

Tricia Jennings

From: Ben Gerritsen [REDACTED]
Sent: Thursday, 20 April 2017 8:08 a.m.
To: Tricia Jennings
Cc: Karen Collins; David Innes; Simon Todd; Ray Deacon
Subject: DRS expenditure in First Gas distribution AMP
Attachments: GNS0087 Asset Condition Grading.pdf

Categories: 1-Urgent

Dear Tricia,

Following our meeting last week to discuss our forecasts of distribution asset replacement and renewal capex, this email provides further detail on how we have forecast the expenditure needed for DRS replacement and renewal. We acknowledge that the information on our DRS replacement and renewal programme in the distribution AMP could have been presented more clearly, and we trust that this further information is useful for the Commission's DPP reset decisions.

Clarification of assessment ratings in the AMP

As discussed with the Commission on 13 April 2017, our distribution AMP incorporates two different, but related assessment ratings, that relate to the condition of DRS:

- Ratings derived from First Gas's condition database; and
- Ratings used within the information disclosure schedule 12a.

Vector (now First Gas) completed a condition assessment in 2010 to provide a baseline of DRS status and allow ongoing condition assessments to be measured and priorities set. The output of this work was a DRS condition database for all 103 stations, which is maintained by First Gas. There are 8 different assessment categories for DRS's, each of which are allocated a condition grade of 1 to 7.

The results of this 7 point assessment across 8 categories is then mapped to the 5 (1-4, plus unknown category) point condition assessment described in the Commission's schedule 12a information disclosure. We have attached First Gas's "Asset Condition Grading" document that describes the assessment and the mapping process to the schedule 12a data.

For these reasons, on page 80 of the AMP, where First Gas discuss condition ratings of 3 and 4 etc, these are not the same as the ratings in the 12a disclosure statement.

Application of assessment ratings

First Gas uses its ratings of each of the 8 individual assessment categories to identify whether specific parts of a DRS need to be replaced. For example, a rating of 1 for fire valves would mean non-compliance with a mandatory standard requirement and trigger replacement of that element, whilst not in itself triggering the replacement of the whole station. It is important to note that when considering the cost of replacing individual parts of a DRS, it becomes more economic to replace the whole rather than just one part. This decision is typically made during the early stages of the project scoping and design and not fully established during AMP planning. First Gas has consequently identified a number of mandatory DRS projects to address design and compliance issues across the 8 categories.

There are 6 DRS's described in the AMP on page 83 and mentioned in paragraph 12 of the Strata report that will be replaced due to an initial compliance trigger, followed by an assessment of other associated issues identified in our above condition assessment. These are planned over the next two years (FY17 and FY18)

In Schedule 12a, we state that:

- 6.85% (7 out of 103) of DRS's should be replaced over the next 5 years. The above 6 DRS's are from this list, plus the one DRS stated above.
- 4.81% (5 out of 103) of DRS's are grade 2 condition – 5 of these will be replaced to address a number of specific issues.
- 46.15% (50 out of 103) of DRS's are grade 3 condition – 2 of these will be replaced to address a number of specific issues.

What the expenditure forecast covers

Our expenditure forecast, specifically for DRS replacement work, covers the above 7 stations specifically identified, plus year on year allowances over the regulatory period for replacing individual parts of DRS's identified in our condition database. These minor DRS upgrade components are not part of the above 6.85%.

The specific issues that will be addressed are:

- DRS enclosure defects and access compliance
- DRS equipment and pipework corrosion
- Regulator Obsolescence
- Presence of fire valves compliance
- Relief valve capacity compliance
- Relief vent location compliance
- DRS ventilation compliance
- DRS design compliance
- Earthing and bonding compliance

As already stated above, during the design phase we may combine multiple issues together to replace large parts of a DRS, or a complete DRS, to make the capital expenditure more efficient.

Adjustments for modelling

Strata also notes (at paragraph 10) that the Distribution AMP states that 3% of DRS's (or 3 stations out of 103 total) have been identified for removal. However, the AMP states that removal could only be established pending the results of modelling. This modelling has now been completed, and indicates that 2 DRS's can be removed and 1 must be replaced. The removal projects have not been included in this expenditure category, but the 1 replacement project has been included.

Please contact us if you require any further information.

Best regards,
Ben

Ben Gerritsen

General Manager Commercial and Regulation

First Gas | 42 Connett Road West, New Plymouth | 4312

DDI [REDACTED] F | M [REDACTED] firstgas.co.nz

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