



**Vector Ltd**

**Gas Information Disclosure**

**31 July 2004**

**Changed Pricing Methodology Disclosure**

**For the period starting 1 July 2004**

***pursuant to***

**The Gas (Information Disclosure) Regulations 1997**

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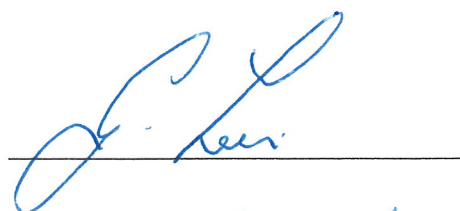
**1. FORM 5: STATUTORY DECLARATION IN RESPECT OF STATEMENTS  
AND INFORMATION SUPPLIED TO SECRETARY OF COMMERCE**

I, Mark Xavier Franklin, of Auckland, being Chief Executive Officer (a principal) of Vector Limited<sup>1</sup>, 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 Newmarket this 30 day of July 2004



Solicitor

Gail Lewin

<sup>1</sup> UnitedNetworks Limited was amalgamated with Vector Limited on 1 July 2003

## **2. INTRODUCTION AND INTERPRETATION**

- 2.1 UnitedNetworks Limited amalgamated with Vector Limited on 11 October 2002 when Vector Limited acquired a controlling interest in UnitedNetworks Limited. The acquisition of 100% of UnitedNetworks Limited by Vector Limited was completed on 15 November 2002.
- 2.2 In November 2002 UnitedNetworks sold its central north Island gas networks. This document presents the changed methodology for Vector Ltd's standard gas network line charges as at 1 July 2004 as required to be disclosed under Regulation 20 (3) of the Gas (Information Disclosure) Regulations 1997.
- 2.2 The information in this document was prepared by Vector Ltd after making all reasonable enquiries 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 Vector Ltd to constitute an offer of services to the public.
- 2.4 The information is available on request at: -  
  
101 Carlton Gore Road  
Newmarket  
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
  - "Vector" means Vector Limited
  - "Line charges" means the gas line charges
  - "Line" means the electricity and gas line business of Vector
  - "Gas" means the gas lines business of Vector
  - "Electricity" means the electricity lines business of Vector
  - "Other" means the business that is not the electricity or gas line business of Vector

### **3. PRICING METHODOLOGY**

#### **3.1 Overview**

Vector's 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 (UFG)
- 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
  - Vector's gas telemetry system (Telenet)

#### **3.2 Pricing Objectives**

In setting its line charges, Vector 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 be competitive with alternative fuels and with other gas distribution networks in the Auckland region
- should reflect network cost structures as far as is practical
- should be easy to understand and administer
- should provide an adequate return on the investment in network assets.

#### **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. 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.

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.

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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
- 6 *CNG*  
End-Consumers who use or sell CNG, such as petrol stations.
- 7 *Co-generation*  
End-Consumers who use gas for co-generation purposes.
- 8 *Contract*  
Commercial or industrial End-Consumers who are on individual contracts.

### **3.4 Region**

Vector owns and operates a gas network in the greater Auckland region only

### **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.

#### *Load groups 1-6*

Fixed charge (\$ per day): The majority of Vector's 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 that Vector 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 G31 (co-generation).

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.

### 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 Vector. To achieve this, the cost of supply for each load group was established through an allocation of Vectors' 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, coal, wood waste);
- competition in the gas network market.

### 3.7 Zonal Standard Pricing for Commercial & Industrial End-Consumers

Zonal standard pricing has been introduced by Vector for two main reasons:

1. To better reflect the fact that it is relatively less expensive to distribute gas to larger end-consumers that are in proximity to a transmission gate station and relatively more expensive to distribute gas to larger end-consumers that are further from a transmission gate station.
2. To provide a competitive response to other gas distribution companies that have constructed or threaten to construct gas distribution pipelines to larger end-consumers in areas that are already serviced by Vector's gas distribution network.

Five zones have been created that enable more appropriate pricing for larger commercial & industrial end-consumers as follows.

Zone A: ICPs that are located within 1 km of a transmission gate station

Zone B: ICPs that are located more than 1 km away and within 5 km of a gate station

Zone X: ICPs that are located within 1 km of designated competing gas distribution networks

Zone Y: ICPs that are located more than 1 km away and within 2 km of designated competing gas distribution networks

Zone C: Any ICP that is not in Zone A, B, X or Y is deemed to be in Zone C.