

APPROVAL

Access Arrangement

for

ActewAGL

Natural Gas System

in ACT, Queanbeyan and Yarrowlumla



INDEPENDENT COMPETITION AND REGULATORY COMMISSION

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Access Arrangement Information**

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January 2001

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1 INTRODUCTION

In January 1999, the AGL Gas Company (ACT) Limited and AGL Gas Networks Limited submitted its proposed Access Arrangement (AA) for the natural gas system in the ACT, Queanbeyan and Yarrowlumla to the Independent Competition and Regulatory Commission of the ACT (the Commission).

Since submission of the proposed AA, a joint venture has been formed in the ACT between Actew Distribution Limited and AGL Gas Company (ACT) Limited. Under this joint venture, the gas and electricity businesses of the two utilities have been combined in the ACT as ActewAGL Distribution (ActewAGL). The gas network assets of AGL Gas Company (ACT) Limited and the Queanbeyan and Yarrowlumla gas network assets of AGL Gas Networks Limited have been transferred to ActewAGL. The proposed AA and the Commission's final approval now relate to the joint venture body, ActewAGL.

The process of the review included:

- advertisement of the proposed AA and Access Arrangement Information (AAI) for public comment on 11 January 1999
- public hearing held on 11 May 1999
- pricing forum held on 22 September 1999
- release of the Commission's draft decision on 9 March 2000 for public comment
- release of the Commission's final decision on 28 November 2000.

The final decision required 34 amendments to be made to the AA and AAI before the Commission approved it. ActewAGL was required to submit its revised AA and AAI by 22 December 2000.

ActewAGL submitted its revised AA and AAI on 22 December 2000 for approval.

This is the approval document for ActewAGL's revised AA. This approval should be read in conjunction with the final decision. The Commission's final decision on ActewAGL's original AA and AAI gives the reasons why the Commission required the amendments, which ActewAGL has now made.

2 ASSESSMENT OF ActewAGL'S REVISED ACCESS ARRANGEMENT AND ACCESS ARRANGEMENT INFORMATION

2.1 Access Arrangement Information

The Commission has assessed ActewAGL's revised AA and AAI to ensure that it meets the required amendments and that the updated tables and information incorporate the changes required to the AA, as specified in the final decision.

The Commission is satisfied that the revised AA and AAI are consistent with the required amendments.

2.2 Access Arrangement

An evaluation of ActewAGL's AA and an audit of ActewAGL's new pricing model have been carried out. The Commission is of the view that the AA and the new revised pricing model are reasonable and consistent with the final decision.

2.2.1 Audit of ActewAGL's pricing and cost allocation model

In its final decision, the Commission decided that it would appoint a consultant to audit ActewAGL's pricing and cost allocation model prior to approval of the revised AA. The purpose of the audit was to ensure that ActewAGL's revised pricing and cost allocation model is consistent with the final decision, eg to ensure that reference tariffs multiplied by demand equal allowed revenue.

After the release of the final decision, ActewAGL agreed to provide its pricing and cost allocation model to the Commission's appointed consultant (KPMG) for auditing purposes prior to its submission of its revised AA. The audit was conducted by KPMG in December 2000. KPMG submitted its audit report to the Commission which, within its terms of reference, found that ActewAGL's pricing and cost allocation model is consistent with the final decision.

The Commission has also undertaken its own review of ActewAGL's pricing and cost allocation model.

The Commission has considered the audit report and the outcomes of its own review. The Commission has reached an independent view that ActewAGL's final pricing and cost allocation model complies with the final decision.

2.2.2 Compliance with amendments required in the final decision

ActewAGL has expressed its reference tariffs in real 2000/01 dollars. In assessing ActewAGL's revised AA and AAI, the Commission is satisfied that the real dollar values provided in the revised AA and AAI are consistent with the real dollar values in the final decision.

Attachment 1 provides a summary of the Commission's assessment of whether the required amendments in the final decision have been made in the revised AA and AAI that ActewAGL has submitted.

2.3 Other issues

2.3.1 Requirement to connect to the EGP

Under amendment 6, ActewAGL is required to connect to the Eastern Gas Pipeline (EGP) and allow for third party access by 1 July 2001. This date may be extended by ActewAGL notifying the Commission that delay has been caused through factors beyond ActewAGL's control, and the nature of these factors.

The Commission will liaise with ActewAGL on the progress of the lateral connection to the EGP as this date draws closer.

2.3.2 Development of asset register

Under amendment 9, ActewAGL is required to establish its asset register consistent with the final decision. The asset register will be established by no later than 6 months from the date that the revisions to the AA come into effect.

The Commission expects that ActewAGL's asset register be established by 1 August 2001 and maintained during the AA period. The Commission will monitor the development of the asset register.

2.3.3 Prices inclusive of GST

Prices contained in ActewAGL's revised AA are expressed:

- in real 2000/01 dollars
- exclusive of Goods and Services Tax (GST).

These prices incorporate cost savings due to the introduction of the New Tax System.

ActewAGL has prepared a consolidated schedule of final prices and charges inclusive of GST (10 per cent) and adjusted by inflation as permitted in the final decision. This consolidated price schedule forms part of ActewAGL's Information Package and is also attached to the revised AA as an Addendum. The price schedule will be updated each year and published by ActewAGL.

3 COMMISSION APPROVAL

Section 2.19 of the Code states in part:

If the Service Provider submits amended revisions to the Access Arrangement by the date specified by the Relevant Regulator under section 2.16(a)(ii) or (b)(ii) then the Relevant Regulator must issue a final decision that:

- (a) ...
- (b) if the Relevant Regulator is satisfied that the amended revisions to the Access Arrangement either substantially incorporates the amendments specified by the Relevant Regulator or otherwise address to the Relevant Regulator's satisfaction the matters the Relevant Regulator identified in its final decision as being the reasons for requiring the amendments specified in its final decision under section 2.16(a)(ii) or (b)(ii), either approve or does not approve the amended revisions to the Access Arrangement (in the Relevant Regulator's discretion); or
- (c) ...

The Commission is satisfied that ActewAGL's revised AA and AAI otherwise addresses the matters the Commission identified in its final decision as being the reasons for requiring the amendments specified in the final decision.¹ Subsequently, the Commission approves:

- the revised AA for ActewAGL submitted to the Commission on 22 December 2000 and
- the revised AAI for ActewAGL.

4 COMMENCEMENT DATE

Subject to the Code and the Gas Pipelines Access Law, this decision to approve the revised AA and AAI for ActewAGL is effective from the date of its publication.

Section 2.48 of the Code states that:

Subject to the Gas Pipeline Access Law, revisions to an Access Arrangement come into effect on the date specified by the Relevant Regulator in its decision to approve the revisions (which date must not be earlier than either a date 14 days after the day the decision was made or, except where the Service Provider submitted the revisions voluntarily or because a mechanism of a type referred to in section 3.18(a) included in the Access Arrangement was triggered, the Revisions Commencement Date).

The Commission has decided that revisions to ActewAGL's AA will come into effect on 1 February 2001.

¹ Reasons for variance between the Commission's final decision amendments and the revised AA and AAI submitted by ActewAGL are discussed in attachment 1, under amendments 14 and 18.

5 ActewAGL - CONTACT DETAILS

Any requests for a hard copy of the approved AA or the AAI should be addressed to:

Mr Chris Harvey
Manager, Regulatory Affairs Gas Network
Agility Management Pty Ltd (on behalf of ActewAGL Distribution Limited)
AGL Centre
111 Pacific Highway
NORTH SYDNEY NSW 2059

Phone 02 9922 8601
Fax 02 9957 3871

Any inquiries regarding access to the distribution system in the ACT, Queanbeyan and Yarrowlumla should be addressed to:

Ms Catherine Pritchard
Manager, Transportation Contracts
Agility Management Pty Ltd (on behalf of ActewAGL Distribution Limited)
18 Rodborough Road
FRENCHS FOREST NSW 2086

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ATTACHMENT 1 COMPLIANCE REVIEW OF ActewAGL'S REVISED ACCESS ARRANGEMENT

Amendment 1 – Access Arrangement information

ActewAGL is required to amend its Access Arrangement to include:

- a) consolidation of the information in its original AAI , RAAI and SAAI, consistent with this final decision
- b) amendments required by this final decision
- c) actual results for 1998/99 including capital costs, non-capital costs, system capacity, sales volume, MDQ, and key performance indicators
- d) cost allocation information consistent with the revisions required by this final decision.

Commission's assessment

ActewAGL has consolidated information presented during the course of this review, presented actual results for 1998/99 and met the amendments required in the final decision.

The Commission is satisfied that the revised AA/AAI is consistent with the requirements of Amendment 1.

Amendment 2 – Rate of return

ActewAGL must amend its Access Arrangement so that the rate of return it uses in the methodology employed to determine Total Revenue and Reference Tariffs does not exceed 7.75 per cent in real pre tax terms.

Commission's assessment

ActewAGL has amended its reference tariff policy to state that the rate of return is 7.75 per cent in real pre tax terms. ActewAGL's models have been adjusted based on a pre tax real weighted average cost of capital of 7.75 per cent to comply with this required amendment.

Amendment 3 – Initial capital base at 1 July 1999

The initial capital base for ActewAGL's covered pipeline must be set at a value no higher than \$175m at 1 July 1999.

Commission's assessment

ActewAGL has adopted the initial capital base (ICB) of \$175m at 1 July 1999.

Amendment 4 – Depreciation

ActewAGL is required to amend its economic asset lives as follows:

Asset class	Economic asset Life (years)
Trunk main	80
Primary main	80
Secondary network	80
Medium pressure network	50
Secondary services	50
MP/LP services	50
ALB valves	50
TRS/POTS	50
PRS	50
Primary valves	50
SRS	50
Contract meters	15
Lump meters - I&C tariff	15
GASS Meters - domestic	15
Non system assets	To be consistent with the categories and asset lives adopted for financial reporting.

Commission's assessment

In its AAI, ActewAGL has revised its economic asset lives as set out in Amendment 4.

Amendment 5 – Forecast capital expenditure

For the purpose of calculating reference tariffs during the Access Arrangement period, ActewAGL is required to:

- use the actual capex for 1999/2000 to roll forward the ICB to 1 July 2000
- revise its forecast capital expenditure (2000/01 \$m) as follows

Year ending June	2001	2002	2003	2004
Renewal/replacement				
High pressure	0.0	0.0	0.0	0.0
M/L pressure tariff	0.0	0.0	0.0	0.0
Meters/regs/filters	0.8	0.9	1.3	0.5
Non system assets	0.5	0.4	0.5	1.2
Subtotal	1.3	1.3	1.8	1.7
Growth related				
M/L pressure tariff	2.6	3.0	3.3	3.3
System reinforcement	2.8	3.5	2.3	1.2
EGP connection	10.6	0.0	0.0	0.0
Total	17.4	7.8	7.4	6.2

Note: Total may not add due to rounding.

Commission’s assessment

ActewAGL has revised its AAI to use forecast capital expenditure in a manner that is consistent with the final decision. ActewAGL has used the same capex forecast in rolling forward its capital base for the purposes of calculating reference tariffs.

Amendment 6 – Requirement to connect to the EGP

ActewAGL is required to connect to the Eastern Gas Pipeline and allow for third party access by 1 July 2001. This date may be extended by ActewAGL notifying the Commission that delay has been caused through factors beyond ActewAGL’s control, and the nature of these factors.

Commission’s assessment

The Commission will liaise with ActewAGL on the progress of the lateral connection to the EGP as this date draws closer.

Amendment 7 – EGP connection capital expenditure

In calculating its Reference Tariffs, ActewAGL is required to recover the allowed capital expenditure relating to the EGP lateral from all the gas users in the ACT, Queanbeyan and Yarrowlumla.

Commission’s assessment

The Commission has considered ActewAGL’s Reference Tariffs as presented in its AA, and its pricing models. No distinction to Reference Tariffs is made for receipt of gas from the EGP.

The Commission considers that ActewAGL has complied with the requirements of Amendment 7.

Amendment 8 – Projected capital base from 1 July 1999 to 30 June 2004

For the purpose of calculating reference tariffs during the Access Arrangement period, ActewAGL is required to use the projected capital base for the distribution assets as follows:

Projected capital base – ActewAGL’s pipeline (nominal \$m)

Year ending June	2000	2001	2002	2003	2004
Year end closing value	182.1	204.6	212.3	219.6	225.6

Note:

1. The projected capital base for 2000/01 allows for indexation inclusive of GST effect.
2. Inflation is assumed to be 2.4 per cent in 1999/2000, 6 per cent in 2000/01 (inclusive of GST effect) and 3 per cent per annum from 2001/02 to 2003/04.
3. The rolled forward capital base at the commencement of the next review will be determined under the relevant provisions of the Code.

Commission’s assessment

The Commission is satisfied that in calculating its Reference Tariffs, ActewAGL has adopted the projected Capital Base from 1 July 1999 to 30 June 2004 as set out in Amendment 8.

Amendment 9 – Capital redundancy mechanism

In its Access Arrangement, ActewAGL must include in its Reference Tariff Policy a capital redundancy mechanism that permits the Relevant Regulator, with effect from the commencement of the next Access Arrangement Period, to reduce the Capital Base by an amount representing:

- a) any assets that in the reasonable opinion of the Relevant Regulator, have ceased to contribute to the delivery of Services;
- b) any assets that in the reasonable opinion of the Relevant Regulator, are likely to cease to contribute to the delivery of Services;
- c) any assets that have been transferred by ActewAGL or in relation to which ActewAGL has entered into a binding agreement for its transfer;
- d) any assets that in the reasonable opinion of the Relevant Regulator have decreased in value because of a decrease in its utilisation resulting from a decline or likely decline in the volume of sales of the Service; or
- e) any assets that in the reasonable opinion of the Relevant Regulator have decreased in value because of a likely decrease in its utilisation resulting from a decline or likely decline in the volume of sales of the Service.

In assessing the reduction in the Capital Base due to a decreased utilisation of assets resulting from a decline in the volume of sales of a Service, the Relevant Regulator may take into account the reduction in Total Revenue and any possible increase in Tariffs paid by Users resulting from the decline in utilisation of assets.

ActewAGL must include the following statement in its Access Arrangement:

“ActewAGL will establish and maintain an asset register during the Access Arrangement period. The asset register will (without limiting the matters that may be included) include information on:

- economic asset lives and remaining asset lives underlying the initial capital base at 1 July 1999
- asset components (ie asset types, unit rates and asset quantities) consistent with the initial Capital Base at 1 July 1999 in the final decision. The asset components should be consistent with those used in ActewAGL’s depreciated optimised replacement cost valuation in its Access Arrangement Information
- new capital expenditure incurred after 1 July 1999 including information on economic asset lives, unit rates and asset quantities.

The asset register must be established in a manner reasonably acceptable to the Relevant Regulator and consistent with the final decision of the Commission in 2000. The asset register will be established no later than six months from the date that the revisions to the Access Arrangement lawfully takes effect, by virtue of a decision under section 2 of the Code.”

Commission’s assessment

ActewAGL has revised its AA as follows:

- section 4.2 additional matters clause 4.2.1 has been revised to reflect the capital redundancy mechanism set out in Amendment 9

- section 9.1 contains a statement to the effect of Amendment 9 in regard to the establishment of an asset register.

The Commission is satisfied that the revisions meet the requirements of Amendment 9.

Amendment 10 – Review of regulatory capital base after the expiry of an Access Arrangement

In its Access Arrangement, ActewAGL must include a statement in its Reference Tariff Policy as follows:

“The Capital Base at the commencement of the next Access Arrangement Period and each Access Arrangement Period thereafter will be assessed by the Relevant Regulator using, among other things, information in relation to those assets contained in:

- a) the Asset Register required to be maintained under Amendment 9; and
- b) the database required to be maintained on capital contributions under Amendment 20.”

Commission’s assessment

Section 4.2.4 of the AA contains revisions as set out in Amendment 10. The Commission is satisfied that the revisions comply with the final decision.

Amendment 11 – Non capital costs

ActewAGL must amend the controllable costs and other costs (ie government levies and unaccounted for gas) of its forecast Non Capital Costs in its Access Arrangement as follows:

Forecast non capital costs – 2000/01 \$m

Year ending June	2001	2002	2003	2004
Controllable costs	8.5	8.1	7.7	7.4
Other (provisional only)	1.4	1.4	1.3	1.3
Total	9.9	9.4	9.0	8.7

Note:

1. Forecast non capital costs are before the impact of GST.
2. Excludes costs associated with retail contestability.
3. Figures may not add up to total due to rounding.

Commission’s assessment

ActewAGL revised operating costs for the years 2000/01 – 2003/04 are consistent with the final decision.

Amendment 12 – Retail contestability costs

ActewAGL must include the following statement in its Access Arrangement:

“Costs associated with the introduction of retail contestability in the gas industry in the Australian Capital Territory, Queanbeyan or Yarrowlumla Shire (“Retail contestability costs”), as required by the *ACT Gas Supply Act* and/or the *NSW Gas Supply Act*, will initially be excluded from the costs of services and the calculation of Reference Tariffs.

Except for those costs that may have been recovered through authorisation fees as permitted in Amendment 16, ActewAGL may recoup some or all of the Retail contestability costs through Reference Tariffs only if it first complies with the following conditions:

- (a) ActewAGL will notify the Relevant Regulator in writing of its desire to recover the costs through Reference Tariffs and provide the Relevant Regulator with any information it may reasonably require including without limitation:
 - (i) the nature of the costs;
 - (ii) the amount of the costs it seeks to recover;
 - (iii) the amendments it proposes to the Reference Tariffs in order to recoup those costs and the basis on which those amendments were calculated;
 - (iv) the impact or likely impact of the proposed Reference Tariffs on Users or classes of User; and
 - (v) the date on which it is proposed that the new Reference Tariffs commence; and

- (b) ActewAGL will give the Relevant Regulator a reasonable time from the date it notifies the Relevant Regulator under paragraph (a) to appoint an independent person suitably qualified (if the Relevant Regulator wishes) and to have that person review and report to the Relevant Regulator, (on the basis of the information given to the Relevant Regulator under (a)) on the following:
 - (i) the impact of these costs on Reference Tariff, were they to be recouped through Reference Tariffs; and
 - (ii) any other matters that the Relevant Regulator may reasonably require; and

- (c) ActewAGL may recoup through Reference Tariffs only those Retail contestability costs:
 - (i) that are permitted by any law relating to retail contestability in the gas industry in the Australian Capital Territory, Queanbeyan or Yarrowlumlra Shire, or its implementation; and/or
 - (ii) stipulated (consistent with the Code) in a direction of the relevant Minister for the purpose of the Access Arrangement; and/or
 - (iii) stipulated, (consistent with the Code) by any person or group of people appointed by Government or industry to inquire into or implement retail contestability in the gas industry in the Australian Capital Territory, other than those costs, if any, that have been permitted or stipulated under (i) and (ii); and/or
 - (iv) as verified by an independent person appointed by ActewAGL as being those costs that may properly be recoverable under the Code, other than those costs, if any, that have been permitted or stipulated under (i) (ii) and (iii),

and that have not already been recovered under this Access Arrangement or otherwise; and

- (d) ActewAGL may not amend its Reference Tariffs to recoup the Retail contestability costs permitted by paragraph (c) earlier than 14 days from the date that those costs are permitted, stipulated or verified, as the case may be, under paragraph (c); and

- (e) the costs that ActewAGL is permitted to recoup through amended Reference Tariffs must be allocated on the same basis as ActewAGL allocated costs in developing the Reference Tariff, immediately prior to its proposed amendment.”

Commission's assessment

Section 3.8 of the revised AA contains the clause as required by Amendment 12. The Commission is satisfied that the revisions comply with Amendment 12.

Amendment 13 – Additional heating value costs and the Utilities Act

ActewAGL must include the following statement in its Access Arrangement:

“Additional costs (both capital and non capital) for:

- heating value measurement, eg associated with the introduction of a second receipt point on the ActewAGL network; and
- compliance with requirements in the ACT Utilities Act

may be recovered by ActewAGL through Reference Tariffs only if it first complies with the following conditions:

- (a) ActewAGL will notify the Relevant Regulator in writing of its desire to recover the costs (which have not already been recovered under this Access Arrangement or otherwise) through Reference Tariffs and provide the Relevant Regulator with any information it may reasonably require including without limitation:
 - (i) the nature of the costs;
 - (ii) the amount of the costs it seeks to recover;
 - (iii) the amendments it proposes to the Reference Tariffs in order to recoup those costs and the basis on which those amendments were calculated;
 - (iv) the impact or likely impact of the proposed Reference Tariffs on Users or classes of User; and
 - (v) the date on which it is proposed that the new Reference Tariffs commence; and
- (b) ActewAGL will give the Relevant Regulator a reasonable time from the date it notifies the Relevant Regulator under paragraph (a) to appoint an independent person suitably qualified (if the Relevant Regulator wishes) and to have that person review and report to the Relevant Regulator, (on the basis of the information given to the Relevant Regulator under (a)) on the following:
 - (i) the impact of these costs on Reference Tariff, were they to be recouped through Reference Tariffs; and
 - (ii) any other matters that the Relevant Regulator may reasonably require; and
- (c) ActewAGL may not amend its Reference Tariffs to recoup the additional costs earlier than 14 days from the date that those costs are confirmed by the auditor, or if no auditor is appointed, 30 days from the date of notification under (a), and
- (d) the costs that ActewAGL is permitted to recoup through amended Reference Tariffs must be allocated on the same basis as ActewAGL allocated costs in developing the Reference Tariff, immediately prior to its proposed amendment.”

Commission's assessment

Section 3.7 of the revised AA contains the clause as required by Amendment 13. The Commission is satisfied that the revisions comply with Amendment 13.

Amendment 14 – Pre GST price and revenue

ActewAGL is required to amend its Access Arrangement so that its Reference Tariffs, (if applied over the whole year 2000/01, and subsequent years to 2003/04) are consistent with Total Revenue as follows, plus the net impact of GST (see amendment 17):

Revenue path in 2000/01 \$m (pre GST) ⁽¹⁾

Year ending June	2001	2002	2003	2004
Contract revenue	1.4	1.4	1.4	1.4
Tariff revenue	30.1	30.2	30.4	30.6
Total	31.5	31.7	31.9	32.1

Note:

1. The allowed contract revenue in 2000/01 is based on the full year effect as if the Access Arrangement has been implemented from 1 July 2000. The allowed revenue is expressed before the net impact of GST.
2. Figures may not add up to total due to rounding.

The Reference Tariffs may be varied on 1 July of each year during the Access Arrangement Period of this Access Arrangement.

On 1 July 2001, Reference Tariffs may be adjusted by CPI_1^{-GST} , which means the number derived from the application of the following formula:

$$CPI_1^{-GST} = \left(\frac{CPI_{Jun2000}^{-GST} + CPI_{Sep2000}^{-GST} + CPI_{Dec2000}^{-GST} + CPI_{Mar2001}^{-GST}}{CPI_{Jun1999} + CPI_{Sep1999} + CPI_{Dec1999} + CPI_{Mar2000}} - 1 \right) \times 100\%$$

and

On 1 July 2002, Reference Tariffs may be adjusted by CPI_2^{-GST} , which means the number derived from the application of the following formula:

$$CPI_2^{-GST} = \left(\frac{CPI_{Jun2001}^{-GST} + CPI_{Sep2001}^{-GST} + CPI_{Dec2001}^{-GST} + CPI_{Mar2002}^{-GST}}{CPI_{Jun2000} + CPI_{Sep2000}^{-GST} + CPI_{Dec2000}^{-GST} + CPI_{Mar2001}^{-GST}} - 1 \right) \times 100\%$$

and

On 1 July 2003, Reference Tariffs may be adjusted by CPI_3^{-GST} , which means the number derived from the application of the following formula:

$$CPI_3^{-GST} = \left(\frac{CPI_{Jun2002}^{-GST} + CPI_{Sep2002}^{-GST} + CPI_{Dec2002}^{-GST} + CPI_{Mar2003}^{-GST}}{CPI_{Jun2001}^{-GST} + CPI_{Sep2001}^{-GST} + CPI_{Dec2001}^{-GST} + CPI_{Mar2002}^{-GST}} - 1 \right) \times 100\%$$

where:

CPI means the consumer price index, All Groups index number for the weighted average of eight capital cities as published by the Australian Bureau of Statistics, or if the Australian Bureau of Statistics does not or ceases to publish the index, then CPI will mean an index determined by the Commission that is its best estimate of the index.

CPI-GST means the CPI exclusive of the net cumulative impact since 1 July 2000 of:

- a) the GST; and
- b) changes to any other Commonwealth, State or Territory taxes or charges, consequent upon the introduction of the GST,

as calculated and published by the Australian Bureau of Statistics from time to time. If the Australian Bureau of Statistics does not, or ceases to, calculate and publish it then CPI-GST will mean:

- (i) an index published by Commonwealth Treasury which is its best estimate of the CPI-GST; or
- (ii) if Commonwealth Treasury does not, or ceases to, publish an index then an index published by the Reserve Bank of Australia which is its best estimate of CPI-GST; or
- (iii) if the Reserve Bank of Australia does not, or ceases to, publish an index, then at the Commission's discretion, either:
 - (A) an index published by a person appointed by the Commission which is that person's best estimate of CPI-GST; or
 - (B) an index published by the Commission that is its best estimate of CPI-GST.

CPI is as defined and where the corresponding subtext (for example _{Jun2000}) means the CPI for the quarter and of the year indicated (in the example the June quarter for the year 2000);

CPI-GST is as defined and where the corresponding subtext (for example _{Jun2001}) means the CPI for the quarter and of the year indicated (in the example, the June quarter for the year 2001).

Commission's assessment

The revenue path submitted by ActewAGL differs from that of Amendment 14 of the final decision. In particular, revenue from contract customers has been reduced to \$1.2m for each year from 2000/01 – 2003/04. This change reflects the application of a cost allocation methodology for metering costs between contract and tariff customers, that reflects the final decision. The revenue path is shown below:

Revenue path in 2000/01 \$m (pre GST) ⁽¹⁾

Year ending June	2001	2002	2003	2004
Contract revenue	1.2	1.2	1.2	1.2
Tariff revenue	30.3	30.5	30.7	30.9
Total	31.5	31.7	31.9	32.1

Note:

1. The allowed contract revenue in 2000/01 is based on the full year effect as if the Access Arrangement has been implemented from 1 July 2000. The allowed revenue is expressed before the net impact of GST.
2. Figures may not add up to total due to rounding.

Specifically, ActewAGL has used the maximum daily quantity split between contract and tariff customers to allocate metering costs. This is consistent with the Commission's assessment in the final decision that a fully distributed cost methodology be used to allocate costs between contract and tariff markets.

The Code allows the Commission the discretion to approve a revised Access Arrangement that otherwise addresses to the Relevant Regulator's satisfaction the matters the Relevant Regulator identified in its final decision as being the reasons for requiring the amendments specified in the final decision. Section 2.19 of the Code states in part:

If the Service Provider submits amended revisions to the Access Arrangement by the date specified by the Relevant Regulator under section 2.16(a)(ii) or (b)(ii) then the Relevant Regulator must issue a final decision that:

- (a) ...
- (b) if the Relevant Regulator is satisfied that the amended revisions to the Access Arrangement either substantially incorporate the amendments specified by the Relevant Regulator or otherwise address to the Relevant Regulator's satisfaction the matters the Relevant Regulator identified in its final decision as being the reasons for requiring the amendments specified in its final decision under section 2.16(a)(ii) or (b)(ii), either approve or does not approve the amended revisions to the Access Arrangement (in the Relevant Regulator's discretion); or
- (c) ...

The Commission is satisfied that ActewAGL's revised AA and AAI otherwise addresses the reasons for the Commission's amendments as specified in the final decision. The Commission required a fully distributed cost allocation methodology. ActewAGL has done this by applying MDQ to allocate costs.

The Commission has considered the findings of the KPMG audit and its own review of the ActewAGL pricing and cost allocation models, and is satisfied that the revised Reference Tariffs for the reference services provided by ActewAGL are calculated consistent with the total revenue set out in Amendment 14, notwithstanding the change to allocation of metering costs and its affect on revenues.

ActewAGL's pricing model is based on costs of services exclusive of the net impact of the GST. The prices are then adjusted by the net impact of the GST.

Section 3.6 of the revised AA contains the application and definition of CPI and CPI^{GST} as set out in Amendment 14.

The Commission is satisfied that the revised Reference Tariffs and the other revisions noted above otherwise address Amendment 14.

Amendment 15 – Reference tariff policy

ActewAGL must amend the Reference Tariff Policy in its Access Arrangement by:

- (a) ensuring that it is consistent with this final decision;
- (b) removing any statements regarding the treatment of New Facilities Investment (including any such statements in Section 4 of the Access Arrangement) except as required or permitted by this final decision;

(c) adding the following statement:

“ActewAGL may undertake New Facilities Investment that does not satisfy the requirements of section 8.16 of the Code. If ActewAGL incurs such New Facilities Investment, the Capital Base may be increased by that part of the New Facilities Investment which does satisfy section 8.16 of the Code (referred to in the Code as the ‘Recoverable Portion’)”.

Commission’s assessment

In section 4 of the revised AA:

- the description of principles has been amended to reflect the final decision
- the provisions regarding new facilities investment have been varied according to the final decision.

The Commission is satisfied that the above revisions meet the requirement of Amendment 15.

Amendment 16 – Variations in reference tariffs

ActewAGL must amend the proposed revisions to ensure Section 3 of the Access Arrangement headed ‘Impost and other Statutory Charges’ includes statements to the following effect:

ActewAGL may vary Reference Tariffs:

- (a) by the amount of any change in the authorisation fee paid by ActewAGL for a reticulator’s authorisation under the *ACT Gas Supply Act*, new *Utilities Act* and/or *NSW Gas Supply Act* applying to the ActewAGL distribution system, provided that the change is implemented at the time that ActewAGL annually varies its Reference Tariffs;
- (b) by the amount of any change in the level of any government fees, taxes or charges provided that ActewAGL first:
 - (i) notifies the Relevant Regulator of the proposed change; and
 - (ii) gives the Relevant Regulator a reasonable opportunity to appoint an independent auditor (at ActewAGL’s expense) if the Relevant Regulator chooses, to ascertain and report on the impact on Reference Tariffs before the change is implemented; and
- (c) as soon as practicable by that amount of any authorisation fee in paragraph (a) that relates solely to the implementation of retail contestability in the gas industry in the ACT, Queanbeyan or Yarrowlumla Shire.

Any proposed variation to a Reference Tariff that ActewAGL is permitted to make under the above criteria must be allocated on the same basis as ActewAGL allocated costs in developing the Reference Tariff, immediately prior to its proposed variation.

Commission’s assessment

Section 3.9 of ActewAGL’s revised AA is consistent with Amendment 16.

Amendment 17 – Variations in pre GST reference tariffs

ActewAGL may amend the Reference Tariffs in its Access Arrangement by an increase of 9.62 per cent from 1 July 2000 to include the net impact of:

- (a) the GST; and
- (b) changes to any other Commonwealth, State or Territory taxes or charges, consequent upon the introduction of the GST.

Reference Tariffs presented in the Access Arrangement must be expressed post the GST adjustments in an Addendum.

Commission's assessment

ActewAGL has calculated revised Reference Tariffs on a pre GST basis. The pre GST tariffs are then adjusted by 9.62 per cent to include the net impact of the GST.

ActewAGL has presented its revised Reference Tariffs exclusive of GST. Ten per cent is to be added to these tariffs. The relationship between pre GST prices, GST exclusive prices and GST inclusive prices is shown below:

$$\begin{aligned} \text{GST exclusive price} &= \text{pre GST prices less cost savings (0.34 per cent)} \\ \text{GST inclusive price} &= \text{GST exclusive price} + 10 \text{ per cent} \end{aligned}$$

The net impact of the GST of 9.62 per cent is consistent with that calculated using the formula $(1-0.34\%)*(1+10\%)-1$.

The Commission is satisfied the revised Reference Tariffs comply with Amendment 17.

Amendment 18 – Cost allocation

In its Access Arrangement, ActewAGL must adopt the following cost allocation methodology:

In allocating capital costs (including return on capital base and depreciation of capital base), the value of the initial Capital Base at 1 July 1999 for the Covered Pipeline permitted in Amendment 3 must be used and allocated by ActewAGL between:

- (a) the asset groups comprising the Capital Base; and
- (b) contract and tariff customers

as set out in the following table and consistent with this amendment:

1999 ICB allocation (\$m)

	Total	Contract customers	Tariff customers
Primary mains	5.6	0.7	4.9
Secondary mains	22.1	2.7	19.4
Other system assets			
Regulators, valves	0.4	0.0	0.4
Meters	7.0	2.1	4.9
MP&LP	136.9	0.1	136.8
Non Network Assets	3.0	0.1	2.9
TOTAL	175.0	5.7	169.3

Note: due to rounding, figures may not add up to total.

In allocating Non-Capital Costs in its Access Arrangement between those asset groups comprising the Capital Base for the Covered Pipelines, ActewAGL must base its allocation on activity based costing information.

In allocating costs (including return on Capital Base, Depreciation and Non Capital costs) in its Access Arrangement between contract customers and tariff customers, ActewAGL must base its allocation using a fully distributed cost methodology that is well recognised.

Commission's assessment

As noted under Amendment 14 above, ActewAGL has applied a cost allocation methodology to metering assets/costs between contract and tariff markets that otherwise addresses reasons for the Commission's final decision. The \$7m allocated to meters is allocated between contract (\$0.8m) and tariff customers (\$6.1m) – figures may not add to total due to rounding.

As noted above, the Commission is satisfied that ActewAGL's approach to cost allocation is consistent with the intent of the final decision. Notwithstanding this change, the Commission is satisfied that ActewAGL's cost allocation complies with Amendment 18.

Amendment 19 – Reference tariffs for network services to contract customers: capped rates

ActewAGL must amend its proposed Access Arrangement to state the capped rates applicable to contract customers. The capped rates must form part of the Reference Services available to all contract customers.

Commission's assessment

The capped rates are now shown in section 3.1.1.2 of the revised AA and offered as part of the reference service available to all contract customers.

Amendment 20 – Capital contributions in respect of New Facilities Investment

ActewAGL must include the following statement in its Access Arrangement:

“Where ActewAGL receives capital contributions, it will establish and maintain during the Access Arrangement Period a database that records the following information in relation to Capital Contributions made to ActewAGL:

- (a) the amount of a capital contribution made by a User in respect of a New Facility;
- (b) the amount of any charge paid by a User which exceeds the Charge that would apply under a Reference Tariff for a Reference Service (or in relation to another Service under the Equivalent Tariff) where the excess is paid by the User in relation to the funding of a New Facility;
- (c) the date that the Capital Contribution is made under paragraph (a) or the charge is paid under paragraph (b);
- (d) the name of the User and the User’s contact details; and
- (e) a description of the New Facility in relation to which the Capital Contribution is made under paragraph (a) or the charge is paid under paragraph (b)”.

Commission’s assessment

The Commission is satisfied that section 9.2 contains a statement which is consistent with Amendment 20.

Amendment 21 – Contract market Reference Tariffs

ActewAGL’s Reference Tariffs in its Access Arrangement applying to contract customers must be calculated based on:

- (a) the price and revenue caps in amendment 14;
- (b) the cost allocation in amendment 18; and
- (c) the demand forecasts in amendment 24.

Commission’s assessment

The Commission has considered the findings of the KPMG audit and its own review of ActewAGL’s pricing and cost allocation models, and is satisfied that the revised contract market reference tariffs are calculated in a manner that is consistent with the requirements of Amendment 21. The Commission’s assessment takes into account the variances under Amendments 14 and 18 as already discussed.

Amendment 22 – Overrun charges

ActewAGL is required to state that overruns of MHQ are not counted for the purposes of overrun payments. A statement to this effect should be placed in schedule 2B of the Access Arrangement, in the overrun section on pages 45 and 46.

Commission’s assessment

The Commission is satisfied that the revised AA incorporates the revisions that are required by Amendment 22.

Amendment 23 – Pricing for tariff customers

ActewAGL's Reference Tariffs in its Access Arrangement applying to tariff customers must be calculated based on:

- (a) the price and revenue caps in amendment 14;
- (b) the cost allocation in amendment 18; and
- (c) the demand forecasts in amendment 24.

Commission's assessment

The Commission has considered the findings of the KPMG audit and its own review of ActewAGL's pricing and cost allocation models, and is satisfied that the revised tariff market reference tariffs are calculated in a manner that is consistent with the requirements of Amendment 23. The Commission's assessment takes into account the variances under Amendments 14 and 18 as already discussed.

Amendment 24 – Demand forecasts

In its Access Arrangement, ActewAGL must apply the following demand forecasts:

Contract market

Year ending 30 June	2001	2002	2003	2004
Volume (ACQ TJ)	1,120	1,114	1,109	1,103
MDQ (TJ)	5.527	5.445	5.365	5.286
Customer numbers	41	41	41	41

Business tariff market

Year ending 30 June	2001	2002	2003	2004
Volume (ACQ TJ)	1,359	1,359	1,359	1,359
Customer numbers	1,943	1,943	1,943	1,943

Residential tariff market

Year ending 30 June	2001	2002	2003	2004
Volume (ACQ TJ)	3,989	4,228	4,482	4,751
Customer numbers	81,570	85,073	88,924	92,787

ActewAGL is required to include an outline of its forecasting methodology in the Access Arrangement Information.

*Commission's assessment***Contract market**

ActewAGL has adopted the growth forecasts for contract customers (booked MDQ and customer numbers) in its contract pricing models in calculating Reference Tariffs, which is consistent with the final decision.

Tariff market

Whilst ActewAGL has adopted the tariff customer numbers in its revised tariff pricing model, it has not directly applied the customer number forecast set out in Amendment 24. ActewAGL has made adjustments to:

- account for approximately 4,000 customer sites (or supply points) where there are no bill paying customers
- derive an interpolated figure for the average total number of customers, rather than the year end figures set out in the final decision.

The second adjustment is made to recognise the fact that customer growth occurs during a year. This is considered reasonable as the tariff customer numbers shown in the final decision represents a year end figure.

Reference tariffs to tariff customers comprise a standing charge and usage charge. Given the allowed revenue in each year, calculation of revenue from standing charge will depend on the number of tariff customers.

The 'customer numbers' issue arises due to the fact that the number of customers reported by ActewAGL represents the number of 'customer sites' rather than the number of supply points with a customer connected *and* billed. The difference in the number of customer sites and supply points is caused by:

- existing premises where there are no occupants or occupants do not take gas supply
- new buildings with gas connection but yet to be occupied.

The Commission is satisfied that ActewAGL's adjustment to tariff customer numbers is acceptable and does not constitute non-compliance.

The Commission is satisfied that the demand forecasts used to calculate Reference Tariffs comply with Amendment 24.

Amendment 25 – Services policy

ActewAGL must, as part of its Capacity Reservation Service, provide the following capacity options in accordance with the terms and conditions set out in chapter 16 of this final decision:

- (a) a summer tranche service;
- (b) a short term capacity service for small and medium customers; and
- (c) a short term capacity service for larger customers.

Partial use of assets should be specified as a negotiated service.

Commission's assessment

The Commission is satisfied that revisions to section 1 of the revised AA comply with Amendment 25.

Amendment 26 – Interconnections

ActewAGL must amend its Access Arrangement by:

- (a) defining for Prospective Users the minimum engineering standards required for interconnection;
- (b) specifying that ActewAGL will provide Connection Point facilities up to a “flanged connection valve” as part of its Network Services; and
- (c) providing a detailed outline of the approval and time periods for an interconnection agreement.

Commission’s assessment

ActewAGL has revised Schedule 2F to incorporate the provisions as required in Amendment 26.

Amendment 27 – Gas balancing

ActewAGL must amend the gas balancing provisions in its Access Arrangement to accurately reflect Attachment 6 of this final decision.

Commission’s assessment

The Commission is satisfied that Schedule 2E of the revised AA meets the requirements set out in Amendment 27.

Amendment 28 – Metering charges

ActewAGL must amend its Access Arrangement as follows:

- (a) set metering charges based on a Capital Base of \$7.0m at 1 July 1999
- (b) allocate Non-Capital Costs to metering services applying a well recognised fully distributed cost methodology reconciled using ActewAGL’s activity based costing information.
- (c) establish a Reference Tariff for each of the following Services:
 - (i) the provision of meter reading;
 - (ii) the provision of basic metering equipment; and
 - (iii) the provision of on-site data and communication equipment
- (d) state in its Access Arrangement that the Reference Tariffs applying to each Service in paragraph (c)(i) and (c)(iii) will cease on the enactment of any law, or any code or any instrument that permits the Service to be provided by a person other than ActewAGL
- (e) amend Schedule 2C of its Access Arrangement to include a statement in reasonable detail that some aspects of metering will become contestable, that is, will be permitted to be provided by persons other than ActewAGL.

Commission’s assessment

The Commission has considered the findings of the KPMG audit and its own review of ActewAGL’s pricing and cost allocation models, and is satisfied that revised tariff market Reference Tariffs are calculated in a manner that is consistent with the requirements of Amendment 28.

Regarding amendment 28 (c), (d) and (e):

- in section 1 of the revised AA:
 - meter data service provides for the provision of meter reading and on-site data and communication equipment to a delivery point. Charges are set out for this service
 - provision of basic metering equipment is included as part of the reference service for local network. The charge is set up as a component under “general charge”
- a statement that Reference Tariffs will cease to apply on the later of the enactment of the law or the amendment to the Reference Tariff to recoup charges consequent on the law is contained in section 1 and in Schedule 2C.

The Commission is satisfied that the revisions made by ActewAGL meet the requirements set out in Amendment 28.

Amendment 29 – Gas specifications

In its Access Arrangement, ActewAGL must amend Schedule 3, Gas Quality Specifications by adding a statement at the beginning of the Schedule to the effect that:

“Gas delivered to a Receipt Point by a User must comply with the specifications prescribed by any ACT or NSW law that extends to that gas. Such a law may include, without limitation, any regulation made under the *Gas Supply Act 1998* or a new Utilities Act. For any period during this Access Arrangement in which there is no such law, the gas must comply with:

- specifications determined by ActewAGL from time to time
- failing such a determination, the table set out in Schedule 3 described as the *default specification*.”

Commission’s assessment

The Commission is satisfied that Schedule 3 has been revised to comply with Amendment 29.

Amendment 30 – Unaccounted for gas (UAG)

ActewAGL must amend its Access Arrangement to provide that the UAG level will be set at 0.7 per cent for the Access Arrangement Period.

Commission’s assessment

The Commission has considered the findings of the KPMG audit and its own review of ActewAGL’s pricing and cost allocation models, and is satisfied that UAG has been set at a level of 0.7 per cent for the Access Arrangement Period. ActewAGL has also included a statement in section 4.2 of its AA, indicating a UAG figure of 0.7 per cent has been applied.

The Commission is satisfied that the revisions comply with Amendment 30.

Amendment 31 – Trading policy

ActewAGL must amend the Trading Policy in its Access Arrangement by including the following statement:

“ActewAGL will reply to any request from a User for ActewAGL’s consent to a transfer (other than a Bare Transfer), or for a change of Receipt Point or Delivery Point, within 14 business days of receiving the request accompanied by information which is reasonably necessary to enable ActewAGL to consider the request.

If at the time the request is made, the User informs ActewAGL that due to hardship the User requires an urgent reply to its request, ActewAGL will use reasonable endeavours to respond to the request within two business days of receiving the request.”

Commission’s assessment

ActewAGL has revised section 5.4 of the AA to incorporate the requirements of Amendment 31. The Commission is satisfied that the revisions comply with the final decision.

Amendment 32 – Extensions/expansions policy

ActewAGL must include the following statement in its extensions/expansions policy in Section 7 of its Access Arrangement:

“All expansions and extensions will normally be treated by ActewAGL as part of the existing Covered Pipeline and will automatically be included within it.

A ‘duplicate pipeline’ will not be included as part of the existing Covered Pipeline unless prior to the completion of its construction, ActewAGL reasonably regards the duplicate pipeline as having system benefits and gives the Relevant Regulator written notice of the reasons for its view. A ‘duplicate pipeline’ is a new pipe or pipeline constructed by or for ActewAGL which will be used to supply natural gas to Users, who, at the time construction is to commence, are being supplied by or may readily obtain supply from another pipe or pipeline.”

Commission’s assessment

The Commission is satisfied that revisions to section 7 of ActewAGL’s revised AA comply with Amendment 32.

Amendment 33 – Reference tariffs after 30 June 2004

The clause on reference tariffs after 30 June 2004 on pages 24 and 25 of the Access Arrangement must be amended as follows:

- the clause should relate to all terms and conditions of reference services, not just prices; and
- the proposed CPI adjustment to the 2004 reference tariffs must be deleted.

Commission’s assessment

The Commission is satisfied that ActewAGL has made revisions to section 3.14 of the revised AA which comply with Amendment 33.

Amendment 34 – Commencement and review of Access Arrangement

ActewAGL is required to set the revisions submission date at or before 30 June 2003. The revisions commencement date will be 1 July 2004 or the date specified in the final approval of ActewAGL's revised Access Arrangement, whichever is the later.

Commission's assessment

The Commission is satisfied that ActewAGL has made revisions to section 10 of the revised AA which comply with Amendment 34.