

AGA Capital Contribution Procedure

Appendix 12.2

27 November 2014

Response to the ERA's Draft Decision on required amendments to the Access Arrangement for the Mid-West and South-West Gas Distribution System



ATCO Gas

A U S T R A L I A

ATCO Gas Australia Capital Contributions Procedure

Document Code: COM PR0007

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Document History

Revision	Date	Amended By	Details of Amendment
0	02/07/2014	Mathew Greene	New Document

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1. Purpose of Document

The purpose of this document is to provide a step-by-step guide to the ATCO Gas Australia Capital Contributions process, thereby ensuring that the company complies with its Capital Contributions Policy (CCP).

2. Capital Contributions Policy

The Capital Contributions Policy (CCP) lays out ATCO Gas Australia's stance regarding the financing of capital works projects. The policy states that developers, builders and end-users are not liable for the full cost of capital works if National Gas Rules criteria (which include a NPV assessment) are met. Additional discounts may be given if the customer provides suitable trenching or reinstatement services.

The latest version of the policy was approved in January 2013 and aims to:

- Maximise viable economic expansion;
- Maximise the number of user connections in a safe, reliable and efficient manner;
- Continue to meet existing user demand;
- Prudently minimise hurdles to growth of network connections, throughput and demand; and
- Ensure regulatory recovery of incurred costs for all types of network expansion.

Maximising the opportunity for developers, homebuilders and end-use gas consumers to connect to the company's network safely, reliably and economically, while meeting existing demand, is the overarching objective of the [CCP](#) and its related procedure.

3. Scope of Policy

The CCP process applies to all third-party requested works in the Mid-West, South-West, Kalgoorlie and Albany gas distribution networks that involve the construction/installation of new trunk mains, reticulation mains or residential feeder mains.

4. Personnel Involved in CCP Process

Position title	Key Responsibilities Within Process
General Manager, Business Development	Oversees management of the process to ensure that the Capital Contributions Policy and Procedure are adhered to and continue to provide financial benefit to ATCO Gas Australia.
Manager, Economic Modelling & New Initiatives	Undertakes economic assessment of individual land developments and network expansions. Ensures compliance with the National Gas Rules. Ensures recovery of incurred costs for all types of network expansion.
Business Development Representative, Land Development	Works with land developers and other industry bodies to determine potential network growth areas that could benefit from the ATCO Gas Australia CCP. Communicates new procedures to the land development industry. Compiles relevant information to assist with economic assessment. Provides information to the Manager of Economic Modelling & New Initiatives for use in economic assessments.
Business Development Manager, Commercial and Industrial	Works with potential commercial and industrial end-users to determine which could benefit from the ATCO Gas Australia CCP. Communicates new procedures to retailers and works with them to maximise their commercial and industrial connections. Acts as an ongoing liaison with commercial and industrial third-parties as part of the Commercial Gas Connection Enquiry (CGCE) procedure. Compiles relevant information to assist with economic assessment. Provides information to the Manager of Economic Modelling & New Initiatives for economic assessments and advises the retailer or end-user (as appropriate) of the outcome.
Stakeholder Relations	Receives and assesses residential and small-scale commercial connection requests from the gas retailer. Redirects larger-scale connection requests to the Manager of Economic Modelling & New Initiatives.
Senior Manager, Capital Infrastructure	Informs the Manager of Economic Modelling & New Initiatives of potential spur lines (trunk main extensions) for which economic assessments can be conducted in order to approach potential customers.
Engineering Services Dept.	Works out the cost of each project.
Asset Services Dept.	Assess the proposed project's ability to support the customer's estimated gas demand.

5. Procedure

5.1 Initial Communication with Third Parties

5.1.1 Third Party Contacts ATCO Gas Australia

All third party requests for connections involving a requirement for network expansion are processed, quoted and charged to the third party via one of three processes:

- **New Connection Service Order (NCSO)**
 - These are typically small-scale residential or commercial connections (B2, B3, K2, K3, D2 and D3) that require main extensions.
 - NCSOs are passed through to the Stakeholder Relations Team from the gas retailer according to the NCSO process. As part of this process, any larger-scale projects (greater than 20 connections or \$10,000) are directed to the Manager of Economic Modelling & New Initiatives for economic assessment.

- **Commercial Gas Connection Enquiry (CGCE)**
 - CGCEs are submitted by gas retailers, typically for commercial or industrial end-users (B1, A2, A1, K1 and D1).
 - All queries should be routed through the Commercial and Industrial Business Development Manager as part of the CGCE process, who acts as the internal liaison with the various third parties.
 - The Commercial and Industrial Business Development Manager then passes the request through to the Manager of Economic Modelling & New Initiatives for economic assessment.

- **Subdivision development**
 - Subdivision requests relate to the development of land by land developers and other bodies. Initial contact is usually direct from the interested third party, with whom negotiation is undertaken and a tailored legal agreement drawn up. Large-scale residential developments and similar projects should be routed through the Business Development Representative (Land Development) as part of the subdivision development process, who acts as the internal liaison with the third party. A confidentiality agreement may be required.
 - The Business Development Representative (Land Development) then passes the request through to the Manager of Economic Modelling & New Initiatives for economic assessment.

5.1.2 Compilation of Required Information from Third Parties

Compilation of User Information

The compulsory and optional information required for NCSOs, CGCEs and subdivision developments is specified in the request form submitted by the third party. Below are the information requirements for each type of connection request:

NCSOs:

- Location
- Demand requirements

CGCEs:

- Location
- Annual load requirements
- Peak load requirements
- Pressure requirements
- Metering and telemetry requirements

Compilation of Subdivision Developer Information

The following information must be obtained from land developers:

- Location
- Number of forecast connections within the development
- Timing of forecast connections within the development
- Required gas load (assumptions can be made for residential, but load is required for high-use commercial or industrial)
- Development zoning
- Potential adjacent developments
- Any trenching provided by third party or potential for shared trenching
- Any incentives offered by developers to help maximise gas connections
- Any interested commercial or industrial parties looking to purchase land

5.2 Cost and Supply Estimates for Works

Cost and supply assessments are based upon the information provided in the information compilation stage. Therefore, if the information provided is preliminary and limited, the response will be a basic desktop assessment from Engineering Services to facilitate a quick economic assessment by the Manager of Economic Modelling & New Initiatives. If the information provided by the third party is firm, detailed and accurate, a more accurate quotation can be supplied.

5.2.1 Process for Cost and Supply Assessment

The process for assessment is as follows:

1. The information acquired from the third party is forwarded to the Asset Services team in order to model the network capabilities in the area, including pressure and supply. They produce an outline of the scope of any upgrade required and then forward this assessment to the Engineering Services Department.
2. The Engineering Services Department costs up the extension outlined by the Asset Services team, as well as the cost of any user-specific equipment required, such as meter sets, pressure reduction equipment or telemetry.

5.2.2 Distribution of Cost and Supply Assessment

The results from Asset Services team and Engineering Services Department are forwarded to relevant Business Development or Stakeholder Relations contacts. Where necessary, the results are forwarded to the Manager of Economic Modelling & New Initiatives for economic assessment. The results of the economic assessment are then sent back to the Business Development or Stakeholder Relations contacts, who in turn communicate these results to the interested third party.

Any response to the third party containing a CCP offer, or even preliminary cost estimates, should always be constructed with either the CGCE quotation template or the estimate response form letter will be issued by the Business Development representative. The response should also note that all correspondence is commercially sensitive, confidential and subject to contract. Additional terms and conditions, or a bespoke contract, may be required for the particular project (see Section 6 below). All contact with third parties should be made through the Business Development or Stakeholder Relations teams.

Where projects require localised pressure reinforcement, or have a number of developers/end-users, ATCO Gas Australia provides a cost estimate for the purpose of processing the business case. Once the business case has been approved, a formal tender is issued for the project in line with the Procurement Tendering Procedure.

The cost estimates for any subdivision head works and reticulation are heavily dependent of the provision by the third party of trenching and reticulation services. Developers usually provide these services which allow ATCO Gas Australia to provide residential reticulation at no cost.

6. Economic Assessment

All Economic Modelling will be assessed using the current Financial Evaluation Template (FET). If ATCO Gas Australia can demonstrate under the National Gas Rules the prudent and economic expansion of the gas network, using the FET model it does not require contributions from developers, builders or end-users for the following capital works:

- Trunk mains (high- or medium-pressure mains) to connect a development not immediately abutting the existing network, or to meet a specific end-user's demand requirements within the existing network.
- Reticulation mains (medium- or low-pressure mains that link feeder mains to trunk mains) required within a street or development for service connections.
- Residential feeder mains (medium- or low-pressure pipes that connect gas meters to reticulation mains) for the first twenty metres.

Unless otherwise specified by prior agreement, statute or regulation, any existing network asset requiring relocation* or fortification** must be fully funded by the party requesting the work.

**the movement of any existing mains or relevant network infrastructure, as required by a developer, end-user, or other third party.*

***the strengthening/protecting of existing mains, such as wrapping or slabbing.*

The provision of suitable trenching or reinstatement services by the third party has the potential to substantively reduce the cost of capital works.

If an individual development does not meet the necessary criteria for full capital funding by ATCO Gas Australia, a partial funding option may be applicable.

6.1.1 Basis for assessment

All economic assessment is conducted in compliance with the National Gas Rules set by the Australian Energy Market Commission (AEMC [<http://www.aemc.gov.au/Gas/National-Gas-Rules/Current-Rules.html>]). National Gas Rule 79 (2) (b) states that capital expenditure is justifiable if the present value of the capital expected incremental revenue to be generated as a result of the expenditure exceeds the present value of the capital expenditure. Additionally National Gas Rule 79 (4) states that in determining the present value of expected incremental revenue: (a) a tariff will be assumed for incremental services based on (or extrapolated from) prevailing reference tariffs that would have been set for comparable services if those services are reference services; and (b) incremental revenue will be taken to be the gross revenue to be derived from the incremental services less incremental operating expenditure for the incremental service; and (c) a discount rate is to be used equal to the rate of return implicit in the reference tariff¹.

¹ National Gas Rules version 14, 20 June 2011.

Residential (B3, B2)

For under 20 residential connections, each user receives a \$300 discount per connection that is longer than the allowed 20m of free residential feeder (service) pipe. This discount is applied by the Stakeholder Relations team. The residential reduction rate is reassessed at every tariff reset.

Any project over \$10,000 in value, or that involves more than 20 residential connections, should be forwarded to the Manager of Economic Modelling & New Initiatives for a more detailed economic assessment. As part of this process, any additional surrounding development or required reinforcement in the area are taken into consideration.

With regard to residential developments, if the developer provides suitable trenching and reinstatements then the development is reticulated for free.

Any main extensions required to reach residential developments are assessed on a case-by-case basis, according to the following criteria:

- The current Financial Evaluation Template (NPV Model) is used
- The current regulatory Weighted Average Cost of Capital (WACC) is used as the discount rate
- Connection rate is assumed to be 75% (the average residential connection rate in WA) and is based on the developer's timing forecast
- Usage is assumed to be the latest average residential usage rate for new connections 2008-2011 (currently 14.2GJ per annum)
- Current regulated residential tariffs are used, or normalised version as provided by Regulatory
- Estimated per-connection operating, reticulation, service, and connection costs incurred by AGA (based on latest Access Arrangement estimates) are incorporated
- Connections are estimated with a one-year lag from the developer's plot sales forecast
- Project is assessed over the regulatory life of the assets (see table in 'inputs' tab of model)

Economic assessments for projects over \$10,000 that have been requested from the Manager of Economic Modelling & New Initiatives are sent to the Stakeholder Relations team via the generic Services Order email address (AGA.serviceorders@atcogas.com.au) to communicate the quote.

Economic assessments for projects over 20 residential connections that have been requested from the Manager of Economic Modelling & New Initiatives are forwarded to the Business Development Representative (Land Development) to follow up with the relevant parties.

Commercial & Industrial (B1, A2, A1, K1 and D1)

Any main extensions required to reach commercial/industrial end-users are assessed on a case-by-case basis, using the following criteria:

- The current Financial Evaluation Template (NPV Model)
- The current regulatory WACC as the discount rate
- Assumed usage rate of 80% (taken from 'annual consumption' section in CGCE form)
- Current regulated tariffs, or normalised version as provided by Regulatory
- Services & Connections are excluded from the NPV assessment as they are captured in the User Specifics process
- Estimated operating costs to maintain the network extension and any additional resulting connections costs incurred by AGA are incorporated
- Project is assessed over a three-year period as this is the length of retailer contracts (therefore this the maximum guaranteed connection period)
- Any contribution discount offer is made to the end-user on a take-or-pay* basis

** Take-or-pay contract: the end-user is contractually obliged to either use the full annual volume on which the offer is made, or if they use less than their contracted amount, they will be charged the difference.*

Main and reticulation projects for any commercial/industrial land development are assessed using the following criteria:

- The current Financial Evaluation Template (NPV Model)
- The current regulatory WACC as the discount rate
- List of commercial/industrial businesses committed to, or interested in, developing a site on the subdivision under assessment, alongside their likely gas requirements
- Assumed usage rate of 80% of known interested parties (Forming the base load)
- Current regulated tariffs or normalised version as provided by Regulatory
- Services & Connections are excluded from the NPV assessment as they are captured in the User Specifics process
- Estimated operating costs to maintain the main extension and any additional resulting connections costs incurred by AGA are incorporated
- The base load revenue is assessed over a twenty year period (the smallest period likely to provide a positive NPV)
- The overall project is assessed over the life of the asset (assuming that there will be no additional connections over the entire life of the asset)

This land development assessment process is different from the individual process due to the potential to connect a greater number of yet-to-move commercial/industrial end-users if the development is already reticulated. By limiting the NPV modelling to known interested parties, ATCO Gas Australia greatly reduces the risk of being overly optimistic about potential connections.

Economic assessments are forwarded to the Business Development Manager (Commercial & Industrial) to follow up with the relevant parties.

7. Business Case Development

All projects in which ATCO Gas Australia's contribution is over \$100,000 in value require a business case to be signed off by the relevant Executives. Either a cost estimate or a tendered price is incorporated into the business case, as well as the associated economic assessment which determines how much of the project ATCO Gas Australia can fund. The latest business case template must be used to construct each business case, and the completed document must be signed off before progressing further with the various third parties.

In cases where a business case is required, no formal offer should be made to any third party until the business case has been fully approved. Although an indicative representation via a desktop estimate letter may be issued by the relevant Business Development representative.

7.1 Full Quotation for Works

Once the business case has been signed off, a formal quote for the works can be sent to the retailer or end-user by either the Stakeholder Relations or Business Development teams. The formal quote incorporates any contribution discount that can be offered to the end-user and has a 30 day validity period. This may mean that the project can be fully- or partially-funded by ATCO Gas Australia.

7.2 Formal contractual arrangements

Once the basic terms of the project have been agreed between ATCO Gas Australia and the third party, then a formal document which evidences this arrangement needs to be prepared.

This may be in the form of a bespoke contract (tailored to suit the particular circumstances of the project), or a standard set of terms and conditions, such as the minor works agreement terms and conditions. All contracts and agreements are prepared by the Contracts and Legal Department. Any other documentation in which ATCO Gas Australia is making a representation to a third party regarding a project should be checked by the Contracts and Legal Department before it is issued.

7.3 Ongoing Communication to Third Parties

As part of the ongoing monitoring of projects and outcomes for third parties, the Business Development or Stakeholder Relations teams maintain communications with all relevant groups regarding any CCP offers.

7.4 Seeking Out Potential Growth

ATCO Gas Australia takes a proactive approach to new connections. This requires meeting with large- and small-scale users (industrial/commercial/land developers), both civil and consulting engineers, as well as other industry players to market the benefits of natural gas and ATCO Gas Australia's ability to provide infrastructure to supply that gas. By seeking out potential growth opportunities, ATCO Gas Australia is committing to the prudent and viable economic growth of its gas distribution network.

8. Definitions

Term / Acronym	Definition
CCP	Capital Contributions Policy
CGCE	Commercial Gas Connection Enquiry
FET	Financial Evaluation Template
NPV	Net Present Value
NCSO	New Connection Service Order
WACC	Weighted Average Cost of Capital

9. Related Documents

- [COM PO00002](#) ATCO Gas Australia Capital Contributions Policy (CCP)
- CGCE Procedure document
- Business Case Template
- CGCE Quotation Template
- [COM PO00001](#) Procurement Policy
- Contract Management Guidelines
- FET Model

10. Other References

- National Gas Rules Version 14, as at 20 June 2011.