

INDEPENDENT PRICING AND REGULATORY TRIBUNAL OF NEW SOUTH WALES

Statement of Reasons for Decision

Alinta Gas Networks Limited notice of variation to reference tariffs for the NSW Gas Distribution Network - effective 1 July 2007

Details of Decision

Tribunal members: Dr Michael Keating, Ms Sibylle Krieger

Decision date: Tuesday 12 June 2007

Decision: The reference tariff variation is approved

Reasons for Decision

Background

On 1 June 2007, Alinta Gas Networks Limited (**Alinta**) submitted notification of its intention to vary the reference tariffs contained in its Access Arrangement on 1 July 2007. The notification included supporting documentation.

Section 8.3A of the National Third Party Access Code for Natural Gas Pipeline Systems (**Gas Code**) states that reference tariffs may only be changed in accordance with an approved variation method in an access arrangement. Sections 8.3B and 8.3C of the Gas Code require Alinta to provide a notice of variation to the Tribunal, which the Tribunal is obliged to make publicly available. The Tribunal may only disallow the variation if it considers, on reasonable grounds, that the proposed variation is inconsistent with, or not permitted under, the approved reference tariff variation method (section 8.3E of the Gas Code) in the access arrangement. The Tribunal must publish reasons for its decision at the time of allowing or disallowing the variation (section 8.3F of the Gas Code).

The access arrangement (**Access Arrangement**) approved for Alinta (formerly AGLGN) in June 2005 provides for an annual variation of reference tariffs at 1 July each year as a result of the following variation methods:

- Escalation for the rate of change in the CPI
- Changes to reflect the cost of unaccounted for gas (**UAG**)
- Cost pass-through (in certain circumstances)
- Guaranteed customer service standards (in certain circumstances).

Proposed reference tariff variation

Alinta's variation notice seeks to vary its reference tariffs for CPI escalation and UAG costs only, effective 1 July 2007. Alinta provided the Tribunal with information showing how each reference tariff was calculated. The variation involves:

- An adjustment for increases in the CPI
- An adjustment for actual UAG costs.

Consideration of whether the variation is consistent with the access arrangement

The Tribunal considered whether the CPI and UAG adjustments are consistent with the variation methods in clause 3.11 of the Access Arrangement.

Escalation for the rate of change in the CPI

Clause 3.11.1 of the Access Arrangement states that reference tariffs will be adjusted by the rate of change in the average of the CPI for the four quarters to December in the relevant year divided by the average of the CPI for the four quarters to December in the immediately preceding year. The Access Arrangement defines the relevant CPI as the weighted average of eight capital cities published by the Australian Bureau of Statistics.

Alinta has applied an escalation factor for each of two years to convert the reference tariffs in the Access Arrangement, expressed in 2004/05 dollars, to 2007/08 dollars. Alinta has calculated the escalation factor using the CPI and the method specified in clause 3.11.2 of the Access Arrangement.

Variation for UAG

The Tribunal considers that the variation for UAG costs is consistent with the Approved Reference Tariff Variation Method in the Access Arrangement.

The costs allowed in the Access Arrangement for UAG are based on a forecast volume of UAG and a forecast price per GJ. Clause 3.11.2 of the Access Arrangement provides for reference tariffs to be adjusted each year to account for variation between the allowance for UAG costs included in the cost of service for the previous year of the Access Arrangement and the multiple of:

- The latest forecast of gas receipts (GJ)
- The forecast UAG level (%)
- The actual price paid by Alinta as a result of the competitive tender (\$/GJ).

The latest forecast of gas receipts used by Alinta is based on actual throughput for the nine months to March 2007 and forecasts for April, May and June 2007. Alinta has advised that the forecasts were put together using a simplified version of the methodology applied in the Access Arrangement. It is based on forecast customer numbers, average consumption and weather, and the latest known information on the contract market.¹

Alinta has used the forecast UAG level for 2006/07 of 2.1% specified in the Access Arrangement and has used a price of \$5.20 per GJ. This price results from a competitive

¹ Additional information provided by Alinta AGN, 30 April 2007.

tender conducted by Alinta and is confirmed by an audit report dated 15 December 2006 provided by Alinta to the Tribunal.

Alinta has allocated the additional UAG costs to the contract and tariff markets in the same proportion as the UAG costs approved in the Access Arrangement. The costs are then further allocated between local network and metering assets (no UAG costs are allocated to the trunk sections), consistent with the Access Arrangement.

Conclusion

The Tribunal has reviewed Alinta's methodology and calculations for both the CPI escalation and the variation for UAG costs. For the reasons set out above, the Tribunal considers that the variations are consistent with the approved methods in the Access Arrangement.

Accordingly, the Tribunal approves the reference tariff variation, as submitted on 1 June 2007. The variation will have effect from 1 July 2007.