

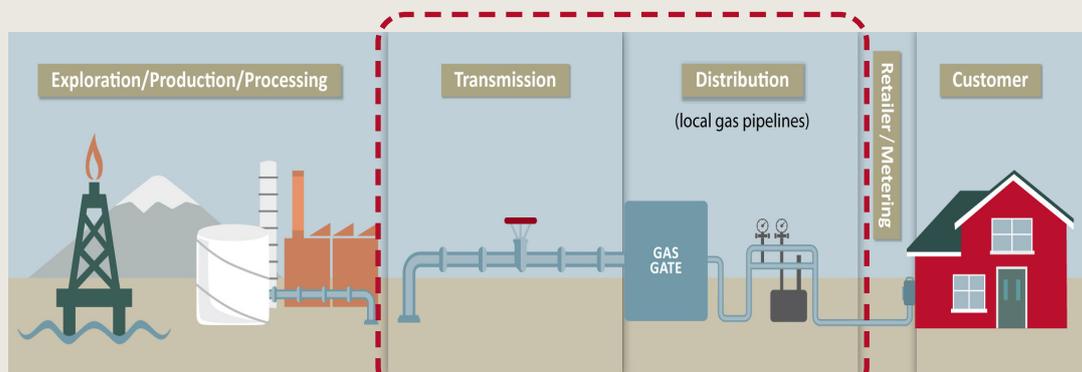
Trends in gas pipeline business performance

We have released a breakdown of revenue and profitability trends for gas pipeline businesses in New Zealand. The analysis also gives insight into the frequency and duration of outages experienced by gas pipeline businesses.

What portion of my gas bill does the Commerce Commission regulate?

The gas transmission business transports gas from processing facilities to directly connected customers and to gas distribution networks.

Local gas pipeline businesses transport gas from the transmission network to households and businesses.



Under Part 4 of the Commerce Act 1986, we have a role regulating markets where there is little or no competition (and little prospect of future competition). Four local **gas pipeline businesses** (Vector, Powerco, First Gas and GasNet) and the **gas transmission business** (First Gas from 2016, Vector and Maui Development prior), fall into that category.

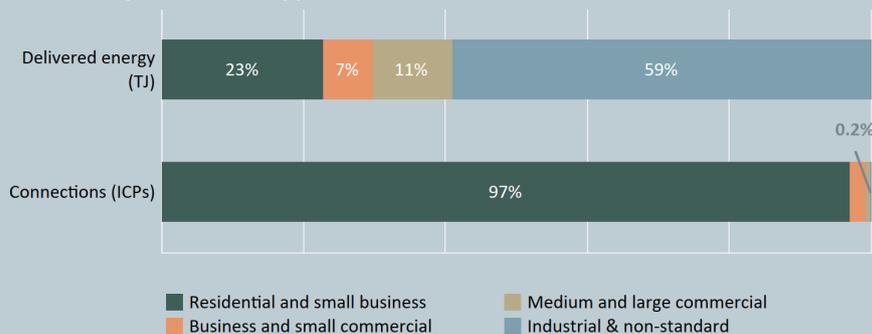
Gas pipeline businesses' revenue comes almost entirely from pipeline charges, ultimately paid by consumers. Historically, combined gas transmission and distribution charges have made up approximately **40-45%** of the average consumer gas bill.

Total gas pipeline business revenue has decreased by \$2.4m since 2016, to \$266m

Powerco's annual revenue has increased over time, while revenue decreased for the remaining local gas pipeline businesses. Gas transmission business revenue has been reasonably stable since 2016.

Most of the customers connected to local gas pipelines are residential or small businesses, but industrial customers (and customers on non-standard contracts) consume most of the gas delivered on local gas pipelines.

Share of connections and gas volumes delivered on local gas pipelines in 2021, by customer type



You can learn more about the industry and each gas pipeline business on our new dashboard and in our report

24,046 new customer connections have been made to local gas pipelines since 2016

Taking the increase in customers into account, local gas pipeline business revenue per customer on average has decreased by \$39 since 2016, to \$443 (an 8% decrease). Once general price inflation is factored in, revenues have fallen by \$86 (16%) per customer in real terms.

Local gas pipeline business	Number of customers in 2021	Change since 2016	Volume delivered in 2021 (TJ)	Change since 2016	Revenue in 2021 (\$m)	Change since 2016
Vector	115,406	↑ 12%	13,867	↑ 0.5%	\$53m	↓ 4%
Powerco	112,234	↑ 7%	8,972	↑ 6.3%	\$51m	↑ 9%
First Gas Distribution	65,994	↑ 7%	9,503	↑ 5.5%	\$27m	↓ 7%
GasNet	10,097	↑ 2%	1,260	↑ 0.5%	\$4.5m	↓ 4%

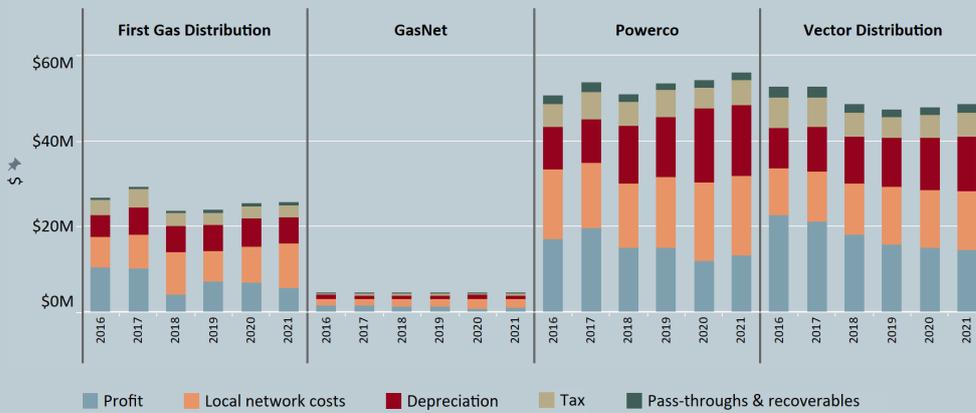
The volume of gas delivered on local gas pipelines has also increased over time.

First Gas Transmission	Volume delivered in 2021 (TJ)	Revenue in 2021 (\$m)	Change in revenue since 2016
	193,861	\$131m	↓ 1.9%

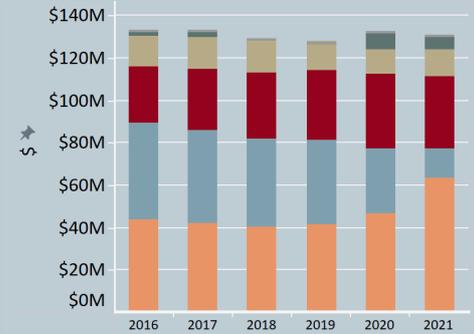
Revenue breakdown and profitability

Gas pipeline business revenue recovers operating expenditure (**opex**), depreciation, cash profit, tax and other costs.

Breakdown of revenue for each local gas pipeline business, 2016-2021



Breakdown of gas transmission business revenue, 2016-2021



The cash profit of local gas pipeline businesses and the gas transmission business have decreased since 2016, while opex has increased

Local gas pipeline businesses' average cash profit per customer fell by at least 21% since 2016. The gas transmission business' cash profit decreased by 72% since 2016.

First Gas Distribution has seen a \$3m increase in opex since 2016, the largest of all the local gas pipeline businesses. The gas transmission business' opex increased by 7.3% per year since 2016



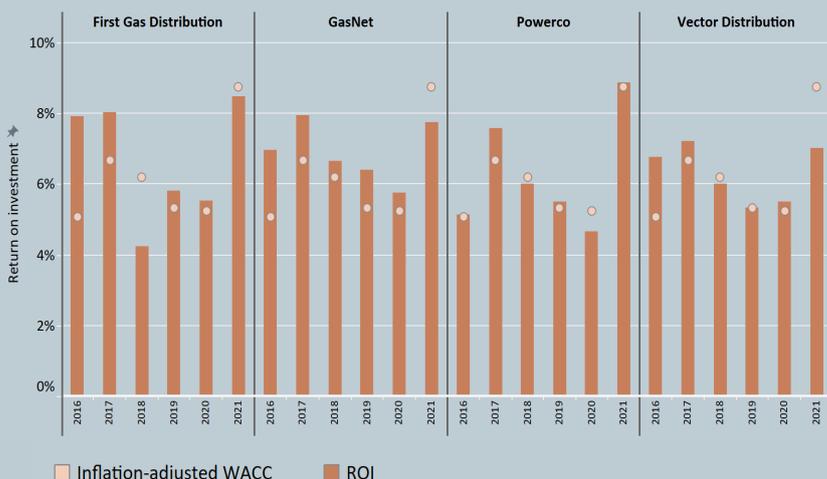
The total regulatory profit of local gas pipeline and gas transmission businesses is made up of cash profit and asset revaluations.

The return on investment (ROI) for each local gas pipeline and gas transmission business can be compared to the weighted-average cost of capital (WACC) that we estimate when we set their default price quality paths (DPPs), to help assess whether the business has been making excessive profit.

Local gas pipeline and gas transmission businesses' profits have generally been in line with our expectations

The total regulatory profit across all local gas pipeline businesses increased by 40% since 2016, and the gas transmission business' total regulatory profit increased by 5% over the same period.

Local gas pipeline businesses' ROI vs post-tax WACC adjusted for ex-post inflation, 2016-2021



Gas transmission businesses' ROI vs post-tax WACC adjusted for ex-post inflation, 2016-2021



Investment and service reliability

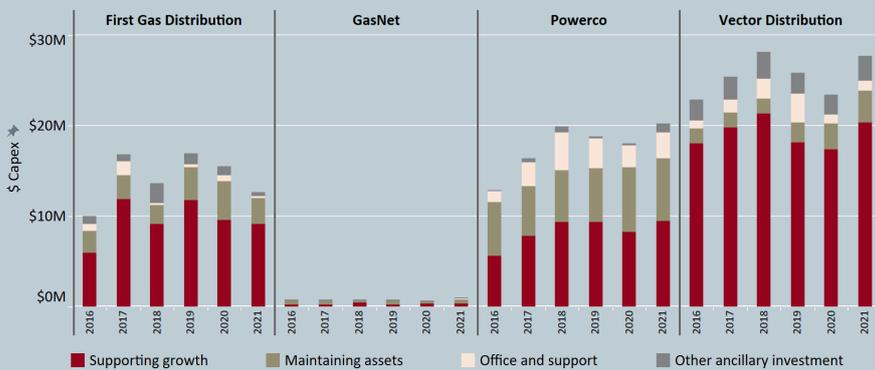
The regulated asset base (**RAB**) is made up of the assets used by the local gas pipeline or gas transmission business to deliver regulated services and is the basis upon which local gas pipeline or gas transmission businesses' profits are estimated when we set their DPPs.

The RAB of all local gas pipeline businesses was valued at \$1.06b in 2021, up 21% since 2016. The gas transmission business RAB was valued at \$874m, and increase of 10% over the same period.

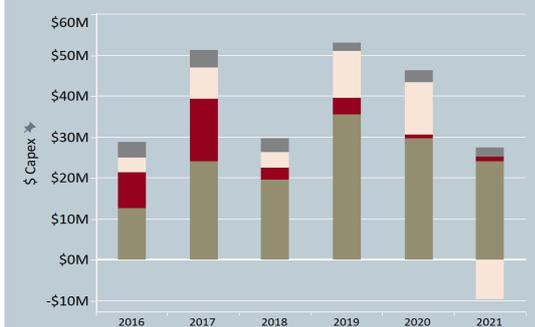
Capital expenditure (**capex**) (along with asset revaluations) increases the value of the RAB, while depreciation decreases it.

Local gas pipeline and gas transmission businesses' capex were \$15m (32%) and \$140k (0.5%) higher in 2021 than in 2016, respectively.

Capex by high-level investment category for each local gas pipeline business, 2016-2021



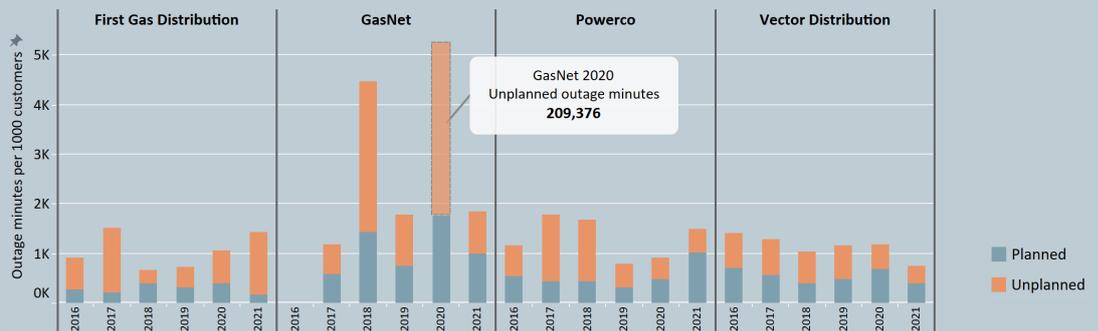
Gas transmission business' capex by high-level investment category, 2016-2021



Over the years, the total number of outages, and the average duration and frequency of outages experienced by customers have remained within a similar range across all local gas pipeline businesses except GasNet which recorded a few very high numbers.

The high duration of unplanned outages per 1000 customers on GasNet's network in 2018 and 2020 were associated with water leaks, and the 2020 interruption resulted in a spike in its interruptions opex. Furthermore, in 2021, there was an increase in planned outages on Powerco's network, to replace pre-1985 pipes. While the number and duration of outages per customer have generally remained stable on the other local gas pipelines, their interruptions opex has increased over time.

Duration of planned and unplanned outages per 1000 customers for each local gas pipeline business, 2016-2021



We expect interruptions to gas transmission services to be infrequent and brief, and this was the case between 2016 and 2021.

The availability of the gas transmission business' compressor units, which are used to support pipeline pressure, has also improved over this period.

Why did the Commerce Commission conduct this analysis?

Part of our role is to require gas pipeline businesses to disclose information about their performance and for us to share our analysis of that performance. The analysis helps stakeholders to better understand how individual businesses are performing and whether the purposes of Part 4 regulation are being met. This set of analysis looks at the changes in prices over time and explores the causes of those price changes. It also assesses changes in reliability over time.