

# Goldfields Gas Pipeline

## Issues Paper on The Proposed Revisions to the Access Arrangement

22 April 2009

Economic Regulation Authority



WESTERN AUSTRALIA

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## INTRODUCTION

1. On 23 March 2009, Goldfields Gas Transmission Pty Ltd (**GGT**) submitted proposed revisions to the access arrangement for the Goldfields Gas Pipeline (**GGP**) for approval under the *National Third Party Access Code for Natural Gas Pipeline Systems* (**Code**). On 7 April 2009, GGT provided further information on its revisions consisting of a supporting submission (including a tariff model). A public version of this supporting, dated 21 April 2009, was subsequently provided and is released with this issues paper.
2. The proposed revised access arrangement (**AA**) for the GGP together with the Access Arrangement Information (**AAI**) were submitted in accordance with the requirements of section 2.28 of the Code prior to the revisions submission date specified in the current access arrangement.
3. The proposed AA, AAI and a supporting submission lodged by GGT are available from the Authority's web site at [www.era.wa.gov.au](http://www.era.wa.gov.au)
4. The GGP consists of the gas pipeline system as described by the Western Australian pipeline licence WA: PL 24. The pipeline system comprises 1378 km of high pressure gas pipeline extending from Yarraloola in the Pilbara region of Western Australia (near Compressor Station One on the Dampier to Bunbury Natural Gas Pipeline (**DBNGP**)), to Kalgoorlie in the Southern Goldfields region. The GGP is interconnected with the DBNGP and receives gas from this pipeline and from the Varanus Island gas processing facilities.
5. The Code is expected to be replaced by a new national gas law (**NGL**) shortly. The NGL is already in place in the Eastern States. A Bill dealing with the NGL is currently being considered by the Western Australian Parliament (*National Gas Access (Western Australia) Bill 2008*). This Bill provides for the replacement of the Code with the NGL (consisting of the National Gas Law and National Gas Rules).
6. The Bill, which will govern the Authority's functions when it come into effect, is likely to require the Authority to deal with proposed access arrangement revisions underway at the time the proposed NGL comes into effect, as if the Code continued to apply and to administer the resultant access arrangement under the Code until there are future revisions to that access arrangement.
7. This effectively means that the Authority will review and administer the proposed revised access arrangement for the GGP under the Code, even if the Code is repealed in the near future. When the GGP access arrangement is next revised (expected to be in 2014), the revisions will be assessed under the proposed NGL.

## PURPOSE

8. This Issues Paper is intended to assist interested parties in making submissions on the proposed revised access arrangement for the GGP by identifying a number of the key areas where GGT has proposed changes which may be materially significant to shippers or other parties. These areas are as follows:
  - Coverage of Capacity and Services Policy

- Reference Tariffs and Reference Tariff Policy
    - Weighted Average Cost of Capital (WACC)
    - Non-capital Costs
    - Annual rather than Quarterly Modelling
    - Tariff Variation Mechanism
  - Terms and Conditions
    - Rebate of Quantity Variation Charges
    - Gas Specification
9. The Issues Paper is not an exhaustive review of the content of the proposed revised access arrangement or the matters that the Authority will address in making its determination.
10. The Authority invited submissions from interested parties on the AA and AAI submitted by GGT on 23 March 2009 by publishing a notice on its web site and in the *West Australian* and *The Australian* newspapers on 2 April 2009. The closing date for submissions is 29 May 2009.
11. The Authority invites interested parties to make submissions on particular matters identified in this Issues Paper or on any other matters relating to the proposed revised access arrangement as contained in the AA, AAI or the supporting submission.

Submissions are invited on any of the matters identified in this Issues Paper or on any issue relating to the proposed revised access arrangement for the GGP.

12. Submissions in printed form should be sent to:

Goldfields Gas Pipeline, Gas Access  
Economic Regulation Authority  
PO Box 8469  
Perth BC WA 6849

Electronic submissions should be sent to: [ggp@era.wa.gov.au](mailto:ggp@era.wa.gov.au)

13. In general, all submissions from interested parties will be treated as being in the public domain and placed on the Authority's web site. Where an interested party wishes to make a submission in confidence, it should clearly indicate the parts of the submission for which confidentiality is claimed as is required by section 7.11 of the Code, and specify in reasonable detail the basis upon which the claim is made in order that the Authority can consider whether or not disclosure would be unduly harmful to the legitimate business interests of the interested party pursuant to section 7.12 of the Code. If the Authority considers that disclosure would not be unduly harmful to the legitimate business interests of the interested party then the Authority is permitted to publish the information.

14. The receipt and publication of any submission on the Authority's web site shall not be taken as indicating that the Authority has knowledge, either actual or constructive, of the contents of a particular submission and, in particular, whether the submission in whole or in part contains information of a confidential nature and no duty of confidence will arise for the Authority in these circumstances.
15. The proposed AA available on the Authority's web site consists of the following documents:
  - Proposed Revisions To Access Arrangement 23 March 2009 (clean and track change format)
  - Appendix 1 Definitions and Interpretation - Proposed Revisions to Access Arrangement (clean and track change format)
  - Appendix 2 Forms - Proposed Revisions to Access Arrangement (clean and track change format)
  - Appendix 3 General Terms and Conditions - Proposed Revisions to Access Arrangement (clean and track change format)
16. The AAI available on the Authority's web site is titled 'Access Arrangement Information 23 March 2009'. The supporting submission is titled 'Supporting Information Submission dated 21 April 2009'. A tariff model is also included which forms part of the supporting submission.
17. The above track change documents are useful to aid in identifying proposed changes to the current access arrangement. The Authority's assessment process will involve consideration of the entire proposed revised access arrangement (both those areas where changes have been proposed and areas which are not proposed to change). Interested parties are invited to provide comments on issues important to them even where no changes are proposed.

## LEGISLATIVE CONSIDERATIONS

18. The Code is given effect by the *Gas Pipelines Access (WA) Act 1998* and provides for the regulation of access to gas transmission and distribution systems in Western Australia. The purpose of an access arrangement is to provide details about the terms and conditions, including price, upon which an independent third party (user) can gain access to the pipelines.
19. The Code (sections 3.1 to 3.20) specifies the elements that are required to be included in an access arrangement. A central requirement is the specification of one or more reference services for access to the pipeline system. Associated with these reference services are applicable terms and conditions for provision of those services together with reference tariffs, which are in the nature of maximum charges that a pipeline service provider may apply.
20. A number of other principles and procedures governing access to the pipeline system are also required to be included in the access arrangement, addressing matters such as queuing for services, capacity trading and extensions/expansions to the pipeline system.
21. In assessing proposed revisions to the access arrangement, the Authority must take into account the matters set out in section 2.24 of the Code, that is:

- the legitimate business interests of the service provider and the service provider's investment in the covered pipeline;
  - firm and binding contractual obligations of the service provider or other persons (or both) already using the covered pipeline;
  - the operational and technical requirements necessary for the safe and reliable operation of the covered pipeline;
  - the economically efficient operation of the covered pipeline;
  - the public interest, including the public interest in having competition in markets (whether or not in Australia);
  - the interests of users and prospective users; and
  - any other matters that the Regulator considers are relevant.
22. Section 8.1 of the Code applies in respect of Reference Tariffs and Reference Tariff Policy, which provides that:
- A Reference Tariff and Reference Tariff Policy should be designed with a view to achieving the following objectives:
- (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 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.
23. It is important to note that because services (and terms and conditions, including price) are described in an access arrangement, this does not preclude a service provider and user from agreeing to the provision of a different service at a different price.
24. The Authority may approve an access arrangement only if satisfied that it contains the elements and satisfies the principles set out in sections 3.1 to 3.20 of the Code. An access arrangement cannot be rejected on the basis that it does not address a matter that section 3 of the Code does not require it to address.
25. After taking into account all public submissions received by the due date on the proposed revisions to the access arrangement for the GGP, the Authority is required to issue a draft decision. The Code requires that if the Authority proposes to not approve the revisions to an access arrangement, the draft decision must state the amendments (or nature of the amendments) which need to be made for it to be approved.
26. After publication of the draft decision, interested parties will be given a further opportunity to make submissions. The closing date for submissions on the draft

decision will be specified at the time this decision is released. The Authority is required to issue a final decision on the proposed access arrangement after considering these submissions.

27. GGT may, after the date of the draft decision, resubmit the revisions to the access arrangement, amended so as to incorporate some or all of the amendments specified in the draft decision or to otherwise address the matters identified in the draft decision as being the reasons for requiring the amendments set out in the draft decision.

## KEY ISSUES

### Coverage of Capacity and Services Policy

#### Code Requirements

28. The services policy is to include a description of one or more services that the service provider will make available to users and prospective users. The services policy must contain one or more reference services which are likely to be sought by a significant part of the market, and any service or services that in the Regulator's opinion should be included in the services policy.
29. The Code requires that an access arrangement (sections 3.3 to 3.5) include a reference tariff for:
  - at least one service that is likely to be sought by a significant part of the market; and
  - each service that is likely to be sought by a significant part of the market and for which the Regulator considers a reference tariff should be included.
30. The principles used to determine reference tariffs are required to be stated in the access arrangement 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 of the Code.

#### Current Access Arrangement

31. The current access arrangement treated all capacity, including the additional (expanded) capacity forecast to be developed up until 2010, as being 'covered' for the purposes of calculating reference tariffs. Under clause 10.3 of the current access arrangement, GGT has the option to exclude expanded capacity from coverage before commissioning.
32. The reference service for the GGP is called a "firm service". The firm service is to transport natural gas on a firm basis and not be subject to curtailment or interruption except as provided in the Service Agreement, approximately 4 TJ/d of spare capacity is available for firm transportation services on the Covered Tranche of the pipeline. The access arrangement also makes provision for "negotiated services" (non-reference services) to be offered to users, these are non-reference services requirements which cannot be satisfied through the "firm service".



33. The GGP now has both covered and uncovered capacity. Covered capacity is that which is provided by pipeline facilities in place at the time of the approval of the current access arrangement (August 2005), and the uncovered capacity is capacity commissioned after that time<sup>1</sup> through GGT's elections under clause 10.3 during the term of the current access arrangement. These elections have been as follows:
- In late 2006, GGT made an election under Clause 10.3 that the capacity created by the Paraburdoo compressor (about seven terajoules per day) would be excluded from coverage.<sup>2</sup>
  - On 7 April 2009, the Authority received a letter from GGT regarding commissioning of the new Wyloo West compressor station. This letter advised the Authority that the additional capacity created by the Wyloo West compressor would be excluded from coverage.

## Proposed Revisions

34. The proposed revised access arrangement makes provision for both reference services and non-reference services as part of the covered capacity. However, significant changes have been proposed.
35. The approach of covered and uncovered capacity, with covered capacity comprising reference service capacity and negotiated services capacity, is maintained. However, the proposal explicitly limits, via clause 4.1 of the access arrangement, the reference service (firm service) to spare covered capacity (currently around 4TJ/day).
36. Reference services are proposed to be limited to spare covered capacity on the pipeline. The maximum forecast spare covered capacity is 4.12 TJ/day in 2010. The balance of covered capacity is for negotiated services.
37. This means that any spare uncovered capacity, or uncovered capacity that becomes spare capacity in the future, will not be covered capacity and therefore automatically available to users under the access arrangement. GGT does have the option under clause 10.2 for such uncovered capacity to be brought into covered capacity.
38. The various capacities and expansions that GGT is presently undertaking, are summarised on the GGT web site as follows<sup>3</sup>:

### Pipeline capacity

The Goldfields Gas Pipeline (GGP) was constructed and currently operates under the Goldfields Gas Pipeline Agreement Act 1994.

The majority of GGT's customers have opted for firm capacity arrangements, secured by a gas transportation agreement for an agreed duration.

Pipeline capacity agreed to under the contract is expressed in terms of MDQ (Maximum Daily Quantity) in terajoules per day (TJ/d).

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<sup>1</sup> Goldfields Gas Pipeline Sporting Information 21 April 2009 P5

<sup>2</sup> Authority Notice 20 November 2006 - <http://www.era.wa.gov.au/2/373/48/notices.pm>

<sup>3</sup> Goldfields gas Transmission Pty Ltd web site <http://www.ggt.com.au/html/02doi2.htm> (30/3/2009)

Total pipeline capacity is divided into two tranches - Covered and Uncovered. The Gas Pipelines Access (Western Australia) Act 1998 applies to the Covered Tranche of the total pipeline capacity.

The current total pipeline capacity of the GGP is approximately 130TJ/d based on existing delivery profiles. GGT is presently installing additional compressor stations at Wyloo West and Ned's Creek and upon completion, the total pipeline capacity is expected to be approximately 150 TJ/d. The nominal fully expanded capacity of the GGP is around 167 TJ/d.

### **Public Register of Capacity of the Covered Tranche of the Pipeline**

#### **Spare Capacity**

Currently there is approximately 4 TJ/d of spare capacity available for firm transportation services on the Covered Tranche of the pipeline.

#### **Developable Capacity**

The current capacity of the Covered Tranche of the pipeline is approximately 108 TJ/d based on existing delivery profiles. At present there are no expansions planned for the Covered Tranche of the pipeline.

39. The Code, at clause 3.16, is explicit that the Authority may not require the extensions/expansions policy to state that the service provider will fund new facilities unless the service provider agrees. GGT has during the term of the current access arrangement, through its elections under clause 10.3 as noted above, been expanding pipeline capacity on the GGP on the basis that such capacity becomes uncovered capacity which is contracted under terms and conditions it negotiates outside the Code.
40. Unless costs are correctly allocated to covered and uncovered capacity, this could lead to the situation where users of pipeline services under the access arrangement pay more for these services than should be the case based on a proper allocation of costs between covered and uncovered capacity.
41. On 25 February 2009, the Australian Pipeline Trust (88.2% owner of the GGP) in its interim financial report for the half year ended 31 December 2008<sup>4</sup>, advised that:
 

Goldfields Gas Pipeline - Construction of two compressor stations at Wyloo West and Ned's Creek are well advanced and scheduled for completion in mid 2009. Pipeline capacity will increase by 20%. The agreements with Hammersley Iron's Paraburdoo mine and Minara Resources Murrin Murrin operations underpin the additional pipeline capacity.
42. In summary, based on the information provided by GGT and APA, the capacity for the GGP in 2010 is expected to be approximately as follows:

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<sup>4</sup> APA Group web site <http://www.apa.com.au/media/141156/20090225%20interim%20results%20hy09.pdf>

**Approximate GGP Capacities 2010**

Capacity type	Capacity MDQ TJ/day
Available Capacity: Reference Service – Firm Service	4
Contracted Capacity – Negotiated Services	104
Total Covered Capacity	108
Uncovered Capacity	42
Total pipeline Capacity	150
Nominal fully expanded capacity	167

Source

1) AAI Table 12, AA clause 4.1 & 4.2

2) GGT web site <http://www.ggt.com.au/html/02doi2.htm>

3) APA half year results <http://www.apa.com.au/media/141156/20090225%20interim%20results%20hy09.pdf>

43. The GGT proposal is that about 4TJ/day forecast to be spare capacity on the covered pipeline, of the nominal fully expanded capacity of 167TJ/day, will be available as a reference service. Consequently GGT proposed reference tariffs are based on costs allocation to this 4TJ/day of firm service capacity.
44. The services, capacity management, extensions and expansions, and queuing policies all reflect the various categories of capacity. Changes to these policies have been proposed in line with the above capacities. The current access arrangement permitted the above exclusion from coverage. The proposed extensions/expansion policy and the proposed queuing policy will be reviewed by the Authority.
45. The election to exclude of capacity of 42TJ/day from coverage has occurred from 2006 and is forecast to occur in 2009. This election to exclude capacity has the effect of using covered assets to contribute to uncovered capacity. The terms of extensions and expansions policy in the revised access arrangement will affect the extent to which covered assets could be used in the future to contribute to further uncovered capacity.
46. Sub-clause 7.2 (headed 'Investigations to determine if Developable Capacity on the Covered Pipeline is available') requires a prospective user to contribute to the costs of an investigation and GGT is only obliged to carry out such an investigation if the user bears the cost.
47. As previously mentioned, the GGP is now connected to the DBNGP and can therefore receive gas from any gas production facility connected to the DBNGP or directly from the Varanus island production facilities. A proposed amendment to clause 6.2(b) of Appendix 3, General Terms and Conditions, explicitly provides for gas to be received into the GGT from either inlet facility.

48. GGT has proposed that future extensions/expansions of the GGP over the next access arrangement period will not be covered by the Code by stating that “no expansion or extension related capital expenditure is forecast on the covered pipeline during the access arrangement period<sup>5</sup>. Therefore, the proposed revisions do not contain any forecast capital expenditure for extensions/expansions of the covered GGP.

Submissions are invited on the proposed revised access arrangement for the GGP in relation to :

- The proposed treatment of covered and uncovered service in respect of the allocation of costs
- The proposed arrangements to determine if developable capacity is available
- The proposed extensions/expansions policy
- Any other services or reference services that may be required by the market
- The proposed queuing policy
- Any other matters related to coverage of capacity and the services policy

## Reference Tariffs and Reference Tariff Policy

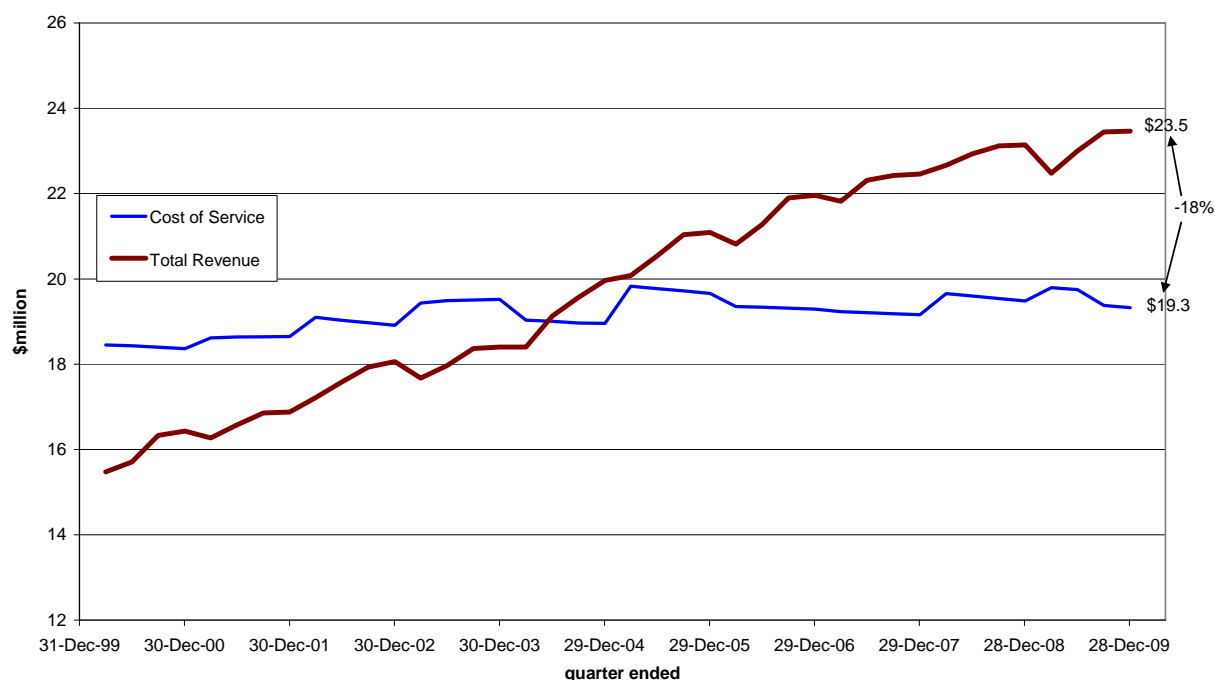
### Current Access Arrangement

49. GGT provided a Tariffs and Reference Tariff Policy in section 5 of its proposed AA with additional information being provided in its proposed AAI. The schedule of Tariffs and Charges was provided in the Sixth Schedule to the General Terms and Conditions.
50. The 2000-2009 access arrangement tariff path was designed to recover the present value of the cost of service by recovering the present value of the total revenue by applying the reference tariffs to forecast volumes (present value is calculated at 31/12/1999 using the approved rate of return). The GGP reference tariff components increase at CPI. The following graph shows that by 2009, the reference tariff revenue was expected to exceed the 2009 cost of service by 18%.<sup>6</sup>

<sup>5</sup> AAI page 4

<sup>6</sup> Tariff Model Further Final Decision, 14 July 2005, lines 20 and 36 on pages 2 to 6, <http://www.era.wa.gov.au/3/382/48/decisions.pm>

GGP 2000-2009 Approved Access Arrangement

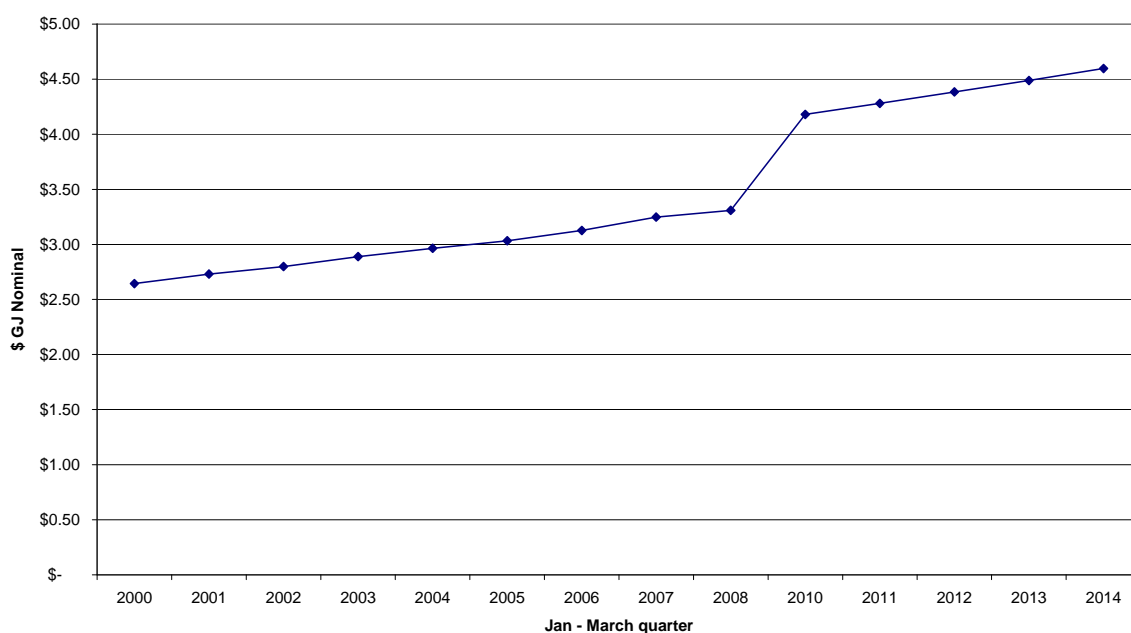


51. This tariff path meant that the cost of service and total revenue for 2009 were significantly different, though equal in present value terms over the 10 year access arrangement period. This may have led to a step change in reference tariffs in 2009 if the costs (including cost of capital) and expected volumes had continued on the same path as the approved access arrangement with costs approximately constant and reference tariffs increasing by full CPI. However, the forecast costs and volumes for 2010-2014 have not followed the same path.

## Proposed Revisions

52. Major changes in reference tariffs and reference tariff policy are discussed below, the outcome of which is illustrated by the tariff path for the 15 years from 2000 to 2014. The tariff path over the 15 years 2000 to 2014, if the proposed access arrangement is approved as submitted, would be as follows:

Kalgoorlie Tariff @ 1378km &amp; LF = 0.85 [\$/GJ]



53. The components of the cost of service for the total revenue for the covered pipeline in the last year of the current approved access arrangement, and over the 2010-2014 arrangement period ( provided in Table 1 of the AAI), are as follows:

**Total Revenue (\$m, nominal)**

	2009 Approved AA <sup>7</sup>	2010	2011	2012	2013	2014
Return	46.3	60.2	59.9	59.1	58.0	56.8
Depreciation	11.6	10.8	11.2	11.6	11.9	12.0
Non-capital costs	20.3	26.8	27.2	28.2	31.9	33.7
<b>Total Revenue</b>	<b>78.2</b>	<b>97.9</b>	<b>98.3</b>	<b>98.8</b>	<b>101.7</b>	<b>102.5</b>

<sup>7</sup> Access Arrangement Information 14 July 2005, page 3 - [http://www.era.wa.gov.au/3/381/48/approved\\_access.pm](http://www.era.wa.gov.au/3/381/48/approved_access.pm)

## Weighted Average Cost of Capital (WACC)

54. The current access arrangement cost of capital is a nominal pre tax rate of return of 10.6%. GGT has again proposed a nominal pre tax rate of return, however, the proposed rate of return is 13.5%. The parameter values proposed by GGT to establish the range of the rate of return from which the above rates were selected are presented below.

**Table of WACC parameters**

<b>Parameter</b>	<b>GGP 2005 Approved</b>	<b>GGP 2009 Proposed</b>
Nominal risk free rate	5.45%	4.27%
Real risk free rate	2.69%	1.83%
Expected inflation	2.69%	2.40%
Market risk premium	5.0%-6.0%	7.00%
Equity beta	0.80-1.33	1.0 - 1.8
Cost of debt margin	0.980-1.225	3.60%
Cost of raising debt		0.125% - 0.30%
Corporate tax rate	30.7%	30%
Franking credit value	0.3-0.6	20%
Debt to total assets ratio	60%	60%
Equity to total assets ratio	40%	40%
Range of Pre tax Nominal Rate of Return (forward transformation)	8.2%-10.8%	10.7%-13.8%
Rate of Return (pre-tax nominal)	10.6%	13.5%

55. With a proposed opening capital base in 2010 of \$446.2, a 2.9% difference in WACC amounts to an increase in cost of service for the covered pipeline capacity in that year of \$12.9 million.

## Non-capital Costs

56. The approved non-capital costs for 2009 in the current access arrangement are \$20.3 million. GGT have advised forecast actual non-capital costs for 2009 will be \$25.9 million. GGT have projected non-capital costs to be to \$26.8 million in 2010. The majority of the detail on non-capital costs is considered by GGP as commercially sensitive and is not disclosed in the AAI or Supporting Submission.
57. GGP has provided actual historical expenditure (capital and non-capital), including an independent audit review prepared for the Authority under ASRE

2405 (review of historical financial information other than for a financial report), showing that the historic costs are actual and are allocated to the covered pipeline in accordance with GGT's accounting principles and policies for basis of allocation.

58. GGP also included benchmarks of non-capital costs on page 17 of the AAI.
59. It should be noted that the GGP does not include compressor fuel in its operating cost, unlike many other transmission pipelines. For example, on the DBNGP, fuel gas is the only cost recovered by the reference tariff commodity tariff (about 10% of total revenue). Therefore any comparisons with other pipelines will need to ensure that the basis of comparison is valid.
60. GGP explicitly include a cost of \$0.5 million per annum for asymmetric risk. The current access arrangement did not include an allowance for such risk. Asymmetric risks are risks that were not explicitly recognised nor considered in the assessment of an appropriate equity beta. This issue is discussed in attachment 5 of the GGP supporting information.

### Annual rather than Quarterly Modelling

61. The current access arrangement used a quarterly modelling approach with quarterly CPI changes in reference tariffs. GGP has proposed a move to annual modelling, retaining the quarterly CPI adjustments of reference tariffs.
62. Quarterly modelling assumes all transactions (income, expenditure, depreciation and return) occur at the end of the quarter. Likewise annual modelling assumes all transactions occur at the end of the year.
63. A major focus of the current access arrangement was to set the initial capital base (ICB). The GGP was constructed between mid 1994 and 1996. Also loads in the early months of operation were relatively low. A significant factor in setting the ICB was that economic depreciation, calculated on a quarterly basis, as requested by GGT was used. This meant that the early under recovery was rolled forward at the rate of return set under the State Agreement. The effect of using quarterly modelling rather than an annual modelling was that the initial capital base was set at a higher value than would have been the case if annual modelling had been adopted. This is because under recovery in the early period, especially during construction, meant that significant quarterly expenditure was rolled forward at the rate of return applying until 31/12/1999, rather than from the end of the year as would be assumed had annual modelling been adopted.
64. The Authority modelled the ICB as at 31/12/1999 on a quarterly and annual basis. When using the same inputs that produce the approved ICB of \$513.7 million using a quarterly modelling approach, an annual modelling approach produces an ICB of \$490.8 million, a difference of \$22.8 million.
65. The Authority accepted quarterly modelling of the ICB, however, it then required that quarterly modelling would continue to be used for the access arrangement period 2000 to 2009, as has been the case.
66. To enable the Authority to model the effects of a change to annual modelling for the 2010 to 2014 period, GGP has provided quarterly input data. The Authority proposes modelling on both an annual and quarterly basis so that it may consider any differences in approach over the upcoming access arrangement period.



67. Interested parties may wish to comment on the proposed change of approach by GGT to annual modelling.

## Tariff Variation Mechanism

68. GGT has proposed a tariff variation mechanism different to that under its current access arrangement. Under this proposal, tariffs would be adjusted via three processes as outlined in clause 5.3 of the proposed AA as follows:

### 5.3 Adjustment to Reference Tariffs

The Reference Tariff and other charges applicable in respect of the Reference Service are not subject to variation or modification during the Access Arrangement Period other than for:

- (a) CPI adjustment in accordance with clause 9.8 of the General Terms and Conditions [quarterly CPI adjustment];
- (b) Reference Tariff Adjustment Mechanism as described in Schedule 1 [an annual adjustment of a tariff basket price cap incorporating regulatory costs pass through]; and
- (c) Adjustment for a Change in Imposts in accordance with clause 5.4 [at any time with 15 days notice to the Regulator to allow pass through of taxation changes]

Submissions are invited on the proposed revised access arrangement for the GGP in relation to :

- The proposed rate of return (WACC)
- The proposed non-capital costs and the benchmarks used in the AAI
- The proposed approach to asymmetric risk
- The proposed use of annual rather than quarterly modelling
- The proposed adjustment mechanism for reference tariffs
- Any other matters relating to the reference tariffs and reference tariff policy

## Terms and Conditions

### Access Code Requirements

69. An access arrangement must include the terms and conditions on which the service provider will supply each reference service (section 3.6 of the Code). The terms and conditions form the basis of a contract between a user and the service provider for provision of a reference service. The terms and conditions must, in the Regulator's opinion, be reasonable.

## Current Access Arrangement

70. GGT provided General Terms and Conditions for supply of the firm service as Appendix 3 to its proposed AA. The track changes version of this document shows a limited number of changes that have been proposed.
71. Two potentially significant changes, not related to reference tariffs, are discussed below.

## Rebate of Quantity Variation Charges

72. Quantity variation charges (Clause 9.6) are intended to maximise the safe and efficient utilisation of the pipeline in the manner intended. Operational disturbances caused by users may risk the integrity of the pipeline or may cause commercial disadvantage or loss to GGT or other pipeline Users.
73. GGT has proposed deleting Clause 9.6(e) which rebates 95% of charges in excess of GGT's direct costs and expenses to reference service users.

## Gas Specification (Gas Quality)

74. A change is proposed to the gas specification in the proposed revisions. It is understood this proposed change is at least in part due to the GGP now being interconnected with and receiving gas from the DBNGP.
75. The GGP current access arrangement, proposed revisions to the GGP access arrangement and the DBNGP access arrangement specifications are presented in the table below:

		GGP 2005 Approved		GGP 2009 Proposed		DBNGP Approved	
Component	Units	Min	Max	Min	Max	Min	Max
Carbon Dioxide	mol %		3.6		4.0		4.0
Total Inerts	mol %		7.0		7.0		7.0
Hydroc. Dewpoint 102 to 10,000 kPa	Deg C		0		0		0.0
Oxygen by Volume	mol %		0.2		0.2		0.2
Total Sulphur	mg/m <sup>3</sup>		10.0		10.0		10.0
Hydrogen Sulphide	mg/m <sup>3</sup>		5.0		5.0		2.0
Wobbe Index	MJ/m <sup>3</sup>	46.0	51.5	46.0	51.5	46.5	51.0
Water Vapour	mg/m <sup>3</sup>		48		48		48
Gross Heating Value	MJ/m <sup>3</sup>	35.5	42.5	37.0	42.5	37.0	42.3
Radioactive Components	Becq/m <sub>3</sub>		600		600		600

76. GGT is proposing changes to two parameters, being maximum carbon dioxide and minimum gross heating value. These changes would align the GGP access arrangement gas specification more closely with that of the DBNGP access arrangement gas specification.

77. The proposed increase of minimum gross heating value from 35.5 to 37.0 MJ/m<sup>3</sup> would be a tightening of the current GGP access arrangement gas specification and would align this element of the specification with the DBNGP access arrangement gas specification.
78. The proposed increase in maximum carbon dioxide from 3.6 to 4.0% would broaden the access arrangement gas specification of the GGP and align this element of the specification with the DBNGP access arrangement gas specification.
79. The Minister for Energy, on 27 December 2008, announced that the Government plans to regulate the make up of gas in the State's pipeline networks and subsequently broaden the gas specification, relating to gas pipelines, for gas delivered to the domestic market. This is aimed at facilitating the development of gas fields where the gas is outside of the current gas pipeline specification requirements.

Submissions are invited on the proposed revised access arrangement for the GGP in relation to :

- The proposed changes to the quantity variation charges
- The proposed gas specification changes
- Any other terms and conditions