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Dear Steve

Ahuroa Gas Storage facility

In submissions on the proposed Gas Transmission Access Code (GTAC), some parties have expressed concern about the recent purchase of the Ahuroa Gas Storage facility (AGS facility) by a related entity of First Gas, Gas Services New Zealand (GSNZ). In the interests of transparency, we wanted to provide further background on the acquisition and to explain the safeguards that ensure that First Gas acts in the interests of the gas industry in its role as Transmission System Operator (TSO).

Overview of Ahuroa acquisition

On 20 December 2017, GSNZ agreed to purchase the AGS facility from Contact Energy. GSNZ will become owner of the AGS facility following completion of several conditions, such as transfer of the relevant mining permit and approval from the Overseas Investment Office.

GSNZ will provide unregulated gas storage services from the AGS facility. GSNZ will become an interconnected party to the transmission system (at the existing Stratford 3 bi-directional point), but will not be a gas producer, wholesaler, shipper, or retailer of gas. GSNZ will own the 'cushion gas' (around 6 PJ) and the mining permit for the reservoir. However, GSNZ will not take title to gas stored on behalf of customers. Other parties (including Contact Energy) will be responsible for shipping gas to and from the Stratford 3 bi-directional point and will maintain a storage balance within the reservoir. This division of roles and responsibilities fits nicely with our shareholders' investment mandate, which is focused on relatively low-risk, unlisted infrastructure.

The acquisition of the AGS facility is underpinned by a 15-year storage agreement with Contact Energy. Under the terms of the Gas Services Agreement with Contact (and any agreements with future customers), GSNZ will receive nominations for injection and withdrawal of gas from customers and will carry out those instructions.

Safeguarding the interests of gas transmission system users

In making this acquisition, we carefully considered the potential for First Gas to combine the operation of the AGS facility with the gas transmission system to improve efficiency and increase shareholder value. Given the vastly different nature of storage and flexibility provided by the transmission system and the AGS facility, we concluded that no such opportunities currently exist.

Even if we can identify opportunities in the future to integrate the AGS facility into the transmission system, we believe that the following contractual and regulatory protections are more than sufficient to protect the interests of gas users:

- **Separation of operations.** As described above, the operations of GSNZ in relation to the AGS facility are separated from those of the transmission system at an operational level. Shippers own the gas in the reservoir and will instruct GSNZ when to inject more gas or extract gas from storage.
- **Code/contractual protections.** Existing transmission access codes (and any future code) require First Gas to treat all system users equally (see MPOC section 2.1, VTC section 2.7, GTAC sections 2.6-2.7). The terms of interconnection for GSNZ, therefore, cannot materially differ from those of other interconnected parties and we will simply be novating Contact Energy's Interconnection Agreement (ICA) to GSNZ. First Gas also has obligations as a Reasonable and Prudent Operator to ensure that it does not put system reliability at risk and

to ensure that all transmission system users act in a manner that does not adversely impact other system users. We take these responsibilities very seriously.

- **Information transparency.** Parties can view nominations on OATIS. Nominations are currently made at welded points to the Maui pipeline (the relevant one for Ahuroa being Frankley Rd). The GTAC would provide greater visibility of nominations at interconnection points like Stratford 3. This information can then be related back to the overall use of the transmission system and linepack to monitor whether use of the facility is changing in ways that affect broader industry interests.
- **Related party transaction rules.** First Gas is required by Commerce Commission rules to value any related party transactions on a market, arms-length basis. This means that services provided by First Gas to GSNZ (such as general management, commercial management, finance, IT etc) will be accounted for and economies of scope achieved by First Gas will be shared with consumers at the next price-quality reset. Equally, if any Ahuroa storage service was ever provided to First Gas then this would need to be disclosed and valued in accordance with the applicable regulations. Related party disclosures need to be independently audited and certified by our Board.

Conclusion

We believe that these safeguards give sufficient comfort to all transmission system users that any interactions between First Gas and GSNZ in relation to the AGS facility will be on the same terms as those of any other transmission system user.

We believe that Ahuroa provides a significant opportunity for gas users to improve flexibility in their gas supply arrangements. We welcome inquiries from parties seeking to use capacity of the AGS facility and we look forward to managing this important infrastructure asset in a way that benefits all users.

If you have any further queries on this matter please feel free to contact me.

Yours faithfully

A handwritten signature in black ink, appearing to read 'B. Gerritsen', with a stylized flourish at the end.

Ben Gerritsen
General Manager Commercial and Regulatory