UnitedNetworks Limited

Gas Information Disclosure Number 9
28 January 2003
Changes Made to Pricing Methodology Disclosure

For the financial year starting 1 January 2003

pursuant to

The Gas (Information Disclosure) Regulations 1997

CONTENTS

1. FORM 5: STATUTORY DECLARATION IN RESPECT OF STATEMENTS AND INFORMATION SUPPLIED TO SECRETARY OF COMMERCE

I, Daniel Wayne Warnock, of Auckland, being Chief Executive Officer of UnitedNetworks Limited, solemnly and sincerely declare that, having made all reasonable enquiry, to the best of my knowledge, the information attached to this declaration is a true copy of information made available to the public under the Gas (Information Disclosure) Regulations 1997

And I make this solemn declaration conscientiously believing the same to be true and by virtue of the Oaths and Declarations Act 1957.

_____

Declared at Takapuna this day of

_____

Solicitor

2. INTRODUCTION AND INTERPRETATION

2.1 This document presents the methodology for UnitedNetworks Limited's standard gas network line charges as at 1 January 2003 as required to be disclosed under Regulation 20 of the Gas (Information Disclosure) Regulations 1997.

2.2 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.

2.3 The information in this document is not intended by UnitedNetworks Limited to constitute an offer of services to the public.

2.4 The information is available on request at: -

44 Taharoto Road
Takapuna
Auckland

2.5 In this document, words and expressions have the meaning given to them in the Regulations or the Act, unless otherwise specified.

2.6 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

3. PRICING METHODOLOGY

3.1 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
- 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).

3.2 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;
- Should reflect the impact of competitive activity in some areas.

3.3 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 (gate station). A load group is then assigned to this ICP. The load group is in the first part determined by the main type of activity of the End-Consumers. If the main activity as determined by the Network owner is for Residential, CNG or Co-generation purposes then the ICP is assigned to a load group relative to those activities.

If the main activity of the End-Consumer is of a type determined to be Commercial, the load group is then subject to further determination based on the size of the peak network usage.

There are three options for determining the peak network usage, utilising either:

- The meter set capacity; or
- The rating of a load limiting device where one is fitted; or
- A lesser quantity than the meter set capacity where it can be demonstrated to the distributor's satisfaction that such a lesser quantity is appropriate based on the load characteristics and capacity requirement. The quantity needed is the maximum hourly quantity (MHQ) for the ICP, measured in standard cubic metres per hour (scm/hr). This is the total of the maximum ratings of hourly gas consumption for all appliances downstream of the ICP

Larger Commercial End-Consumers (greater then 40scm/hr) are then subject to a further determination based on the distance that the End-Consumers point of connection is from either the injection point to the network or from a competing network provider.

The Load Groups are:

Residential (Load Group - 1G10)
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.

Business capacity group1 (Load Group 1G21)
Commercial End-Consumers with installed equipment/meter capacity of less than or equal to 10 scm/hr.

Business capacity group 2 (Load Group - 1G22)
Commercial End-Consumers with installed equipment/meter capacity greater than 10 scm/hr and less than or equal to 40 scm/hr.

CNG (Load Group – 1G27)
End-Consumers who use or sell CNG, such as petrol stations.

Co-generation (Load Group – 1G31)
End-Consumers who use gas for co-generation purposes.

Business capacity group 3 (Load Group – AG23, BG23, CG23)
Commercial End-Consumers with installed equipment/meter capacity greater than 40 scm/hr and less than or equal to 200 scm/hr. Zone A (AG23) is up to approximately 1 km from the nearest gate station or any other competing pipeline, Zone B (BG23) is between approximately 1 and 5 kms away. The remaining region is defined as Zone C (CG23). The exact boundaries between the zones will be defined by UnitedNetworks and will take into consideration the "lay of the land".

Business capacity group 4 (Load Group – AG24, BG24, CG24)
Commercial End-Consumers with installed equipment/meter capacity greater than 200 scm/hr. Zone A (AG24) is up to approximately 1 km from the nearest gate station or any other competing pipeline, Zone B (BG24) is between approximately 1 and 5 kms away. The remaining region is defined as Zone C (CG24). The exact boundaries between the zones will be defined by UnitedNetworks and will take into consideration the "lay of the land".

Industrial (Load Group – 1G40 and 1G60)
Industrial End-Consumers who are on individually agreed charges.

3.4 Regions

UnitedNetworks Limited owns and operates gas distribution systems covering the greater Auckland region

3.5 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.

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 load group 1G31.

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.

3.6 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' 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

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.