



**Annual Price Review  
Gas Distribution Network**

From 1 October 2016

Pursuant to:  
The Gas Distribution  
Information Disclosure Determination 2012 (consolidated in 2015)

## 1. PURPOSE OF THIS DOCUMENT

Vector owns and operates the natural gas distribution network in Auckland and supplies gas to approximately 105,000 homes and businesses.

This document contains information to help you understand how we determine our gas distribution prices. In this document, we:

1. Describe how we set our gas distribution prices;
2. Provide explanations and reasons for the changes in gas distribution prices;
3. Include our price schedule with our new prices and eligibility criteria; and
4. Provide tables comparing our prices before and after the 1 October 2016 price change.

We believe in transparency and hope you find this information useful. You can find more detailed information about our Pricing Methodology on our website at: <http://vector.co.nz/disclosures/gas/pricing-methodology>

## 2. HOW WE SET PRICES

We recover the cost of owning and operating our gas distribution network through a combination of standard (published) and non-standard prices for gas distribution services, and capital contributions for new connections.

The revenue from Vector's gas distribution prices is regulated by the Commerce Commission. We are able to determine how to recover this revenue through our prices subject to a number of regulated pricing principles. We detail how we comply with these principles in our Pricing Methodology disclosure.

A key feature of a gas distribution system is that it is a network of interconnected assets. Many customers on the network share assets and it is difficult to identify precisely who benefits from which assets. While this means that the allocation of costs between customers or groups of customers can be made in many different ways, it also means that the cost of providing the network is shared widely and therefore the cost of network services is generally low for each customer.

To recognise the key differences in the use and cost of our network, we separate customer connections into the following segments for pricing<sup>1</sup>:

- Residential customers;
- Business customers – Less than or equal to 10 scm/h<sup>2</sup>;
- Small commercial customers – Greater than 10scm/h and less than or equal to 40scm/h;
- Large commercial customers – Greater than 40scm/h and less than or equal to 200scm/h;
- Industrial customers – Greater than 200 scm/h; and
- Non-standard customers.

To determine the amount of regulated revenue to recover from each customer segment, Vector considers how each segment uses our gas distribution network assets.

The way the network of assets has been built up over time is something that Vector now has limited ability to change, however we are able to influence present and future investment decisions in the gas distribution network. Our distribution prices are designed, in line with the regulated pricing principles, to efficiently recover the cost of the existing gas distribution network and send efficient signals to users when new investments are required.

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<sup>1</sup> Full criteria for allocation of customers to pricing plans can be found in the pricing schedules below.

<sup>2</sup> Gas delivered in standard cubic meters per hour (scm/h).

Vector has developed a high-level framework to guide the development of its Pricing Methodology. The overarching objectives for the methodology include:

Objective	Rationale
Cost recovery	Ensure we recover our costs, including the allowed return on and of investment. A key aspect of cost recovery is the predominantly sunk and fixed nature of the costs.
Meet regulatory obligations	Comply with the Price-Quality Path Determination, Disclosure Determination and the Pricing Principles.
Clear pricing structure	Pricing should be simple and easily understood by customers therefore making it attractive for existing customers to stay connected and for new customers to connect.
Coherent overall price structure	There should not be incentives for customers to switch customer groups or price categories to take advantage of anomalies in the pricing structure.
Cost reflective pricing	<ul style="list-style-type: none"> <li>• Ensure that all customers face prices that reflect the cost of providing them with service;</li> <li>• Prices to all new customers at least cover the incremental costs of connecting them to the network (including costs associated with upstream reinforcement); and</li> <li>• Charges to recover overhead costs and the cost of the shared network are allocated between customers in a manner that is least likely to distort decisions.</li> </ul>
Customer-centric outcomes	<ul style="list-style-type: none"> <li>• Take account of the value of the service to customers;</li> <li>• Provide pricing stability; and</li> <li>• Manage price shock effectively in the transition to new pricing structures.</li> </ul>
Incentivise efficient usage	Encourage more utilisation of gas distribution assets to ensure that sunk investments are not inefficiently by-passed and new investments are efficient.

A full description of our approach and further information on our gas distribution Pricing Methodology can be found at <http://vector.co.nz/disclosures/gas/pricing-methodology>.

### **3. REASONS FOR PRICE CHANGES**

For the pricing year beginning 1 October 2016 Vector has set its prices to ensure that the revenue from our gas distribution network is no more than required to recover our costs as determined by the Commerce Commission in its Gas Distribution Services Default Price-Quality Path Determination 2013. This Determination sets the weighted average prices that Vector is able to charge each year and also allows us to recover a number of costs outside of our control known as “pass through and recoverable costs”. Pass through and recoverable costs include council rates and regulatory levies payable by Vector to both the Electricity and Gas Complaints Commission and the Commerce Commission.

The regulatory regime reflects Vector’s operating costs and provides incentives for cost efficiency. At the end of each regulatory period (every 5 years) any efficiency gains are shared with customers through lower prices.

From 1 October 2016, the impact of increases in pass-through and recoverable costs (0.6%) combined with increases to the regulated CPI (0.3%) result in an overall weighted average increase to our gas distribution prices of 0.9%.

Changes to individual prices will vary from the weighted average price increase. This is due to individual consumption levels within price categories. We have limited the extent of these changes so that customers generally face price increases of no more than 3%, although we acknowledge that in some instances individual price increases may be greater than this.

Our gas distribution prices are set out in the price schedule on the following page.

## Price schedule: Auckland gas distribution network



### Applicable from 1 October 2016

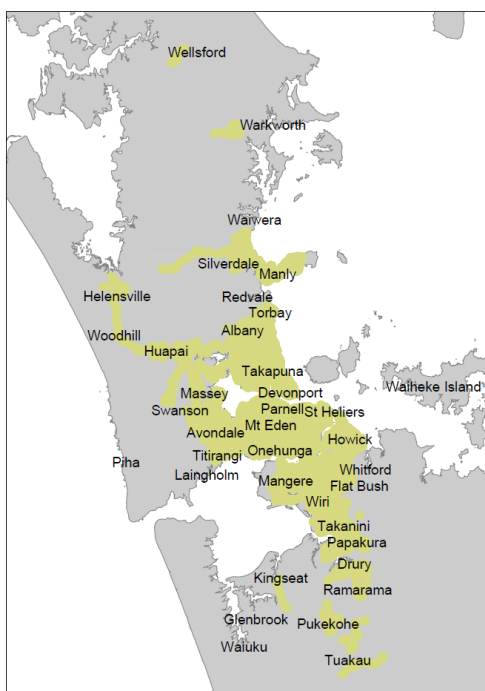
This document describes Vector's standard gas distribution prices which cover the costs of distributing gas to customers connected to the Auckland gas distribution network. Vector offers six price categories for Auckland gas distribution network customers depending on the customer's connection size and their connection type.

Description	Price category	Load size (scm/h)	Fixed (\$/day)	Volume (\$/kWh)		
Residential	GA0R		GA0R-FIXD	0.35	GA0R-24UC	0.0261
Business	GA01	≤ 10	GA01-FIXD	0.63	GA01-24UC	0.0165
Commercial	GA02	> 10 and ≤ 40	GA02-FIXD	1.12	GA02-24UC	0.0133
Commercial	GA03	> 40 and ≤ 200	GA03-FIXD	4.79	GA03-24UC	0.0102
Industrial	GA04	> 200	GA04-FIXD	14.70	GA04-24UC	0.0068
Industrial	GA05	> 200	GA05-FIXD	203.00	GA05-24UC	0.0015

Fixed prices (-FIXD) apply to the number of days each customer is connected to Vector's Auckland gas distribution network. Volume prices (-24UC) apply to all gas distributed to each customer. All prices are exclusive of GST.

### Network map

The approximate area covered by the Auckland gas distribution network is shown on the following map.



### Price category information

The **GA0R** price category applies to all residential customers. A residential customer is where the customer's metered point of connection is for a home, not normally used for any business activity.

The **GA01 - GA05** price categories apply to non-residential customers.

Load size for non-residential customers is measured in standard cubic metres per hour (scm/h) and is based on either the installed equipment or meter capacity.

Customers with a load size greater than 200scm/h may choose between the **GA04** and **GA05** price categories. Customers may not move between these price categories more than once in any 12 month period.

### For further information

To discuss how Vector's distribution prices are applied to customer bills, customers should contact their gas retailer

**Extent of prices**

Vector's distribution prices published in this schedule relate to the cost of owning, operating and maintaining the network as it currently exists but do not include amongst other things, energy charges for the gas customers use, transmission charges, metering charges, the cost of reading meters and the cost of customer fittings or appliances.

In order for Vector to supply any new or changed distribution service, including but not limited to; changes to security or service levels, the connection to the network of additional connections and the modification, relocation or removal of current connections, Vector may apply non-standard prices other than those outlined in this schedule on a case by case basis.

Should Vector forecast a potential price breach under the regulated price path, then Vector may provide a refund or rebate of gas distribution charges directly to the gas retailer in order to avoid such a breach.

**Gas Distribution Charges effective from 1 October 2016****For Vector's Auckland gas distribution network**

Disclosure pursuant to Gas Distribution Information Disclosure Determination 2012

Price category	Customer numbers	Prices from 1 October 2015 to 30 September 2016		Prices from 1 October 2016	
		Fixed (\$/day)	Volume (\$/kWh)	Fixed (\$/day)	Volume (\$/kWh)
Residential GA0R	98,000	0.34	0.0261	0.35	0.0261
Business GA01	2,300	0.62	0.0165	0.63	0.0165
Commercial GA02	2,700	1.10	0.0133	1.12	0.0133
Commercial GA03	910	4.72	0.0102	4.79	0.0102
Industrial GA04	140	14.48	0.0068	14.70	0.0068
Industrial GA05	20	200.00	0.0015	203.00	0.0015

All charges are exclusive of GST.

Vector's price schedules are available on request from our office located at 101 Carlton Gore Rd, Newmarket, Auckland or can be viewed online at <http://vector.co.nz/gas>.