

STATEMENT OF REASONS

INDEPENDENT PRICING AND REGULATORY TRIBUNAL OF NEW SOUTH WALES

Statement of Reasons for Decision

Matter: Country Energy Gas notice of variation to reference tariffs for the Wagga Wagga Distribution Network - effective 1 July 2008.

Details of Decision:

Members: Mr James Cox (Chief Executive Officer and Full-time member)

Decision: IPART approves CEG's proposed reference tariff variations for 1 July 2008.

Reasons for Decision:

Background

On 4 April 2008, Country Energy Gas (CEG) submitted notification of its intention to vary on 1 July 2008 the reference tariffs contained in its Access Arrangement.

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 require CEG to provide a notice of variation to IPART, which IPART is obliged to make publicly available. IPART 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) in the Access Arrangement. IPART must publish reasons for its decision at the time of allowing or disallowing the variation (section 8.3F).

The Access Arrangement approved for CEG in December 2005 provides for an annual variation of reference tariffs at 1 July each year commencing on 1 July 2006 in accordance with the (1+CPI-X) mechanism applying to the weighted average tariff basket. It also incorporates a cost pass through mechanism when particular events occur.

The Access Arrangement requires CEG to give IPART 50 business days' notice of proposed reference tariff variations.

Proposed reference tariff variation

The notice provided by CEG states its intention to vary reference tariffs at 1 July 2008 as a result of the escalation of reference tariffs in accordance with the (1+CPI-X) price path set out in the Access Arrangement.

The variation notice includes a list of proposed tariffs and charges. The reference tariffs proposed by CEG are similar to the indicative reference tariffs included in the Access

Arrangement. However, residential and small business tariffs are slightly above the equivalent tariffs indicated in the Access Arrangement.

Consideration of whether the variation is consistent with the Access Arrangement

IPART considered whether the $(1+CPI-X)$ adjustment is consistent with the variation methods in section 3.3 of the Access Arrangement.

The change in the CPI used by CEG is as defined in the glossary of the Access Arrangement (that is, for Year t : the average of the CPI for the four quarters to the December quarter immediately preceding that Year divided by the average of the CPI for the four quarters to the December quarter immediately preceding Year $t-1$). CEG has used an X factor of zero, as required by Appendix 3 of the Access Arrangement. This results in a weighted average change in tariffs equal to 2.3 per cent.

CEG applied the formula in Appendix 3 of the Access Arrangement, using actual customer numbers and volumes for the year 2005/06. CEG's proposed reference tariffs result in a weighted average tariff basket increase of 2.3 per cent, consistent with the $(1+CPI-X)$ calculation.

CEG also included in its attachment metering charges and charges for additional services that have been increased by the change in CPI (2.3 per cent) consistent with the requirements of Appendix 3 of the Access Arrangement.

Decision

IPART has reviewed CEG's methodology and calculations for the $(1+CPI-X)$ escalation of the weighted average tariff basket and the increase in metering and additional charges to reflect the change in the CPI. For the reasons set out above, IPART considers that the variations are consistent with the approved methods in the Access Arrangement.

Accordingly, IPART approves the reference tariff variation submitted on 4 April 2008. The variation will have effect from 1 July 2008.