



MARCHMENT
HILL *consulting*

Multinet Gas International Gas Benchmarking

Final Results
January 2012

Executive Summary

Multinet Gas engaged Marchment Hill Consulting (“MHC”) compare its performance against similar international gas distribution businesses, particularly, the **United Kingdom** (“UK”) and **United States** (“USA”). Multinet Gas’ purpose was to compare performance across partial financial, cost, and value performance indicators.

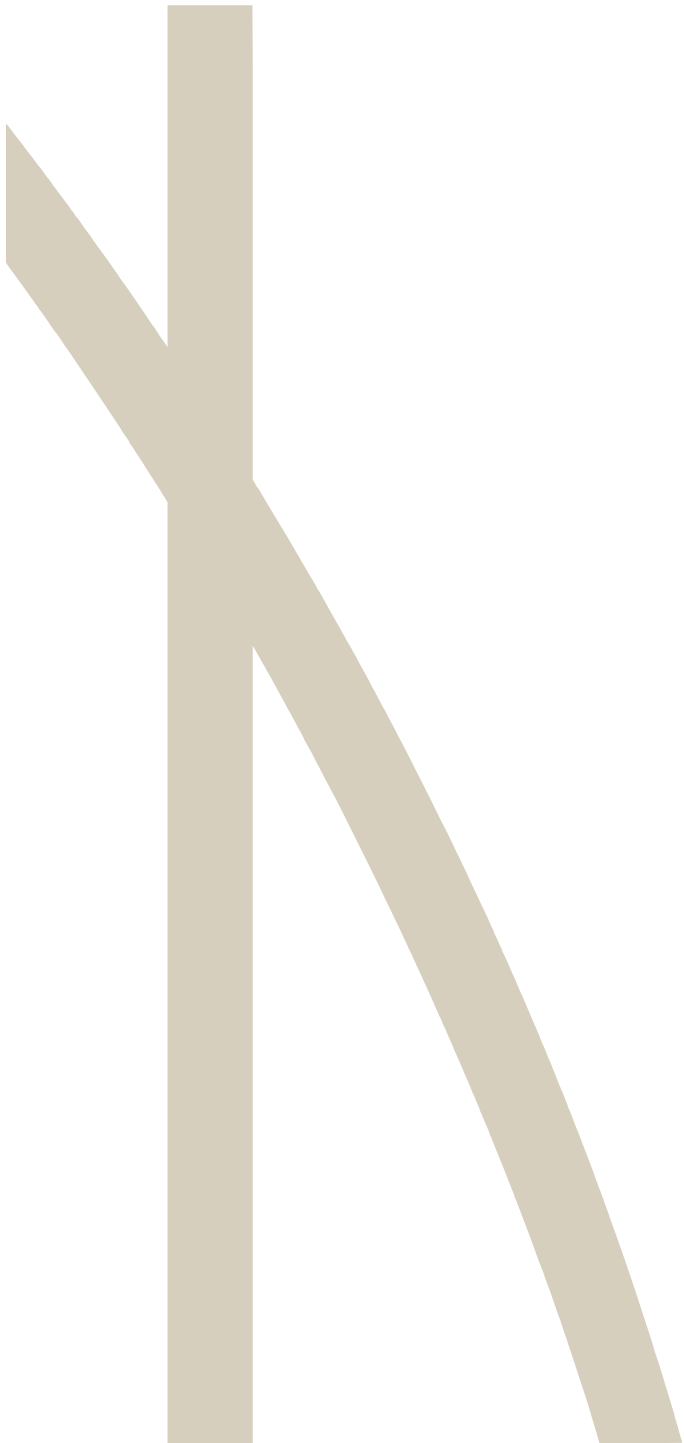
In undertaking the comparison, MHC has:

- utilised publically available data (regulatory submissions and annual reports) and accessed data from a financial and operational performance data base
- adopted or applied common and well understood approaches to comparing gas distribution businesses to:
 - categorise operating and capital costs
 - compare gas distribution businesses, for example operating costs by gas pipeline kilometre or by customer density,
 - transform UK (or pounds) and USA (or US dollars) into Australian dollars.

Results

MHC found that Multinet Gas performed better across the comparative indicators than the UK and US gas distribution businesses included within our analysis. MHC’s notes that Multinet Gas’ has performed better historically, and, based on current forecasts will continue to show better performance.

Importantly, Multinet Gas’ better performance across the comparative indicators suggests the achievement of material efficiencies in operations and the delivery of new distribution assets despite Multinet Gas being significantly smaller in absolute terms than the UK and USA gas distribution businesses.



1. Introduction

Introduction

MHC was engaged by Multinet Gas to benchmark international performance utilising publically available information. Gas Distribution companies in both the US and the UK were used due to the availability of information, comparable economies, operating environments, and regulatory frameworks.* In selecting benchmarks, MHC followed the guiding principals:

- Choice of filtering businesses
 - publically available information (or available on SNL financial subscription)
 - similar size and operating environment
 - practical and easily comparable results
- Comparative Indicators
 - well known and commonly used in regulatory processes
 - simple to understand
 - comparable
 - applicable to straight gas distribution business models
- Choice of monetary transformation
 - replicable
 - provide consistent results
 - credible
 - transparent

* UK regulation is more comparable to Australia. Although the LCD's in the US are regulated, there is a higher degree of competition. Competition generally promotes efficiency, so the US comparison should provide a benchmark for capital efficiency

Introduction

The report comprises of the following sections:

1. United Kingdom
 - Introduction to UK Gas Market
 - Introduction to Companies Benchmarked
 - UK Data Collection and Assumptions
 - UK results
2. United States
 - Introduction to US Gas Market
 - US Data Collection and Assumptions
 - US Filter Analysis
 - US Results
3. Appendix
 - Multinet Gas 2010 Data
 - List of US companies Benchmarked
 - Inflation Data Set
 - Purchasing Power Parity (PPP) Data Set



2. United Kingdom Benchmark Results

UK Gas Distribution Entities

The United Kingdom Gas Distribution business is regulated by the Office of Gas and Electricity Markets, whose role is to protect consumers by promoting competition where appropriate, and regulating monopoly companies that operate in the gas and electricity market. The Gas Distribution Networks are natural monopolies, and Ofgem specifies the allowed revenue each GDN can recover for a 5 year period. The similarity in regulatory reporting, and the availability public information allowed for comparison of GDN's.

The UK the gas distribution market consists of two regulated entities:

- Independent Gas Transporters (IGT's)
 - IGTs are GT licence holders that own and operate small local gas networks and levy distribution charges on shippers. Most but not all of these networks have been built to serve new housing, and are not comparable to Multinet's operations, hence were excluded from the comparison.
- Gas Distribution Networks (GDN's)
 - GDNs transport gas to final consumers and to connected system exit points. There are currently eight regional GDNs in Great Britain which are operated by four different companies. These were included in MHC's comparison because of the comparable objectives, similar regulatory regimes, and the provision of a

Gas Distribution Network Information

GDN's are subject to regulatory controls by the UK's Office of Gas and Energy Markets (OFGEM), comparable to Australian Gas distribution companies regulation. The GDN's are regulated in eight separate geographic regions, under four main companies:

- National Grid Gas (NGG)
 - East of England
 - London
 - Northwest
 - West Midlands
- Northern Gas Networks (NGN)
 - Northern
- Scotia Gas Networks (SGN)
 - Scotland
 - Southern England
- Wales and West Utilities (WWU)
 - Wales
 - South West

	NGG	NGN	SGN	WWU
Customers	10,800,000	2,600,000	5,700,000	2,460,000
Mains (Kilometres)	132,000	37,000	74,000	35,000
2010 Throughput (TJ per Annum)	1190	307	613	250



Due to the lack of asset information available at the regional level, MHC has benchmarked the four larger entities.

Assumptions and Information Collection

In order to ensure a complete set of data, information was sourced from several publically available sources. MHC adjusted for comparable currencies and real dollar values. The final UK to AU dollar comparison shows information in 2010 \$AUD (PPP Adjusted).

- Multinet Gas provided MHC with all company information. Financial information provided was nominal (\$AUD) for each year. The nominal values are converted to real dollars 2010.
- Financial Information for the UK companies was sourced from the Office of the Gas and Electricity Markets (OFGEM) Gas Distribution Price Control Review for the period between 2008-2012. Financial data is originally reported in 2005-2006 prices (pounds) but converted to 2010 AUD.
- UK asset information and customer numbers were sourced from company websites and annual reports.
- Throughput is assumed to be total gas delivered inclusive of leakages and/or unaccounted for gas.
- UK data was converted using OECD Purchasing Power Parity (PPP) information for the given year.
- Inflation in the UK and Australia was adjusted based on World Bank inflationary data so all financial data is represented in real 2010 \$AUD.
- The UK CAPEX information is the sum of reported CAPEX and REPEX (Replacement Expenditure of mains and services) from the regulatory report.

UK Comparison – Results

All of the following results are represented in 2010 Australian Dollars.

The data shows that Multinet Gas by comparison to the UK GDN's:

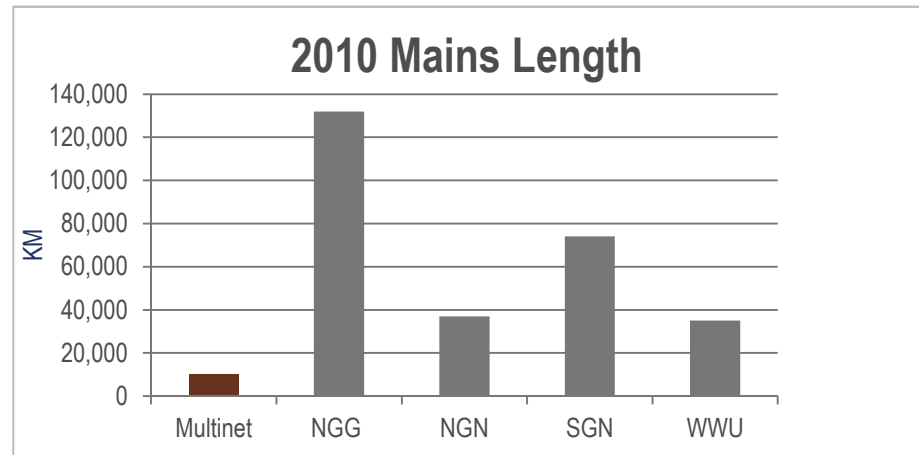
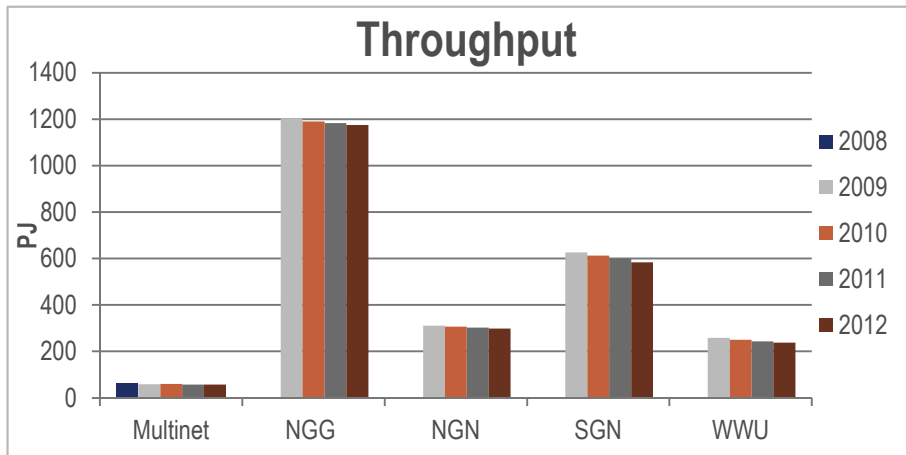
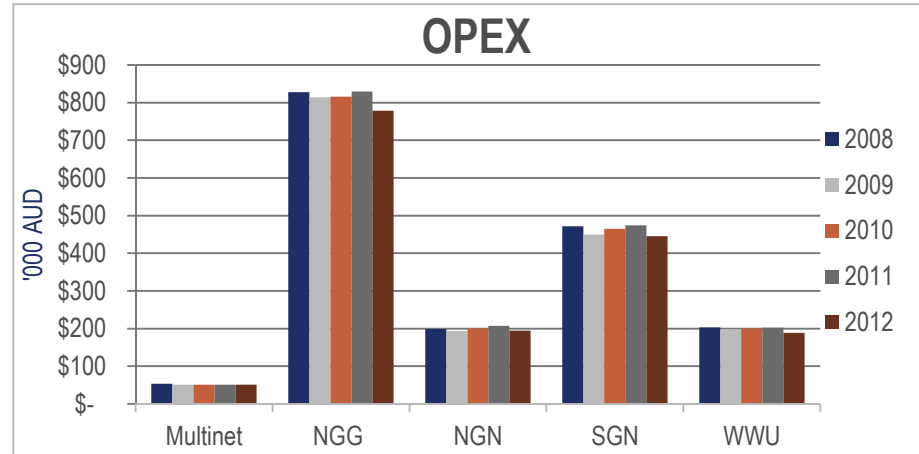
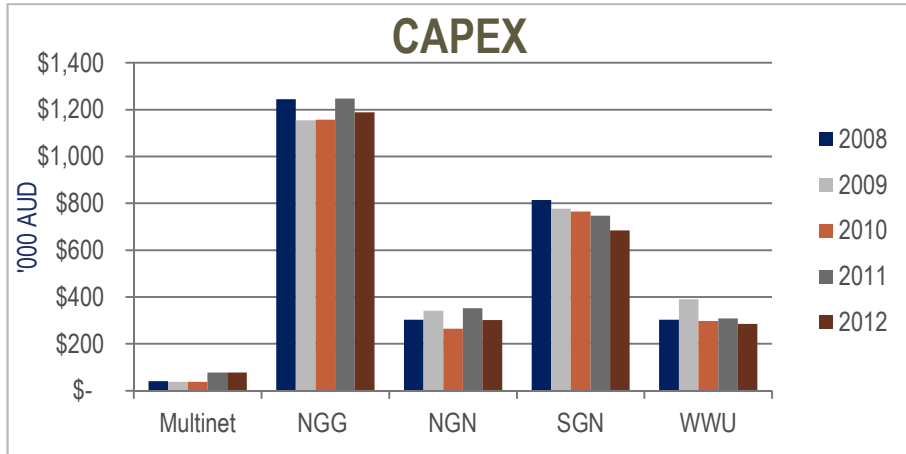
- financially smaller
- operates less gas pipelines, and
- delivers smaller gas volumes.

With Multinet Gas not being able to access these scale benefits MHC expected that the comparison would show Multinet Gas towards the bottom end of performance.

However, Multinet Gas ranked well against the UK GDNs






Variable	Rank against UK GDNs
Capital Expenditure	Less than UK peer group
Operating Expenditure	Less than UK peer group
Throughput	Less than UK peer group
Kilometres of Mains	Less than UK peer group

UK Benchmark Results absolute

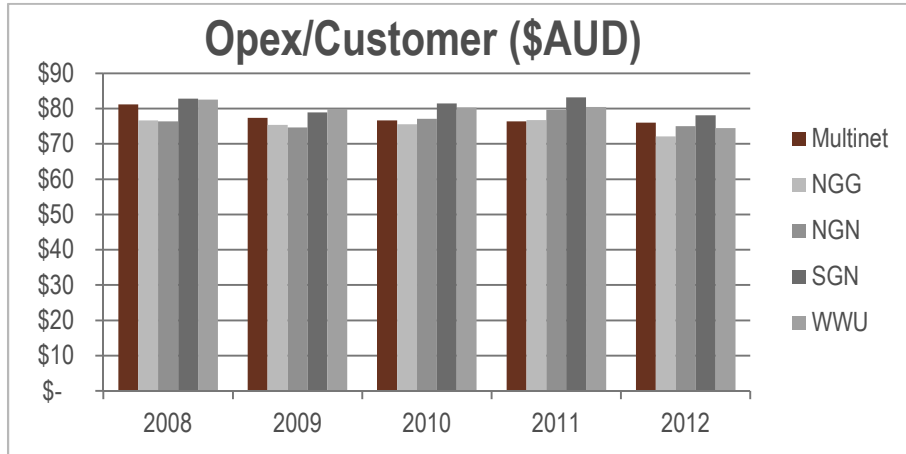


UK Benchmark Results - relative

Comparative ratios create a more meaningful comparison and help determine efficiency in CAPEX and OPEX programs.

Ratio	Average Performance	Meaning	Ratio Measure
OPEX/Customer		Multinet Gas operating expense/customer is better than (less) or equal average of peers	Operating Expenditure efficiency
CAPEX/Kilometre of Main		Multinet Gas capital expenditure/km main better than (less) or equal average of peers	Capital Expenditure efficiency
Throughput/Kilometre of Mains		Multinet Gas throughput//km of main is in line with peers (within 25%)	Operating Environment
Gas Delivered per Customer		Multinet Gas delivered/customer in line with peers (within 25%)	Operating Environment (Customer Usage)
Customer Density (Customers/KM of Main)		Multinet Gas customer density is in line with peers (within 25%)	Operating environment similarity

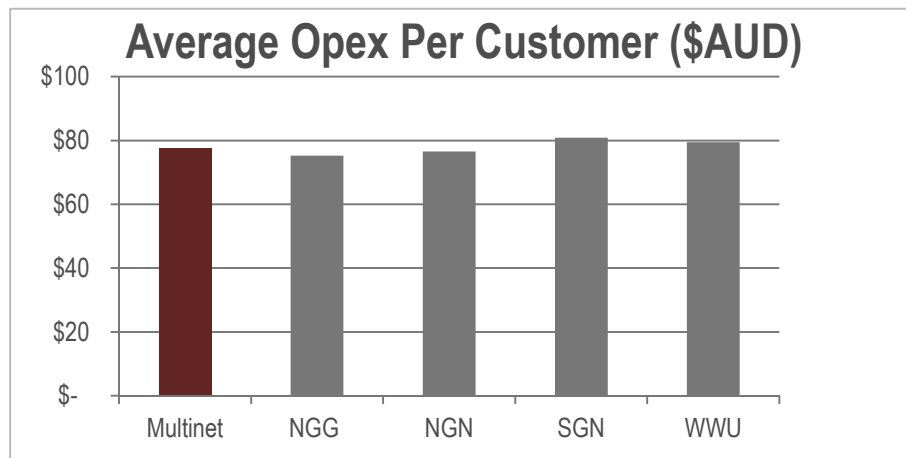
UK Benchmark Results: Financial Performance



The Five year Opex/Customer is shown to the left. Opex is shown in real 2010 AUD, calculated from regulatory determinations.

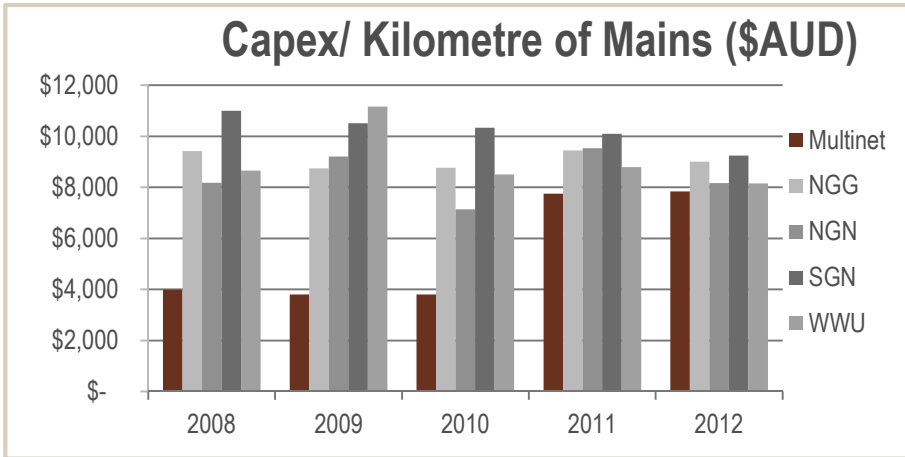
Customer numbers remain constant and are sourced from company websites and annual reports.

Multinet Gas' performance is in line with the UK peers across all years, and improves slightly over time.



The average Opex per customer is shown for the 5 year (2008-2012) period. Multinet Gas performs in par with the average, with two companies performing better, and two worse.

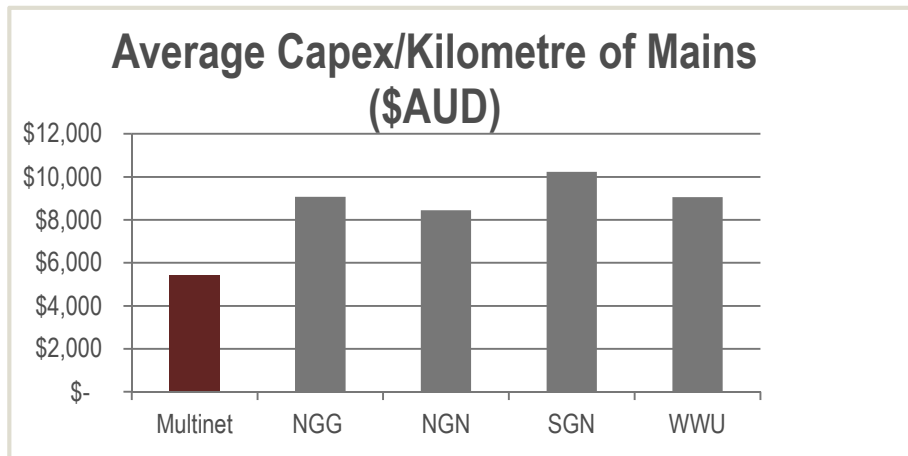
UK Benchmark Results: Financial Performance



The Five year Capex/Kilometre of main is shown to the left. Capex is shown in real 2010 AUD, calculated from regulatory determinations, inclusive of REPEX (replacement capital expenditure investments).

Kilometres remain constant and are sourced from company websites and annual reports.

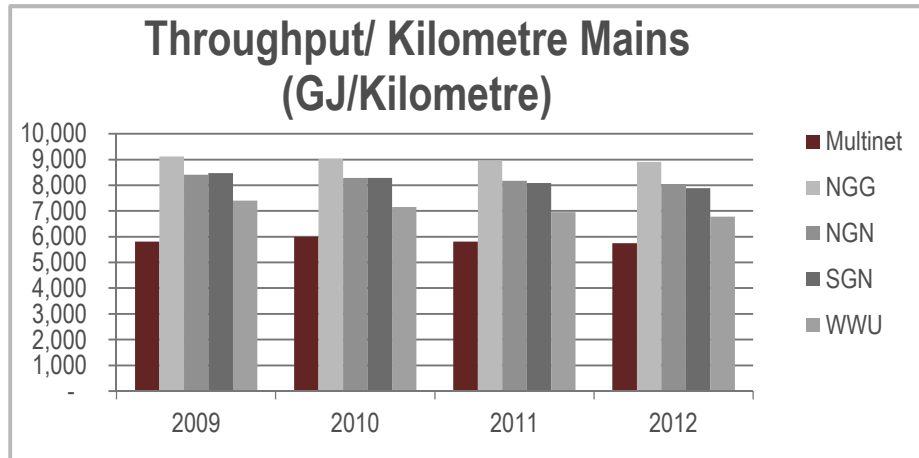
Multinet Gas is performs better than the peer companies, however performance declines after 2010.



The average Capex per kilometre of main is shown for the 5 year (2008-2012) period.

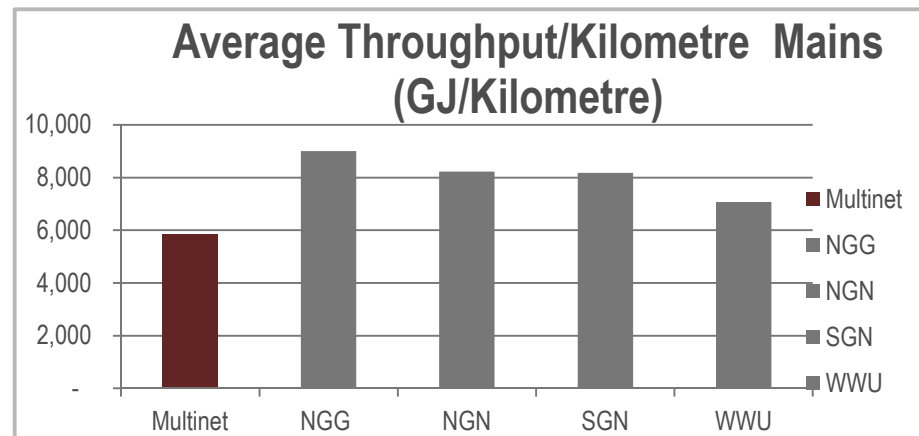
Multinet Gas performs in better than all the companies benchmarked.

UK Benchmark Results: Volumes



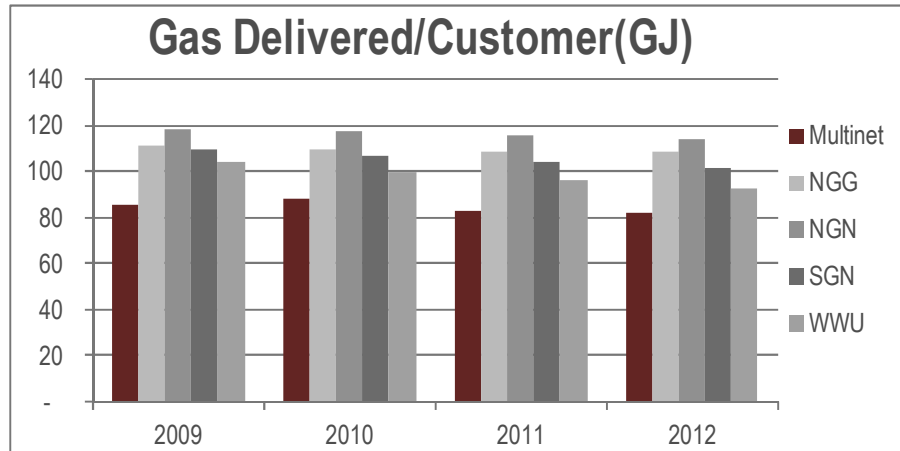
The five year Throughput /Kilometre of main is shown to the left. Throughput is shown in Gigajoules, and is calculated from regulatory reports and websites.

Kilometres remain constant and are sourced from company websites and annual reports.



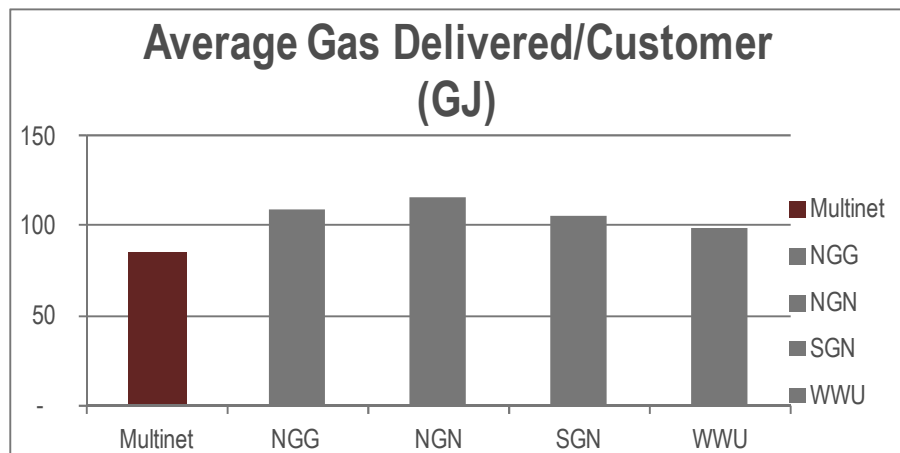
The average is representative of the 5 year period above. Multinet Gas has less throughput/kilometre of main, which is expected given the customer density.

UK Benchmark Results: Volumes



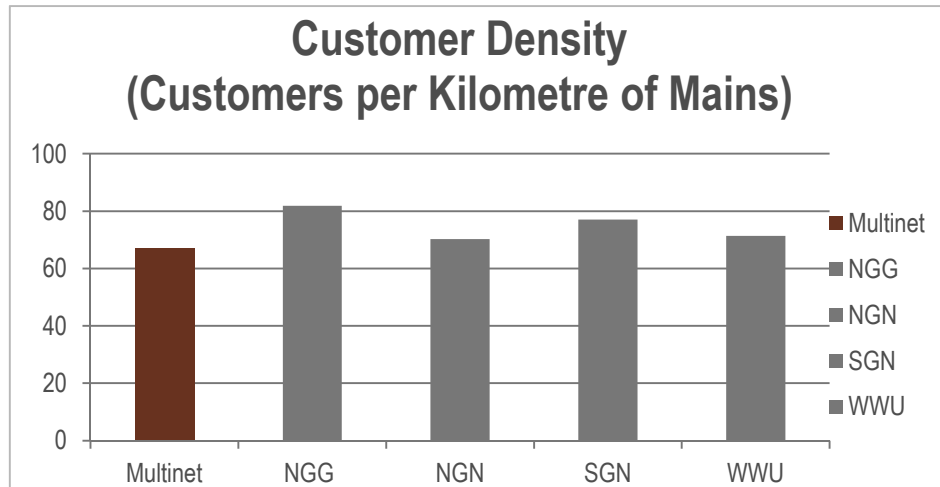
The five year Gas Delivered /Kilometre of main is shown to the left. Gas Delivered is shown in Gigajoules, and is calculated from regulatory reports, and does not include losses from leaks and unaccounted for gas.

Customers remain constant and are sourced from company websites and annual reports.



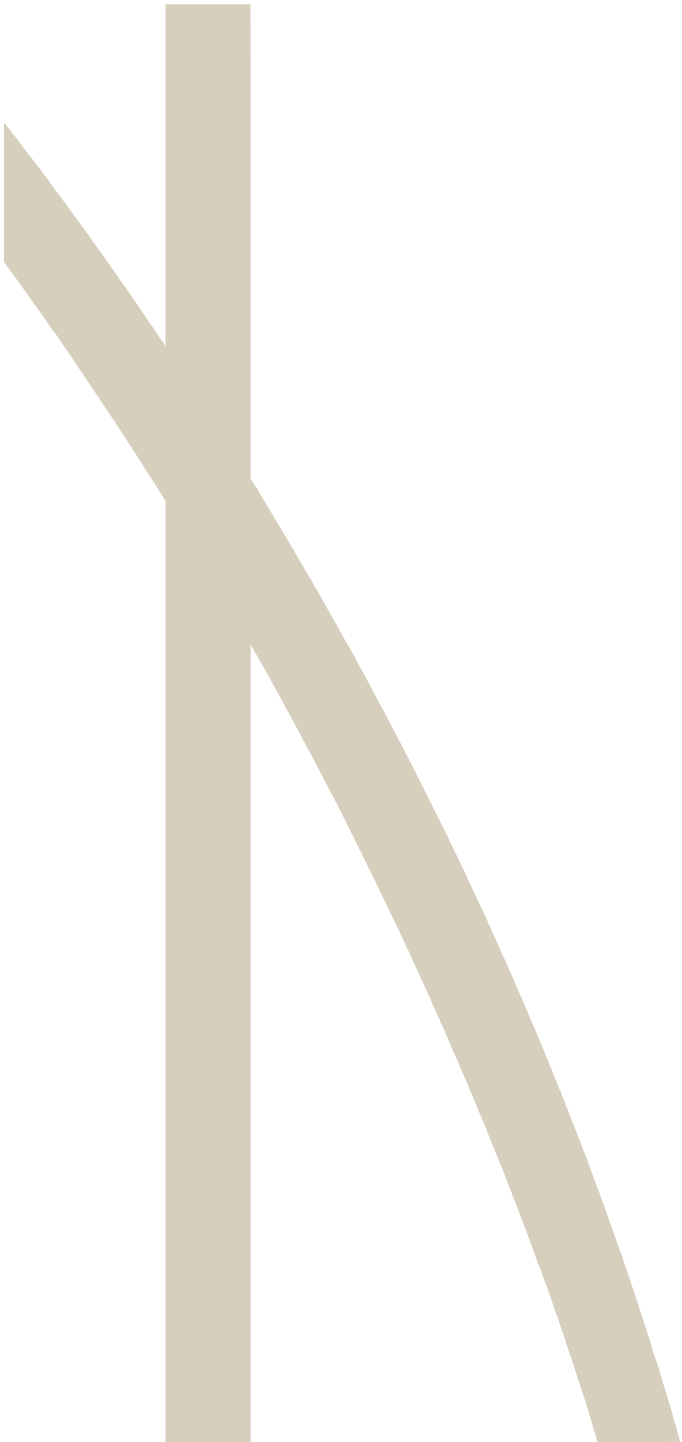
The average gas delivered per customer is representative of the 5 year period above. The average gas per customer is less than the UK businesses, however is within close enough proximity for the operating environment to be comparable.

UK Benchmark Results: Customer Density



Customer Density is calculated as customers/kilometres of mains. Both customer numbers, and kilometres are sourced from company websites and annual reports. These numbers remain constant for the 5 year period.

Multinet Gas is operating in a slightly less dense customer area, but is relatively comparable to the UK peers.



2. USA Benchmark Results

US Gas Distribution

In the United States, the natural gas market has had multiple regulatory changes. FERC (Federal Energy Regulatory Commission) regulates gas transmission, with gas distribution regulated at a state level by the Public Utility Commission for each state. Within the US there are three main types of Local Distribution Companies (LDC'S) of which there are more than 1,200. In addition to distribution companies, transmission both interstate and intrastate transmission companies may deliver directly to large users.

Investor Owned	An LDC whose stock is publicly traded, it is generally granted exclusive territorial contracts covering large areas within a State. The State public utility commission (PUC) has jurisdiction over all operational aspects of an investor-owned LDC. The PUC also approves service rates and reviews the quality of services.
Municipal Owned	An LDC that is owned and operated by a municipal government. Most municipal LDCs were organized in areas located along the long-distance routes of the large interstate natural gas pipelines Many municipalities that operate their own natural gas distribution system contract with investor- or privately-owned utilities, granting an exclusive territorial contract (monopoly franchise arrangement) to the utility while retaining authority over rates, operations, and the type and quality of services provided within its jurisdiction.
Private Owned	An LDC that is owned by private investors and whose stock is not publicly traded. Like an investor-owned LDC, it is subject to the State PUC regulations and rate-setting guidelines.
Cooperatives	An LDC that operates on a cooperative non-profit basis for the mutual benefit of its members. No interest or dividends are paid out of earnings although the company is obligated to pay, by credits to a capital account for each member, any excess revenues received beyond annual operating costs and expenses.

US Gas Distribution Information

The ability to find comparable benchmark information for US LDC's is difficult for the following reasons:

- Distribution companies are no longer required to file with FERC, and are regulated by the state public utilities commission.
- Publically listed companies are often large fully vertically and horizontally integrated utilities. The scale and operational scope of these companies are not comparable. Trying to disaggregate public annual reports for gas and distribution information is not always plausible.
- In order to find more comparable information, MHC has utilised SNL Financial, a database that disaggregates annual reports, and regulatory filings for each LDC.

Assumptions and Information Collection

The US data sourced from the SNL Financial database is given in nominal US dollars, Miles and Dekatherms. In order to make data comparable MHC converted the data accordingly:

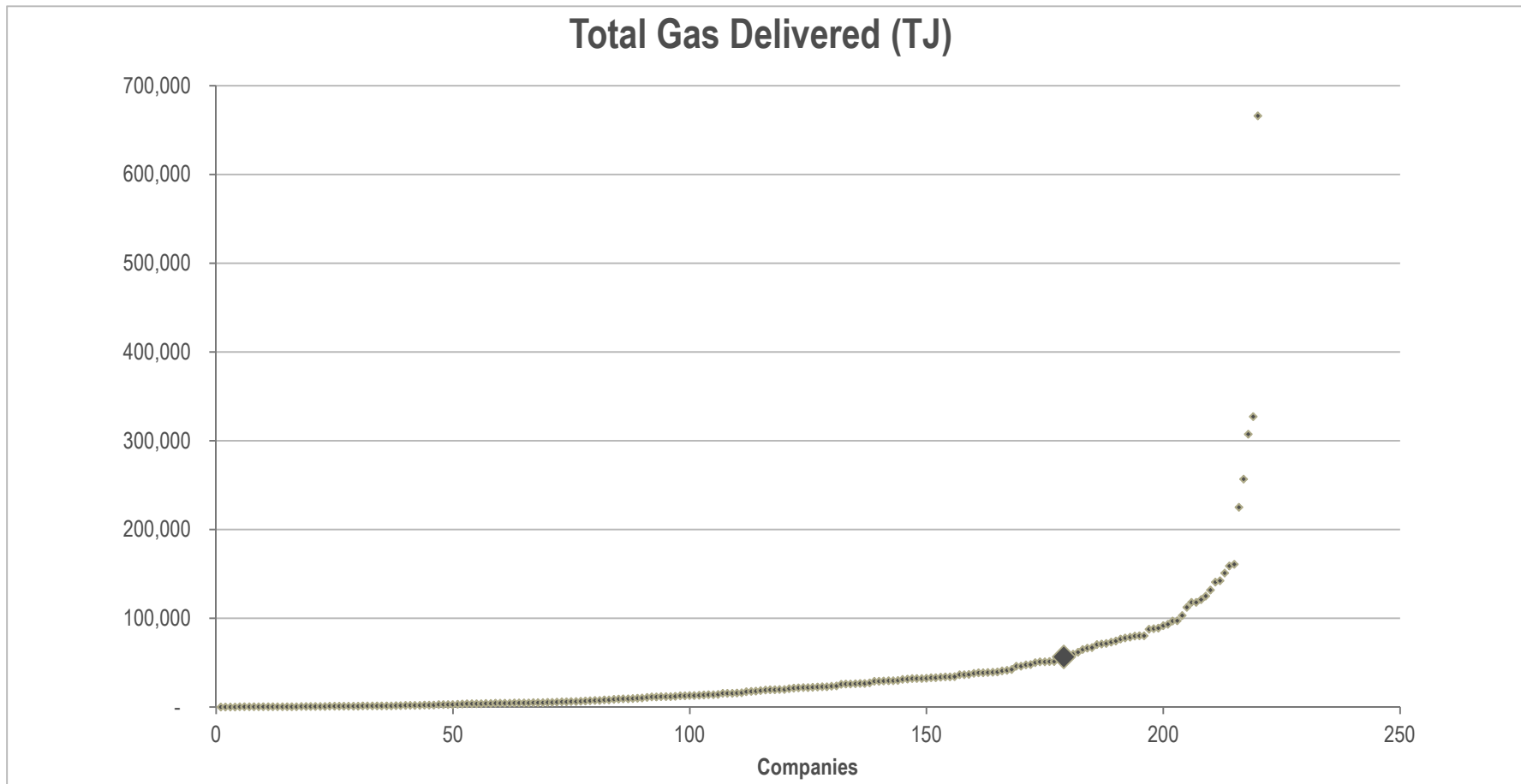
- Length – In kilometres
- Throughput – In GJ, PJ, and TJ
- Nominal data is extracted from 2010 only, and an OECD (2010) PPP adjuster is used to convert USD into AUD.

There is over 1,200 LDC's in the US so MHC applied filters in order to benchmark the most comparable companies.

- LDCs chosen where complete data could be sourced
- LDCs were then chosen where total gas delivered was within 40% of Multinet Gas's total gas delivered
- Multinet Gas largely delivers gas to residential customers (95% of total gas delivered.) The third filter allows for inclusion of US companies that have > 50% of gas delivered to the residential sector.
- Where data permits, MHC included the UK benchmarks (2010) into the analysis.

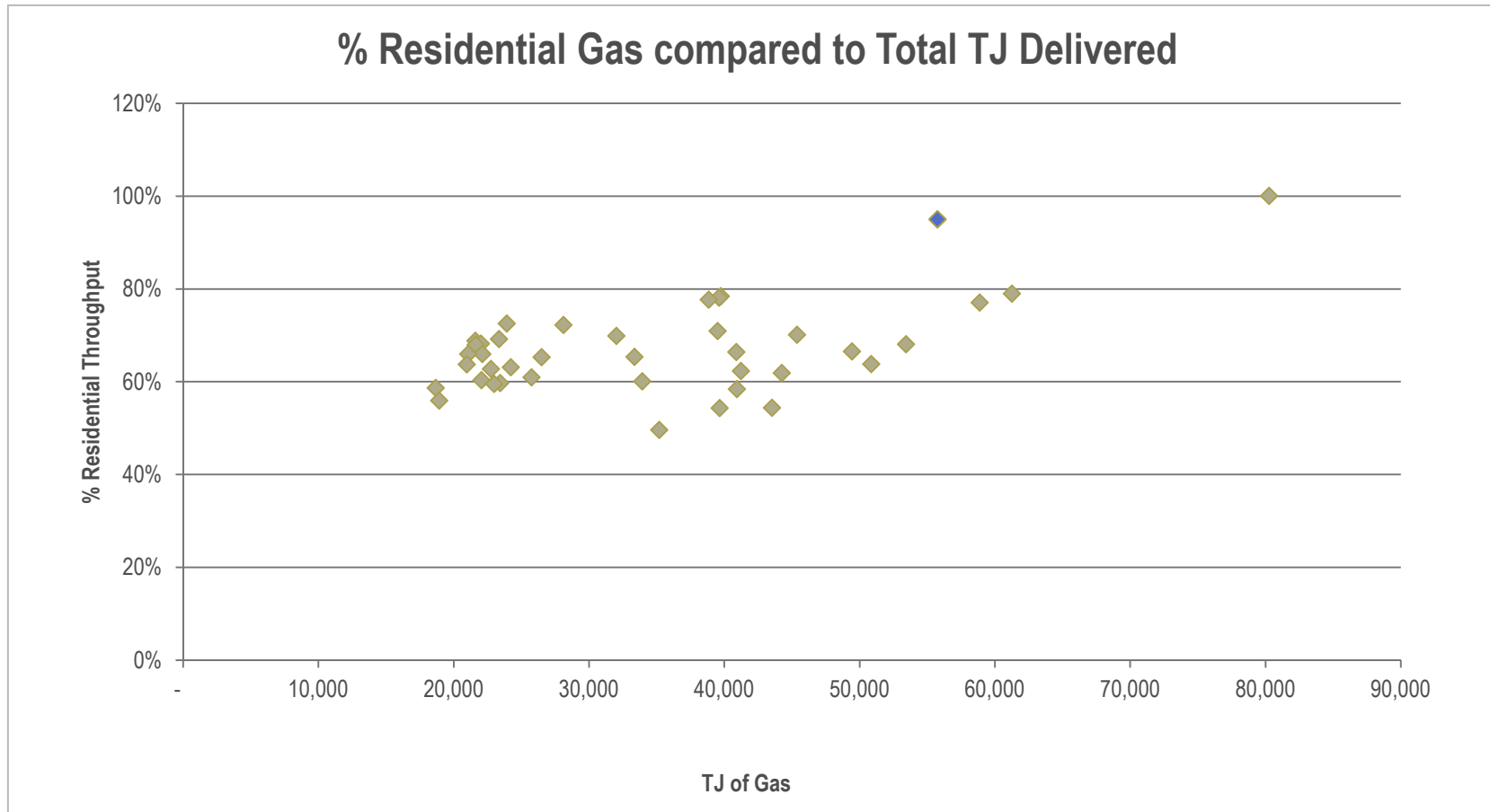
Filter Analysis

After MHC filtered for completeness the graph below show the range for terajoules of total gas delivered. In order to make the information comparable MHC filtered this list +/- 40% of 58,686 TJ (shown in blue).







Filter Analysis

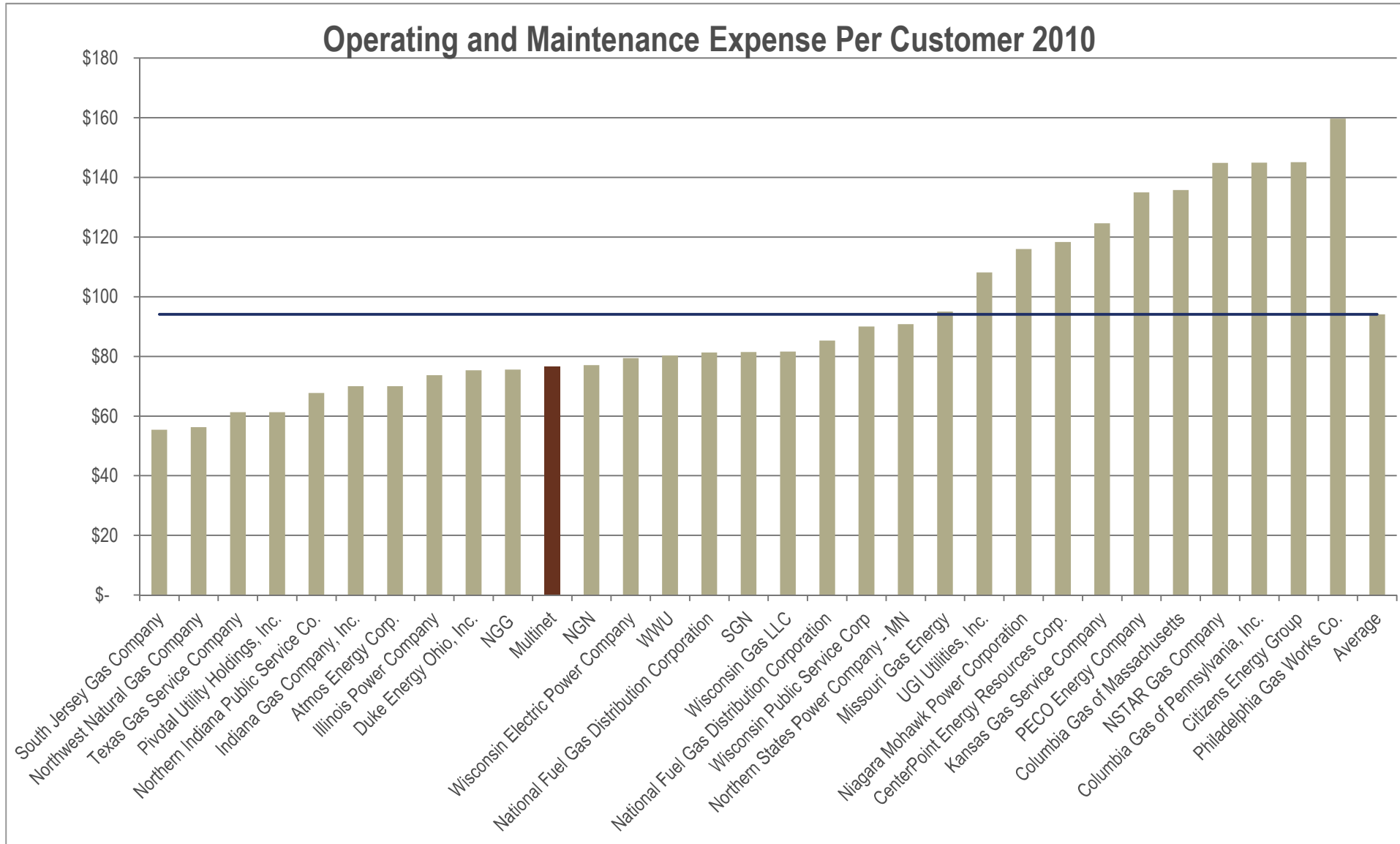
To provide further exclusions, MHC filtered the companies allowing only for inclusion of LDC's with >50% of distribution to residential customers. The following scatter chart shows the remainder of the companies. Multinet Gas (shown in blue) has one of the highest percentages of residential throughput.



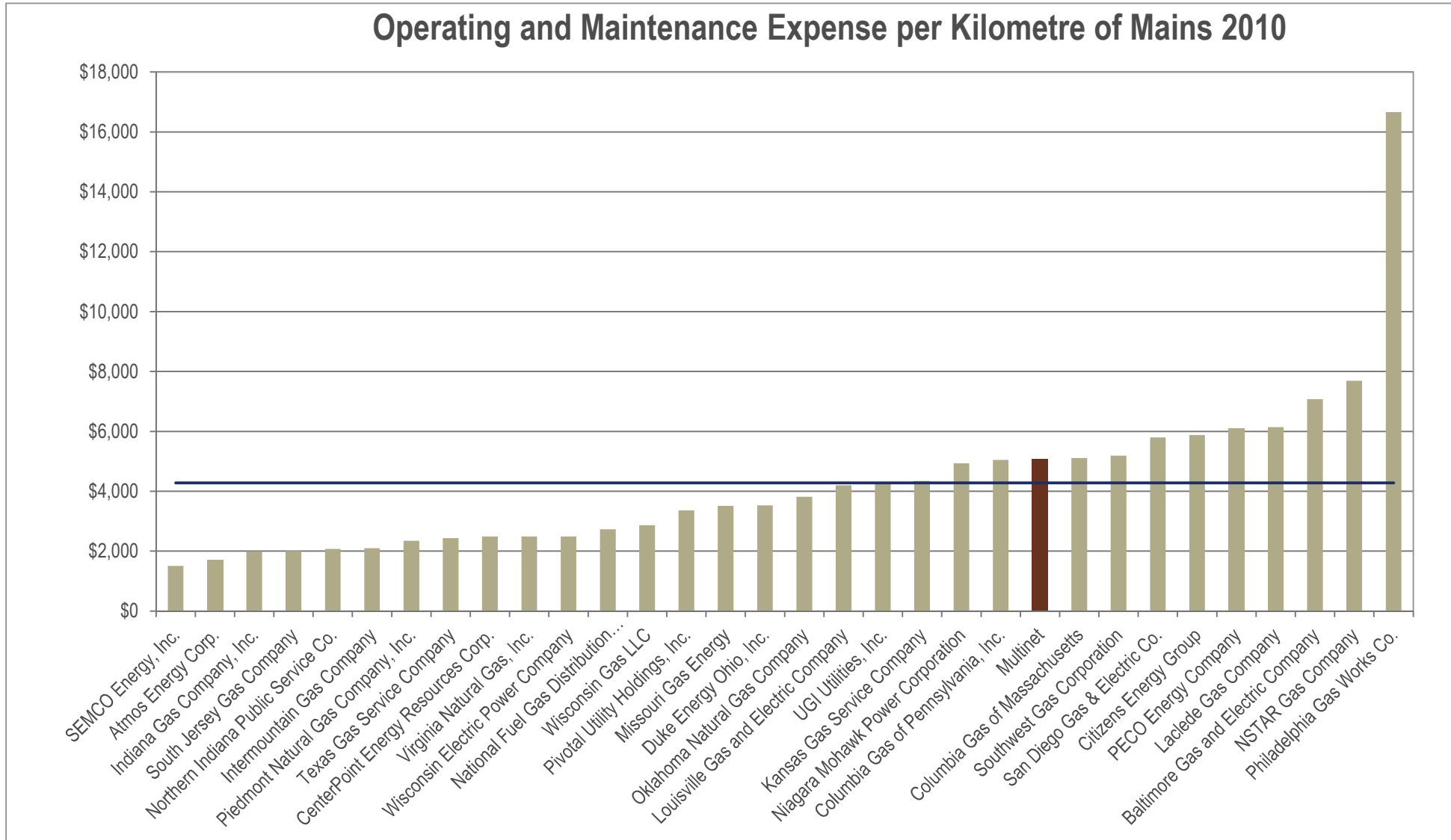
US Benchmark Results: Financial Efficiency

Ratio	2010 Performance	Meaning	Ratio Measure
OPEX/Customer		Multinet Gas operating expense/customer is better than (less) or equal to average of peers	Operating Expenditure efficiency
OPEX/KM of Main		Multinet Gas operating expense/km main in line with (within 25%) peers	Operating Expenditure efficiency
CAPEX/Customer		Multinet Gas operating expense/customer is better than (less) or equal to average of peers	Capital Expenditure efficiency
CAPEX/KM of Main		Multinet Gas operating expense/customer is better than (less) or equal to average of peers	Capital Expenditure efficiency

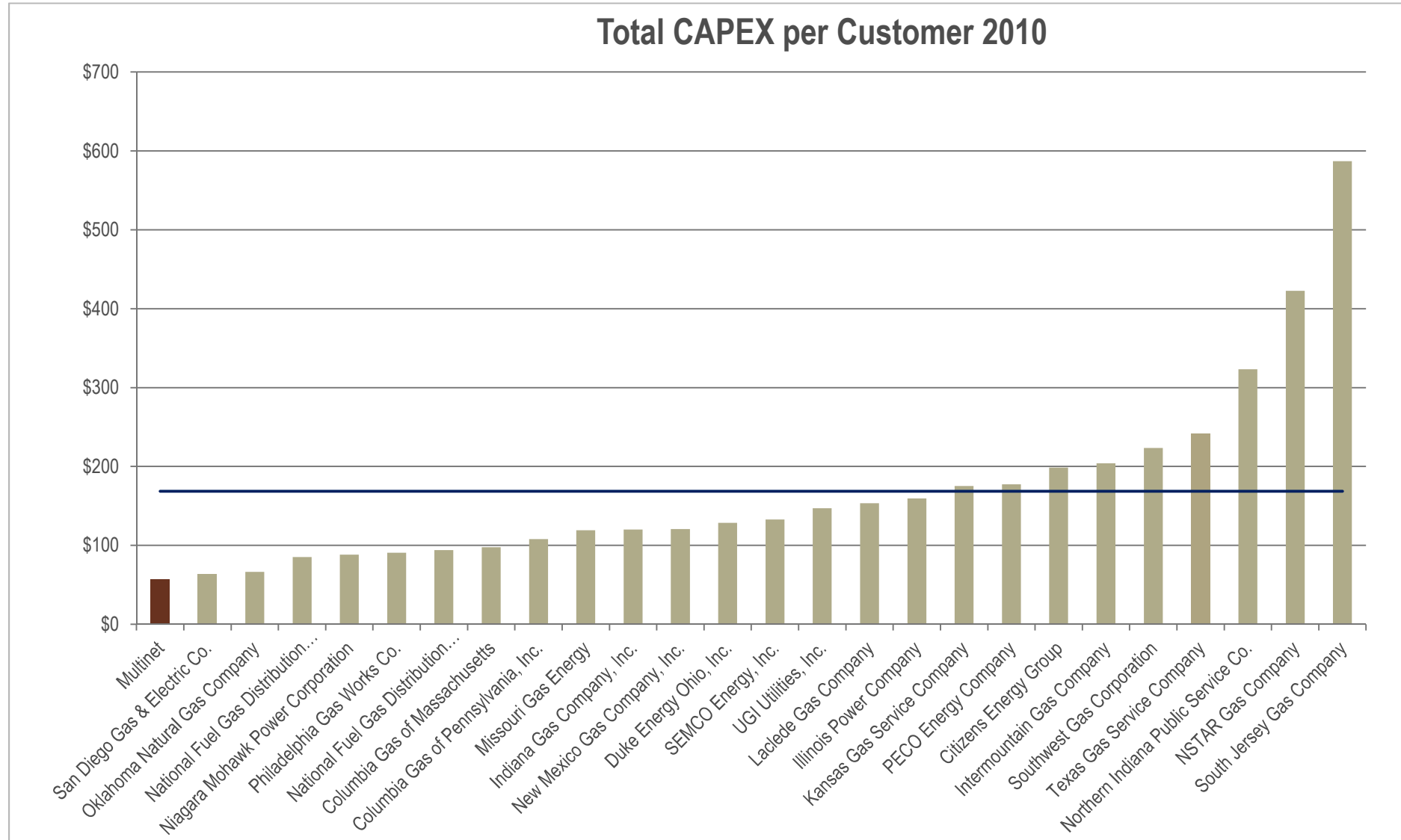
US Benchmark Results



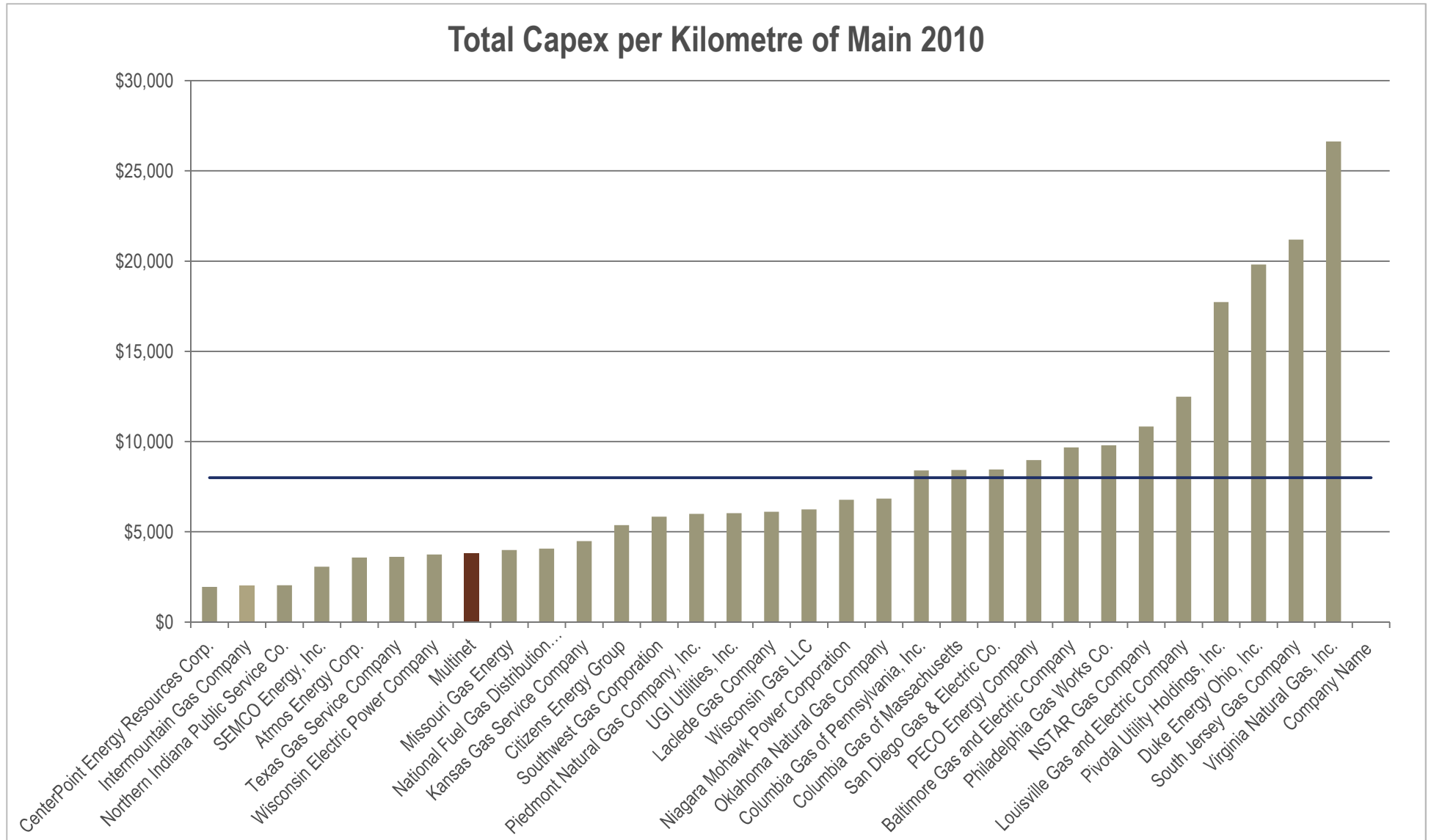
US Benchmark Results



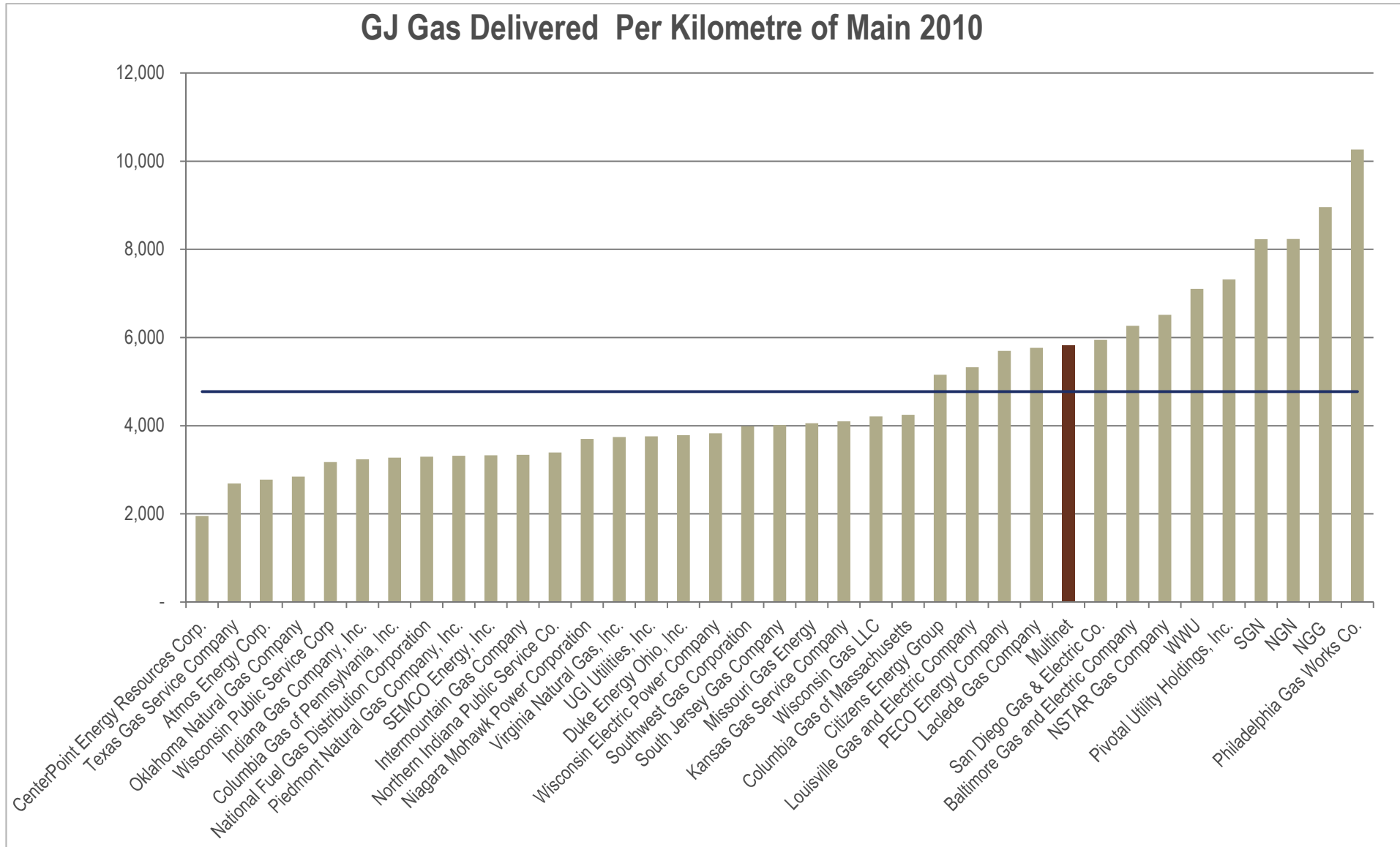
US Benchmark Results



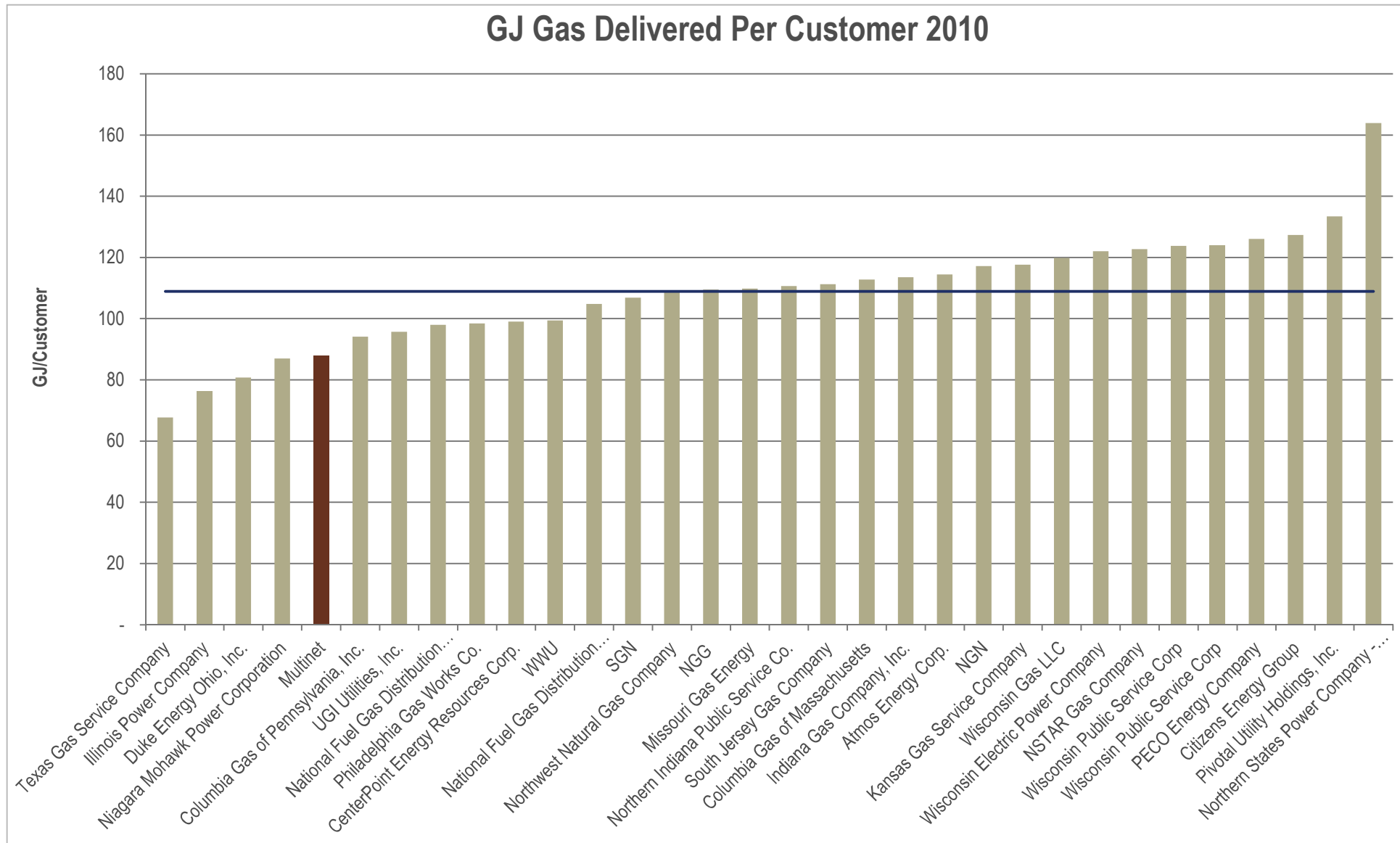
US Benchmark Results: Operating Environment



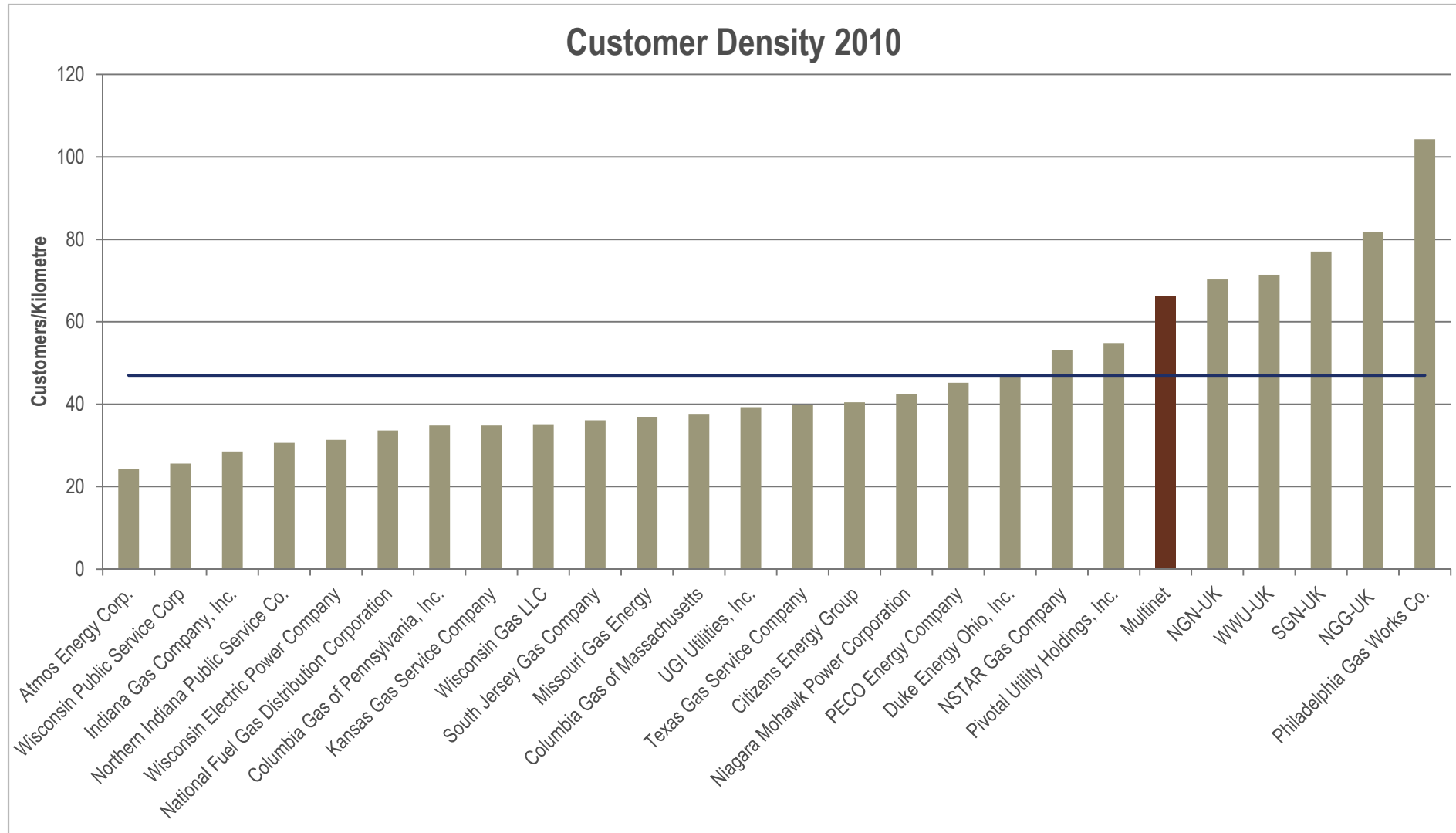
US Benchmark Results: Operating Environment



US Benchmark Results: Operating Environment



US Benchmark Results: Operating Environment



Conclusion

Overall, Multinet Gas performs well on capital invested compared to all UK and US gas distribution businesses. The best measure of Capital expenditure, is Capital Expenditure per kilometre of main (shown for all companies on slide 30).

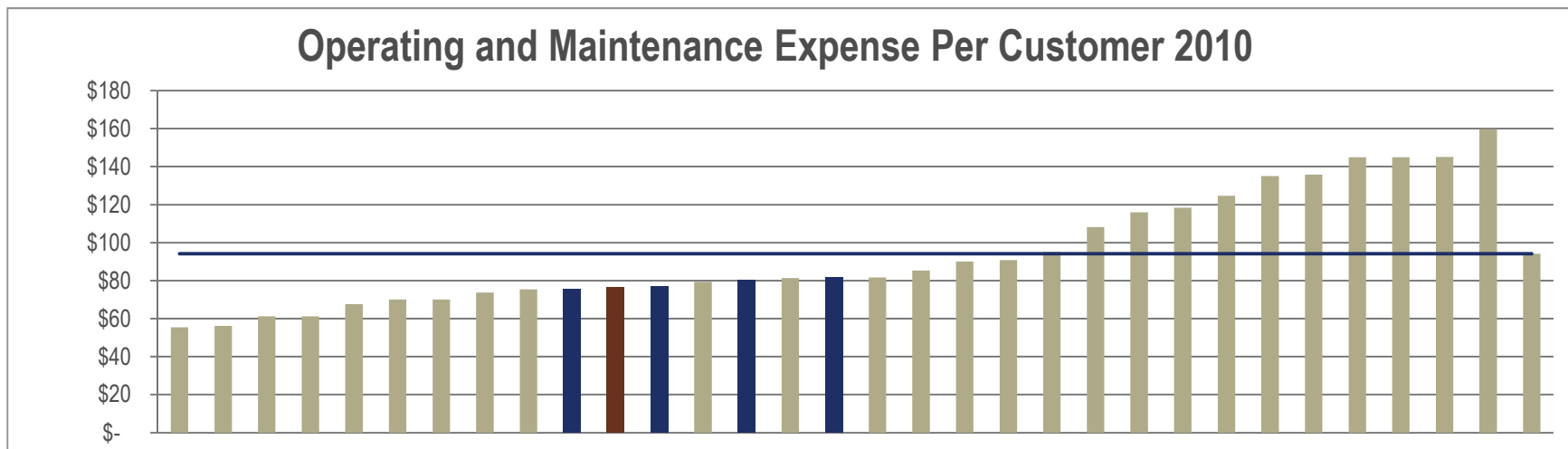
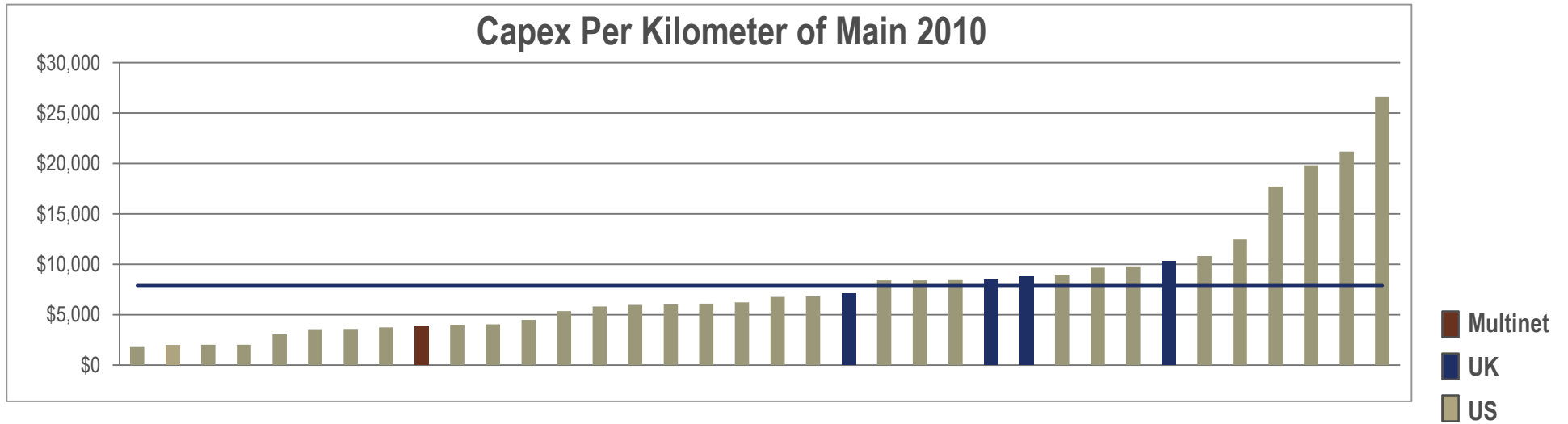
Multinet Gas have a relatively low CAPEX program (efficient) given the scale of the company in terms of assets managed.

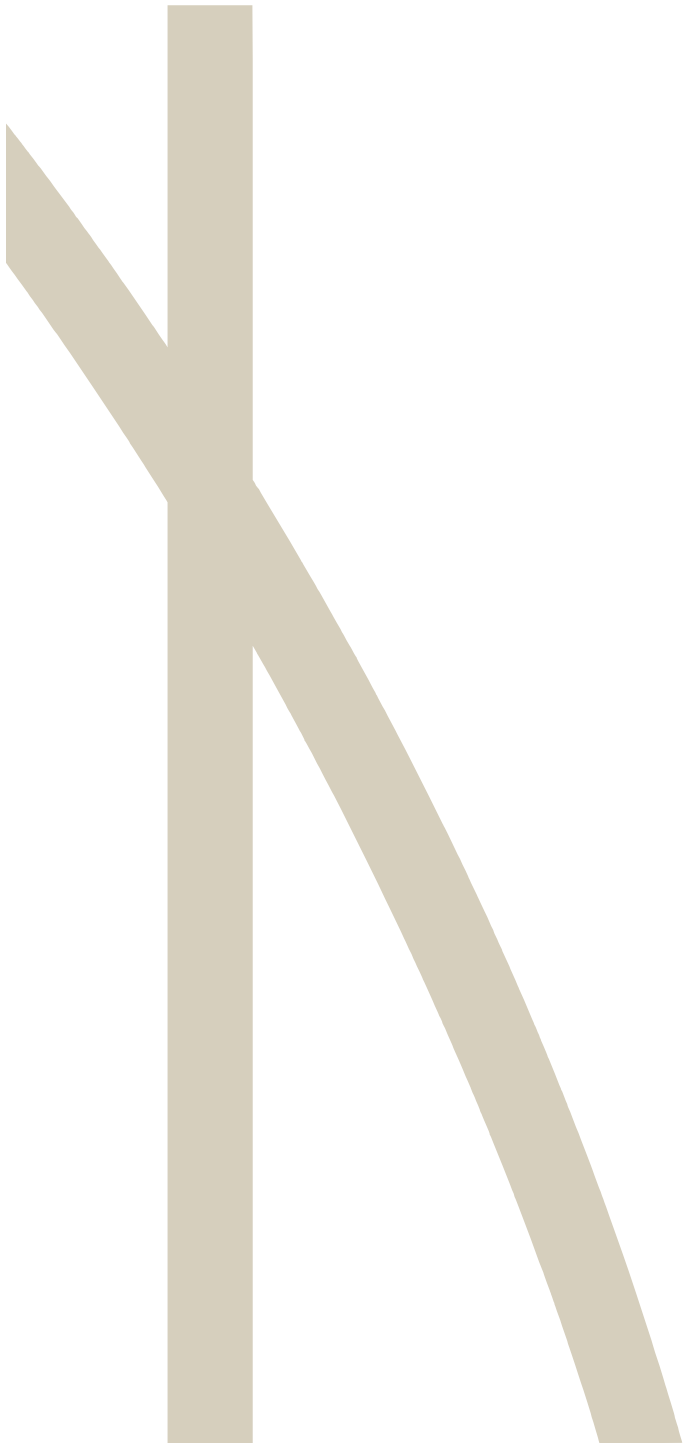
The operating expenditure is comparable to both the UK and US businesses. The best measure for comparison is Opex/Customer. Multinet Gas performed above most companies, apart from two companies in the UK given the 5 year average. However, using 2010 data Multinet Gas is more efficient than the 2010 overall average, and three of the UK businesses (slide 30). On this basis, Multinet Gas' OPEX program seems to be as efficient as the peers benchmarked.

The ratios of gas delivered/customer, gas delivered/kilometre and customer density are designed to examine the operating environment of the distributor, and serve the basis for modifying absolute performance to comparable relative performance.

Based on the analysis Multinet Gas is in the top quartile of businesses benchmarked on the key partial efficiency measures, capex and opex by customer and km mains. On this basis Multinet Gas should be seen as being relatively efficient.

Benchmark Results Overall: Capex and Opex Efficiency





Appendix 1

MHC's Assumptions

The sourcing of data and assumptions are detailed in each section (US and UK).

The benchmarking ratios assume similar operating environments, and although MHC has tried to identify companies that are similar to Multinet Gas for a comparable result.

The regulatory regimes of the companies benchmarked differ from Multinet Gas. Although the US companies operate in a relatively more competitive environment, the results do not show a reduction of OPEX and CAPEX costs that may be expected.

Multinet Gas Data

Multinet Gas Data	Values 2010
% Residential gas	95%
Gas Delivered TJ	58,686
Total Natural Gas Customers	668,373
Length of Mains (KM)	10,074
O&M Expense ('000)	\$51,222
Total CAPEX ('000)	\$38,297

US Companies Benchmarked after Filter Analysis

Due to state based regulation, companies are benchmarked based on regional data. Companies that operate in multiple states must comply with state based compliance regulatory requirements, so data is for distribution in the given state.

Company	State	Company	State	Company	State
Atmos Energy Corp.	TX	Missouri Gas Energy	MO	Pivotal Utility Holdings, Inc.	NJ
Baltimore Gas and Electric Company	MD	Multinet	OH	San Diego Gas & Electric Co.	CA
CenterPoint Energy Resources Corp.	Other	National Fuel Gas Distribution Corporation	NY	SEMCO Energy, Inc.	MI
CenterPoint Energy Resources Corp.	AR	National Fuel Gas Distribution Corporation	Other	South Jersey Gas Company	NJ
Citizens Energy Group	IN	New Mexico Gas Company, Inc.	NM	Southwest Gas Corporation	NV
Columbia Gas of Massachusetts	MA	Niagara Mohawk Power Corporation	NY	Texas Gas Service Company	TX
Columbia Gas of Pennsylvania, Inc.	PA	Northern Indiana Public Service Co.	IN	UGI Utilities, Inc.	PA
Duke Energy Ohio, Inc.	OH	Northern States Power Company - MN	MN	Virginia Natural Gas, Inc.	VA
Illinois Power Company	IL	Northwest Natural Gas Company	Other	Wisconsin Electric Power Company	WI
Indiana Gas Company, Inc.	IN	NSTAR Gas Company	MA	Wisconsin Gas LLC	WI
Intermountain Gas Company	ID	Oklahoma Natural Gas Company	OK	Wisconsin Public Service Corp	Other
Kansas Gas Service Company	KS	PECO Energy Company	PA	Wisconsin Public Service Corp	WI
Laclede Gas Company	MO	Philadelphia Gas Works Co.	PA		
Louisville Gas and Electric Company	KY	Piedmont Natural Gas Company, Inc.	NC		

Inflation Rate- GDP Deflator

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Australia	3.1	2.7	3.3	4.1	4.9	5.1	4.4	4.9	
United Kingdom	3.1	3.1	2.5	2	3.1	3	3	1.4	2.9
United States	1.6	2.2	2.8	3.3	3.3	2.9	2.2	1.8	0.8

Inflation as measured by the annual growth rate of the GDP implicit deflator shows the rate of price change in the economy as a whole. The GDP implicit deflator is the ratio of GDP in current local currency to GDP in constant local currency.

Annual Inflation rates were sourced from the World Bank, available at : <http://data.worldbank.org/indicator/NY.GDP.DEFL.KD.ZG>

Purchasing Power Parity (PPP) for GDP (National Currency/USD)*

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	1.34	1.35	1.37	1.39	1.41	1.43	1.48	1.45	1.51	1.56
United Kingdom	0.63	0.64	0.63	0.64	0.63	0.65	0.65	0.65	0.66	0.66
United States	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

*Full Data Sets available from OECD website: http://stats.oecd.org/Index.aspx?datasetcode=SNA_TABLE4