

UnitedNetworks Limited

**Gas Information Disclosure Number 8
31 May 2002**

Pricing Methodology Disclosure

For the financial year starting 1 January 2002

pursuant to

The Gas (Information Disclosure) Regulations 1997

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1. INTRODUCTION AND INTERPRETATION

- 1.1 This document presents the methodology for UnitedNetworks Limited’s standard gas network line charges as at 1 January 2002 as required to be disclosed under Regulations 20 and 21 of the Gas (Information Disclosure) Regulations 1997.
- 1.2 The information in this document was prepared by UnitedNetworks Limited after making all reasonable enquiry and to the best of its knowledge, the information complies with all relevant requirements of the Gas (Information Disclosure) Regulations 1997.
- 1.3 The information in this document is not intended by UnitedNetworks Limited to constitute an offer of services to the public.
- 1.4 The information is available on request at: -

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- 1.5 In this document, words and expressions have the meaning given to them in the Regulations or the Act, unless otherwise specified.
- 1.6 For the purpose of this disclosure:

“*UnitedNetworks*” means UnitedNetworks Limited
“*Line charges*” means the gas line charges
“*Line*” means the electricity and gas line business of UnitedNetworks
“*Gas*” means the gas lines business of UnitedNetworks
“*Electricity*” means the electricity lines business of UnitedNetworks
“*Other*” means the business that is not the electricity or gas line business of UnitedNetworks

2. PRICING METHODOLOGY

2.1 Overview

UnitedNetworks' line charges are designed to cover the cost of transporting gas over the gas network to End-Consumers. Line charges relate to the cost of owning, operating and maintaining the network as it currently exists.

Line charges do not cover:

- the cost of the gas itself
- gas transmission costs (charged by Natural Gas Corporation)
- unaccounted for gas
- gas measurement systems (GMS)
- reading of meters and/or time of use devices (TOU)
- reconciliation/allocation costs
- specific network charges related to:
 - connection to the network of additional End-Consumers;
 - the modification, relocation or removal of current End-Consumer points of connection;
 - disconnection and reconnection of points of connection;
 - additions to existing points of connection required for TOU metering
 - UnitedNetworks' Telemetry system (Telenet)

2.2 Allocation of costs, revenues, assets and liabilities

UnitedNetworks has prepared financial statements as required by the Gas (Information Disclosure) Regulations 1997.

UnitedNetworks has adopted avoidable cost methodology in allocating costs, revenues, assets and liabilities. The costs, revenues, assets and liabilities that would be avoided if UnitedNetworks did not carry on "other" activities have been allocated to the "other" business. The remaining balances have been allocated to the "line" business. The costs, revenues, assets and liabilities that would be avoided if UnitedNetworks did not carry on its "gas" activities have been allocated to the "gas" business. The balance is allocated to the "electricity" business.

2.3 Pricing Objectives

In setting its line charges, UnitedNetworks has used the following objectives.

Line charges:

- should be fair and equitable reflecting network use
- should send the right signals to encourage efficiency in gas usage and in network operations and investment
- should reflect network cost structures as far as practical
- should be easy to understand and administer
- should provide an adequate return on the investment in network assets.

2.4 Load Groups

Each End-Consumer's point of connection (or delivery point) is assigned an installation control point (ICP) number and linked to an injection point. A load group is then assigned to this ICP. The load group is based on type and size. Where type is categorized based on the End-Consumers main activity, e.g. Residential, Commercial or Industrial/Contract. Size is determined by the End-Consumers capacity requirements.

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The Commercial load group is further divided based on load size. In determining which End-Consumer Load Group will apply to a particular Point of Connection the Distributor will have regard to the End-Consumer's Equipment, the End-Consumer's demand profile and capacity requirements and any other relevant factors, which form a measure of a load group's peak network usage. If such information is unavailable the capacity and therefore Load Group will be determined from meter capacity tables and associated installed gas meter.

The load groups are:

- 1 *Residential – standard*
End-Consumers in a private dwelling not normally used for any business activity. These End-Consumers generally have an installed equipment/meter capacity of less than 10 scm/hr.
- 2 *Business capacity group (CG) 1*
Commercial End-Consumers with installed equipment/meter capacity of less than or equal to 10 scm/hr.
- 3 *Business capacity group (CG) 2*
Commercial End-Consumers with installed equipment/meter capacity greater than 10 scm/hr and less than or equal to 40 scm/hr.
- 4 *Business capacity group (CG) 3*
Commercial End-Consumers with installed equipment/meter capacity greater than 40 scm/hr and less than or equal to 200 scm/hr.
- 5 *Business capacity group (CG) 4*
Commercial End-Consumers with installed equipment/meter capacity greater than 200 scm/hr and less than or equal to 1,000 scm/hr per hour. Load Group closed to new End-Consumers.
- 6 *Business capacity group (CG) 5*
Commercial End-Consumers with installed equipment/meter capacity greater than 1,000 scm/hr. Load Group closed to new End-Consumers.
- 7 *CNG*
End-Consumers who use or sell CNG, such as petrol stations.
- 8 *Co-generation*
End-Consumers who use gas for co-generation purposes.
- 9 *Contract*
Commercial End-Consumers who are on individual contracts. New End-Consumers with installed equipment/meter capacity greater than 200 scm/hr on individual contracts.

2.5 Regions

Load groups have been differentiated by region because of the varying costs of the regional networks.

The regions are:

Auckland

Covering the greater Auckland region.

Palmerston North

Covering the Manawatu and Horowhenua regions.

Hawkes Bay

Covering the Hawkes Bay and Dannevirke regions.

Wellington

Covering Wellington Central and Eastern suburbs.

2.6 Line Charge Structure

For the majority of load groups, a simple fixed and variable price split is considered the best method for meeting the pricing objectives.

Load groups 1-8

Fixed charge (\$ per day): The majority of UnitedNetworks' costs are fixed within any one year. In order to reflect this cost characteristic, a portion of the costs is charged on a fixed basis. The fixed charge is set at a level, which UnitedNetworks considers fair and reasonable, taking into account, other utility fixed charges and customer responses to fixed charges. There is no fixed charge for group 8.

Variable charge (\$ per kWh): The balance of is recovered via a variable charge. A simple variable charge sends signals to encourage efficient network usage and allows customers control over the overall level of line charges they pay.

Contract load group

Pricing structures and levels are based on negotiated charges for individual customers.

2.7 Cost of Supply

Line charges have been designed to be as cost reflective as possible and provide an appropriate return on assets to UnitedNetworks. To achieve this, the cost of supply for each load group was established through an allocation of UnitedNetworks' regional network costs to the various load groups. The following table demonstrates how this has been done.

| Regional cost component | Cost driver | Cost allocator | Reasoning |
|---|----------------------------------|---|--|
| Operations and maintenance Depreciation & return on assets | Use of assets by each load group | Use of network components, usage at network peak, GJ consumed per annum | These cost components are directly related to the use of network assets Network assets are sized to meet times of maximum demand Load groups which contribute more to the network peak are therefore allocated more cost |
| Administration & overheads | Size of load group | Number of customers | These 'non-operating' costs are a function of how many customers the network serves |

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Line charges have been set to reflect the cost of supply for each load group as far as possible within the constraints set by:

- existing network charges;
- prices of alternative energy forms (e.g. electricity, fuel oil);
- competition in the gas network market.