

# **ALINTAGAS'S FIRST SUBMISSION TO REGULATOR ON EPIC ENERGY'S DBNGP ACCESS ARRANGEMENT**

## **OMISSION OF DAC AND DORC VALUATIONS FROM ACCESS ARRANGEMENT INFORMATION**

**Submission dated 11 January 2000**

### **Subject matter of this submission**

1. This paper addresses a deficiency in the Access Arrangement Information (“AAI”) submitted by Epic for the DBNGP. AlintaGas submits that the AAI is deficient because it omits both Depreciated Actual Cost (“DAC”) and Depreciated Optimised Replacement Cost (“DORC”) valuations.
2. AlintaGas will make separate submissions on Epic’s proposal that the Initial Capital Base be \$2,570.34 million.

### **Request to Regulator to consider AAI and to require changes to AAI**

3. For the reasons set out below, AlintaGas requests the Regulator under section 2.9(b) of the Code to consider whether the AAI meets the requirements of sections 2.6 and 2.7 and to decide whether or not to require Epic to make changes to the AAI accordingly.
4. Specifically, AlintaGas requests that the Regulator require the AAI to be amended to include DAC and DORC valuations and adequate information in support of those valuations.

### **Reasons for request**

5. Section 8.10 of the Code specifies the factors that should be considered in establishing the Initial Capital Base for a Covered Pipeline. Two of the factors that should be considered are the DAC and DORC, see section 8.10(a) and (b) respectively.
6. Section 8.11 indicates that the Initial Capital Base normally should not fall outside the range of values determined by DAC and DORC.
7. Under section 2.6 of the Code, the AAI must contain such information as the Regulator considers would enable Users and Prospective Users to form an opinion as to the Access Arrangement’s compliance with the Code. Having regard to sections 8.10 and 8.11, AlintaGas submits that it is impossible for the Regulator or any other person to form an opinion as to whether the Access Arrangement, namely the proposed Initial Capital Base, complies with sections 8.10 and 8.11 of the Code, unless the AAI includes a DAC and DORC and supporting information.
8. It is clear from section 3.1 of the AAI that Epic considers its proposed Initial Capital Base to be in excess of both DAC and DORC.

9. AlintaGas has yet to examine its historical records or obtain advice with a view to quantifying its expectations as to the DAC and DORC for the DBNGP. However, for illustrative purposes, and without prejudice to other submissions AlintaGas may make on this subject, AlintaGas sets out the following indicative information:
  - (a) As to DAC: AlintaGas' Annual Report for the Year to 30 June 1997 shows property, plant and equipment for the Transmission business to be valued at \$937 million. Not all of these assets were privatised. Furthermore, the figure would need to be tested to assess whether it was a true reflection of depreciated historical cost, or whether it also reflected historical treatment of the assets on SECWA's or AlintaGas's books. That said, even allowing generously for subsequent depreciation and expenditure, this figure leads AlintaGas to expect a fair DAC valuation of the DBNGP to be no more than approximately \$1 billion.
  - (b) As to DORC: AlintaGas would expect a DORC valuation to be of the same order of magnitude as the DAC, and so would expect a DORC valuation to also be very approximately in the order of \$1 billion. Indeed, on some views the DBNGP could economically be duplicated using today's technology for a price roughly in the order of \$800 million, although this figure has not been verified by AlintaGas.
  - (c) On the above figures, the Initial Capital Base for the DBNGP should be about 40% of Epic's proposed figure of approximately \$2.5 billion.
10. The striking disparity between that expectation and Epic's proposed Initial Capital Base makes it essential that Epic provide comprehensive and up-to-date DAC and DORC valuations, and adequate supporting information for those valuations.
11. Furthermore, under section 2.7 of the Code, the AAI must include the material set out in Attachment A to the Code, which under Category 2 includes information as to asset valuation methodologies, historical cost or asset valuation. No such information is provided in the AAI.

### **Request for extension of time for public submissions**

12. Once the Initial Capital Base is set as a part of the current review process, that Capital Base will roll forward into all future Access Arrangement Periods. Accordingly, and given the central importance of asset valuation to tariff determinations, it is essential that the Initial Capital Base be set with great care. AlintaGas suggests that the period for public submissions on the Access Arrangement should remain open until Epic has augmented the AAI with DAC and DORC valuations, and interested parties have had a suitable period of time to review and comment upon those valuations.
13. Accordingly, AlintaGas renews its request to the Regulator that the Regulator under section 7.19 extend the time limit for lodgment of public submissions from the current date of 4 February 2000.