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Our Ref: 176807

7 June 2018

Mr Craig de Laine
General Manager Strategy & Regulation
Australian Gas Networks Limited

By email (Craig.deLaine@agnl.com.au)

Dear Mr de Laine

Proposed revocation and substitution of Australian Gas Networks (SA) access arrangement 2016-2021

I am writing to advise you that the AER has determined not to revoke its access arrangement for Australian Gas Networks (AGN) for the regulatory control period 1 July 2016 to 30 June 2021.

On 26 May 2016 the Australian Energy Regulator (AER) made its access arrangement for Australian Gas Networks (AGN) for the regulatory control period 1 July 2016 to 30 June 2021.¹

Subsequent to making the access arrangement, in the merits review of Victorian Electricity and ACT Gas decisions the Australian Competition Tribunal (ACT) became aware of an inflation estimation error impacting each of the AER's determinations on review in this process.² The Tribunal noted the error in each of its decisions and stated it left it to the AER to determine the appropriate response to its error.³

The estimation error identified by the Tribunal in the above proceedings is also reflected in the AER's 26 May 2016 AGN access arrangement for its 2016-21 regulatory control period. This is a mathematical calculation error that impacts the AGN distribution access arrangement for 2016-2021.

The mathematical error results from an incorrect geometric average calculation undertaken on the annual inflation rates.

¹ AER, *AGN Final decision 2016-2021*, 26 May 2016

² File Nos: ACT 3, 4, 5, 6, 7, 8 of 2016; <http://www.competitiontribunal.gov.au/current-matters/tribunal-documents>.

³ For example, see ACT, Application by ActewAGL Distribution [2017] ACompT 2, 17 October 2017, p i – iii.

On 15 December 2017 the AER sent a letter to AGN SA (by email to craig.delaine@agnl.com.au) proposing, subject to consideration of any submissions on our proposal, to make a determination to correct the identified error set out above under clause 68 of the NGR by no later than 1 March 2018.⁴ On 1 March 2018 AER staff sent an email indicating the AER's determination on the matter had been delay by approximately 1 month.⁵

Having considered all submissions and the particular facts with respect to AGN SA, we have elected to not exercise our powers under Rule 68 in this situation. In making this decision we have had particular regard to the fact that an input error existed in the capex modelling for the final determination for AGN SA that was discovered after the final determination was made and has not been corrected. The value of this error (that is detriment to AGN SA) more than offsets the value of the inflation correction (to consumers).

If you have any queries on this matter please contact Esmond Smith on (03) 9290 1956.

Yours sincerely



Warwick Anderson

General Manager

AER Network Finance and Reporting

⁴ The AER, *letter to AGN: Proposed revocation and substitution of Australian Gas Networks (SA) access arrangement 2016-2021*, 15 December 2017.

⁵ AER, *Email to Mr DeLaine of AGN SA in relation to the inflation correction matter*, 1 March 2018.