

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 member:	Mr James Cox
Decision date:	Thursday 31 May 2007
Decision:	The reference tariff variation is not approved

Reasons for Decision

Background

On 18 April 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 require Alinta AGN 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) in the access arrangement. The Tribunal must publish reasons for its decision at the time of allowing or disallowing the variation (section 8.3F).

The access arrangement approved for Alinta AGN (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).

The access arrangement requires Alinta AGN to give the Tribunal 50 business days' notice of proposed reference tariff variations.

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 section 3.11 of the access arrangement.

Escalation for the rate of change in the CPI

Section 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 AGN 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 2006/07 dollars. Alinta has calculated the escalation factor using the CPI and method specified in the access arrangement.

Variation for UAG

The Tribunal considers that the variation for UAG costs is either not consistent with, or permitted by, the Approved Reference Tariff Variation Method in the Access Arrangement.

A variation for 2007/08 for UAG costs based on an audit report was considered by the Tribunal to be consistent with the variation method. However, Alinta also claimed a further sum as the 'holding cost' or 'time value of money' on the variation for the elapsed year between 2006/07, to which the costs relate, and 2007/08 when the costs can be recouped through price increases.

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).

This variation method, although prescriptive in its other details, does not state that the holding value of the UAG may also be passed through in the variation.

The Tribunal does not consider that the words "to account for" in clause 3.11.2 imply that a time value of money is included. The drafting of clause 3.11.2 is clear on the purpose of the mechanism. The wording was considered and approved by the Tribunal in part 12.4.2 of its

report for its *Final Decision for the Revised Access Arrangement for AGL Gas Networks, April 2005*.

If there had been any intention by the Tribunal to include costs incurred as a result of any difference (including time value of money value) in the pass-through mechanism for the variation between forecast and actual UAG costs then it would have been expressly stated in that provision of the Access Arrangement. The Tribunal also notes that Alinta AGN did not seek to apply a holding cost adjustment for the variation to its reference tariffs effective from 1 July 2006.

Conclusion

The Tribunal has the power to disallow a reference tariff variation under section 8.3E of the Gas Code if it believes that the proposed variation is inconsistent with, or not permitted under, the Service Provider's Approved Reference Tariff Variation Method.

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 except for the inclusion of a holding cost component in the UAG cost calculations.

Accordingly, the Tribunal does not approve the reference tariff variation, as submitted on 18 April 2007.

The Tribunal invites Alinta to submit a variation consistent with its Access Arrangement.