criteria	Load Group	Criteria	Consumers (No.)	Throughput (GJ)
M6	Up to 6 scmh	G12	Up to 12 scmh	9,650	247,847
M12	> 6 and ≤ 12 scmh				
M23	> 12 and ≤ 23 scmh	G40	> 12 and ≤ 40 scmh	81	27,133
M33	> 23 and ≤ 33 scmh				
M43	> 33 and ≤ 43 scmh	G180	> 40 and ≤ 180 scmh	66	102,452
M85	> 43 and ≤ 85 scmh				
M142	> 85 and ≤ 142 scmh				
M200	> 142 and ≤ 200 scmh	G450	> 180 and ≤ 450 scmh	7	116,818
M300	> 200 and ≤ 300 scmh				
M450	> 300 and ≤ 450 scmh				
Large Sites	Individually priced with annual consumption >10TJ and/or at risk of bypass	G1000	Annual consumption >20TJ and either within 900m of a Sales Gate or direct supply from a Sales Gate	7	654,642
		G2000	Individually priced	-	-
				9,811	1,148,892

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The primary reasons for the decision to change to the new Load Groups are summarised as follows:

- a) The existing Load Groups are closer aligned to a GMS price structure than network and originate from the late 1990's when the network and GMS activities were integral within the distribution network. From a commercial and regulatory perspective there is now distinct separation between network and GMS services, and therefore it is timely to implement a price structure more appropriate to network services.
- b) With almost 96% of the consumer base falling within the existing M6 Load Group, the remaining 4% are spread disproportionately across the remaining 10 Load Groups. The relatively fewer number of consumers spread across the greater number of Load Groups can create distortions in pricing between one Pricing Year to the next, due to the need to reallocate costs when consumers demand requirements change triggering a change in Load Group. There is an additional desire to reduce the administration costs associated with managing so many Load Groups.
- c) The format and structure of the new Load Groups are closer aligned to the pricing structures of the other gas distribution network operators in New Zealand, and whilst they do not align to any standard (as no such standard exists), they are expected to make it easier for energy retailers and consumers alike.
- d) The broader range of the new proposed Load Groups provide greater price stability for consumers on occasions when their load changes, significantly reducing disincentives to change their demand requirements. The small capacity range of the existing Load Groups do not necessarily reflect a step change in asset utilisation and/or associated costs. As an example if a consumer's demand increases resulting in a change in Load Group from M6 to M12, there is in most instances no change to the assets or the costs incurred by GasNet in providing network services to that consumer, whereas a change from M6 to the next higher M23 Load Group typically would result in asset or cost adjustment.
- e) The seven (7) consumers that comprise the new G1000 Load Group are high capacity, consume large volumes of gas and are in close proximity to the Sales Gate. Whilst each consumer profile is unique, the Total Revenue Requirement cost allocation for each is similar. In view of this and GasNet's desire to minimise the need to offer special non-standard prices, it is appropriate to group these specific consumers into the standard Pricing Structure under the new G1000 Load Group.
- f) The merger of the existing Large Sites within the standard price schedule will further reduce the regulatory reporting and administration costs associated with the non-standard consumer pricing.
- g) Whilst the new regulatory regime does not specifically require GasNet to restructure its Pricing Structure or Load Groups, it is GasNet's preference, if such a proposed change to its Load Groups is to occur, to do so at the same time it updates its Pricing Methodology.

However whilst GasNet is satisfied that there are tangible benefits in moving to the new Load Groups for the reasons outlined above and within this document, if the consensus with the energy retailers was that the existing Load Groups were appropriate and should continue unchanged, then GasNet would have seriously considered retaining the existing Load Group structure.

6.0 CONNECTION STATUS

Each consumer connection on GasNet's network is identified by a unique identifier, known as an ICP, which is assigned a status code based on its connection status.

In the case of an ICP that has been disconnected there are a range of status codes reflecting the wide range of scenarios that could give cause for a disconnection. In this situation where an ICP is physically disconnected from the network and gas cannot flow, daily fixed charges do not apply.

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The following table lists each status code and whether the fixed daily charges apply.

ICP Status Code	Valid Connection Status	Connection Status Code	Network Fixed Daily Charges Apply
NEW	Pre-activation, service has not yet been installed	NEW	✗
READY	Gas ready to flow	GIR	✗
ACTC	Gas able to flow	GAS	✓
ACTV	Gas able to flow	GAS	✓
INACT	Gas vacant disconnect – GMS remains, supply capped or plugged	GVC	✗
	Gas vacant disconnect – GMS removed, supply capped or plugged	GVM	✗
	Gas currently not required – GMS remains, supply capped or plugged	GNC	✗
	Gas currently not required – GMS removed, supply capped or plugged	GNM	✗
	Gas maintenance disconnect – GMS remains, supply capped or plugged	GMC	✗
	Gas maintenance disconnect – GMS removed, supply capped or plugged	GMM	✗
	Gas maintenance disconnect – GMS remains, service disconnected upstream of service valve by network operator	GMU	✗
	Gas safety disconnect – GMS remains, supply capped or plugged	GSC	✗
	Gas safety disconnect – GMS removed, supply capped or plugged	GSM	✗
	Gas safety disconnect – GMS remains, service disconnected upstream of service valve by distributor	GSU	✗
INACP	Gas permanent disconnect ready for GMS removal – GMS remains, supply capped or plugged	GPC	✗
	Gas permanent disconnect ready for decommissioning – GMS removed, supply capped or plugged	GPM	✗
DECR	Service disconnected from network outside property and service abandoned	GDE	✗

7.0 NEW PRICING METHODOLOGY

7.1 Contiguous Networks

As the combined size of GasNet's gas distribution networks is small and as there are negligible differences in performance within or between each of the 5 discrete networks, there is no benefit in segmenting them into different pricing networks, sub-networks, or geographic areas. The Pricing Methodology and prices are therefore based on consolidation of assets and costs, with prices applied evenly across all networks.

This treatment is consistent with GasNet's previous Pricing Methodology and the new regulatory regime.

7.2 Revenue Requirements

GasNet has historically set prices based on an annual target revenue requirement which seeks the recovery of costs and an appropriate return on the assets employed. This approach is consistent with the new regulatory regime and with some minor changes to the previous methodology to maintain compliance, is expressed mathematically as follows;

$$\text{Total Revenue Requirement (TRR)} = \text{Return on Assets} + \text{Depreciation} + \text{Operating Costs} + \text{Pass-through Costs} - \text{DPP Revenue Constraint}$$

Where:

Return on Assets = a target return on the forecast Regulatory Asset Base (RAB), using a pre-tax weighted average cost of capital of 9.09% (based on the 75th percentile estimate of vanilla WACC of 7.44% allowable under the DPP grossed up for tax)

Depreciation = the forecast Regulatory Asset Base (RAB) depreciation for the Pricing Year

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Operating Costs =	the forecast Operating Costs attributable to the network business over the Pricing Year but excluding Pass-through Costs
Pass-through Costs =	<p>the forecast operating costs to be paid during the Pricing Year that fall within the same definition in the <i>Gas Distribution Services Input Methodologies Determination 2012</i>, which for GasNet include, but are not limited to:</p> <ul style="list-style-type: none"> - Local and Regional Authority rates on GasNet's network assets payable under the Local Government (Rating) Act 2002; and - Levies payable to the Commerce Commission under the Commerce (Levy for Control of Natural Gas Services) Regulations 2005; and - Levies payable as a member of the Electricity and Gas Complaints Commissioner Scheme.
DPP Revenue Constraint =	the amount, if any, that is required to align the target revenue with the Allowable Notional Revenue (ANR) under the Default Price-quality Path (DPP).

7.3 Asset Valuation

In 2012 GasNet developed a new RAB valuation model to provide its Regulatory Asset Base (RAB) compliant with the Gas Distribution Services Input Methodologies Determination 2012.

As the RAB is one of the key revenue drivers under the new DPP and the output from the valuation model is a consolidation of values down to each individual asset component, it is appropriate that the RAB is the asset valuation which is applied in the Pricing Methodology.

The 30 June 2013 RAB, being the most recent audited valuation, has been applied in GasNet's Pricing Model for the determination of the pricing included later within this document.

7.4 Revenue Allocation

7.4.1 Pricing Model

The new pricing model separately allocates each component of the Revenue Requirement, as outlined in 7.2 above, to each Load Group using appropriate cost allocators, based on the following key processes:

- Identification of the Total Revenue Requirement to be recovered from fixed and variable charges, by cost component as outlined above in 7.2;
- Allocation of consumers into the new Load Groups consistent with the new structure discussed above in 5.0;
- Input of the identifying characteristics for each Load Group (e.g. number of ICPs, GJ, MHQ, etc.) which are used to allocate costs;
- Allocation of each component of the Total Revenue Requirement to the proposed Load Groups using cost of supply allocators (referred to in 7.4.2 and 7.4.3 below) in order to determine the amount of revenue to be recovered from each Load Group;
- Development of a modified set of revenue allocations such that the revenue to be recovered from each Load Group is not materially different from the previous year, taking into account changes in consumer connections and throughput. This generates a

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transitional revenue allocation scenario which is used to analyse and manage potential rate shock for individual consumers;

- Once the revenue requirement for each Load Group is determined, specification of the proportion of fixed and variable prices in order to test alternative price options;
- Application of the price options developed for each Load Group across the throughput bands evident in each Load Group to test the impact on high/average/low use consumers within each Load Group; and
- Refinement the price options as required in order to meet regulatory requirements, management of price shock, and implementation of pricing signals consistent with the pricing principles.

7.4.2 Allocation of Total Revenue Requirement

The Total Revenue Requirement is derived from the sum of different cost components as outlined in 7.2 above, each of which being allocated using a range of applicable allocators. Allocators are selected from available data and where such data is not available, proxies based on the underlying cost drivers.

The following table provides the cost allocators that have been applied to the cost components that comprise the Total Revenue Requirement.

Total Revenue Requirement Cost Item	Cost Allocator
Return on Assets	Depreciated Replacement Cost
Depreciation	Relacement Cost
Operating Costs	
<i>Direct</i>	Depreciated Replacement Cost
<i>Indirect</i>	Number of ICP's
Pass-through	Depreciated Replacement Cost
DPP Revenue Constraint	Depreciated Replacement Cost

Please note that the DPP Revenue Constraint cost item is not technically a cost but the amount, if any, by which the Total Revenue Requirement may be required to be reduced such that GasNet does not breach its price/revenue cap set by the Commerce Commission under its DPP.

7.4.3 Cost Allocators

The Cost Allocators described in 7.4.2 above and others used within the Pricing Model in the determination of prices, are described in further detail as follows.

7.4.3.1 Number of Consumers (ICP's)

The number of ICP's within each Load Group is based on the number of consumers expected to be connected during the Pricing Year with an ICP Status Code of "ACTC" and "ACTV" in the Gas Registry.

The ICP inventory is then consolidated to provide the number of ICP's that are connected to each of the 3 network pressure systems (IP, MP & LP) within each Load Group, for further use in establishing the value of the assets allocated to each Load Group, discussed in further detail in 7.4.3.4 below.

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New Load Group	Existing Load Group	Network Pressure System			Number of ICP's
		Intermediate Pressure (IP)	Medium Pressure (MP)	Low Pressure (LP)	
G12	M6	1	2,382	6,984	9,367
	M12	2	82	199	283
G40	M23	4	46	18	68
	M33	-	5	8	13
G180	M43	1	26	2	29
	M85	4	18	2	24
	M142	2	10	-	12
	Large Sites	-	1	-	1
G450	M200	-	2	-	2
	M300	-	-	-	-
	M450	1	-	-	1
	Large Sites	2	2	-	4
G1000	Large Sites	6	1	-	7
		23	2,575	7,213	9,811

7.4.3.2 Throughput (GJ)

The annual throughput for each Load Group is the consolidation of the throughput for each individual ICP (consumer) averaged over the three year period from 1 April 2011 to 31 March 2014.

New Load Group	Existing Load Group	Network Pressure System			Total Consumption (GJ)
		Intermediate Pressure (IP)	Medium Pressure (MP)	Low Pressure (LP)	
G12	M6	47	61,383	165,147	226,577
	M12	1,351	10,187	9,732	21,270
G40	M23	2,534	15,691	5,365	23,590
	M33	-	438	3,105	3,543
G180	M43	846	15,860	680	17,386
	M85	2,406	33,550	960	36,916
	M142	15,640	14,578	-	30,218
	Large Sites	-	17,932	-	17,932
G450	M200	-	4,100	-	4,100
	M300	-	-	-	-
	M450	602	-	-	602
	Large Sites	25,916	86,200	-	112,116
G1000	Large Sites	624,298	30,344	-	654,642
		673,640	290,263	184,989	1,148,892

7.4.3.3 Hourly Capacity Demand

For the purpose of allocating asset values to each Load Group the hourly capacity demands of the consumers within each group has been attributed by their MHQ adjusted to allow for diversity of consumer demand.

The largest population of consumers of all the Load Groups is M6 (which along with the M12 makes up the new G12 Load Group) at almost 96%, the majority of which are domestic. A capacity demand MHQ of 0.5scmh has been assigned to the predominantly domestic population of M6 consumers, based on the actual maximum hourly quantity consumed in a metered residential suburb of 92 consumers within GasNet's Wanganui network in 2012. Engineering judgements have been made to adjust the hourly capacity demand for all other Load Groups with the ratio of diversified MHQ progressively increasing as the

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capacity of the Load Groups increase and the number of consumers decrease, until at the largest Load Group the capacity demand is very close to the actual rated capacity.

New Load Group	Existing Load Group	Network Pressure System			Hourly Capacity Demand (scmh)
		Intermediate Pressure (IP)	Medium Pressure (MP)	Low Pressure (LP)	
G12	M6	1	1,191	3,492	4,684
	M12	4	164	398	566
G40	M23	24	276	108	408
	M33	-	75	120	195
G180	M43	25	650	50	725
	M85	220	990	110	1,320
	M142	240	1,200	-	1,440
	Large Sites	-	169	-	169
G450	M200	-	340	-	340
	M300	-	-	-	-
	M450	425	-	-	425
	Large Sites	260	624	-	884
G1000	Large Sites	-	-	-	-
		1,199	5,679	4,278	11,156

Note that the values for the G1000 Load Group are nil as this Hourly Capacity Demand cost allocator is used for asset allocation purposes only, and the G1000 Load Group has been allocated their share of the actual assets as outlined in 7.4.3.4 below.

7.4.3.4 Replacement Cost and Depreciated Replacement Cost

The 30 June 2013 Regulatory Asset Base (RAB) has been applied as the latest audited valuation.

With the exception of the G1000 Load Group, assets are allocated to each Load Group based on their Hourly Capacity Demand on each of the 3 pressure systems within the networks (IP, MP & LP) as outlined in 7.4.3.3 above.

In the case of the G1000 Load Group, the assets for each individual ICP within the group are allocated on their share of the value of the specific assets utilised by each ICP from the Sales Gate to the GMS installation, plus an allocation for non-infrastructure assets, the latter treatment being consistent with that applied to the other Load Groups. This variation is necessary due to the distortion created by these ICP's being located close to the Sales Gate and with relatively high hourly capacity demands, which results in an over-allocation of asset value.

Based on the allocation methodology described above, the apportionment of asset values to Load Groups for the 30 June 2013 RAB are as follows:

Replacement Cost	IP		MP		LP		Total	
G12	\$ 2,035	0.2%	\$ 2,395,920	23.6%	\$30,059,105	90.9%	\$32,457,060	73.1%
G40	\$ 10,853	0.9%	\$ 620,641	6.1%	\$ 1,761,819	5.3%	\$ 2,393,313	5.4%
G180	\$ 219,319	18.8%	\$ 5,320,535	52.4%	\$ 1,236,364	3.7%	\$ 6,776,218	15.3%
G450	\$ 309,759	26.6%	\$ 1,704,551	16.8%	\$ -	0.0%	\$ 2,014,310	4.5%
G1000	\$ 624,066	53.5%	\$ 106,647	1.1%	\$ -	0.0%	\$ 730,713	1.6%
	\$1,166,032		\$ 10,148,294		\$33,057,288		\$44,371,614	

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Depreciated Replacement Cost	IP		MP		LP		Total	
G12	\$ 1,138	0.2%	\$ 1,441,869	23.6%	\$14,703,241	90.9%	\$16,146,248	70.3%
G40	\$ 6,072	0.9%	\$ 373,502	6.1%	\$ 861,784	5.3%	\$ 1,241,358	5.4%
G180	\$ 122,698	18.1%	\$ 3,201,906	52.4%	\$ 604,761	3.7%	\$ 3,929,365	17.1%
G450	\$ 173,295	25.6%	\$ 1,025,802	16.8%	\$ -	0.0%	\$ 1,199,097	5.2%
G1000	\$ 374,628	55.3%	\$ 63,947	1.0%	\$ -	0.0%	\$ 438,575	1.9%
	\$ 677,831		\$ 6,107,026		\$16,169,786		\$22,954,643	

8.0 2014/15 PRICING YEAR

8.1 Revenue Requirements

Based on current estimates of the cost components and the methodology outlined in 7.2 above, the Total Revenue Requirement for the 2014/15 Pricing Year is as follows:

Cost Item	Total Revenue Requirement
Return on Assets	\$ 2,158,600
Depreciation	\$ 901,100
Operating Costs	
Direct	\$ 802,000
Indirect	\$ 948,000
Pass-through	\$ 72,000
DPP Revenue Constraint	\$ (224,000)
Total Revenue Requirement	\$ 4,657,700

8.2 Revenue Requirement Allocation to Load Groups

Based on the methodology and cost components outlined above, the Revenue Requirement for 2014/15 would result in allocations to the Load Groups as set out in the following table.

New Load Group	Previous Load Code	Consumers (No.)	Existing Load Groups			New Load Groups		
			Revenue 2013/14	Target Revenue 2014/15	% Change	Revenue 2013/14	Revenue 2014/15	% Change
G12	M6	9,367	\$ 3,280,359	\$ 3,324,556	1.3%	\$ 3,467,080	\$ 3,527,820	1.8%
	M12	283	\$ 186,721	\$ 203,264	8.9%			
G40	M23	68	\$ 172,974	\$ 184,392	6.6%	\$ 200,250	\$ 212,798	6.3%
	M33	13	\$ 27,276	\$ 28,406	4.1%			
G180	M43	29	\$ 119,846	\$ 129,692	8.2%	\$ 660,026	\$ 649,392	-1.6%
	M85	24	\$ 242,979	\$ 234,231	-3.6%			
	M142	12	\$ 199,119	\$ 183,361	-7.9%			
	Large Sites	1	\$ 98,082	\$ 102,108	4.1%			
G450	M200	2	\$ 29,917	\$ 33,657	12.5%	\$ 219,689	\$ 192,711	-12.3%
	M300	-	\$ -	\$ -	0.0%			
	M450	1	\$ 8,531	\$ 15,770	84.9%			
	Large Sites	4	\$ 181,241	\$ 143,284	-20.9%			
G1000	Large Sites	7	\$ 83,058	\$ 74,979	-9.7%	\$ 83,058	\$ 74,979	-9.7%
		9,811	\$ 4,630,103	\$ 4,657,700	0.6%	\$ 4,630,103	\$ 4,657,700	0.6%

From analysis of the table above it is apparent that the Revenue Requirements for the low capacity Load Groups have increased whilst the higher capacity groups have generally been reduced, with a number of the Load Groups requiring material price increases in order to achieve the target revenue.

In view of this and the potential impact on consumers, it would not be prudent to make the change to the new Load Groups or achieve the target revenue from those groups in the coming Pricing Year. It is therefore planned to implement transitional pricing for the 2014/15 Pricing Year as outlined in 8.3 below.

8.3 Transitional Pricing for 2014/15

Based on achieving the Total Revenue Requirement in 8.1 and the need to apply transitional pricing outlined in 8.2 to reduce price shock to consumers, the existing

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Load Groups will continue until complete alignment can be achieved, which appears to be on track for the following 2015/16 Pricing Year commencing 1 October 2015.

The transitional period during which the existing Load Groups are to continue has been determined from analysis of the price impact and by generally applying a price/revenue cap in the region of 5-10%, although there are some instances where this has not been applied, such as where a greater increase in one of the two prices (fixed or variable) is offset by a reduction in the other.

However, in consideration of the inability to determine firm pricing through to 2015 due to the wide range of variables that could impact on individual prices, it would be prudent, that there be some flexibility on the timing to implement the new Load Groups. When finalising prices for future Pricing Years, GasNet will provide information on the progress toward implementation of the new Load Groups and any potential for change in the expected timing.

The following table provides the pricing for the 2014/15 Pricing Year commencing 1 October 2014, in addition to indicative pricing for the following year when it is expected that alignment will be achieved allowing implementation of the new Load Groups. The greyed out cells represent the proposed change to the new Load Groups.

TRANSITION PERIOD TO NEW LOAD GROUPS							NEW LOAD GROUPS APPLY				
Existing Load Group	2013/14 Pricing Year		2014/15 Pricing Year				New Load Group	2015/16 Pricing Year			
	Fixed	Variable	Fixed	Variable	Fixed	Variable		Fixed	Variable		
	(\$/day)	(\$/GJ)	(\$/day)	(\$/GJ)	Change	Change		(\$/day)	(\$/GJ)	Change	Change
M6	\$0.49	\$7.084	\$0.50	\$7.128	2.0%	0.6%	G12	\$ 0.50	0.0%	\$ 7.128	0.0%
M12	\$0.49	\$6.399	\$0.50	\$6.789	2.0%	6.1%		0.0%	0.0%	5.0%	
M23	\$0.70	\$6.596	\$0.70	\$6.889	0.0%	4.4%	G40	\$ 0.70	0.0%	\$ 7.080	2.8%
M33	\$0.70	\$6.761	\$0.70	\$7.080	0.0%	4.7%		0.0%	0.0%	0.0%	
M43	\$1.50	\$5.980	\$2.20	\$5.821	46.7%	-2.7%	G180		0.0%		0.0%
M85	\$1.50	\$6.226	\$2.20	\$5.897	46.7%	-5.3%		\$ 2.20	0.0%	\$ 5.821	-1.3%
M142	\$1.50	\$6.372	\$2.20	\$5.965	46.7%	-6.4%		0.0%	0.0%	-2.4%	
Large Sites	Individually Priced		Individually Priced					-		-	
M200	\$15.00	\$4.626	\$25.00	\$3.356	66.7%	-27.5%	G450		68.0%		
M300	\$15.00	\$4.626	\$25.00	\$3.356	66.7%	-27.5%		\$ 42.00	68.0%	\$ 0.731	-78.2%
M450	\$15.00	\$5.077	\$25.00	\$4.683	66.7%	-7.8%		68.0%			
Large Sites	Individually Priced		Individually Priced					-		-	
Large Sites	Individually Priced		Individually Priced				G1000	\$ 15.60	-	\$ 0.056	-

Please note that pricing shown in the above table for the 2015/16 Pricing Year is indicative only and subject to change. The pricing is provided to demonstrate the transition from the existing to the new Load Groups and how the prices may change within the existing Load Groups to achieve complete transition for the 2015/16 Pricing Year commencing 1 October 2015. The price adjustments are based on the existing Revenue Requirements and apart from allowance for annual CPI increases, make no provision for cost changes, adjustments due to change in cost allocation from changes in allocators, or the number of consumers or their throughput.

The actual prices that will apply for the 2014/15 Pricing Year from 1 October 2014 are provided in Appendix 1 and can be downloaded from GasNet's website at www.gasnet.co.nz/disclosures.

8.4 Revenue Recovery by Load Group

The following table provides the 2014/15 revenue requirement by Load Group based on the pricing indicated in 8.3 above compared to the revenue for the

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2013/14 Pricing Year, in addition to the consumer numbers and throughput for each.

New Load Group (from 1 October 2015)	Existing Load Group	Consumers Connected	Throughput (GJ)	2013/14 Pricing Year		2014/15 Pricing Year	
				Total Revenue	Total Revenue	Total Revenue	Change
G12	M6	9,367	226,577	\$ 3,280,359	\$ 3,324,556		1.3%
	M12	283	21,270	\$ 186,721	\$ 196,057		5.0%
G40	M23	68	23,590	\$ 172,974	\$ 179,893		4.0%
	M33	13	3,543	\$ 27,276	\$ 28,406		4.1%
G180	M43	29	17,386	\$ 119,846	\$ 124,494		3.9%
	M85	24	36,916	\$ 242,979	\$ 236,173		-2.8%
	M142	12	30,218	\$ 199,119	\$ 188,632		-5.3%
	Large Sites	1	17,932	\$ 98,082	\$ 102,005		4.0%
G450	M200	2	4,100	\$ 29,917	\$ 32,011		7.0%
	M300	-	-	\$ -	\$ -		0.0%
	M450	1	602	\$ 8,531	\$ 11,944		40.0%
	Large Sites	4	112,116	\$ 181,241	\$ 152,219		-16.0%
G1000	Large Sites	7	654,642	\$ 83,058	\$ 81,310		-2.1%
		9,811	1,148,892	4,630,103	4,657,700		0.6%

8.5 Fixed and Variable Charge Apportionment

On aggregate the total revenue from fixed daily charges comprise 47.2% and the variable throughput charges 52.8% of the total annual Revenue Requirement for the 2014/15 Pricing Year based on the provisional pricing indicated in 8.3 above.

9.0 PRICING METHODOLOGY REVIEW

Whilst the review of GasNet's pricing methodology in 2013 was considered to be a periodic review that would apply to the following five or more years (at least for the first regulatory period from 1 July 2013 to 30 September 2017), the methodology is subject of on-going review, particularly during the transitional period until the new Load Groups have been phased in.

Significant changes to the methodology will be subject to consultation with interested parties as considered appropriate for the change proposed. Changes that are minor by nature are referred to in the annual Pricing Methodology document produced by GasNet and published on its website prior to the commencement of the Pricing Year to which it applies.

10.0 FIVE YEAR PRICING STRATEGY

GasNet's pricing strategy is to continue with the phased implementation of its new Pricing Methodology which commenced on 1 October 2014 and to continue over a transitional period of sufficient duration to minimise price shock to consumers whilst not unnecessarily prolonging implementation to the new pricing structure and Load Groups.

Based on the information to date and that contained within this document, it is expected that complete implementation of the new pricing methodology will be achievable for the 2015/16 Pricing Year commencing 1 October 2015.

11.0 COMPLIANCE WITH THE PRICING PRINCIPLES

GasNet is required under the IDD to describe the extent to which its pricing methodology is consistent with a set of gas distribution pricing principles. The table below summarises these pricing principles and how they are reflected in this pricing methodology.

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Pricing Principle	Extent to which pricing methodology is consistent with pricing principles
(1) Prices are to signal the economic costs of service provision, by:	
(a) being subsidy free (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;	<p>Incremental costs are the additional upfront and ongoing costs GasNet face in connecting a new consumer to the network. This typically includes costs associated with connection assets, ongoing operations and maintenance costs specific to that consumer, and network augmentation costs.</p> <p>GasNet's capital contributions policy requires a capital contribution from new consumers when the incremental capital costs associated with a new connection exceed the present value of expected future revenues. The combination of capital contributions and gas distribution prices therefore ensures that our prices are in excess of incremental capital costs.</p> <p>Operating and maintenance expenditure is recovered through distribution prices. Our fixed charge, based on a daily charge, ensures that we at least recover some of these incremental costs regardless of throughput. Charges also increase with the capacity size of the connection, which aligns pricing to incremental operating costs associated with various connection sizes.</p> <p>Stand alone costs are the full cost a consumer would face in being supplied from an alternative gas distribution system or alternative form of supply. For gas, stand alone cost is most likely to represent the full cost of converting from gas to electricity, including the cost of replacing gas appliances. GasNet has set its prices and pricing structures mindful of the fact that consumers have alternative supply options. Our pricing, and commercial business proposition, seeks to incentivise consumers connecting, and remaining connected, to distributed gas.</p> <p>Large consumers may also have options to bypass the distribution network for alternative networks, particularly where the consumer is close to a gas sales gate. GasNet has historically offered non-standard pricing contracts to a number of Large Sites with annual throughput of greater than 10TJ. These non-standard pricing arrangements reduce bypass risk by making it economic for these consumers to connect, and remain connected, to the network. As part of our pricing review, we have identified that existing non-standard customers can be grouped by similar characteristics and that transitioning these consumers to standard price categories is now appropriate. Nevertheless, in adopting these new standard price categories we remain mindful of the bypass threat, and have set prices to discourage this for most consumers transitioning from non-standard price categories.</p>
(b) having regard, to the extent practicable, to the level of available service capacity; and	GasNet sets its consumer groups to align with standard load group types based on typical connection sizes. This aligns pricing with various end-consumer usage profiles and with the capacity of their connection assets, a key network cost driver.

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Pricing Principle	Extent to which pricing methodology is consistent with pricing principles
(c) signalling, to the extent practicable, the impact of additional usage on future investment costs.	<p>GasNet's prices are based on a daily fixed supply charge and a throughput based tariff (in GJs).</p> <p>The throughput tariff ensures consumers that use more are charged more. This basic principle is effective in signalling the impact of additional usage on future investment costs.</p> <p>Similarly, the supply charge applying to each load grouping increases relative to the standard capacity size of the connection. This signals that larger connections typically have higher throughput and peak demand and therefore create higher investment costs.</p>
(2) Where prices based on 'efficient' incremental costs would under-recover allowed revenues, the shortfall should be made up by setting prices in a manner that has regard to consumers' demand responsiveness, to the extent practicable.	<p>GasNet's pricing is not based on willingness to pay or demand responsiveness considerations, but on load groupings based on typical connection sizes. We consider this most appropriately aligns with our investments in capacity, which is a key network cost driver.</p>
(3) Provided that prices satisfy (1) above, prices should be responsive to the requirements and circumstances of stakeholders in order to:	
(a) discourage uneconomic bypass;	<p>This principle allows for pricing and other incentives to discourage consumers bypassing GasNet's network to another supply alternative. As discussed above, GasNet seeks to discourage consumers bypassing the network in setting prices for Large Site. This pricing recognises the alternative supply options these consumers have available to them.</p>
(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.	<p>This principle allows for negotiation over price in recognition of different levels of service or other arrangements of value to consumers.</p> <p>Price and quality trade-offs are primarily addressed under our capital contributions policy when scoping connection asset specifications. We are also always open to discussing non-standard pricing arrangements where appropriate.</p>
(4) Development of prices is transparent, promotes price stability and certainty for consumers, and changes to prices have regard to the effect on consumers.	<p>This methodology transparently sets out the approach we have adopted to determine prices for consumers connection to the network, and is publicly available via GasNet's website www.gasnet.co.nz.</p>

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Appendix 1 – Network Services Price Schedule: Effective 1 October 2014



Network Services Price Schedule

Effective from 1 October 2014

GasNet is required by law to disclose details of the prices that apply to transport natural gas through its gas distribution network to consumers in Wanganui, Marton, Bulls, Flockhouse and Waitotara. GasNet does not charge consumers directly but instead charges the energy retailer who in turn will pass these costs through to the consumer.

The charges that energy retailers pay GasNet are calculated by multiplying the number of days a consumer is connected to GasNet's network by the daily fixed charge from the schedule below, then adding to that the amount of gas the consumer has used multiplied by the variable charge.

Load Group	Capacity (m ³ /hr)		Estimated Number of Consumers	Charge Type	Unit Charges	New Prices from 1 October 2014	Prices up to 30 September 2014
	More Than	Less than or Equal To					
M6	0	6	9,367	Fixed	\$/day	0.500	0.490
				Variable	\$/GJ	7.128	7.084
M12	6	12	283	Fixed	\$/day	0.500	0.490
				Variable	\$/GJ	6.789	6.399
M23	12	23	68	Fixed	\$/day	0.700	0.700
				Variable	\$/GJ	6.889	6.596
M33	23	33	13	Fixed	\$/day	0.700	0.700
				Variable	\$/GJ	7.080	6.761
M43	33	43	29	Fixed	\$/day	2.200	1.500
				Variable	\$/GJ	5.821	5.98
M85	43	85	24	Fixed	\$/day	2.200	1.500
				Variable	\$/GJ	5.876	6.226
M142	85	142	12	Fixed	\$/day	2.200	1.500
				Variable	\$/GJ	5.923	6.372
M200	142	200	2	Fixed	\$/day	25.000	15.000
				Variable	\$/GJ	3.356	4.626
M300	200	300	0	Fixed	\$/day	42.000	15.000
				Variable	\$/GJ	0.731	4.626
M450	300	450	1	Fixed	\$/day	25.000	15.000
				Variable	\$/GJ	4.683	5.077

Notes

1. All rates are exclusive of GST.
2. Charges apply when the ICP Status Code in the Gas Registry is ACTC or ACTV
3. Additional information is available on our website www.gasnet.co.nz.
4. If you have any questions please email us at enquiries@gasnet.co.nz or call us at (06) 349 2050.

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Appendix 2 - Information Disclosure Determination Requirements

Clause 2.4 of the Commerce Act (Gas Distribution Services Information Disclosure) Determination 2012 states that, before the start of each Pricing Year (which for GasNet is 1 October – 30 September), every gas distribution business must publicly disclose a pricing methodology that satisfies the following extract, taken directly from the Commerce Commission’s determination, which can be downloaded in its entirety from their website at www.comcom.govt.nz/gas-information-disclosure. Any uncertainty regarding the terms used in the extract or its context may be able to be resolved by referring to the source document.

2.4 PRICING AND RELATED INFORMATION

Disclosure of pricing methodologies

- 2.4.1 Every GDB must publicly disclose, before the start of each pricing year, a pricing methodology which-
- 1) Describes the methodology, in accordance with clause 2.4.3 of this section, used to calculate the prices payable or to be payable;
 - 2) Describes any changes in prices and target revenues;
 - 3) Explains, in accordance with clause 2.4.5 of this section, the approach taken with respect to pricing in non-standard contracts;
 - 4) Explains whether, and if so how, the GDB has sought the views of consumers, their expectations in terms of price and quality, and reflected those views in calculating the prices payable or to be payable. If the GDB has not sought the views of consumers, the reasons for not doing so must be disclosed.
- 2.4.2 Any change in the pricing methodology or adoption of a different pricing methodology, must be publicly disclosed at least 20 working days before prices determined in accordance with the change or the different pricing methodology take effect.
- 2.4.3 Every disclosure under clause 2.4.1 above must-
- (1) Include sufficient information and commentary to enable interested persons to understand how prices were set for each consumer group, including the assumptions and statistics used to determine prices for each consumer group;
 - (2) Demonstrate the extent to which the pricing methodology is consistent with the pricing principles and explain the reasons for any inconsistency between the pricing methodology and the pricing principles;
 - (3) State the target revenue expected to be collected for the pricing year to which the pricing methodology applies;
 - (4) Where applicable, identify the key components of target revenue required to cover the costs and return on investment associated with the GDB’s provision of gas pipeline services. Disclosure must include the numerical value of each of the components;
 - (5) State the consumer groups for whom prices have been set, and describe-
 - a. the rationale for grouping consumers in this way;
 - b. the method and the criteria used by the GDB to allocate consumers to each of the consumer groups;
 - (6) If prices have changed from prices disclosed for the immediately preceding pricing year, explain the reasons for changes, and quantify the difference in respect of each of those reasons;
 - (7) Where applicable, describe the method used by the GDB to allocate the target revenue among consumer groups, including the numerical values of the target revenue allocated to each consumer group and the rationale for allocating it in this way;
 - (8) State the proportion of target revenue (if applicable) that is collected through each price component as publicly disclosed under clause 2.4.18.
- 2.4.4 Every disclosure under clause 2.4.1 above must, if the GDB has a pricing strategy-
- (1) Explain the pricing strategy for the next 5 pricing years (or as close to 5 years as the pricing strategy allows), including the current pricing year for which prices are set;
 - (2) Explain how and why prices are expected to change as a result of the pricing strategy;
 - (3) If the pricing strategy has changed from the preceding pricing year, identify the changes and explain the reasons for the changes.
- 2.4.5 Every disclosure under clause 2.4.1 above must-
- (1) Describe the approach to setting prices for non-standard contracts, including-
 - a. the extent of non-standard contract use, including the number of ICPs represented by non-standard contracts and the value of target revenue expected to be collected from consumers subject to non-standard contracts;
 - b. how the GDB determines whether to use a non-standard contract, including any criteria used;
 - c. any specific criteria or methodology used for determining prices for consumers subject to non-standard contracts, and the extent to which these criteria or that methodology are consistent with the pricing principles;
 - (2) Describe the GDB’s obligations and responsibilities (if any) to consumers subject to non-standard contracts in the event that the supply of gas pipeline services to the consumer is interrupted. This description must explain-
 - a. the extent of the differences in the relevant terms between standard contracts and non-standard contracts;
 - b. any implications of this approach for determining prices for consumers subject to non-standard contracts.

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Appendix 3 – Compliance with the Price Path

The following information is provided for informative purposes to demonstrate GasNet’s compliance of the Pricing Methodology and the Prices that apply from 1 October 2014 with the Commerce Commission “Gas Distribution Services Default Price-Quality Path Determination 2013”.

Allowable notional revenue for the 2015 Assessment Period (Schedule 4 of the DPP Determination)

Allowable Notional Revenue for 2013 (ANR₂₀₁₃)

$$ANR_{2013} = MAR / \Delta D$$

Where:

MAR (\$m) is the starting price specified in Sch 1 of the DPP Determination (\$4.578m)

ΔD is the value specified in Table 2 of Sch 3 in the DPP Determination (0.989)

Therefore:

$$ANR_{2013} (\$m) \quad \$ \quad 4.629$$

Allowable Notional Revenue for 2014 (ANR₂₀₁₄)

$$ANR_{2014} = (ANR_{2013} \times CPR_{2012}) (1 + \Delta CPI_{2014}) (1 - X)$$

Where:

ANR₂₀₁₃ is the Allowable Notional Revenue for the Pricing Period ending in 2013 as calculated above (\$4.629m)

CPR₂₀₁₂ is the value specified in Table 2 of Sch 3 in the DPP Determination (0.995)

X is the rate of change as specified in Sch 2 of the DPP Determination (0)

ΔCPI₂₀₁₄ is the derived change in the CPI to be applied for the pricing Period ending in 2014 being equal to:

$$\Delta CPI_{2014} = (CPI_{Jun\ 2012} + CPI_{Sep\ 2012} + CPI_{Dec\ 2012} + CPI_{Mar\ 2013}) / (CPI_{Jun\ 2011} + CPI_{Sep\ 2011} + CPI_{Dec\ 2011} + CPI_{Mar\ 2012}) - 1$$

Therefore:

$$\Delta CPI_{2014} \quad 0.009$$

$$ANR_{2014} (\$m) \quad \$ \quad 4.647$$

Notional Revenue for 2014 (NR₂₀₁₄)

NR₂₀₁₄ is the Notional Revenue for the Pricing Period ending in 2014 being equal to:

$$NR_{2014} = \sum_i P_{i,2014} \times Q_{i,2012} - (K_{2014} + V_{2014})$$

$\sum_i P_{i,2014} \times Q_{i,2012}$ is the revenue from all Load Groups based on the 2012 quantities and the 2014 prices for each individual Load Group as calculated in the table below (\$2.194m + \$2.555m)

K₂₀₁₄ is the sum of all Pass-through Costs for the Pricing Year ending in 2014 (\$0.083m)

V₂₀₁₄ is the sum of all Recoverable Costs for the Pricing Year ending in 2014 (nil)

Therefore:

$$NR_{2014} (\$m) \quad \$ \quad 4.666$$

Allowable Notional Revenue for 2015 (ANR₂₀₁₅)

$$ANR_{2015} = (\sum_i P_{i,2014} \times Q_{i,2013} - (K_{2014} + V_{2014}) + (ANR_{2014} - NR_{2014})) (1 + \Delta CPI_{2015}) (1 - X)$$

Where:

$\sum_i P_{i,2014} \times Q_{i,2013}$ is the revenue from all Load Groups based on the 2013 quantities and the 2014 prices for each individual Load Group as calculated in the table below (\$2.184m + \$2.386m)

K₂₀₁₄ is the sum of all Pass-through Costs for the Pricing Year ending in 2014 (\$0.083m)

V₂₀₁₄ is the sum of all Recoverable Costs for the Pricing Year ending in 2014 (nil)

ANR₂₀₁₄ is the Allowable Notional Revenue for the Pricing Period ending in 2013 as calculated above (\$4.647m)

NR₂₀₁₄ is the Notional Revenue for the Pricing Period ending in 2014 as calculated above (\$4.666m)

ΔCPI₂₀₁₅ is the derived change in the CPI to be applied for the pricing Period ending in 2015 being equal to:

$$\Delta CPI_{2015} = (CPI_{Jun\ 2013} + CPI_{Sep\ 2013} + CPI_{Dec\ 2013} + CPI_{Mar\ 2014}) / (CPI_{Jun\ 2012} + CPI_{Sep\ 2012} + CPI_{Dec\ 2012} + CPI_{Mar\ 2013}) - 1$$

Therefore:

$$\Delta CPI_{2015} \quad 0.013$$

$$ANR_{2015} \quad \$ \quad 4.526$$

Notional Revenue for 2015 (NR₂₀₁₅)

NR₂₀₁₅ is the Notional Revenue for the Pricing Period ending in 2015 being equal to:

$$NR_{2015} = \sum_i P_{i,2015} \times Q_{i,2013} - (K_{2015} + V_{2015})$$

$\sum_i P_{i,2015} \times Q_{i,2013}$ is the revenue from all Load Groups based on the 2013 quantities and the 2015 prices for each individual Load Group as calculated in the table below (\$2.219m + \$2.376m)

K₂₀₁₅ is the sum of all Pass-through Costs for the Pricing Year ending in 2015 (\$0.072m)

V₂₀₁₅ is the sum of all Recoverable Costs for the Pricing Year ending in 2015 (nil)

Therefore:

$$NR_{2015} (\$m) \quad \$ \quad 4.523$$

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Compliance with the Price Path (clause 8.4(b) of the DPP Determination)

Notional Revenue for each Assessment Period must not exceed the Allowable Notional Revenue for the Assessment Period, such that for the Assessment Period 1 October 2014 to 30 September 2015):

$$ANR_{2015} \geq NR_{2015}$$

Where:

ANR_{2015} is the Allowable Notional Revenue for the Pricing Period ending in 2015 as calculated above (\$4.526m)

NR_{2015} is the Notional Revenue for the Pricing Period ending in 2015 as calculated above (\$4.523m)

Therefore:

As Notional Revenue (NR) of \$4.523 does not exceed Allowable Notional Revenue (ANR) of \$4.526 condition is satisfied

Load Group	Fixed Charges (per day)							Variable Charges (per GJ)						
	Q ₂₀₁₂	Q ₂₀₁₃	P ₂₀₁₄	P ₂₀₁₅	P ₂₀₁₄ × Q ₂₀₁₂	P ₂₀₁₄ × Q ₂₀₁₃	P ₂₀₁₅ × Q ₂₀₁₃	Q ₂₀₁₂	Q ₂₀₁₃	P ₂₀₁₄	P ₂₀₁₅	P ₂₀₁₄ × Q ₂₀₁₂	P ₂₀₁₄ × Q ₂₀₁₃	P ₂₀₁₅ × Q ₂₀₁₃
C12323	366	365	\$ 55,216	\$ 40,428	\$ 20,209	\$ 20,154	\$ 14,756	144,550	135,840	\$ -	\$ -	\$ -	\$ -	\$ -
C12328	366	365	\$ 67,915	\$ 57,769	\$ 24,857	\$ 24,789	\$ 21,086	5,617	6,854	\$ -	\$ -	\$ -	\$ -	\$ -
C12329	366	365	\$ 14,171	\$ 22,674	\$ 5,187	\$ 5,172	\$ 8,276	60,671	57,944	\$ -	\$ -	\$ -	\$ -	\$ -
C12337	366	365	\$ 20,726	\$ 25,127	\$ 7,586	\$ 7,565	\$ 9,171	30,173	29,679	\$ -	\$ -	\$ -	\$ -	\$ -
C14688	366	365	\$ 168,795	\$ 172,324	\$ 61,779	\$ 61,610	\$ 62,898	63,924	65,328	\$ -	\$ -	\$ -	\$ -	\$ -
C14691	366	365	\$ 127,391	\$ 94,131	\$ 46,625	\$ 46,498	\$ 34,358	22,374	21,135	\$ -	\$ -	\$ -	\$ -	\$ -
C16459	366	365	\$ 21,070	\$ 25,307	\$ 7,712	\$ 7,691	\$ 9,237	37,165	40,910	\$ -	\$ -	\$ -	\$ -	\$ -
C17499	366	365	\$ 132,449	\$ 92,813	\$ 48,476	\$ 48,344	\$ 33,877	19,898	19,685	\$ -	\$ -	\$ -	\$ -	\$ -
C26262	366	365	\$ 28,800	\$ 21,737	\$ 10,541	\$ 10,512	\$ 7,934	32,487	32,209	\$ -	\$ -	\$ -	\$ -	\$ -
C26444	366	365	\$ 31,979	\$ 40,073	\$ 11,704	\$ 11,672	\$ 14,627	169,003	166,956	\$ -	\$ -	\$ -	\$ -	\$ -
C26779	366	365	\$ 268,718	\$ 279,467	\$ 98,351	\$ 98,082	\$ 102,005	17,335	17,818	\$ -	\$ -	\$ -	\$ -	\$ -
C31266	366	365	\$ 55,593	\$ 47,421	\$ 20,347	\$ 20,291	\$ 17,309	185,747	191,037	\$ -	\$ -	\$ -	\$ -	\$ -
M12 (Active)	97,990	96,886	\$ 0.490	\$ 0.500	\$ 48,015	\$ 47,474	\$ 48,443	22,379	20,385	\$ 6.399	\$ 6.789	\$ 143,205	\$ 130,447	\$ 138,397
M12 (Inactive)	612	61	\$ -	\$ -	\$ -	\$ -	\$ -	-	-	\$ -	\$ -	\$ -	\$ -	\$ -
M142	3,715	3,853	\$ 1.500	\$ 2.200	\$ 5,573	\$ 5,780	\$ 8,477	27,908	32,104	\$ 6.372	\$ 5.923	\$ 177,830	\$ 204,566	\$ 190,151
M200	366	698	\$ 15,000	\$ 25,000	\$ 5,490	\$ 10,470	\$ 17,450	3,446	4,829	\$ 4.626	\$ 3.356	\$ 15,941	\$ 22,340	\$ 16,207
M23 (Active)	24,814	24,813	\$ 0.700	\$ 0.700	\$ 17,370	\$ 17,369	\$ 17,369	24,489	22,951	\$ 6.596	\$ 6.889	\$ 161,528	\$ 151,385	\$ 158,110
M23 (Inactive)	428	-	\$ -	\$ -	\$ -	\$ -	\$ -	-	-	\$ -	\$ -	\$ -	\$ -	\$ -
M33	5,398	4,927	\$ 0.700	\$ 0.700	\$ 3,779	\$ 3,449	\$ 3,449	4,674	2,544	\$ 6.761	\$ 7.080	\$ 31,604	\$ 17,201	\$ 18,013
M43 (Active)	10,489	10,554	\$ 1.500	\$ 2.200	\$ 15,733	\$ 15,831	\$ 23,219	16,877	17,626	\$ 5.980	\$ 5.821	\$ 100,927	\$ 105,403	\$ 102,600
M43 (Inactive)	460	31	\$ -	\$ -	\$ -	\$ -	\$ -	-	-	\$ -	\$ -	\$ -	\$ -	\$ -
M450	366	365	\$ 15,000	\$ 25,000	\$ 5,490	\$ 5,475	\$ 9,125	793	582	\$ 5.077	\$ 4.683	\$ 4,028	\$ 2,956	\$ 2,727
M6 (Active)	3,501,583	3,475,752	\$ 0.490	\$ 0.500	\$ 1,715,775	\$ 1,703,119	\$ 1,737,876	233,666	219,108	\$ 7.084	\$ 7.128	\$ 1,655,291	\$ 1,552,159	\$ 1,561,800
M6 (Inactive)	111,663	102,884	\$ -	\$ -	\$ -	\$ -	\$ -	-	-	\$ -	\$ -	\$ -	\$ -	\$ -
M85	8,918	8,423	\$ 1.500	\$ 2.200	\$ 13,377	\$ 12,635	\$ 18,531	42,442	31,989	\$ 6.226	\$ 5.876	\$ 264,241	\$ 199,161	\$ 187,965
Total	3,771,194	3,733,627			\$ 2,193,975	\$ 2,183,981	\$ 2,219,472	1,165,620	1,137,513			\$ 2,554,595	\$ 2,385,618	\$ 2,375,970
					$\sum P_{i,2014} \times Q_{i,2012}$	$\sum P_{i,2014} \times Q_{i,2013}$	$\sum P_{i,2015} \times Q_{i,2013}$					$\sum P_{i,2014} \times Q_{i,2012}$	$\sum P_{i,2014} \times Q_{i,2013}$	$\sum P_{i,2015} \times Q_{i,2013}$

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Appendix 4 - Director Certification

(Pursuant to the Gas Distribution Information Disclosure Determination 2012)

Schedule 18: Certification for Disclosures at the Beginning of a Pricing Year

Clause 2.9.2

1. We, Matthew James Doyle and Harvey George Green, being directors of GasNet Limited certify that, having made all reasonable enquiry, to the best of our knowledge:
 - (a) the following attached information of GasNet Limited prepared for the purposes of clause 2.4.1 of the Gas Distribution 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.


Matthew James Doyle


Harvey George Green

30 July 2014

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