



FINAL DECISION: ACCESS ARRANGEMENT MID-WEST AND SOUTH-WEST GAS DISTRIBUTION SYSTEMS

Submitted by

AlintaGas

Part A

Final Decision

**INDEPENDENT GAS PIPELINES ACCESS REGULATOR
WESTERN AUSTRALIA**

30 June 2000



PREFACE

On 30 June 1999 AlintaGas submitted a proposed Access Arrangement for the Mid-West and South-West Gas Distribution Systems to the Independent Gas Pipelines Access Regulator in Western Australia (the Regulator) for approval under the National Third Party Access Code for Natural Gas Pipeline Systems (the Code).

The Access Arrangement describes the terms and conditions under which AlintaGas will make the Mid-West and South-West Gas Distribution Systems available for use by third parties.

The Regulator assessed the proposed Access Arrangement against the requirements and principles of the *Gas Pipelines Access (WA) Act 1998* which gives effect to the *Gas Pipelines Access (WA) Law*, including the Code. In addition, the Regulator considered issues raised in submissions made on the Access Arrangement by interested parties. The Regulator issued a Draft Decision on 14 March 2000 indicating 47 amendments that would need to be made to the Access Arrangement before it would be approved.

This Final Decision is issued by the Regulator in accordance with the requirements of the Code and after giving further consideration to issues addressed in the Draft Decision and submissions made by interested parties on the Draft Decision. The Final Decision is issued as two documents: Part A being the Draft Decision, and Part B being supporting information for the Final Decision.

Copies of the Final Decision are available from the Office of Gas Access Regulation at a cost of \$25.00 by contacting Mr Robert Pullella on +61 8 9213 1944. Copies can also be downloaded from the Office's web site: (<http://www.offgar.wa.gov.au/>).

KEN MICHAEL
GAS ACCESS REGULATOR

FINAL DECISION

On 30 June 1999, AlintaGas submitted a proposed Access Arrangement for the Mid-West and South-West Gas Distribution Systems to the Independent Gas Pipelines Access Regulator in Western Australia (the Regulator) for approval under *the National Third Party Access Code for Natural Gas Pipeline Systems* (the Code).

The Mid-West and South-West Gas Distribution Systems comprise gas pipeline networks in the Perth metropolitan area and in the country centres of Bunbury, Busselton, Eneabba, Geraldton and Harvey. In 1997/98 these networks supplied gas to almost 400,000 customers, of which 392,059 were residential, 7,263 were business and 259 were contract customers.

The Regulator assessed the proposed Access Arrangement against the requirements and principles of the *Gas Pipelines Access (WA) Law* which incorporates the Code as set out in the *Gas Pipelines Access (WA) Act 1998* and released a Draft Decision on 14 March 2000.

The Draft Decision of the Regulator was to not approve the Access Arrangement in its current form. The reasons for this decision were detailed in the Draft Decision along with requirements for 47 amendments to be made to the Access Arrangement and Access Arrangement Information before approval would be granted.

This document details the Regulator's Final Decision on the Access Arrangement.

The Final Decision of the Regulator is to not approve the Access Arrangement in its current form. The Regulator requires AlintaGas to re-submit the Access Arrangement incorporating the amendments specified in this Final Decision. The revised Access Arrangement is to be re-submitted by Friday 14 July 2000.

The amendments required by the Regulator are outlined below under the headings of non-tariff matters and Reference Tariffs. These amendments are cross referenced, where appropriate, to required amendments indicated in the Draft Decision, although wording and content may have been changed in response to subsequent considerations of the Regulator.

NON-TARIFF MATTERS

Sections 3.1 to 3.20 of the Code require that an Access Arrangement address the following non-tariff matters.

- A *Services Policy*, describing services to be offered, including Reference Services (section 3.1).
- *General Terms and Conditions* for the provision of Reference Services (section 3.6).
- A *Capacity Management Policy*, indicating whether the covered pipeline is to be administered as a Contract Carriage Pipeline or a Market Carriage Pipeline (section 3.7).
- A *Trading Policy*, addressing the transfer of contracted capacity between Users (section 3.9).

- A *Queuing Policy*, defining the priority that Prospective Users have to negotiate for specific capacity (section 3.12).
- An *Extensions/Expansions Policy*, setting out a method for determining whether an extension or expansion to the covered pipeline is or is not to be treated as part of the covered pipeline for the purposes of the Code (section 3.16).
- A *Review Date*, indicating a date on or by which revisions to the Access Arrangement must be submitted and a date on which the revised Access Arrangement is intended to commence (section 3.17).

The Regulator may refuse to approve an Access Arrangement if it includes matters in addition to those listed above that are considered not to be reasonable.

The Regulator's assessment of the adequacy of the Access Arrangement and Access Arrangement Information is summarised below together with statements of amendments that must be made before the Regulator will approve the Access Arrangement.

Services Policy

A Services Policy is provided in Division 1 of Chapter 2 of the Access Arrangement, which commits AlintaGas to making available Reference Services to Prospective Users, and negotiating in good faith for the provision of Non-Reference Services to Prospective Users.

Four types of Reference Services are specified in Division 1 of Chapter 2 and described in schedules 4, 5 and 6 of the Access Arrangement. The principal features of the Reference Services are as follows.

- Reference Service A: delivery of gas to a delivery point on the high pressure system or medium/low pressure system, with an anticipated delivery of 35 TJ or more of gas each year with a contracted peak rate of 10 GJ or more per hour, and a contract duration of between two and five years.
- Reference Service B1: delivery of gas to a delivery point on the high pressure system or medium/low pressure system, with an anticipated delivery of less than 35 TJ of gas each year or a contracted peak rate of less than 10 GJ per hour, a contract duration of between two and five years, and a requirement of the User for user-specific delivery facilities.
- Reference Service B2: delivery of gas to a delivery point on the medium/low pressure system, using standard delivery facilities with a standard 12 m³/hr meter, and a contract duration of one year.
- Reference Service B3: delivery of gas to a delivery point on the medium/low pressure system, using standard delivery facilities with a standard 6 m³/hr meter, and a contract duration of one year.

A Haulage Contract for any Reference Service will specify one or more receipt points (where a User's gas is received into the AlintaGas network) and one or more delivery points (the point(s) on the AlintaGas network to which the gas will be transported).

Three types of Non-Reference Services are specified in Divisions 2, 3 and 4 of Chapter 2, respectively.

- Interconnection Service. The terms, conditions and prices upon which an Interconnection Service will be made available are to be negotiated by AlintaGas and the person to whom that service is provided.
- Elements of a Service. A Prospective User will be able to obtain an element of a Reference Service offered by AlintaGas under the Services Policy to the extent that it is practicable and reasonable to provide such an element of a service.
- Listed Ancillary Services. Listed ancillary services will be offered to users of Reference Services B2 or B3 under standard terms and conditions and at a set tariff, whereas users of Reference Services A or B1 will negotiate with AlintaGas regarding the terms and conditions and prices of ancillary services.

The following amendments to the Services Policy are required before the Access Arrangement will be approved.

Amendment 1 [was Draft Decision Amendment 2]

Clause 1 of schedule 6 of the Access Arrangement should be amended so that a Haulage Contract for Reference Service B2 or Reference Service B3 can have a duration of more than one year and is not constrained to a duration of exactly one year, as proposed by AlintaGas.

Amendment 2

Clause 1 of schedule 4 of the Access Arrangement and Clause 1 of schedule 5 of the Access Arrangement should be amended to provide for minimum contract durations of one year for Reference Services A and B1, respectively, and to remove any upper limit on contract durations.

Amendment 3 [was Draft Decision Amendment 3]

Clause 20 of Chapter 2 of the Access Arrangement should be amended to indicate that gas entering and being transported through the AlintaGas network must, for each component of the following gas quality specifications, comply with the most stringent component of the following:

(a) the gas quality standards detailed in regulation 5 of the Gas Standards (Gas Supply and System Safety) Regulations 2000, including the requirement to odourise the gas detailed in regulation 6; and

(b) the specification detailed as follows:

Maximum carbon dioxide (mole%)	4.0
Maximum inert gases (mole%)	7.0
Minimum higher heating value (MJ/m ³)	35.1
Maximum higher heating value (MJ/m ³)	42.3
Minimum Wobbe Index (MJ/m ³)	46.0
Maximum Wobbe Index (MJ/m ³)	51.5
Maximum total sulphur including odourant (mg/m ³)	20
Maximum hydrogen sulphide (mg/m ³)	4.6
Maximum oxygen (mole%)	0.2
Maximum water (mg/m ³)	100
Hydrocarbon dewpoint over the pressure range 2.5 to 8.72 MPa absolute (°C)	Shall not exceed an agreed minimum delivery temperature between 0 to +10°C
Maximum radioactive components (Bq/m ³)	600

Amendment 4 [was Draft Decision Amendment 4]

Clause 19(1)(d) of Chapter 2 of the Access Arrangement should be amended to include a statement indicating that the minimum prudential and insurance requirements are to be reasonable.

Amendment 5 [was Draft Decision Amendment 5]

Clause 19(1)(b) of Chapter 2 of the Access Arrangement should be amended to state that AlintaGas will only enter into a service agreement if it would not deprive any person of a contractual right that existed prior to 30 June 1999, other than an exclusivity right which arose on or after 30 March 1995.

Terms and Conditions

Section 3.6 of the Code requires that an Access Arrangement include the Terms and Conditions on which the Service Provider will supply each Reference Service. The Terms and Conditions included must, in the Relevant Regulator's opinion, be reasonable.

Terms and conditions specific to particular Reference Services are set out in schedules 4, 5 and 6 of the Access Arrangement while general terms and conditions applicable to all Reference Services are set out in schedule 7 of the Access Arrangement.

The following amendments to the Terms and Conditions are required before the Access Arrangement will be approved.

Amendment 6 [was Draft Decision Amendment 6]

Clause 47(2) of schedule 7 of the Access Arrangement should be amended to ensure that AlintaGas will make good, or pay compensation in respect of, damage caused by unreasonable acts of AlintaGas in the course of installing gas delivery facilities.

Amendment 7 [was Draft Decision Amendment 7]

Division 12 of schedule 7 of the Access Arrangement, which relates to interpretation, should be amended to insert a definition of confidential information that is applicable to clause 52, relating to confidentiality, in order to provide greater certainty as to the meaning of confidential information for the purposes of this clause.

Amendment 8 [was Draft Decision Amendment 8]

Clause 52(2)(e) of schedule 7 of the Access Arrangement should be amended to ensure that information of a confidential nature would only be disclosed in the course of any restructuring or sale of AlintaGas if it is the reasonable opinion of the disclosing party that the information is required to be disclosed.

Amendment 9 [was Draft Decision Amendment 9]

Schedules 4 and 5 of the Access Arrangement should be amended to require AlintaGas to verify the accuracy of meters at a minimum frequency that is in accordance with good industry practice and applicable laws.

Amendment 10 [was Draft Decision Amendment 10]

Clause 7(a) of schedule 7 of the Access Arrangement should be amended to ensure that, if AlintaGas requires a User to provide security for the performance of its obligations under a Haulage Contract, the security must be the minimum amount necessary to protect AlintaGas's legitimate business interests.

Amendment 11 [was Draft Decision Amendment 11]

Division 12 of schedule 7 of the Access Arrangement should be amended to ensure that the general provision that "... in the event or circumstance not within a party's control and which the party, by applying the standard of a reasonable and prudent person, is not able to prevent or overcome ..." clearly applies to each of the specific events listed as force majeure events.

Amendment 12 [was Draft Decision Amendment 12]

The Access Arrangement should be amended to provide for the waiving of fixed charges of a Reference Tariff for any period in which provision of a Reference Service is interrupted or reduced by a failure of AlintaGas to carry out any of its obligations under a Haulage Contract for reasons of force majeure.

Amendment 13 [was Draft Decision Amendment 13]

Clause 18 of schedule 7 of the Access Arrangement should be amended so that interest is accrued on underpayments or overpayments after a reasonable period has been given for a party to rectify the underpayment or overpayment, rather than from the actual date of underpayment or overpayment.

Amendment 14 [was Draft Decision Amendment 14]

Clause 35(d) of schedule 7 of the Access Arrangement should be amended to ensure that a party cannot be declared in default under the Haulage Contract unless there is an adverse change in the business or financial condition of that party or an event occurs which could, in the reasonable opinion of the other party, materially affect the other party's ability to meet its obligations under the Haulage Contract.

Amendment 15 [was Draft Decision Amendment 15]

Clause 38 of schedule 7 of the Access Arrangement should be amended to ensure that a party has at least 5 business days to remedy a payment default and 15 business days to remedy any other default, once it has received written notice from the other party, before the other party can terminate a Haulage Contract.

Capacity Management Policy

Section 3.7 of the Code requires that an Access Arrangement include a statement (a Capacity Management Policy) that the covered pipeline is either a Contract Carriage Pipeline or a Market Carriage Pipeline. AlintaGas proposes to manage the Mid-West and South-West Gas Distribution Systems as a Contract Carriage Pipeline. This proposal is considered to meet the requirements of the Code.

Trading Policy

Section 3.9 of the Code requires that an Access Arrangement for a covered pipeline, which is described in the Access Arrangement as a Contract Carriage Pipeline, must include a policy that explains the rights of a User to trade its right to obtain a Service to another person (a Trading Policy).

The Trading Policy proposed by AlintaGas makes provision for Bare Transfers and Consent Transfers in a manner which is generally consistent with requirements of the Code. The Regulator did, however, have a concern that the transferee is required to notify AlintaGas at

least three business days prior to the utilisation of capacity under a Bare Transfer, which may preclude such transfers at short notice.

The following amendment to the Trading Policy is required before the Access Arrangement will be approved.

Amendment 16 [was Draft Decision Amendment 16]

Clause 43(3) of Chapter 5 of the Access Arrangement should be amended to remove the requirement that a transferee must notify AlintaGas at least three business days prior to the utilisation of capacity under a Bare Transfer.

Queuing Policy

Section 3.12 of the Code requires that an Access Arrangement must include a policy for determining the priority that a Prospective User has, as against any other Prospective User, to obtain access to spare capacity and developable capacity (a Queuing Policy). The Code also provides that dispute resolution must be available under section 6 of the Code where difficulties arise in defining the priority that Prospective Users have in respect of negotiation for specific capacity.

A Queuing Policy is provided by AlintaGas in Chapter 6 of the Access Arrangement. Provision is made for a single queue (the “first come first served” queue) for all Prospective Users, irrespective of whether the Prospective User is seeking to increase its contracted peak rate at a given delivery point within an existing service agreement or is seeking to enter a new service agreement. A Prospective User’s priority in respect of an application will be determined on a first come first served basis, although AlintaGas may depart from this principle under certain circumstances.

The Regulator considers that the Queuing Policy proposed by AlintaGas does not meet the requirements of the Code as it does not, for all circumstances, provide sufficient information to enable Users and Prospective Users to understand in advance how priorities of access to spare capacity or developable capacity are to be determined at times when Access Requests exceed available spare capacity.

The following amendments to the Queuing Policy are required before the Access Arrangement will be approved.

Amendment 17 [was Draft Decision Amendment 17]

Clause 53 of the Access Arrangement should be amended to require AlintaGas to provide revised information to a Prospective User when there is a change in the expected timing of the requested capacity becoming available.

Amendment 18 [was Draft Decision Amendment 18]

Chapter 6 of the Access Arrangement should be amended to describe how an application at the head of the queue is transformed into a service agreement when the spare or developable capacity sought becomes available, and how and when AlintaGas will inform the applicant.

Amendment 19 [was Draft Decision Amendment 19]

Chapter 6 of the Access Arrangement should be amended to describe what will happen to an application if the spare or developable capacity is not accepted by the applicant at the head of the queue.

Amendment 20 [was Draft Decision Amendment 20]

Chapter 6 of the Access Arrangement should be amended to describe what would happen to a Prospective User's priority where another Prospective User with an application in the first come first served queue seeks to reduce the capacity requested in its application.

Amendment 21 [was Draft Decision Amendment 21]

Chapter 6 of the Access Arrangement should be amended to clarify that an incumbent User, with an existing Haulage Contract that has an option to extend the contract, has priority over an application in the queue for the same capacity when the existing service agreement expires, if the User wishes to extend the duration of the Haulage Contract.

Amendment 22 [was Draft Decision Amendment 22]

Clause 49(1)(a) of Chapter 6 of the Access Arrangement should be amended to state that the Queuing Policy will operate on a first come first served principle, unless it is necessary to depart from this principle in order to accommodate, to the extent reasonably possible, the legitimate business interests of the Service Provider and of Users and Prospective Users (section 3.13(b) of the Code) and generate, to the extent reasonably possible, economically efficient outcomes (section 3.13(c) of the Code).

Extensions/Expansions Policy

Section 3.16 of the Code requires that an Access Arrangement include a policy (an Extensions/Expansions Policy) which sets out:

- the method to be applied to determine whether any extension to, or expansion of the Capacity of, the covered pipeline should or should not be treated as part of the covered pipeline for all purposes under the Code;
- how any extension or expansion, which is to be treated as part of the covered pipeline, will affect Reference Tariffs; and
- a description of the New Facilities that will be funded by the Service Provider and the conditions on which the Service Provider will fund the New Facilities.

An Extensions/Expansions Policy is provided by AlintaGas in Chapter 7 of the Access Arrangement. The Extensions/Expansions Policy details the method to be applied to

determine whether any extension to, or expansion of the capacity of, the AlintaGas network should or should not be treated as part of the AlintaGas network for the purposes of the Code, and how that will affect the Reference Tariffs.

In assessing the proposed Extensions/Expansions Policy, the Regulator gave consideration to the levying of surcharges in relation to services for which AlintaGas has already built the cost of extensions into Reference Tariffs.

While the arrangements proposed by AlintaGas for levying surcharges are appropriate for Reference Services A and B1, where the incremental costs of servicing each additional customer is considered on a case by case basis, the arrangements may not be appropriate for Reference Services B2 and B3. For the latter services, AlintaGas has made allowance in Reference Tariffs for the recovery of costs associated with provision of standard delivery facilities. Consequently, the Extensions/Expansions Policy should specifically preclude the levying of a surcharge in respect of services for which AlintaGas has already built the cost of extensions into Reference Tariffs (in respect of B2 and B3 customers).

The following amendment to the Extensions/Expansions Policy is required before the Access Arrangement will be approved.

Amendment 23 [was Draft Decision Amendment 23]

Clause 58 of the Access Arrangement should be amended to exclude the levying of surcharges in respect of costs associated with providing “standard delivery facilities”, as that term is defined in clause 64(1) of the Access Arrangement.

Review Date

Section 3.17 of the Code requires that an Access Arrangement include a date upon which the Service Provider must submit revisions to the Access Arrangement (a revisions submission date), and a date upon which the next revisions to the Access Arrangement are intended to commence (a revisions commencement date).

Chapter 8 of the Access Arrangement specifies the date on which the Access Arrangement will commence, the date AlintaGas will submit revisions to the Regulator and the date AlintaGas intends those revisions to commence.

- AlintaGas proposes that the Access Arrangement commences on the later of 1 January 2000 or a date specified by the Regulator.
- AlintaGas will submit revisions to the Access Arrangement to the Regulator on or before 30 June 2004, with the revisions to commence on 1 January 2005.

The Regulator considered two matters in respect of a revisions date: the timing of the Revisions Submission Date, and trigger mechanisms for the Regulator to initiate a review of the Access Arrangement.

AlintaGas has proposed a Revisions Submission Date of 30 June 2004, which is six months before the proposed Revisions Commencement Date of 1 January 2005. In view of regulatory experience throughout Australia, the Regulator considers that a six-month period is an inadequate period in which to assess proposed revisions to an Access Arrangement and

to permit the revisions to be implemented. The Regulator will therefore require that the Revisions Submission Date be brought forward to allow a nine-month period between submission of revisions and the Revisions Commencement Date.

The following amendment in respect of a Revisions Submission Date is required before the Access Arrangement will be approved.

Amendment 24 [was Draft Decision Amendment 24]

Clause 60 of the Access Arrangement should be amended to provide for a revisions submission date of 31 March 2004.

The Regulator has given consideration to whether specific major events should be defined that would trigger an obligation on AlintaGas to submit revisions prior to the revisions submission date. The Regulator, having given regard to the objectives in section 8.1 of the Code, considers it appropriate to include certain trigger mechanisms in the Access Arrangement.

The following amendment is required before the Access Arrangement will be approved.

Amendment 25 [was Draft Decision Amendment 25]

Chapter 8 of the Access Arrangement (Review Date) should be amended to specify that AlintaGas will submit revisions of the Access Arrangement to the Regulator:

- by 31 March in any year of the Access Arrangement Period if the quantity of gas delivered into the distribution systems in the preceding calendar year, corrected for forecast losses of unaccounted for gas, exceeded the forecast delivered volume for that year by 25 percent or more;
- within three months of the day on which a change in regulation that arises from a change in law takes effect, or the day on which it becomes sufficiently certain that the change will take effect, whichever is earlier, that has the effect of reducing the costs that AlintaGas is required to pay, or is likely to be required to pay, in the subsequent calendar year of the Access Arrangement Period in relation to its supply of one or more services by an amount of 2.5 percent or more of the Total Revenue for that calendar year; and
- within three months of a change in taxation that arises from a change in law takes effect, or the day on which it becomes sufficiently certain that the change will take effect, whichever is earlier, that has the effect of reducing the costs that AlintaGas is required to pay, or is likely to be required to pay, in the subsequent calendar year of the Access Arrangement Period in relation to its supply of one or more services by an amount of 2.5 percent or more of the Total Revenue for that calendar year.

For the purposes of the trigger events relating to regulatory or taxation changes, the time at which it is sufficiently certain that a change will take effect is the time the change receives royal assent or otherwise has the force of law.

Other Matters Included in the Access Arrangement

Section 2.24 of the Code requires that an Access Arrangement contain the elements and satisfy the principles set out in sections 3.1 to 3.20 of the Code. An Access Arrangement may, however, address matters or provide information beyond the requirements of sections 3.1 to 3.20 of the Code.

Chapter 9 of the Access Arrangement deals with two technical issues necessary for the integration of third party access to the AlintaGas network with third party access to the pipeline or pipelines used to supply gas into the AlintaGas network. Provisions include a power of AlintaGas to obtain information from Users as to designated suppliers.

The Regulator is of the view that the scope of a power for AlintaGas to seek information from a User in respect of designated suppliers is unreasonable.

The following amendment is required before the Access Arrangement will be approved.

Amendment 26 [was Draft Decision Amendment 27]

Clause 63(2) of Chapter 9 of the Access Arrangement should be amended to ensure that the additional information that AlintaGas may require from a User in respect of designated suppliers of gas to the network should be reasonable and consistent with the information that a prudent operator of the network would require. The Access Arrangement should also provide examples of the type of additional information that AlintaGas may require.

REFERENCE TARIFFS

The Code requires that an Access Arrangement include a Reference Tariff for:

- (a) at least one Service that is likely to be sought by a significant part of the market; and
- (b) each Service that is likely to be sought by a significant part of the market and for which the Relevant Regulator considers a Reference Tariff should be included.

The principles used to determine Reference Tariffs are to be stated as a Reference Tariff Policy. Both the Reference Tariff Policy and the Reference Tariffs should be designed with a view to achieving the objectives set out in section 8.1 of the Code:

- (a) providing the Service Provider with the opportunity to earn a stream of revenue that recovers the efficient costs of delivering the Reference Service over the expected life of the assets used in delivering that Service;
- (b) replicating the outcome of a competitive market;
- (c) ensuring the safe and reliable operation of the pipeline;
- (d) not distorting investment decisions in pipeline transportation systems or in upstream and downstream industries;
- (e) efficiency in the level and structure of the Reference Tariff; and

- (f) providing an incentive to the Service Provider to reduce costs and to develop the market for Reference Services and other services.

To the extent that any of these objectives conflict in their application to a particular Reference Tariff determination, the Relevant Regulator may determine the manner in which they can best be reconciled or which of them should prevail.

AlintaGas has proposed Reference Tariffs for the four Reference Services (Reference Services A, B1, B2 and B3). In accordance with the principles established by the Code, AlintaGas used a price path methodology for the determination of Reference Tariffs. With this approach, Reference Tariffs are determined in advance for the Access Arrangement Period. The Reference Tariffs follow paths that are forecast to deliver a revenue stream sufficient to cover projected costs of providing the services.

The Code provides a general procedure for the application of the price path methodology to the determination of Reference Tariffs. The steps in this general procedure are:

- estimation of an Initial Capital Base;
- estimation of Capital Expenditure;
- estimation of Non-Capital Costs;
- estimation of an appropriate Rate of Return;
- specification of a Depreciation Schedule;
- determination of Total Revenue;
- allocation of Total Revenue across services;
- determination of Reference Tariffs; and
- specification of Incentive Mechanisms.

The Regulator considered the Reference Tariffs proposed by AlintaGas in light of each of these steps. The Regulator's conclusions and required amendments to the Access Arrangement in respect of each of these steps are indicated below.

Initial Capital Base

AlintaGas's determination of the Initial Capital Base of the distribution systems is described in section 3 of the Access Arrangement Information.

AlintaGas proposed that an acceptable Initial Capital Base would be one that is based nominally on the DORC values of different asset categories, but with reductions in these values such that the resulting Reference Tariffs would be consistent with an acceptable Reference Tariff outcome for consumers of gas via the AlintaGas network. The criterion of "acceptability" was taken to be a requirement that the Reference Tariffs resulting from a valuation of the Initial Capital Base should be consistent with retail gas prices expected to prevail in the market during the Access Arrangement Period.

To derive an Initial Capital Base, AlintaGas therefore reduced DORC values of each category of assets to levels that purportedly return the same retail prices for gas as are expected to prevail over the Access Arrangement Period. This valuation is inextricably linked to the methodology used to determine a schedule of Reference Tariffs and the associated assumptions as to the rate of return, and allocation of costs across services. Furthermore, the valuation is dependent upon the assumptions as to costs and margins, other than the costs of gas distribution, that underlie retail gas prices.

The methodology used by AlintaGas to derive an Initial Capital Base is not described in detail in the Access Arrangement Information. Modelling by the Regulator indicates the methodology used by AlintaGas is approximately consistent with the following steps.

- Develop forecasts over the four-year period 2000 to 2003 for sales volumes and average retail prices for gas supplied from the AlintaGas network for each of the classes of customers corresponding to each Reference Service, and calculate forecasts of gross retail revenues for each Reference Service.
- Develop forecasts over the period 2000 to 2003 for the cost of gas, gas transmission costs, retail costs and retail margins for each of the classes of customers corresponding to each Reference Service, and subtract these costs and margins from the gross retail revenues to leave residual amounts that are the implicit distribution revenues for each Reference Service.
- Calculate the present value of the distribution revenues for each service over the period 2000 to 2003.
- Determine an Initial Capital Base (and values of the various asset classes) that will return the same present value for the target Total Revenue for each service, taking into account forecasts of Non-Capital Costs, Capital Expenditure, depreciation and return on capital.

The total value of the Initial Capital Base proposed by AlintaGas is \$517.6 million as at 31 December 1998 (excluding \$12.7 million in User-specific assets) and is referred to by AlintaGas as a deprival value on the basis that this is the Initial Capital Base that is necessary to maintain forecast revenue. The corresponding current cost accounting value of the Initial Capital Base as at 31 December 1999, taking into account forecast Capital Expenditure, depreciation and forecast inflation in 1999, is \$539.4 million. The values proposed by AlintaGas for particular asset categories are indicated below, together with DORC values and the percentage of the DORC value of each category of assets.

In order to meet the criterion that the values ascribed to particular classes of assets must return a schedule of Reference Tariffs that would be consistent with retail gas prices expected to prevail in the market during the Access Arrangement Period, the reductions in DORC values were not uniform across asset classes. Relatively larger reductions were applied to classes of assets used predominantly to deliver gas to residential and small business consumers. The greatest proportional reduction occurred with “meters and service pipes”, “medium/low pressure mains” and “low pressure mains”. These assets are used predominantly to service residential and small-business consumers of gas and the reductions were undertaken to avoid increases in the cost of gas to these consumers.

In assessing the value of the Initial Capital Base proposed by AlintaGas, the Regulator considered several alternative valuation methodologies, the valuations that arise from these

methodologies, and the advantages and disadvantages of each methodology and valuation in the context of the distribution systems.

In determining the most appropriate Initial Capital Base for the AlintaGas gas distribution systems, the Regulator considered a balance of interests between AlintaGas, Users and Prospective Users. The Regulator accepted that AlintaGas's proposal to set the Initial Capital Base to be consistent with retail gas prices expected to prevail in the gas market during the Access Arrangement Period would provide a reasonable balance of interests between the relevant parties.

In accordance with obligations imposed on the Regulator by section 38 of the *Gas Pipelines Access (Western Australia) Act 1998*, the Regulator also considered whether the proposed Initial Capital Base (and hence proposed Reference Tariffs) are consistent with the extension of effective competition in the supply of natural gas to residential and small business customers. In particular, the Regulator assessed whether the assumptions of AlintaGas in respect of the gross retail margins for gas supplied under Reference Services B2 and B3 were consistent with the margins that may be expected to prevail in a competitive retail market for gas. This was found to be the case and, on this basis, the Regulator is prepared to accept AlintaGas's proposed Initial Capital Base of \$517.6 million (excluding user-specific assets) as at 31 December 1998. The Regulator will, however, require that the Initial Capital Base be established at a value as of 31 December 1999. To determine this value, the Regulator has rolled forward the Capital Base value from 31 December 1998 to 31 December 1999 taking into account AlintaGas's forecast capital expenditure in 1999, depreciation in 1999, and the actual inflation rate in 1999 of 1.8 percent. The resulting value of the Initial Capital Base as at 31 December 1999 is \$535.9 million.

The following amendment is required before the Access Arrangement will be approved.

Amendment 27 [was Draft Decision Amendment 28]

The Access Arrangement and Access Arrangement Information should be amended to reflect an Initial Capital Base of \$535.9 million as at 31 December 1999 with a breakdown as follows:

Asset Class	Asset Value at 31 December 1999
High pressure mains	\$149.1 million
Medium pressure mains	\$177.0 million
Medium low pressure mains	\$96.2 million
Low pressure mains	\$27.8 million
Meters	\$52.8 million
Regulators	\$9.7 million
Gate Stations	\$2.0 million
Buildings	\$1.7 million
Equipment and vehicles (SCADA) & telemetry systems	\$15.1 million
Land	\$4.5 million
Total	\$535.9 million

Capital Expenditure

Sections 8.15 to 8.21 of the Code provide for Capital Expenditure on a covered pipeline and associated regulated assets to be incorporated into the Capital Base of the pipeline, and for forecast Capital Expenditure to be considered in determination of Reference Tariffs.

AlintaGas provided projections of Capital Expenditure totalling \$107.2 million for the Access Arrangement Period.

In general, the Regulator considers that the forecast of Capital Expenditure is not well substantiated in terms of the requirements set out in section 8.16 of the Code. Furthermore, the Regulator noted that for some items of Capital Expenditure, the forecast unit rates underlying the forecasts were in excess of rates that may be regarded as consistent with efficient costs.

Notwithstanding the above, the Regulator accepted that New Facilities Investment of the types proposed by AlintaGas may meet the requirements of section 8.16(b) of the Code in respect of net benefits accruing from that investment. The Regulator therefore accepted AlintaGas's proposed New Facilities Investment for the purposes of determining Reference Tariffs subject to two revisions:

- i. downward adjustment of the forecast expenditure on high pressure mains and medium/low pressure mains to reflect unit rates that are consistent with historical unit rates; and
- ii. removal from the capital expenditure forecast of expenditure on the galvanised steel medium/low pressure mains relaying program, on the basis that this program had not been approved by the AlintaGas Board as of the date of issue of the Draft Decision and no justification was provided for the expenditure in terms of the requirements of section 8.16 of the Code.

The following amendment is required before the Access Arrangement will be approved.

Amendment 28 [was Draft Decision Amendment 29]

The Access Arrangement and Access Arrangement Information should be amended to reflect Capital Expenditure of \$96.6 million over the Access Arrangement Period, as follows:

	2000	2001	2002	2003	2004	Total
High pressure mains	3.8	3.5	3.0	2.6	2.0	14.9
Medium/low pressure mains						
Capacity reinforcement	0.3	0.1	0.2	0.2	0.1	0.9
Infill	0.5	0.2	0.0	0.0	0.0	0.8
Re-laying program	2.2	2.5	1.1	0.0	0.0	5.9
Mains extensions	3.5	3.7	4.0	4.1	4.2	19.5
Meters and service pipes	8.2	7.8	7.8	7.6	7.5	38.9
Telemetry and monitoring systems	0.1	0.1	0.1	0.3	0.1	0.7
Equipment and vehicles						
Information systems	3.8	1.4	0.5	1.6	0.6	7.9
Vehicles, plant and equipment	3.0	1.1	0.8	1.2	0.7	6.8
Buildings	0.1	0.1	0.1	0.1	0.1	0.5
Total	25.5	20.5	17.7	17.7	15.3	96.6

The Regulator notes that acceptance of a revised forecast of Capital Expenditure does not mean that the associated New Facilities Investment will automatically be added to the Capital Base after it has occurred. Rather, the Regulator will assess whether the investment meets the criteria of section 8.16 of the Code either at the time of review of the Access Arrangement or, if asked to do so by the Service Provider, at the time at which the investment takes place. In assessing any proposed additions to the Capital Base, the Regulator will require more

rigorous demonstration that the investment meets the requirements of section 8.16 of the Code.

Non-Capital Costs

Section 8.37 of the Code provides for a Reference Tariff to recover all Non-Capital Costs (or forecast Non-Capital Costs, as relevant) except for any such costs that would not be incurred by a prudent Service Provider, acting efficiently, in accordance with accepted and good industry practice, and to achieve the lowest sustainable cost of delivering the Reference Service.

AlintaGas provided projections of Non-Capital Costs totalling \$185.3 million for the Access Arrangement Period.

In considering the Non-Capital Costs proposed by AlintaGas, the Regulator assessed whether these costs may meet the requirements of section 8.37 of the Code. That is, whether the proposed costs are consistent with the costs that would be incurred by a prudent Service Provider, acting efficiently, in accordance with accepted and good industry practice, and to achieve the lowest sustainable cost of delivering the Reference Services.

In undertaking the assessment, the Regulator notes that the forecasts of Non-Capital Costs do not limit or constrain AlintaGas as to the level or composition of Non-Capital Costs actually incurred over the Access Arrangement Period. For this reason, the Regulator gave attention to both the total level of Non-Capital Costs that will be recognised in the derivation of Reference Tariffs, and the individual components of the forecasts.

The Regulator considers that AlintaGas's forecast Non-Capital Costs have not been well justified in the Access Arrangement Information and in other information separately made available for the purposes of assessment. In particular, the projected costs appear to include provision for unaccounted for gas at a level that was not adequately justified.

Notwithstanding the poor justification for the cost forecasts, the total level of Non-Capital Costs appears reasonable in comparison with Non-Capital Costs of other distribution systems. Furthermore, the time trend of Non-Capital Costs is for these costs to remain approximately constant in real terms over the Access Arrangement Period despite expansions to the distribution network and increases in customer numbers.

In view of the above, the Regulator has accepted the forecast Non-Capital Costs subject to a reduction in projected costs associated with unaccounted for gas.

The following amendment is required before the Access Arrangement will be approved.

Amendment 29 [was Draft Decision Amendment 30]

The Access Arrangement and Access Arrangement Information should be amended to reflect Non-Capital Costs of \$183.1 million over the Access Arrangement Period, as follows (in nominal \$million).

	2000	2001	2002	2003	2004	Total
Non-Capital Costs	36.7	35.8	36.2	36.7	37.7	183.1

Rate of Return

Sections 8.30 and 8.31 of the Code set out the principles for establishing the Rate of Return for an existing covered pipeline when a Reference Tariff is first proposed for a Reference Service. These principles apply to the proposed Access Arrangement for the AlintaGas gas distribution systems.

For the purposes of determining Total Revenue, AlintaGas calculated the return on each group of assets that form the AlintaGas network by applying a pre-tax real rate of return to the current cost accounting value of that group of assets at the beginning of each year.

The rate of return was calculated as a weighted average of the returns (weighted average cost of capital or WACC) applicable to the assumed levels of equity and debt used to finance the assets which form the AlintaGas network. AlintaGas proposed a real pre-tax WACC of 8 percent.

In assessing the derivation of the WACC by AlintaGas, the Regulator used a similar CAPM methodology as AlintaGas, but in some instances utilised different values of input variables. A comparison of the values of input variables used by AlintaGas and the revised values of the Regulator is as follows.

Estimation of the rate of return

Parameter	Parameter symbol	Value used by AlintaGas	Value used by the Regulator
Risk free rate (nominal)	R_f	5.65%	6.27%
Risk free rate (real)	R_f	3.07%	3.40%
Market risk premium	–	6.50%	6.0%
Asset beta	b_a	–	0.55
Equity beta	b_e	0.85	1.08
Debt beta	b_d	0.235	0.20
Cost of debt margin		1.53%	1.20%
Corporate tax rate	T	36%	31.4%
Franking credit value	g	30%	50%
Debt to total assets ratio	D/V	55%	60%
Equity to total assets ratio	E/V	45%	40%
Expected inflation	p_e	2.5%	2.78%

The corporate tax rate was assumed equal to the legislated average corporate taxation rate over the Access Arrangement Period, which is a corporate tax rate of 36 percent for January to June 2000, 34 percent for July 2000 to June 2001, and 30 percent for July 2001 to December 2004. Accordingly, the average rate of corporate taxation over the period is 31.4 percent.

For the purpose of the Final Decision, the Regulator has used the forward transformation to derive the implied allowance for corporate taxation. Accordingly, on the basis of financial advice, the Regulator has adopted a real pre-tax WACC of 7.5 percent for the purpose of assessing AlintaGas's proposed Reference Tariffs. The implied nominal pre tax WACC is 10.5 percent.

The returns to equity that are implied by this WACC estimate are as follows.

Returns on equity implicit in revised WACC values

Nominal post-tax return on equity	12.7 percent
Real post-tax return on equity	9.7 percent
Nominal pre tax return on equity	15.1 percent
Real pre-tax return on equity	12.0 percent

The following amendment is required before the Access Arrangement will be approved.

Amendment 30 [was Draft Decision Amendment 31]

The Access Arrangement and Access Arrangement Information should be amended to reflect a pre-tax real rate of return of 7.5 percent, and a pre-tax nominal rate of return of 10.5 percent.

Depreciation

Sections 8.32 to 8.34 of the Code specify rules for depreciation of assets that form part of the Capital Base, for the purposes of determining a Reference Tariff.

AlintaGas determined a Depreciation Schedule for each group of assets that form the AlintaGas network. Depreciation for each group of assets was calculated using the Current Cost Accounting (CCA) method. In applying this method, regulatory asset values were adjusted each year to take into account new facilities investment, and the depreciation of existing and new facilities, during the year. Depreciation was calculated on a straight line basis on the adjusted regulatory asset values. Assets in each group were depreciated over the assumed economic life. The resulting depreciation was then further adjusted for the change in nominal asset values during the year caused by inflation.

In assessing AlintaGas's proposed Depreciation Schedule, the Regulator assessed the assumptions as to asset lives and AlintaGas's application of the CCA methodology in calculating depreciation allowances.

The Regulator considers AlintaGas's assumptions as to asset lives to be reasonable.

The Regulator assessed AlintaGas's derivation of the Depreciation Schedule against accounting standards described in the Statement of Accounting Practice No. 1: Current Cost Accounting. An inconsistency was observed between AlintaGas's methodology and the accounting standard in regard to the relative timing of depreciation and asset inflation for

Capital Expenditure. The Regulator also revised the Depreciation Schedule according to revisions made to the Initial Capital Base and Capital Expenditure.

The following amendment is required before the Access Arrangement will be approved.

Amendment 31 [was Draft Decision Amendment 32]

The Access Arrangement and Access Arrangement Information should be amended to reflect depreciation costs over the Access Arrangement Period of \$98.9 million, as follows (in nominal \$million).

Asset Group	2000	2001	2002	2003	2004	Total
Mains:						
High pressure	1.5	1.5	1.6	1.7	1.7	7.9
Medium pressure	3.6	3.8	3.9	4.1	4.2	19.7
Medium low pressure	2.5	2.5	2.6	2.7	2.7	13.0
Low pressure	0.9	1.0	1.0	1.1	1.2	5.2
Secondary gate stations	0.1	0.1	0.1	0.1	0.1	0.5
Regulators	0.4	0.4	0.4	0.4	0.4	2.0
Meters and service pipes	5.1	5.5	6.0	6.5	6.9	30.0
Equipment and vehicles	3.2	3.8	4.1	4.4	4.8	20.3
Buildings	0.1	0.1	0.1	0.1	0.1	0.4
Total	17.3	18.7	19.8	21.0	22.1	98.9

Total Revenue

Sections 8.4 and 8.5 of the Code require that the revenue to be generated from the sales (or forecast sales) of all Services over the Access Arrangement Period (the Total Revenue) be determined, or be able to be expressed in terms of, one of three methodologies.

- **Cost of Service:** the Total Revenue is equal to the cost of providing all Services (some of which may be the forecast of such costs), and with this cost to be calculated on the basis of:
 - (a) a return (Rate of Return) on the value of the capital assets that form the covered pipeline (Capital Base);
 - (b) depreciation of the Capital Base (Depreciation); and
 - (c) the operating, maintenance and other Non-Capital Costs incurred in providing all Services provided by the covered pipeline (Non-Capital Costs).
- **Internal Rate of Return (IRR):** the Total Revenue will provide a forecast IRR for the covered pipeline that is consistent with the principles in sections 8.30 and 8.31 of the Code. The IRR should be calculated on the basis of a forecast of all costs to be incurred in providing such Services (including capital costs) during the Access Arrangement Period. The initial value of the covered pipeline in the IRR calculation is to be given by the Capital Base at the commencement of the Access Arrangement Period and the assumed residual value of the covered pipeline at the end of the Access Arrangement Period (Residual Value) should be calculated consistently with the principles in section 8 of the Code.

- Net Present Value (NPV): the Total Revenue will provide a forecast NPV for the covered pipeline equal to zero. The NPV should be calculated on the basis of a forecast of all costs to be incurred in providing such Services (including capital costs) during the Access Arrangement Period, and using a discount rate that would provide the Service Provider with a return consistent with the principles in sections 8.30 and 8.31 of the Code.

The initial value of the covered pipeline in the NPV calculation is to be given by the Capital Base at the commencement of the Access Arrangement Period and the assumed Residual Value at the end of the Access Arrangement Period should be calculated consistently with the principles in section 8 of the Code.

AlintaGas used a cost of service methodology to determine a Total Revenue requirement for the distribution systems. Total Revenue for each year of the Access Arrangement Period was calculated as the sum of:

- a return on the Capital Base;
- depreciation of the Capital Base;
- a return on working capital; and
- Non-Capital Costs.

On the basis of analysis of the information provided by AlintaGas, the Regulator revised the Total Revenue proposed by AlintaGas to reflect revisions to Capital Expenditure, Non-Capital Costs, the Rate of Return and depreciation. The Regulator also revised the Total Revenue to correct for a systematic bias in AlintaGas's CCA calculation of capital costs, and to reflect amendments to the working capital requirement and the methodology used to calculate a return on working capital.

The following amendments are required before the Access Arrangement will be approved.

Amendment 32 [was Draft Decision Amendment 33]

The Access Arrangement and Access Arrangement Information should be amended to reflect a working capital requirement of \$10.0 million in each year of the Access Arrangement Period and a return on working capital determined by multiplication of the level of working capital by the nominal pre-tax rate of return.

Amendment 33 [was Draft Decision Amendment 34]

The Access Arrangement and Access Arrangement Information should be amended to reflect a Total Revenue as follows.

Year	2000	2001	2002	2003	2004
Revenue (nominal \$million)	96.0	97.9	100.5	103.1	106.0

Revenue Allocation

In determining Reference Tariffs, a Service Provider must determine (explicitly or implicitly) the costs or share of costs of pipeline operation that will be recovered through each Reference

Service, and from each User. Rules for the allocation of costs/revenues between services and Users are provided in sections 8.38 to 8.43 of the Code.

AlintaGas used a fully distributed cost model to allocate the cost constituents of Total Revenue across the four Reference Services. In broad terms, costs were allocated on the basis of the use of different classes of assets in provision of each Reference Service.

In considering the allocation of Total Revenue between the four Reference Services, the Regulator considered criteria of “economic efficiency” and “equity”.

Economic efficiency considerations would generally require that the revenue allocated to each service would cover at least the avoidable cost of providing the service. For common or fixed costs, and particularly capital costs (return on capital and depreciation), economic efficiency would require that these costs be allocated to services in a manner that minimises the deviation in decisions of Users from a situation in which Users paid only the avoidable cost of a service.

Equity considerations, on the other hand, would generally require that the revenue allocated to each service would cover at least the avoidable cost of providing the service, but would also require that common costs be allocated such that each service bears an “equitable” share of these costs.

The Regulator has found no compelling reason to reject AlintaGas's proposed methodology of cost allocation. However, the allocation of revenue across services will vary from that proposed by AlintaGas as a result of revisions to underlying cost parameters. The revised revenue allocation is shown below.

Revised allocation of Total Revenue across services (2000)¹

Reference Service	AlintaGas Proposed Allocation		Revised Allocation	
	Revenue Allocation	Average Distribution Tariff	Revenue Allocation	Average Distribution Tariff
A	8.3 million	\$0.54/GJ	7.9 million	\$0.51/GJ
B1	16.2 million	\$4.40/GJ	15.2 million	\$4.12/GJ
B2	5.3 million	\$5.98/GJ	5.0 million	\$5.66/GJ
B3	71.3 million	\$9.06/GJ	67.8 million	\$8.63/GJ
Total	101.1 million	\$3.63/GJ	96.0 million	\$3.45/GJ

Over the Access Arrangement Period, the reduction in revenue required by the Regulator corresponds to a reduction in the discounted weighted average tariff of approximately four percent² from that proposed by AlintaGas.

¹ Exclusive of revenue increases arising from pass through of the goods and services tax.

² Excluding pass through of the goods and services tax.

Reference Tariffs

The final stage of cost allocation is the allocation of target revenue for each Reference Service to the various charges that make up each Reference Tariff. The Code does not establish explicit rules or guidelines for the structuring of Reference Tariffs. However, in setting out the general objectives for Reference Tariffs and a Reference Tariff policy, section 8.1 of the Code states that a Reference Tariff and Reference Tariff Policy should be designed with a view to achieving efficiency in the level and structure of the Reference Tariff.

In addition to the requirements of the Code, further requirements in respect of the setting of Reference Tariffs are imposed by the *Gas Pipelines Access (Western Australia) Act 1998* on the Regulator. Section 38 of the Act requires the Regulator to take into account the fixing of appropriate charges as a means of extending effective competition in the supply of natural gas to residential and small business consumers. “Appropriate charges” refers to charges for the use of the pipeline to transport small quantities of natural gas that will enable suppliers to compete for the custom of residential and small business consumers. “Small quantities” refers to a quantity of gas that is less than a quantity prescribed by the Minister, but is in any case a quantity of less than one terajoule in any period of 12 consecutive months that is transported to a single metered connection. In respect of the AlintaGas gas distribution systems, this would correspond to supply of gas under Reference Services B2 and B3.

AlintaGas has structured Reference Tariffs to recover the target revenue allocated to each service on the basis of standing charges that would apply uniformly to all Users of a Service and demand and/or usage charges that vary for each User in proportion to their level of use of a service.

The Regulator considers that the structure of Reference Tariffs should be a matter of commercial discretion for the Service Provider, subject to any proposed tariff structure not being inconsistent with broad criteria of efficiency and equity.

The Regulator had concerns with the proposed tariff structures in respect of the following.

- The Access Arrangement does not describe the general methodology to be used in calculating the user-specific delivery charges and the Rate of Return implicit in amortisation of costs of user-specific delivery facilities.
- The proposed Reference Tariff A may, in some circumstances, give rise to gas distribution costs that are greater than the costs that may be incurred under the tariffs currently set under the *Gas Distribution Regulations 1996* (the “GDR Tariff”). The Regulator considers that it is reasonable that the Access Arrangement make provision for transitional arrangements between the two tariff structures.
- The proposed Reference Tariff A and Reference Tariff B1 may give rise to a large discrepancy in gas distribution costs at close to the threshold level of gas use that determines eligibility for the two services. The potential difference in distribution costs, and consequent difference in total gas cost to an end-user of gas, may give rise to incentives for an inefficiently high use of gas so as to secure lower distribution costs and a lower average total cost of gas.
- The proposed Reference Tariff B3 includes a block structure of distribution charges that may, under reasonable assumptions as to costs of gas and gas transmission, give rise to

negative retail margins in delivery of incremental units of gas to certain residential end-users. This tariff structure may therefore provide a disincentive for a retailer to meet the service requirements of these end-users.

In regard to the determination of user-specific charges, the following amendment is required before the Access Arrangement will be approved.

Amendment 34 [was Draft Decision Amendment 35]

The Access Arrangement should be amended to include a statement of general methodology for the determination of user-specific delivery charges, and to indicate the Rate of Return implicit in amortisation of costs of user-specific delivery facilities.

The Regulator will require tariff structures to be revised to address the concerns indicated above and also to reflect changes to costs and Total Revenue arising from the amendments of the Access Arrangement required by this Final Decision. Subsequent to its submission on the Draft Decision, AlintaGas has proposed alternative structures to the Regulator that will meet the Regulator's requirements in this regard, and the Regulator will require the Access Arrangement to be amended to include these structures.

The Regulator also notes that AlintaGas has proposed to the Regulator that the goods and services tax be passed through to Reference Tariffs at a rate of 9.3 percent of the goods-and-services-tax exclusive price. The Regulator is of the view that it is appropriate to accommodate the pass through of the goods and services tax in the Reference Tariffs as they will be set out in the revised Access Arrangement.

The following amendments are required before the Access Arrangement will be approved.

Amendment 35 [was Draft Decision Amendment 37]

Clause 21 of the Access Arrangement should be amended to provide for the following tariff structure for Reference Service A in the first year of the Access Arrangement Period:

From 1 January 2000 to 30 June 2000

Standing Charge: \$44,000/year;
 Demand Charge: \$181.64/GJ/km/year for the first 10 km of interconnection distance, and \$90.82/GJ/km/year for any part of the interconnection distance in excess of 10 km;
 Usage Charge: \$0.04426/GJ/km for the first 10 km of interconnection distance, and \$0.02213/GJ/km for any part of the interconnection distance in excess of 10 km.

From 1 July 2000 to 31 December 2000

Standing Charge: \$48,092/year;
 Demand Charge: \$198.53/GJ/km/year for the first 10 km of interconnection distance, and \$99.27/GJ/km/year for any part of the interconnection distance in excess of 10 km;
 Usage Charge: \$0.04838/GJ/km for the first 10 km of interconnection distance, and \$0.02419/GJ/km for any part of the interconnection distance in excess of 10 km.

The Access Arrangement should be further amended to provide for a transitional arrangement from the tariff structure under the *Gas Distribution Regulations 1996* to Reference Tariff A, where this transitional arrangement has the following key elements.

- (a) It would apply for a 2 year period.
- (b) Standing charges for Reference Tariff A would be discounted by 100 percent in year 1, 50 percent in year 2 and be fully applied for year 3 and thereafter.
- (c) The discount in standing charges would be applied only to the extent that the price payable by a User under Reference Tariff A is greater than the estimated 2000/2001 GDR Tariff, estimated and independently audited in accordance with the process described in the AlintaGas Publication *Gas Distribution Access Pricing Methods* (25 June 1997).
- (d) The discount would apply only to delivery points from which contestable customers are supplied with gas on the date of the commencement of the Access Arrangement. "Contestable customer" has the meaning given to it in section 92 of the *Gas Pipelines Access (Western Australia) Act 1998*.

Amendment 36 [was Draft Decision Amendment 38]

Clause 22 of the Access Arrangement should be amended to provide for the following tariff structure for Reference Service B1 in the first year of the Access Arrangement Period:

From 1 January 2000 to 30 June 2000

Standing Charge \$500.00/year;
 Usage Charge \$4.61/GJ for the first 5 TJ of gas delivered to the User per year;
 \$4.38/GJ for gas delivered to the User in excess of 5 TJ per year and up to 10 TJ/year; and
 \$1.15/GJ for gas delivered to the User in excess of 10 TJ per year.

From 1 July 2000 to 31 December 2000

Standing Charge \$546.50/year;
 Usage Charge \$5.04/GJ for the first 5 TJ of gas delivered to the User per year;
 \$4.79/GJ for gas delivered to the User in excess of 5 TJ per year and up to 10 TJ/year; and
 \$1.26/GJ for gas delivered to the User in excess of 10 TJ per year.

Amendment 37

Clause 23 of the Access Arrangement should be amended to provide for the following tariff structure for Reference Service B2 in the first year of the Access Arrangement Period:

From 1 January 2000 to 30 June 2000

Standing Charge	\$200.00/year;
Usage Charge	\$5.10/GJ for the first 100 GJ of gas delivered to the User per year; and \$4.59/GJ for gas delivered to the User in excess of 100 GJ per year.

From 1 July 2000 to 31 December 2000

Standing Charge	\$218.60/year;
Usage Charge	\$5.57/GJ for the first 100 GJ of gas delivered to the User per year; and \$5.02/GJ for gas delivered to the User in excess of 100 GJ per year.

Amendment 38 [was Draft Decision Amendment 39]

Clause 24 of the Access Arrangement should be amended to provide for the following tariff structure for Reference Service B3 in the first year of the Access Arrangement Period:

From 1 January 2000 to 30 June 2000

Standing Charge	\$25.00/year;
Usage Charge	\$8.55/GJ for the first 15 GJ of gas delivered to the User per year; \$5.98/GJ for gas delivered to the User in excess of 15 GJ per year and up to 45 GJ/year; and \$3.93/GJ for gas delivered to the User in excess of 45 GJ per year.

From 1 July 2000 to 31 December 2000

Standing Charge	\$27.32/year;
Usage Charge	\$9.35/GJ for the first 15 GJ of gas delivered to the User per year; \$6.54/GJ for gas delivered to the User in excess of 15 GJ per year and up to 45 GJ/year; and \$4.30/GJ for gas delivered to the User in excess of 45 GJ per year.

Reference Tariff Variation and Incentive Mechanisms

AlintaGas has specified Reference Tariffs only for the first year of the Access Arrangement Period and proposed that tariffs in subsequent years are able to be varied in accordance with an “average revenue” or “revenue yield” regime, and in accordance with provisions for pass through of costs arising from taxation and regulatory changes.

The revenue yield form of price control would allow for an increase in Reference Tariffs in each year of the Access Arrangement Period subject to a constraint that the forecast average revenue (per gigajoule of gas delivered) for the year in which the tariffs will apply does not exceed a specified maximum allowed average revenue for that year. The revenue yield mechanism proposed by AlintaGas allows AlintaGas to vary Reference Tariffs at its discretion subject to two constraints:

- i. a limit on changes to Reference Tariffs such that the forecast average revenue for any year does not exceed a maximum allowed average revenue determined in accordance with a “CPI-X” constraint, and adjustments reflecting differences between forecast and realised sales for each Reference Service in previous years; and

- ii. a limit on changes to Reference Tariffs such that the change to any particular Reference Tariff component in any year does not exceed the maximum allowed value for that tariff determined in accordance with a “CPI+Y” constraint.

The Access Arrangement also provides for Reference Tariffs to be changed as a result of pass through of taxation and regulatory changes, including pass through of variation in taxes, charges, levies, imposts and fees, or costs arising from a change in the regulatory environment.

AlintaGas has proposed that changes to Reference Tariffs be implemented through submission to the Regulator of “variation proposals” and “change statements”. The Access Arrangement seeks to impose certain obligations on the Regulator in regard to the process for approval or non-approval of the proposed tariff variations.

In assessing the proposed provisions for changes to Reference Tariffs, the Regulator had concerns in regard to:

- an inability under the Code for Reference Tariffs to be varied as proposed by AlintaGas using a revenue yield approach;
- that a revenue yield price control would create perverse incentives for AlintaGas;
- an inability under the Code for Reference Tariffs to be varied as proposed by AlintaGas for the pass through of changes in costs arising from taxation and regulatory changes; and
- the determination by AlintaGas of the X factor used in the “CPI-X” methodology for annual adjustments to reference Tariffs.

The following amendments are required before the Access Arrangement will be approved.

Amendment 39 [was Draft Decision Amendment 43]

Schedule 2 of the Access Arrangement should be amended to provide for variation of Reference Tariffs only in accordance with a CPI-X “price-cap” applying to individual tariff components.

Amendment 40 [was Draft Decision Amendment 44]

Clause 15 of schedule 2 of the Access Arrangement should be amended such that the “X” value in a CPI-X price cap mechanism is 2.55 percent.

Amendment 41 [was Draft Decision Amendment 45]

Clause 14 of schedule 2 of the Access Arrangement should be amended such that the Consumer Price Index (CPI) refers to the Eight Capital City, All-Groups CPI measure, as published by the Australian Bureau of Statistics, or, in the event that the Australian Bureau of Statistics does not publish such an indicator, a substitute index agreed to by the Regulator. For the purposes of setting tariffs for 2001, the CPI measure should be reduced by 2.75 percent to account for the impact of the goods and services tax.

Amendment 42

Schedule 3 of the Access Arrangement should be amended to remove provision for changes to Reference Tariffs to reflect the pass through of changes in costs arising from changes to taxation or regulation.

Fixed Principles

A Reference Tariff Policy may provide that certain elements of the Reference Tariff Policy (Fixed Principles) are fixed for a specified period and not subject to change when a Service Provider submits reviews to an Access Arrangement without the agreement of the Service Provider. The period during which the Fixed Principle may not be changed is the Fixed Period.

AlintaGas proposed that the following principles are Fixed Principles for a Fixed Period of 10 years:

- the structure of Reference Tariffs as specified in clauses 21, 22, 23 and 24 of the Access Arrangement;
- the method of calculation of the Total Revenue as described in clause 27 of the Access Arrangement;
- the method of forecasting new facilities investment under clause 29 of the Access Arrangement;
- the financing structure that has been assumed for the purposes of determining the rate of return in accordance with section 8.30 of the Code;
- the Depreciation Schedule, referred to in clause 31 of the Access Arrangement;
- the allocation of revenue between services as described in clause 33 of the Access Arrangement; and
- the “price path” form of regulation as described in clause 35 of the Access Arrangement.

The Fixed Principles proposed by AlintaGas are generally consistent with the nature of Structural Elements allowed as Fixed Principles by section 8.48 of the Code. The Regulator notes that AlintaGas has indicated in section 4.3 of Attachment N of the submission on the Draft Decision that both “Depreciation Schedule” and “allocation of revenue between services” refer to methodologies. The definition and use of the relevant terms should be

amended in the Access Arrangement and Access Arrangement Information such that it is clear that both terms refer to methodologies and not to the values derived by application of the methodologies.

The following amendment is required before the Access Arrangement will be approved.

Amendment 43 [was Draft Decision Amendment 46]

The Access Arrangement and Access Arrangement Information should be amended to indicate that the Fixed Principles of the “Depreciation Schedule” and “allocation of revenue between services” comprise only methodologies, and not values calculated using these methodologies.

The Regulator has further considered and sought legal advice on the intent of the Code in respect of the duration of the Fixed Period and has reached a view that the intention of sections 8.47 and 8.48 of the Code is to give the Regulator a discretion to allow a Fixed Period to exceed a single Access Arrangement Period. However, in determining the Fixed Period, regard must be had to the interests of the Service Provider and the interests of Users and Prospective Users.

The Regulator has therefore examined each of the Fixed Principles proposed by AlintaGas and assessed whether AlintaGas’s proposed Fixed Period of 10 years for each of these fixed principles is reasonable, having regard to the interests of AlintaGas and the interests of Users and Prospective Users.

The Regulator is concerned that the Fixed Principle of the structure of Reference Tariffs as specified in clauses 21, 22, 23 and 24 of the Access Arrangement would appear to include specific tariff structures, including gas quantity blocks as they relate to tariff structures. These tariff structures may potentially have a significant impact on the scope for competition in the retail market for gas, particularly where the retail price of gas is itself regulated. Having regard to the interests of AlintaGas, Users and Prospective Users, the Regulator is of the view that it is reasonable to approve tariff structures for the Access Arrangement Period, but that practical experience gained with the proposed tariff structures and impacts on competition in the retail gas market should be able to be taken into account in any review of the Access Arrangement.

The following amendment is required before the Access Arrangement will be approved.

Amendment 44

Clause 38(1) of the Access Arrangement should be amended to remove the Fixed Principle of the structure of Reference Tariffs.