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**Revised Albury**

**Access Arrangement Information**

**9 November 2012**

**TABLE OF CONTENTS**

**Page**

**1. PURPOSE OF THIS DOCUMENT 6**

**2. RELEVANT REGULATORY REGIME 7**

**3. REQUIREMENTS OF AN ACCESS ARRANGEMENT INFORMATION 8**

**4. VERIFICATION OF FORECAST INFORMATION 9**

**5. INTERPRETATION 10**

**6. CONTACT DETAILS 10**

**LIST OF ATTACHMENTS**

|  |  |  |
| --- | --- | --- |
| **Attachment** | |  |
| 1.1 | | RIN Index |
| 1.2 | | RIN Template (spreadsheet, confidential) |
| 1.3 | | Albury Post Tax Revenue Model (spreadsheet, confidential) |
| 1.3A | | Response to Draft Decision - Albury Post Tax Revenue Model (spreadsheet, confidential) |
| 1.4 | | Albury Roll Forward Model (spreadsheet, confidential) |
| 1.4A | | Response to Draft Decision - Albury Roll Forward Model (spreadsheet, confidential) |
| 1.5 | | Statutory Declaration |
|  | |  |
| 3.1 | | Economic Insights – Total Factor Productivity Report |
|  | |  |
| 5.1 | | Cain Affidavit (confidential) |
| 5.2 | | Little Affidavit (confidential) |
| 5.3 | | Ferguson Affidavit (confidential) |
| 5.4 | | CEG – Critique of the AER’s Treatment of Contractor’s Margins |
| 5.5 | | NERA – Benchmarking Study of Contractor Profit Margins (2002 - 2011) |
| 5.6 | | Economic Insights –Partial Productivity Report |
|  | |  |
| 6.1 | | Albury Opex and Capex Business Cases (confidential) |
| 6.1 | | Response to Draft Decision - Opex and Capex Business Cases (confidential) |
| 6.2 | | UAFG (confidential) |
| 6.2A | | Response to Draft Decision – UAFG Forecast |
| 6.3 | | Network Development Plan 2013 – 2017 (confidential) |
| 6.3A | | Response to Draft Decision - Network Development (confidential) |
| 6.4 | | BIS Shrapnel - Real Cost Escalation Forecasts to 2017 – Victoria and NSW |
| 6.4A | | Response to Draft Decision - BIS Shrapnel - Real Cost Escalation Forecasts to 2017 – Victoria and NSW |
| 6.5 | | Professor Borland - Labour Cost Escalation: Choosing Between AWOTE and LPI |
| 6.6 | | Opex Forecast Model (spreadsheet, confidential) |
| 6.6A | | Response to Draft Decision - Opex Forecast Model (spreadsheet, confidential) |
| 6.7 | | Response to Draft Decision – Operating Expenditure |
| 6.8 | | Response to Draft Decision - Recommendations for Methodology for Forecasting WPI (Professor Borland) |
| 7.1 | | Capital Expenditure – Albury Unit Rates (confidential) |
| 7.1A | | Response to Draft Decision - Capital Expenditure – Albury Unit Rates (confidential) |
| 7.2 | | Asset Management Plan (confidential) |
| 7.3 | | Capacity Management Plan (confidential) |
| 7.5A | | Unit Rates - Albury (spreadsheet, confidential) |
| 7.6 | | Capex Forecast Model (spreadsheet, confidential) |
| 7.6A | | Response to Draft Decision - Capex Forecast Model (spreadsheet, confidential) |
| 7.7 | | Response to Draft Decision - Capital Expenditure |
|  | |  |
| 8.1 | | Response to Draft Decision – Capital Base |
|  | |  |
| 9.1 | | Competition Economists Group - Internal Consistency of Risk Free Rate and MRP in the CAPM, March 2012 |
| 9.2 | | SFG Consulting – Market Risk Premium: Response to selected issues arising out of the AER Final Decision for Envestra (South Australia), 28 March 2012 |
| 9.3 | Capital Research – Forward Estimates of the Market Risk Premium: Update, March 2012 | | |
| 9.4 | NERA – Prevailing Conditions and the Market Risk Premium, March 2012 | | |
| 9.5 | SFG Consulting – Review of NERA regime-switching framework, 28 March 2012 | | |
| 9.6 | NERA – The Black CAPM, March 2012 | | |
| 9.7 | PricewaterhouseCoopers – Estimating the Benchmark Debt Risk Premium, March 2012 | | |
| 9.8 | Competition Economists Group - Estimating the Regulatory Debt Risk Premium for Victorian Gas Businesses, March 2012 | | |
| 9.9 | Deloitte - Envestra Ltd Debt Financing Costs, September 2010 | | |
| 9.10 | Standard & Poor’s - Criteria, Corporates, General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers*,* September 2011 | | |
| 9.11 | Response to Draft Decision – Rate of Return | | |
| 9.12 | Response to Draft Decision – Market Evidence on the Cost of Equity: Victorian Gas Access Arrangement Review 2013-2017 (Ernst & Young) | | |
| 9.13 | Response to Draft Decision – Response to the AER Vic Gas Draft Decisions, Internal consistency of MRP and Risk Free Rate (CEG) | | |
| 9.14 | Response to Draft Decision – Update to March 2012 Report on Consistency of the Risk Free Rate and MRP in the CAPM, November 2012 (CEG) | | |
| 9.15 | Response to Draft Decision - Review of risk free rate and cost of equity estimates: A comparison of UK approaches with the AER (Professor Stephen Wright) | | |
| 9.16 | Response to Draft Decision – Response to Professor Lally’s Analysis (Professor Stephen Wright) | | |
| 9.17 | Response to Draft Decision - Establishing the Cost of Equity - Analysis of the Method used to Establish the Risk Free Rate and the MRP (Professor Alan Gregory) | | |
| 9.18 | Response to Draft Decision - Risk Free Rate and the Present Value Principle (Professor Alan Gregory) | | |
| 9.19 | Response to Draft Decision - Estimating the Cost of Equity under the CAPM : Expert report of Gregory Houston (Greg Houston) | | |
| 9.20 | Response to Draft Decision - Economic Meaning of Gas Legal Instruments: Expert Report (PWC) | | |
| 9.21 | Response to Draft Decision - The required return on equity: Response to AER Victorian Draft Decisions (SFG Consulting) | | |
| 9.22 | Response to Draft Decision – Index to WACC Supporting Material | | |
|  |  | | |
| 10.1 | PricewaterhouseCoopers – Post Tax Revenue Model Methodology – Review of Initial Taxation Asset Base | | |
| 10.2 | Response to Draft Decision – Cost of Tax | | |
|  |  | | |
| 11.1 | Response to Draft Decision – Incentive Mechanism | | |
| 11.2 | Response to Draft Decision – ESC Appeal Panel Decision Albury | | |
|  |  | | |
| 12.1 | Response to Draft Decision – Total Revenue | | |
|  |  | | |
| 13.1 | Core Energy - Demand Forecast | | |
| 13.2 | Core Energy - Demand Forecasting Model (spreadsheet, confidential) | | |
| 13.3 | Core Energy – Weather Normalisation Model (spreadsheet, confidential) | | |
| 13.4 | *(not used)* | | |
| 13.5 | *(not used)* | | |
| 13.6 | Response to Draft Decision – Demand Forecasts | | |
| 13.7 | Response to Draft Decision – Albury Demand Model (confidential) | | |
|  |  | | |
| 14.1 | Cost Allocation Model (spreadsheet, confidential) | | |
| 14.2 | Proposed Tariff Schedule | | |
|  |  | | |
| 15.1 | 2012 Tariff Revenue Neutrality Model (confidential) | | |
| 15.2 | Response to Draft Decision – Tariff Variation Mechanism | | |
|  |  | | |
| 16 | Response to Draft Decision – Non Tariff Components | | |

1. **Purpose of this Document**

Envestra Limited (ACN 078 551 685) is a publicly listed company that owns natural gas distribution networks across Australia. Envestra owns around 23,000 kilometres of natural gas distribution networks serving over 1,100,000 customers in Victoria, South Australia, Queensland, New South Wales and the Northern Territory. Envestra’s current Access Arrangement period for Albury ends on 31 December 2012.

The National Gas Law (NGL) and the National Gas Rules (NGR) make the Australian Energy Regulator (AER) responsible for making a decision in relation to a revised Access Arrangement proposal submitted by Envestra.

Rule 52 of the NGR requires that Envestra submit by 30 March 2012 a revised Access Arrangement proposal for the period from 1 January 2013 to 31 December 2017. Rule 43 requires Envestra, when submitting a revised Access Arrangement proposal, to submit an Access Arrangement Information (AAI) for the Access Arrangement. Rule 42 states that an AAI is to contain information that is reasonably necessary for users and prospective users to:

* understand the background to the Access Arrangement or the Access Arrangement proposal; and
* understand the basis and derivation of the various elements of the Access Arrangement or the Access Arrangement proposal.

On 30 March 2012, Envestra Limited submitted an AAI to the AER for its Albury network (the “Network”) on behalf of its subsidiary The Albury Gas Company Ltd (ACN 000 001 249), which is the licensed distributor in respect of the Network. The AER made its Draft Decision on 24 September 2012, which decision required certain amendments to be made to the 30 March 2012 proposal.

**On 9 November 2012, Envestra Limited submits a revised AAI addressing those issues raised in the AER Draft Decision. Envestra’s submission includes:**

1. **all of the documents provided in the March 2012 submission (for the purposes of brevity and clarity, these documents are not attached, as they have already been provided to the AER); and**
2. **the additional documents provided as part of this November 2012 submission.**

Responses to the AER Draft Decision are set out as attachments to this revised AAI and are prefaced with the words “Response to Draft Decision” in the title. All information contained in those attachments supersedes information previously provided to the extent that there is any conflict.

For ease of reference, changes made to the Access Arrangement (including the Terms and Conditions) in response to the Draft Decision are shown in mark-up.

1. **Relevant Regulatory Regime**

Section 27 of the NGL prescribes the functions and powers of the AER, which includes economic regulatory functions. Section 28 of the NGL provides that the AER must, in performing or exercising an economic regulatory function or power, perform or exercise that function or power in a manner that will or is likely to contribute to the achievement of the National Gas Objective (NGO), which is set out in section 23 of the NGL. The NGO states:

*“The objective of this Law is to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.”*

Section 28 also provides that the AER must take into account the revenue and pricing principles when exercising discretion in approving or making a decision in respect of an Access Arrangement proposal. Section 24 of the NGL sets out the revenue and pricing principles, which are as follows:

* under subsection 24(2), a service provider should be provided with a reasonable opportunity to recover at least the efficient costs the service provider incurs in providing reference services and complying with a regulatory obligation or requirement or making a regulatory payment;
* under subsection 24(3), a service provider should be provided with effective incentives in order to promote economic efficiency with respect to reference services the service provider provides, including:
  + efficient investment in, or in connection with, a pipeline with which the service provider provides reference services;
  + the efficient provision of pipeline services; and
  + the efficient use of the pipeline.
* under subsection 24(5), a reference tariff should allow for a return commensurate with the regulatory and commercial risks involved in providing the reference service to which that tariff relates;
* under subsection 24(6), regard should be had to the economic costs and risks of the potential for under and over investment by a service provider in a pipeline with which the service provider providers pipeline services; and
* under subsection 24(7), regard should be had to the economic costs and risks of the potential for under and over utilisation of a pipeline with which a service provider provides pipeline services.

This AAI demonstrates and explains how Envestra’s revised Access Arrangement proposal satisfies both the NGO and the revenue and pricing principles.

The exercise of the AER’s discretion in its decision making process regarding an Access Arrangement proposal, including in deciding whether Envestra has satisfied the NGO and the revenue and pricing principles, is governed by rule 40 of the NGR, which relevantly provides that:

* under subrule 40(1), if the NGL states that the AER has no discretion under a particular provision of the NGL, then the AER’s discretion is entirely excluded in regard to an element of an Access Arrangement proposal that is governed by the relevant provision;
* under subrule 2, if the NGL states that the AER’s discretion under a particular provision of the NGL is limited, then the AER may not withhold its approval to an element of an Access Arrangement proposal that is governed by the relevant provision if the AER is satisfied that it:
  + complies with the applicable requirements of the NGL; and
  + is consistent with applicable criteria (if any) prescribed by the NGL.
* Under subrule 40(3), in all other cases the AER has full discretion to withhold its approval to an element of an Access Arrangement proposal if, in the AER’s opinion, a preferable alternative exists that:
  + complies with the applicable requirements of the NGL; and
  + is consistent with applicable criteria (if any) prescribed by the NGL.

1. **Requirements of an Access Arrangement Information**

Rule 72 of the NGR states that an AAI in respect of an Access Arrangement proposal must include:

* capital expenditure (by asset class), operating expenditure (by category) and usage of the pipeline over the previous Access Arrangement period;
* the derivation of the change in the capital base over the previous Access Arrangement period;
* the projected capital base over the Access Arrangement period, including a forecast of conforming capital expenditure and depreciation and the basis for the forecast;
* to the extent it is practicable, a forecast of pipeline capacity and utilisation of pipeline capacity over the Access Arrangement period and the basis for the forecast;
* a forecast of operating expenditure over the Access Arrangement period and the basis for the forecast;
* the key performance indicators to be used to support expenditure to be incurred over the Access Arrangement period;
* the proposed rate of return, the assumptions on which the rate of return is calculated and a demonstration of how it is calculated;
* the proposed method for dealing with taxation, and a demonstration of how the allowance for taxation is calculated;
* a demonstration of how an allowance is to be made for any increments or decrements made under any incentive mechanism that applied in the previous Access Arrangement period;
* the proposed approach to the setting of reference tariffs, including the method used to allocate costs and a demonstration of the relationship between costs and tariffs;
* the rationale for any proposed reference tariff variation mechanism;
* the rationale for any proposed incentive mechanism;
* the total revenue to be derived from pipeline services for each regulatory year of the Access Arrangement period.

Related to the above, the AER has issued a Regulatory Information Notice (RIN) to Envestra that specifies the information that it requires for its decision making process. This information requirement must be consistent with the requirements of rule 72 as set out above. Attachment 1-1 of this AAI explains where in Envestra’s proposal the information required by the RIN can be found. All information required by the RIN and the NGR has been provided by Envestra in this AAI. Attachment 1-2 is a completed template containing specific information requested by the AER.

1. **Verification of Forecast Information**

Rule 74 of the NGR requires that a forecast or estimate used in an Access Arrangement proposal must:

* be arrived at on a reasonable basis; and
* represent the best forecast or estimate possible in the circumstances.

The forecasts and estimates used in this AAI satisfy the above criteria. This reflects the rigorous process followed by Envestra to develop its forecasts, which process is summarised as follows:

* forecasts are based on the considerable expertise of Envestra and its contractor, APA Asset Management;
* forecasts for projects have been based on robust business plans that have been subject to thorough review as to their compliance with the relevant obligations of the NGL and NGR;
* where possible, forecasts have been based on the most recent actual information available, which information reflects revealed efficient expenditure/outcomes;
* all relevant drivers of a particular forecast have been taken into account and explained in this AAI, including by providing any data used to derive a particular forecast;
* reliance has been made on independent and expert advice in the preparation of forecast information, which advice has been attached to this AAI; and
* adherence to strict business processes in developing and approving forecasts has been followed, including final approval of forecast information by Envestra’s Board.

1. **Interpretation**

Terms used in this AAI have the same meaning as they have in the Access Arrangement (see clause 2 of the Access Arrangement).

In this AAI:

* monetary values are expressed in 2011 dollar terms, unless indicated otherwise;
* certain numerical values may not precisely equate due to rounding;
* a reference to opex is a reference to operating expenditure, and a reference to capex is a reference to capital expenditure
* a reference to a “rule” is a reference to a National Gas Rule.

In this AAI, unless the context otherwise requires, where a word or meaning is capitalised it has:

* the meaning given to that word or phrase in the National Gas Rules; or
* the meaning given to that word or phrase in the glossary contained in the Access Arrangement.

1. **Contact Details**

The contact person for further details in relation to this AAI and the Access Arrangement to which it relates is:

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