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**Revised Victorian**

**Access Arrangement Information**

**9 November 2012**

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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 Victoria ends on 31 December 2012.

Section 7 of the *National Gas (Victoria) Act 2008* (the Act) applies the National Gas Law (NGL), which is set out in the Schedule to the Act, as a law of Victoria. Section 26 of the NGL gives the National Gas Rules (NGR) the force of law in Victoria. Part 9 of the NGR makes 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 Victorian network (the “Network”) on behalf of its subsidiary Vic Gas Distribution Pty Ltd (ACN 085 899 001), 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 provides 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.

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;
* adherence to strict business processes in developing and approving forecasts has been followed, including final approval of forecast information by Envestra’s Board; and
* relevant industry stakeholders have been consulted, where appropriate, in deriving a forecast.

With regard to the last point, Envestra has liaised closely with Energy Safe Victoria to ensure that expenditure plans in respect of the forecast mains replacement program are consistent with the long term safety, reliability and security of the network.

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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