

# **2013 – 2017 Gas Access Arrangements Review (GAAR)**

## **SP AusNet's Revised Access Arrangement Proposal (RAAP)**

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### **RAAP Chapter 10: Total Revenue Requirement**

Submitted: 9 November 2012

## RAAP Chapter 10: Total Revenue Requirement

This chapter sets out SP AusNet’s revised total revenue requirement. In the event of inconsistency between information contained in this chapter and SP AusNet’s Access Arrangement Information (AAI), the information contained in this chapter supersedes the AAI.

### 1 Introduction

This chapter provides an overview of SP AusNet’s total revenue requirement, proposed price paths and the allocation of revenue between Ancillary Reference Services and Haulage Reference Services.

The remainder of this chapter is structured as follows:

- Section 2 presents the total revenue requirements and SP AusNet’s proposed smoothed revenue for each year of the forthcoming access arrangement period.
- Section 3 shows the proposed allocation of SP AusNet’s smoothed revenue requirements between Ancillary Reference Services.
- Section 4 shows the proposed allocation of SP AusNet’s smoothed revenue requirements to Haulage Reference Services.

The information set out in this chapter accords with all of the applicable requirements of the NGR.

### 2 Total revenue requirement and smoothed revenue

SP AusNet’s total revenue requirement, based on the analysis and expenditure forecasts set out in this document, is presented in Table 10-1 below.

**Table 10-1: SP AusNet’s total revenue requirement (unsmoothed)**

<b>(Nominal \$M)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Return on Capital	102.10	109.30	116.61	123.55	129.88
Return of Capital	16.65	21.01	25.57	29.06	32.53
Operating and Maintenance Expenditure	48.88	51.57	54.23	57.28	60.41
Carry-over amounts	13.37	2.94	8.53	-2.21	0.00
Benchmark Tax Liability	4.48	6.95	8.09	9.19	10.29
Unsmoothed Revenue Requirement	185.49	191.77	213.03	216.88	233.11

Source: SP AusNet

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## 2013 – 2017 GAAR: SP AusNet Response to AER’s Draft Decision

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SP AusNet has smoothed this revenue requirement to deliver acceptable price changes to customers over the forthcoming access arrangement period and ensure cash flow timing allows SP AusNet to meet its financial commitments. In accordance with the requirements of rule 92(2), the revenues defined by this price path returns the same net present value in cash flows as the sum of those set out Table 10-1 above.

**Table 10-2: Total Smoothed revenue requirement**

(Nominal \$M)	2013	2014	2015	2016	2017
Total Revenue Required	199.64	198.59	205.37	212.40	219.08

*Source: SP AusNet*

SP AusNet’s smoothed revenue requirement produces a 10.95 per cent initial price fall (in real terms) followed by an annual X factor of zero per cent. This proposed price path will apply to the 2012 prices as set out in *Part B* of SP AusNet’s proposed access arrangement revisions.

The price path resulting from the revised  $P_0$  and X factors meet the requirements of rules 92(1) and 92(2). In particular, SP AusNet has calculated the revised  $P_0$  and X factors so that:

- price cuts are delivered to customers immediately;
- subsequent prices are held constant in real terms; and
- the cash flow profile allows SP AusNet to maintain an investment grade credit rating.

The AER has indicated in previous determinations it considers such profiling to be legitimate. In the event of amendments to SP AusNet’s proposed Access Arrangements, the AER must consult with regards to the profile of the intended price path (the  $P_0$  and X factors) to ensure the profile meets the cash flow needs of the business before the finalisation of the Decision.

### 3 Revenue Allocation to Ancillary Reference Services

In accordance with the requirements of rule 93, SP AusNet proposes the following allocation of total revenue to Ancillary Reference Services.

**Table 10-3: Ancillary reference services – Revenue requirements**

(Nominal \$M)	2013	2014	2015	2016	2017
Ancillary Service Revenue	2.18	2.26	2.35	2.45	2.54

*Source: SP AusNet*

## **4 Revenue Allocation to Haulage Reference Services**

In accordance with the requirements of rule 93, SP AusNet proposes the following allocation of total revenue to Haulage Reference Services.

**Table 10-4: SP AusNet’s reference service smoothed revenue**

<b>(Nominal \$M)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Total Revenue Required – DUoS	197.46	196.32	203.02	209.95	216.54

*Source: SP AusNet*