



**Provisional Authorisation Compliance
Statement 2007**

**Statement prepared as at
8th November 2007**

Disclaimer: This document has been prepared to comply with the Commerce Act (Natural Gas Services) Provisional Authorisation 2005. The information in this document has been prepared with all care and diligence, in good faith. Any reliance on the information contained in this document, actual or purported, is at the user's own risk.



Commerce Act (Natural Gas Services)

Provisional Authorisation 2005

CERTIFICATION OF COMPLIANCE STATEMENT

We, *Glenn Chanoyke* and Nigel Barbour, being directors of Powerco Limited, certify that, having made all reasonable enquiry, to the best of our knowledge and belief and based on the gas volumes known to Powerco at 11 October 2007 the attached compliance statement of Powerco Limited, and related information, prepared for the purposes of the Commerce Act (Natural Gas Services) Provisional Authorisation 2005 complies with the requirements of that Authorisation.

8th November 2007

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1. EXECUTIVE SUMMARY

This document contains information relating to the price threshold and quality standards required to be disclosed under clause 7 of the *Commerce Act (Natural Gas Services) Provisional Authorisation 2005* (the "Notice").

Powerco Limited ("Powerco") has complied with the price threshold as set out in clause 5(b) and 5(c) of the Notice as at 1 October 2007. That is Powerco's notional revenue as at the 1 October 2007 assessment date did not exceed the notional revenue allowed under the price path and the price for each standard service remained the same throughout the assessment period.

Powerco will assist the Commerce Commission with its review of this compliance statement and will provide any additional information that may be required.

Powerco has publicly disclosed this statement by making it available at its principal office (Powerco, Level 2, 84 Liardet Street, New Plymouth), by providing the document on request and by publishing the document to Powerco's website (www.powerco.co.nz). As required by the Notice Powerco has published in newspapers, having the greatest number of copies distributed in the areas where our controlled services are supplied, a brief summary of the information referred to above and the Uniform Resource Locator (URL) of the Internet site where that information can be found.

2. PRICE THRESHOLD

2.1 THRESHOLD COMPLIANCE

Powerco has complied with requirements of clause 5(b) of the Notice as measured at 1 October 2007.

Clause 5(b) of the Notice requires that:

“The notional revenue of a controlled business at each assessment date is not to exceed the allowable notional revenue of the controlled business.”

This is expressed algebraically as:

$$NR_t \leq AR_t$$

Where

$$NR_t = \sum_i P_{i,t}^t Q_{i,t}$$

$$AR_t = (1 - X) \sum_i P_{i,t} Q_{i,t}$$

➤ $P_{i,t}^t$ = prices in place at the reference date (30 June 2007)

➤ $P_{i,t}$ = prices in place at the assessment date (1 October 2007)

2.2 ANALYSIS

The Notice formula weights each price category or load group by the actual volume in the twelve-months to 30 June 2007 or the annualised volume from the most recent price change in the twelve-month period.

Powerco has assessed its notional revenue at 1 October 2007 against its allowable notional revenue, based on a strict application of the Notice.

Powerco has based the application of the Notice formula on information to hand as at 11 October 2007.

	(\$ million)
Allowable Notional Revenue (AR₂₀₀₇)	
$\sum_i P_{i2007} Q_{i2007}$	<u>48.34</u>
Notional Revenue (NR₂₀₀₇)	
$\sum_i P_{i'2007} Q_{i2007}$	<u>48.34</u>
$\frac{NR_{2007}}{AR_{2007}}$	$= \frac{48.34}{48.34}$
	= 1 therefore no breach

Details of the calculations set out above are contained in Attachment One – Compliance with Notice Formula.

2.3 STANDARD SERVICE PRICES

Clause 5(c) of the Notice requires that:

“throughout an assessment period the price of each standard service must be the price determined in accordance with the standard contract that was in force at the assessment date on which that period commenced.”

Powerco’s Use of System Agreements allow for only a single price change in any twelve month period. Powerco made no changes to the standard services on 01 October 2007. Therefore Powerco has complied with the requirements of clause 5(c) of the Notice having not altered the prices for its standard services from those in force on 1 October 2006 in the period to 30 September 2007.

2.4 NON-STANDARD SERVICE

Clause 7(2)(a)(i) of the Notice requires that Powerco:

“describes the terms and conditions (including, but not limited to, price) for the supply of each new non-standard service the controlled business introduced during the quarterly reporting period ending on the day before that quarterly reporting date, and provides evidence that fully explains whether it is more advantageous to the acquirer or prospective acquirer of that new non-standard service to be supplied in accordance with a non-standard contract rather than to be supplied in accordance with a standard contract, and that fully explains whether the terms and conditions of that non-standard contract are consistent with, or are

more advantageous to the acquirer or prospective acquirer of that service than the terms and conditions for comparable non-standard services supplied during that period."

The quarterly reporting period covers 1 July 2007 to 30 September 2007. In this period Powerco had a number of new non-standard services. Most of these new non-standard services relate to sites that have come off an existing individual site agreement or had their prices reviewed as part of an annual price change notification ("PCN") process. One contract (ICP 1000512888PG9C3) is for a new connection contracted under a non-standard service agreement.

Details of the new non-standard contracts introduced in the quarter ended 30 September 2007 are contained in Attachment Two – New Non standard Contract Details and copies of the contracts are contained in Attachment Two – Individual Site Agreements.

3. PRICE METHODOLOGY

Clause 7(3)(a)(iii) of the Notice requires that Powerco provide the Commission with a written statement that:

“describes the methodology used and rationale for determining the prices charged on the first assessment date”.

Powerco is required by the Gas (Information Disclosure) Regulations 1997 to disclose “the methodology used to determine the prices charged”. Powerco has disclosed this methodology since 1997. Attached as Attachment Three is an updated methodology based on the template used to comply with the Gas (Information Disclosure) Regulations 1997.

4. QUALITY STANDARDS

4.1 QUALITY MEASURES

Clause 6 of the Notice requires Powerco to:

"At each assessment date after the first assessment date, each controlled business must demonstrate, by reference to the quality standards, measures and statistics described in Clause 7, that there has been no material deterioration in the quality of its controlled services since the day before the commencement date."

In Powerco's 2005 compliance statement the following quality standards were considered applicable to demonstrate "no material deterioration in the quality of its controlled services":

- Compliance with requirements of the various gas standards (NZS 5258:2003, NZS 5259:2004, NZS 5263:2003 and NZS 5442:1999); and
- Number of Publicly Reported Escapes (PREs) per 1,000 kilometres of network (with a target of 348 PREs per 1,000 kilometres)

Powerco has complied with the requirements of the quality standards suggested in the initial compliance statement.

Quality Standard	Target	ACTUAL
NZS 5258:2003	Audited Compliance	Yes
NZS 5259:2004	Audited Compliance	Yes
NZS 5263:2003	Audited Compliance	Yes
NZS 5442:1999	Audited Compliance	Not Tested
Publicly Reported Escapes	< 348 PRE/1000km	277.60 PRE/1000km

4.2 POLICIES AND PROCEDURES FOR MONITORING COMPLIANCE

Clause 7(3)(a)(v) of the Notice requires Powerco to disclose the policies and procedures used to monitor compliance with quality standards prior to the Notice's commencement date.

Powerco has a strong internal set of controls and processes to ensure compliance with the applicable New Zealand Standards. These internal controls are reinforced by the regular audits undertaken by the Energy Safety Service and an independent external auditor engaged by Powerco.

Powerco's internal processes and procedures are documented in our "Standard Operating Procedures". The Standard Operating Procedures are controlled documents held within the business management system.

5. COMMERCIALLY SENSITIVE INFORMATION

Powerco operates in a competitive business environment. Parts of the gas distribution network and all of the gas measurement system business are subject to significant competitive pressure.

Disclosure of the information contained in the attachments listed below would be "likely to unreasonably prejudice the commercial position"¹ of Powerco and is considered "commercially sensitive" as described in clause 7(4) of the Notice. By providing the listed information to Powerco's competitors Powerco would be unreasonably prejudiced, as it would provide a significant information advantage to our competitors.

The Attachments Powerco believes are not subject to the Official Information Act, are commercially sensitive and those which should not be publicly disclosed are as follows:

- Attachment One – Compliance with Notice Formula
- Attachment Two – New Non Standard Contract Details

¹ *Official Information Act 1982 Section 9(2)(b)*

8. ATTACHMENT THREE – PRICING METHODOLOGY

8.1 INTRODUCTION AND INTERPRETATION

This attachment presents the methodology for Powerco Limited's standard gas network line charges as at 1 October 2007 as required under section 7(1)(a)(iii) of the Commerce Act (Natural Gas Services) Provisional Authorisation 2005.

The information in this document was prepared by Powerco Limited after making all reasonable enquiry and to the best of its knowledge, the information complies with all relevant requirements of the Commerce Act (Natural Gas Services) Provisional Authorisation 2005.

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

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

For the purpose of this disclosure:

- "*Powerco*" means Powerco Limited
- "*Line Charges*" means the gas line charges
- "*Line*" means the electricity and gas line business of Powerco
- "*Gas*" means the gas lines business of Powerco
- "*Electricity*" means the electricity lines business of Powerco
- "*Gas Measurement System Charges*" means the metering equipment and associated services business of Powerco
- "*Other*" means the business that is not the electricity or gas line business of Powerco.

8.2 OVERVIEW

While gas distribution is a network industry and so has natural monopoly characteristics, this in itself is insufficient to conclude enduring market power and there are a number of competitive forces and factors that impact on demand and constrain market power. The foregoing constrain line charges and how cost reflective line charges can be. Powerco's

line charges and Gas Measurement charges are also constrained by the terms of the Provisional Authorisation 2005.

To quote Australian Government Productivity Commission: Review of the Gas Access Regime:

"The existence of gas pipelines that exhibit natural monopoly characteristics is insufficient to conclude that these pipelines have enduring market power that they are likely to use to inhibit competition in upstream and downstream markets. In addition to this supply characteristic, consideration needs to be given to the nature of the demand characteristics for the services of pipelines. A number of competitive forces and factors can impact on demand and constrain market power." "The demand for gas is a derived demand, derived from the demand for the goods or services produced using natural gas as an input. Gas is often supplied to industries that produce commodities sold in competitive markets (such as mineral processing and electricity generation). In such industries, natural gas can be a significant component of the total cost of production and the end use might be sensitive to the transport price. Further, large end users may represent a large proportion of the pipeline's capacity and therefore have significant, countervailing bargaining power." "In addition, gas often has other close substitutes in end use, such as coal. In these circumstances, any rise in the relative price of gas is likely to result in a significant loss of sales and a decrease in profit, particularly in the medium and long term, as users reduce their consumption of gas. Further, new pipelines (both transmission and distribution) are often developed in contestable markets, where they compete vigorously to secure sufficient base load for the pipeline from prospective users, thereby reducing their exposure to risk and underwriting the investment."

Within these constraints (e.g. the prices of substitutes and competition in the gas distribution network market), which have a significant impact on Powerco's line charges, Powerco's line charges are designed (as far reasonably possible) to cover the cost of carrying third parties' (e.g. gas retailers) gas over Powerco's gas networks to end-consumers.

Furthermore, Powerco's line charges relate to the cost of owning, operating and maintaining its gas networks as they currently exist. Powerco's line charges do not cover:

- The cost of the gas itself
- Gas transmission costs (Charged by the Natural Gas Corporation)
- Unaccounted for gas
- Gas measurement systems (GMS)

- Reading of meters and/or time of use devices (TOU)
- Reconciliation/allocation costs
- 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

8.3 LINE CHARGES

8.3.1 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 the ICP based on the installed meter type and size. Size is determined by the End-Consumer's capacity requirements.

For all regions these load groups are:

1. *Low Variable Charge Tariff Capacity Group 1 (G05) -*

End-Consumers that generally have a load size of less than or equal to 10 scm/hr and an annual Gas usage of less than 5 Gj.

2. *Capacity Group 2 (G07) -*

End-Consumers that generally have a load size of less than or equal to 10 scm/hr and an annual Gas usage of less than 15 Gj.

3. *Capacity Group 3 (G11) –*

End-Consumers that generally have a load size of less than or equal to 10 scm/hr and an annual Gas usage equal to 15 Gj or greater.

4. *Capacity Group 4 (G12) –*

End-Consumers that generally have a load size greater than 10 scm/hr and less than or equal to 25 scm/hr.

5. *Capacity Group 5 (G14)* –

End-Consumers that generally have a load size greater than 25 scm/hr and less than or equal to 60 scm/hr.

6. *Capacity Group 6 (G16)* –

End-Consumers that generally have a load size greater than 60 scm/hr and less than or equal to 140 scm/hr.

7. *Capacity Group 7 (G18)* –

End-Consumers that generally have a load size greater than 140 scm/hr and less than or equal to 200 scm/hr.

8. *Contract (G30, G40)* –

Commercial End-Consumers who are on individual contracts. New End-Consumers with installed equipment/meter capacity greater than 200 scm/hr are on individual contracts.

8.3.2 Line Charge Structure

For the majority of load groups, the line charge structure is a simple fixed (\$ per day) and variable (\$ per GJ) price split.

Fixed charge (\$ per day): The majority of Powerco costs are fixed within any one year. In order to reflect this cost characteristic, a portion of the costs are charged on a fixed basis. The fixed charge is set at a level, which Powerco considers reasonable, taking into account other utility fixed charges and consumer responses to fixed charges.

Variable charge (\$ per GJ): The balance is recovered via a variable charge. A simple variable charge sends signals to encourage efficient network usage and allows customers to control the overall level of line charges they pay. The variable charges are determined by reference to the scaled consumption data provided to the Distributor by each Retailer. Consumption data is subject to scaling to reconcile the consumption data provided to the Distributor by each Retailer with that of the Retailer's share of the Gas (as determined by the Allocation Agent) injected into the Gas Network.

Pass through charges (\$ per GJ) such as statutory or regulatory body levies are excluded from the bundled tariffs and are passed through to retailers directly in proportion to their respective GJ volumes.

8.3.3 Contract load groups

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

8.4 GAS MEASUREMENT SYSTEM CHARGES

8.4.1 Metering Groups

A capacity group is assigned to the ICP based on the maximum capacity of all the installed appliance ratings. Gas Time of Use Charges are additional to the metering charges and are required for all sites that use above 9TJ or may be required depending on specific site or end consumer requirements.

For all regions these capacity groups are:

1. *Capacity group 1 (MT10) -*

End-Consumers that generally have an installed equipment/meter capacity of less than or equal to 10 scm/hr.

2. *Capacity group 2 (MT25) -*

End-Consumers that generally have an installed equipment/meter capacity greater than 10 scm/hr and less than or equal to 25 scm/hr.

3. *Capacity group 3 (MT60) –*

End-Consumers that generally have an installed equipment/meter capacity greater than 25 scm/hr and less than or equal to 60 scm/hr.

4. *Capacity group 4 (MT85) –*

End-Consumers that generally have an installed equipment/meter capacity greater than 60 scm/hr and less than or equal to 85 scm/hr.

5. *Capacity group 5 (MT140) –*

End-Consumers that generally have an installed equipment/meter capacity greater than 85 scm/hr and less than or equal to 140 scm/hr.

6. *Capacity group 6 (MT200) –*

End-Consumers that generally have an installed equipment/meter capacity greater than 140 scm/hr and less than or equal to 200 scm/hr.

7. *Capacity group 7 (MT300) –*

End-Consumers that generally have an installed equipment/meter capacity greater than 200 scm/hr and less than or equal to 300 scm/hr.

8. *Capacity group 8 (MTPOA) –*

Commercial End-Consumers who are on individual contracts. New End-Consumers with installed equipment/meter capacity greater than 300 scm/hr are individually priced.

Gas Time of Use (TOU) Services

1. *TOU Logger (MLOG) –*

Commercial sites that consume above 9TJ or specific site or individual end consumer requirements.

2. *TOU Logger & monthly data service (MLOGM) –*

Commercial sites that consume above 9TJ or specific site or individual end consumer requirements and request Powerco to provide a monthly data service.

3. *TOU Corrector (MCOR) –*

Commercial sites that consume above 9TJ or specific site or individual end consumer requirements.

4. *TOU Corrector & monthly data service (MCORM) –*

Commercial sites that consume above 9TJ or specific site or individual end consumer requirements and request Powerco to provide a monthly data service.

8.5 GAS MEASUREMENT SYSTEM CHARGE STRUCTURE

For all metering groups, the gas measurement charge structure is a simple fixed charge (\$ per day).

Powerco costs are fixed within any one-year and, as such, the fixed charge is set to cover these costs.