



**DRAFT DECISION**  
**ActewAGL Distribution**  
**Access Arrangement**  
**2016 to 2021**

**Attachment 1 – Services**  
**covered by the access**  
**arrangement**

November 2015

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## Note

This attachment forms part of the AER's draft decision on ActewAGL Distribution's access arrangement for 2016–21. It should be read with all other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 - Services covered by the access arrangement

Attachment 2 - Capital base

Attachment 3 - Rate of return

Attachment 4 - Value of imputation credits

Attachment 5 - Regulatory depreciation

Attachment 6 - Capital expenditure

Attachment 7 - Operating expenditure

Attachment 8 - Corporate income tax

Attachment 9 - Efficiency carryover mechanism

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## Shortened forms

Shortened form	Extended form
AA	Access Arrangement
AAI	Access Arrangement Information
AER	Australian Energy Regulator
ASA	Asset Services Agreement
ATO	Australian Tax Office
capex	capital expenditure
CAPM	capital asset pricing model
CCP	Consumer Challenge Panel
CESS	Capital Expenditure Sharing Scheme
CMF	construction management fee
CPI	consumer price index
DAMS	Distribution Asset Management Services
DRP	debt risk premium
EBSS	Efficiency Benefit Sharing Scheme
EIL	Energy Industry Levy
ERP	equity risk premium
Expenditure Guideline	Expenditure Forecast Assessment Guideline
gamma	Value of Imputation Credits
GSL	Guaranteed Service Level
GTA	gas transport services agreement
ICRC	Independent Competition and Regulatory Commission
MRP	market risk premium
NECF	National Energy Customer Framework
NERL	National Energy Retail Law
NERR	National Energy Retail Rules
NGL	national gas law
NGO	national gas objective
NGR	national gas rules
NPV	net present value
opex	operating expenditure

Shortened form	Extended form
PFP	partial factor productivity
PPI	partial performance indicators
PTRM	post-tax revenue model
RBA	Reserve Bank of Australia
RFM	roll forward model
RIN	regulatory information notice
RoLR	retailer of last resort
RSA	Reference Service Agreement
RPP	revenue and pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
STTM	Short Term Trading Market
TAB	Tax asset base
UAFG	Unaccounted for gas
UNFT	Utilities Network Facilities Tax
WACC	weighted average cost of capital
WPI	Wage Price Index

# 1 Services covered by the access arrangement

The NGR requires the access arrangement to identify:

- the pipeline which the access arrangement relates to, and
- the services which ActewAGL proposes to offer to provide by means of that pipeline.<sup>1</sup>

## 1.1 Draft decision

We accept ActewAGL's proposal as it is compliant with the NGR.<sup>2</sup> However, we note ActewAGL's proposal has included the ancillary reference services in the singular haulage reference service. Our draft decision has not separated the ancillary reference services from the singular haulage reference service. Nevertheless we may review our draft decision after seeking stakeholder feedback and further information from ActewAGL, when making the final determination.

Our reasons for our draft decision are set out below.

## 1.2 ActewAGL's proposal

ActewAGL proposes to offer the following services on its network over the 2016–21 access arrangement period:

- one reference service (a pipeline service that is likely to be sought by a significant part of the market)—being the haulage reference service, and
- two non-reference services (a pipeline service that is not likely to be sought by a significant part of the market):
  - the interconnection of embedded network service, and
  - negotiated services.<sup>3</sup>

ActewAGL's proposed haulage reference service includes:

- receiving gas injected into the pipeline from a different gas pipeline or other gas facility (the point of injection is referred to as the receipt point)
- transportation of gas on the pipeline from a receipt point to a delivery point
- allowing the withdrawal of gas from the pipeline at a delivery point
- meter reading and associated data services, and the provision and maintenance of a standard metering installation, and

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<sup>1</sup> NGR, rr. 48(1)(a), 48(1) (b).

<sup>2</sup> NGR, r. 48(1).

<sup>3</sup> ActewAGL, *2016–20 access arrangement period: Attachment 2: Services policy*, June 2015, pp. 8–9.

- other specific network user requested activities (ancillary reference services), being:
  - special meter reads
  - disconnections
  - reconnections
  - decommissioning and meter removals
  - request for service.

Of these user requested ancillary reference services, only decommissioning and meter removals is a new service for the 2016–21 access arrangement period.<sup>4</sup> The activity associated with undertaking this service includes two components:

- temporarily stop the flow of gas at a delivery point, and
- permanently remove gas equipment which will allow the withdrawal of gas at a delivery point.

### 1.3 AER's assessment approach

ActewAGL is required by the NGR to specify all reference services in its access arrangement proposal.<sup>5</sup> A reference service is a pipeline service that is likely to be sought by a significant part of the market. A pipeline service is a:

- service provided by means of a pipeline, including a:
  - haulage service
  - service facilitating the interconnection of pipelines
- service ancillary to either of the above listed services.

ActewAGL's proposed reference service is also required to be consistent with the National Gas Objective.<sup>6</sup>

Our approach to assessing these requirements is to identify:

- the covered pipeline under the current access arrangement
- any extensions or expansions that were completed during the earlier access arrangement and which are taken to be 'covered' under that access arrangement's extension and expansion requirements.

The next step is to review the service provider's description of the pipeline services and reference services.

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<sup>4</sup> ActewAGL, *2016–20 access arrangement period: Attachment 2: Services policy*, June 2015, pp. 9–10.

<sup>5</sup> NGR, r. 48.

<sup>6</sup> NGR, r. 100(a).



## 1.4 Reasons for draft decision

Our assessment considers ActewAGL has complied with the NGR’s services requirements as outlined in Table 1.1 and section 1.4.1. We note ActewAGL’s proposed reference services for the 2016–21 access arrangement is generally consistent with those reference services we found compliant with NGR for the current access arrangement.

**Table 1.1 Assessment of ActewAGL’s compliance with the NGR**

NGR requirements	AER assessment
A full access arrangement must:	
identify the pipeline to which the access arrangement relates and include a reference to a website at which a description of the pipeline can be inspected—NGR clause 48.1(a)	Compliant. Section 1 of the ActewAGL access arrangement proposal.
describe the pipeline services the service provider propose to offer to provide by means of the pipeline — NGR clause 48.1(b)	Compliant. Section 2 of the ActewAGL access arrangement proposal.
specify the reference services — NGR 48.1(c)	Compliant. Section 2 of the ActewAGL access arrangement proposal.
specify for each reference service:	
(i) the reference tariff; and	
(ii) the other terms and conditions on which the reference service will be provided	Compliant. Section 2 and schedule 3 of the ActewAGL access arrangement proposal.
— NGR clause 48.1(d)	
if the access arrangement is to contain queuing requirements – set out the queuing requirements — NGR clause 48.1(e)	Compliant. Section 12 of the ActewAGL access arrangement proposal.
set out the capacity trading requirements — NGR clause 48.1(f)	Compliant. Section 10 of the ActewAGL access arrangement proposal.
set out the extension and expansion requirements — NGR clause 48.1(g)	Compliant. Section 9 of the ActewAGL access arrangement proposal.
state the terms and conditions for charging receipt and delivery points — NGR clause 48.1(h)	Compliant. Section 11 of the ActewAGL access arrangement proposal.
if there is to be a review submission date – state the review submission date and the revision commencement date — NGR clause 48.1(i)	Compliant. Section 1 of the ActewAGL access arrangement proposal.
if there is to be an expire date – state the expiry date — NGR 48.1(j)	Not applicable.

Source: AER analysis; NGR, r. 48.1; ActewAGL, *Access arrangement for the ACT Queanbeyan and Palerang gas distribution network 1 July 2016 to 30 June 2021*, July 2015.

### 1.4.1 Reference services

We accept the reference services ActewAGL proposes to offer on its network over the 2016–21 access arrangement period. We consider that a significant part of the market is likely to seek the reference services provided by ActewAGL, as per past practice. This means they must be covered by the access arrangement. We also note the

proposed singular haulage reference service is an amalgamation of the seven reference services offered by ActewAGL during the 2010–15 access arrangement period.

However, we note ActewAGL has included in the haulage reference service the ancillary reference services and their associated revenues. As the ancillary reference services are customer requested services, the associated costs and revenues are difficult to forecast with accuracy. Therefore combining these costs and revenues together with the other haulage reference services will reduce the cost reflectivity of the ancillary reference services and potentially lead to double recovery of the costs.

This draft decision has not separated the ancillary reference services from the singular haulage reference service as we currently have insufficient information to demonstrate a compelling reason to do so. However, we will seek further information from ActewAGL on these services and revenues and review this position in our final determination. We invite stakeholders' feedback on this issue and whether a combined service has any material impact on them in terms of cost reflectivity or otherwise.

We also note the Consumer Challenge Panel put forward that—consistent with electricity—the provision and maintenance of meters, meter reading and associated data services should be separated from the haulage reference services to encourage competition.<sup>7</sup> We do accept that an aggregated reference service (ActewAGL's preferred approach) may not be conducive to contestability. However, we have found no compelling reasons to reject ActewAGL's proposal. We note:

- The market to implement gas meter reading contestability in ActewAGL's network has not changed over the current access arrangement period and we have not seen any evidence that it may change in the next five years.
- One significant driver of electricity metering contestability has been a desire to foster a competitive rollout of more efficient tariffs and metering arrangements to mass market electricity customers. Although apart from some networks undertaking metering trials, there is no equivalent gas network or retail imperative for time of use pricing and associated behavioural change. The problem of peak demand does not exist to the same degree in gas as it does for electricity.

However, if the market for metering services begins to develop substantively in coming years and disaggregation of services is considered warranted, this can be proposed (and considered by us) at that time. We also note the aggregation of the service does not lead to aggregation of the underlying costs. Therefore we are satisfied there is no double recovery of the costs for these services. For these reasons we accept ActewAGL's proposal.

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<sup>7</sup> Consumer Challenge Panel, *Advice to AER from Consumer Channel Panel sub-panel 8 regarding ActewAGL Distribution (AAD) access arrangement 2016–2021 proposal*, 26 August 2015, p. 12.

Nonetheless, if stakeholders can provide to us compelling reasons not to include these metering services in the haulage reference services, we may review our draft decision position when making the final determination.

### **1.4.2 Non-reference services**

Similar to its 2010–15 access arrangement, ActewAGL has proposed the interconnection of embedded network services and negotiated services as non-reference services.<sup>8</sup> The AER agrees that these services are non-reference services as they are not likely to be sought by a significant part of the market and should not be specified as reference services.<sup>9</sup>

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<sup>8</sup> ActewAGL, *2016–20 access arrangement period: Attachment 2: Services policy*, June 2015, pp. 8–9.

<sup>9</sup> NGR, r. 101.