

Final Plan Attachment 1.1

Relevant Regulatory Framework

December 2016

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Contents

1.	Introduction	1
2.	Overarching Regulatory Framework	2
2.1.	National Gas Objective	2
3.	Revenue and Pricing Principles	3
3.1.	Interrelationships	3
4.	AER Discretionary Powers	4
5.	Requirements of an Access Arrangement Proposal	5

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1. Introduction

This attachment explains the relevant regulatory framework governing the Access Arrangement (AA) review process, with a focus on the overarching requirements that must be satisfied for the AA Proposal to be approved by the Australian Energy Regulator (AER).

More specifically, this Attachment outlines:

- *Chapter 2 – the Overarching Regulatory Obligations, including the National Gas Objective.*
 - These obligations set out the rules that apply to Australian Gas Networks Limited (AGN) in relation to the supply of natural gas, as well as the responsibility of the AER.
 - It is these rules, laws and objectives that govern the way in which we operate our networks and as such, it is these elements that have guided our AA Proposal.
- *Chapter 3 – the Revenue and Pricing Principles, including Interrelationships.*
- *Chapter 4 – the AER’s Discretionary Powers.*
- *Chapter 5 – Requirements of an AA Submission.*
 - The information we must provide in our AA Proposal and where we have addressed these requirements within the Final Plan (also known as an AA Information (AAI)), supporting attachments and AA Document.

2. Overarching Regulatory Framework

The overarching regulatory framework for our Victorian and Albury natural gas distribution networks (the networks) is set out in the National Gas (Victoria) Act 2008 (the Victorian Act) and the National Gas (New South Wales) Act 2008 (the NSW Act). Section 7 of these Acts applies the National Gas Law (NGL), which is set out in a Schedule to the Act, as a law of Victoria and New South Wales.

The NGL, among other things, establishes the National Gas Objective (NGO) and the functions and powers of key administrative bodies. Importantly:

- Section 26 of the NGL gives the National Gas Rules (NGR) the force of law in Victoria and New South Wales. The NGR establishes the process for the review of an AA and sets out the detailed requirements of an AA revision proposal; and
- Section 27 of the NGL makes the AER responsible for making a decision in relation to an AA revision proposal submitted by AGN.

Rule 52 of the NGR requires that AGN submit by 3 January 2017 (the 'review submission date') an AA revision proposal for the next (1 January 2018 to 31 December 2022) AA period. Rule 43 requires AGN, when submitting an AA revision proposal, to submit an AAI for the AA. 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 AA revision proposal; and
- understand the basis and derivation of the various elements of the AA revision proposal.

An AA sets out the terms and conditions under which AGN provides access to users of the networks.

2.1. National Gas Objective

Section 27 of the NGL prescribes the functions and powers of the AER, which includes economic regulatory functions and powers. 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 NGO, which is set out in Section 23 of the NGL. The NGO 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."

Further, pursuant to Section 28(1)(b)(iii), where there are two or more possible decisions open to the AER that will contribute to the achievement of the NGO, the AER must make the decision that the AER is satisfied will or is likely to contribute to the achievement of the NGO to the greatest degree.

3. Revenue and Pricing Principles

Section 28 of the NGL provides that the AER must also take into account the revenue and pricing principles when exercising a discretion in approving or making those parts of an AA relating to reference tariffs. Section 24 of the NGL sets out the revenue and pricing principles, which include the following:

- under Sub-section 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 Sub-section 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 Sub-section 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 Sub-section 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 Sub-section 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.

3.1. Interrelationships

Pursuant to Section 28(1)(b)(ii) of the NGL, the AER in making its decision must specify the manner in which the constituent components of the decision relate to each other and the manner in which that interrelationship has been taken into account in making the decision.

4. AER Discretionary Powers

The exercise of the AER's discretion in its decision-making process regarding an AA revision proposal, including in deciding whether AGN has satisfied the NGL and the revenue and pricing principles, is governed by rule 40 of the NGR, which provides that:

- under Sub-rule 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 AA revision proposal that is governed by the relevant provision;
- under Sub-rule 40(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 AA revision proposal that is governed by the relevant provision if the AER is satisfied that it:
 - complies with the applicable requirements of the NGL;
 - is consistent with applicable criteria (if any) prescribed by the NGL; and
- under Sub-rule 40(3), in all other cases the AER has full discretion to withhold its approval to an element of an AA revision 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.

5. Requirements of an Access Arrangement Proposal

To ensure our AA Proposal complies with all the applicable regulatory requirements we have developed a compliance checklist. Table 5.1 cross-references the relevant NGR requirements and then details the applicable sections within our AA Proposal¹ which addresses the requirement.

Table 5.1: Compliance Checklist – NGR requirements

Provision	NGR Requirement	Our AA Proposal Reference
42(1)	<p><i>Access arrangement information</i> for an access arrangement or an <i>access arrangement proposal</i> is information that is reasonably necessary for users and prospective users:</p> <p>(a) to understand the background to the access arrangement or the <i>access arrangement proposal</i>; and</p> <p>(b) to understand the basis and derivation of the various elements of the access arrangement or the <i>access arrangement proposal</i>.</p>	The Final Plan, Supporting Attachments detailed in Attachment 1.11 and AA Document submitted on or before 3 January 2017.
42(2)	<i>Access arrangement information</i> must include the information specifically required by the <i>Law</i> .	The Final Plan, Supporting Attachments detailed in Attachment 1.11 and AA Document submitted on or before 3 January 2017.
43(1)	A service provider, when submitting an <i>access arrangement proposal</i> for the AER's approval, must submit, together with the proposal, <i>access arrangement information</i> for the <i>access arrangement proposal</i> .	The Final Plan, Supporting Attachments detailed in Attachment 1.11 s and AA Document submitted on or before 3 January 2017.
43(2)	<p>If particular information (sensitive information) is confidential, and its public disclosure could cause undue harm to the legitimate business interests of the service provider, a user or prospective user, the AER may permit the service provider to submit <i>access arrangement information</i> in a form, approved by the AER, in which the sensitive information:</p> <p>(a) is aggregated or generalised so as to avoid disclosure of the elements that make it sensitive; or</p> <p>(b) if that is not possible – is entirely suppressed.</p>	Attachment 1.12 Confidentiality Claims.
48 (1)(a)	<p>A full access arrangement must:</p> <p>(a) 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; and</p>	AA Document Chapter 1 and Annexure A. Final Plan Section 2.4.
48 (1)(b)	<p>A full access arrangement must:</p> <p>(b) describe the pipeline services the service provider proposes to offer to provide by means of the pipeline; and</p>	AA Document Chapter 2. Final Plan Section 6.4.
48 (1)(c)	<p>A full access arrangement must:</p> <p>(c) specify the reference services; and</p>	AA Document Chapter 2. Final Plan Section 6.4.
48 (1)(d)	<p>A full access arrangement must:</p> <p>(d) specify for each reference service:</p> <p>(i) the reference tariff; and</p> <p>(ii) the other terms and conditions on which the reference service will be provided; and</p>	AA Document Chapter 2, Annexure B and F. Attachments 14.2 and 15.2.

¹ AA Proposal consists of the Final Plan (Plan, also known as an AA Information), supporting attachments and AA Document.

48 (1)(e)	A full access arrangement must: if the access arrangement is to contain queuing requirements – set out the queuing requirements; and	AA Document Section 7.2.
48 (1)(f)	A full access arrangement must: (f) set out the capacity trading requirements; and	AA Document Section 7.1. Final Plan Section 15.5.1.
48 (1)(g)	A full access arrangement must: (g) set out the extension and expansion requirements; and	AA Document Chapter 8. Final Plan 15.5.2 and Attachment 15.2.
48 (1)(h)	A full access arrangement must: (h) state the terms and conditions for changing receipt and delivery points; and	AA Document Section 7.3.
48 (1)(i)	A full access arrangement must: (i) if there is to be a review submission date – state the review submission date and the revision commencement date; and	AA Document Chapter 10. Attachment 15.2
48 (1)(i)	A full access arrangement must: (j) if there is to be an expiry date – state the expiry date.	There is no expiry date.
49 (1)	A full access arrangement (other than a voluntary access arrangement): (a) must contain a review submission date and a revision commencement date; and (b) must not contain an expiry date.	AA Document Chapter 10. Attachment 15.2.
50 (1)(a)	As a general rule: (a) a review submission date will fall 4 years after the access arrangement took effect or the last revision commencement date; and	The current AA period revision commencement date for both Victoria and Albury networks is 1 January 2018. Thus, as a general rule the review submission date proposed for the next AA period would be 1 January 2022. The AER has requested that we propose a review submission date of 1 December 2021. AA Document Section 10.1
50 (1)(b)	As a general rule: (b) a revision commencement date will fall 5 years after the access arrangement took effect or the last revision commencement date.	The current AA period revision commencement date for both Victoria and Albury networks is 1 January 2013. Thus, as a general rule the revision commencement date proposed for the next AA period would be 1 January 2018. AA Document Section 1.2.
52(1)	A service provider must, on or before the <i>review submission date</i> of an applicable access arrangement, submit an <i>access arrangement revision proposal</i> to the AER.	The Final Plan, Supporting Attachments detailed in Attachment 1.11 and AA Document submitted on or before 3 January 2017.
52(2)	The access arrangement revision proposal must: (a) set out the amendments to the access arrangement that the service provider proposes for the ensuing access arrangement period; and (b) incorporate the text of the access arrangement in the revised form	Final Plan Section 15.4 and 15.5. Attachments 15.1 and 15.2. AA Document.
53(2)	If pipeline services provided, or to be provided, by a service provider are (or are to be) provided by means of 2 or more covered pipelines, the AER may, by notice to the service provider, direct the service provider to submit a consolidated <i>access arrangement proposal</i> for all the relevant covered pipelines.	Final Plan Section 1.1.
53(7)	A direction under this rule may be subject to such conditions as the AER thinks fit and includes in the direction.	Final Plan Section 1.1.

72(a)(i)	<p>The <i>access arrangement information</i> for a <i>full access arrangement proposal</i> (other than an access arrangement variation proposal) must include the following:</p> <p>(a) if the <i>access arrangement period</i> commences at the end of an earlier <i>access arrangement period</i>:</p> <p>(i) capital expenditure (by asset class) over the earlier <i>access arrangement period</i>; and</p>	Final Plan Section 8.3 and Attachments 1.5 and 1.6 (Sheet 16. Capex allocation).
72(a)(ii)	<p>The <i>access arrangement information</i> must include the following:</p> <p>(a) if the <i>access arrangement period</i> commences at the end of an earlier <i>access arrangement period</i>:</p> <p>(ii) operating expenditure (by category) over the earlier <i>access arrangement period</i>; and</p>	Final Plan Section 7.3 and Attachments 1.5 and 1.6 (Sheet 23.1 Opex incl. RPM and 23.2 Opex excl. RPM).
72(a)(iii)	<p>The <i>access arrangement information</i> must include the following:</p> <p>(a) if the <i>access arrangement period</i> commences at the end of an earlier <i>access arrangement period</i>:</p> <p>(iii) usage of the pipeline over the earlier <i>access arrangement period</i> showing:</p> <p>(A) for a distribution pipeline, minimum, maximum and average demand and, for a transmission pipeline, minimum, maximum and average demand for each <i>receipt or delivery point</i>; and</p> <p>(B) for a distribution pipeline, customer numbers in total and by tariff class and, for a transmission pipeline, user numbers for each <i>receipt or delivery point</i>;</p>	Final Plan Sections 13.5, 13.6 and 13.7. Attachments 1.5 and 1.6 (Sheet 27. Customer numbers and 28. Consumption and Demand). Attachments 13.1, 13.2, 13.3, 13.4 and 13.5.
72(1)(b)	<p>The <i>access arrangement information</i> must include the following:</p> <p>(b) how the capital base is arrived at and, if the <i>access arrangement period</i> commences at the end of an earlier <i>access arrangement period</i>, a demonstration of how the capital base increased or diminished over the previous <i>access arrangement period</i>;</p>	Final Plan Section 9.4 and Attachments 1.7 and 1.8.
72(1)(c)	<p>The <i>access arrangement information</i> must include the following:</p> <p>(c) the projected capital base over the <i>access arrangement period</i>, including:</p> <p>(i) a forecast of conforming capital expenditure for the period and the basis for the forecast; and</p> <p>(ii) a forecast of depreciation for the period including a demonstration of how the forecast is derived on the basis of the proposed depreciation method;</p>	Final Plan Section 9.5. Attachments 1.7, 1.8, 9.1, 9.2, 9.3, 9.4 and 9.5.
72(1)(d)	<p>The <i>access arrangement information</i> must include the following:</p> <p>(d) to the extent it is practicable to forecast pipeline capacity and utilisation of pipeline capacity over the access arrangement period, a forecast of pipeline capacity and utilisation of pipeline capacity over that period and the basis on which the forecast has been derived;</p>	<p>As previously indicated to the AER, such parameters are not relevant or have no meaning in the context of a natural gas distribution network. This reflects that the network consists of a variety of inter-linked pipe materials, each with a different capacity (unlike natural gas transmission pipelines).</p> <p>The capacity of different sections of the network is analysed on an ongoing basis. Pressures and flows are simulated in order to ensure that the network has adequate capacity to meet customer needs. Where modelling or field data (for example telemetry or pressure recorders) indicate that potential capacity or pressure problems exist, mains reinforcement projects or other required actions are instigated to augment network capacity.</p> <p>The capacity of the network is continually increasing as a result of the replacement of the low pressure cast iron and unprotected steel mains with high pressure polyethylene mains.</p>

72(1)(e)	The <i>access arrangement information</i> must include the following: (e) a forecast of operating expenditure over the <i>access arrangement period</i> and the basis on which the forecast has been derived;	Final Plan Sections 7.5 and 7.6. Attachments 1.5 and 1.6 (Sheet 23.1 Opex incl. RPM, 23.2 Opex excl. RPM and 23.3 Opex base-step-trend). Attachments 7.1, 7.2, 7.3 and 7.4.
72(1)(f)	The <i>access arrangement information</i> must include the following: (f) the key performance indicators to be used by the service provider to support expenditure to be incurred over the <i>access arrangement period</i> ;	Final Plan Section 2.3 and Chapter 4.
72(1)(g)	The <i>access arrangement information</i> must include the following: (g) the proposed return on equity, return on debt and <i>allowed rate of return</i> , for each regulatory year of the <i>access arrangement period</i> , in accordance with rule 87, including any departure from the methodologies set out in the <i>rate of return guidelines</i> and the reasons for that departure;	Final Plan Section 10.5 and Attachments 1.5 and 1.6 (Sheet 22. WACC Inputs).
72(1)(ga)	The <i>access arrangement information</i> must include the following: (ga) the proposed formula (if any) that is to be applied in accordance with rule 87(12);	Final Plan Section 10.4.2 and Attachments 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7 and 10.8.
72(1)(h)	The <i>access arrangement information</i> must include the following: (h) the estimated cost of corporate income tax calculated in accordance with rule 87A, including the proposed value of imputation credits referred to in that rule;	Final Plan Section 10.5. Attachments 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7 and 10.8.
72(1)(i)	The <i>access arrangement information</i> must include the following: (i) if an incentive mechanism operated for the <i>previous access arrangement period</i> —the proposed carry-over of increments for efficiency gains or decrements for efficiency losses in the <i>previous access arrangement period</i> and a demonstration of how allowance is to be made for any such increments or decrements;	Final Plan Section 11.4 and Attachments 1.5 and 1.6 (Sheet 23.4 Opex incentive mechanism).
72(1)(j)	The <i>access arrangement information</i> must include the following: (j) the proposed approach to the setting of tariffs including: (i) the suggested basis of reference tariffs, including the method used to allocate costs and a demonstration of the relationship between costs and tariffs; and (ii) a description of any pricing principles employed but not otherwise disclosed under this rule;	Final Plan Sections 14.5, 14.6, 14.7 and 14.8. Attachment 1.1 Chapter 3. Attachments 14.1 and 14.2.
72(1)(k)	The <i>access arrangement information</i> must include the following: (k) the service provider's rationale for any proposed reference tariff variation mechanism;	Final Plan Section 14.8 and Attachment 14.2. AA Document Chapters 4 and 5 and Annexure D.
72(1)(l)	The <i>access arrangement information</i> must include the following: (l) the service provider's rationale for any proposed incentive mechanism;	Final Plan Chapter 11, Attachments 11.1, 11.2, 11.3, 11.4 and 11.5.
72(1)(m)	The <i>access arrangement information</i> must include the following: (m) the total revenue to be derived from pipeline services for each regulatory year of the <i>access arrangement period</i> .	Final Plan Chapter 12. Attachments 1.9, 1.5 and 1.6 (Sheet 26. Allocation of total revenue)
72(2)	The <i>access arrangement information</i> for an <i>access arrangement variation proposal</i> related to a full access arrangement must include so much of the above information as is relevant to the proposal.	The Final Plan, Supporting Attachments detailed in Attachment 1.11 and AA Document submitted on or before 3 January 2017.

73(1)	Financial information must be provided on: (a) a nominal basis; or (b) a real basis; or (c) some other recognised basis for dealing with the effects of inflation.	Final Plan: <ul style="list-style-type: none"> • Chapter 12 (Network Revenue), Chapter 9 (Capital Base), Chapter 10 (Financing Costs) and Chapter 14 (Network Pricing) nominal. • Chapter 5 (Stakeholder Engagement), Chapter 7 (Operating Expenditure) and Chapter 8 (Capital Expenditure) real basis \$2017. • Attachment 1.5, 1.6 real \$2017.
73(2)	The basis on which financial information is provided must be stated in the access arrangement information.	Refer to responses to Rule 73(1) above.
73(3)	All financial information must be provided, and all calculations made, consistently on the same basis.	Refer to responses to Rule 73(1) above.
74(1)	Information in the nature of a forecast or estimate must be supported by a statement of the basis of the forecast or estimate.	Final Plan Chapters 7 to 10 and 12 to 14. Attachments 1.4, 1.5, 1.6, 1.7, 1.8, 1.9, 7.1, 7.2, 7.3, 7.4, 8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.8, 8.9, 8.10, 9.1, 9.2, 9.3, 9.4, 9.5, 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7, 10.8, 11.6, 13.1, 13.2, 13.2, 13.3, 13.4, 13.5, 14.1 and 14.2.
74(2)	A forecast or estimate: (a) must be arrived at on a reasonable basis; and (b) must represent the best forecast or estimate possible in the circumstances.	Final Plan Chapters 7 to 10 and 12 to 14. Attachments 1.4, 1.5, 1.6, 1.7, 1.8, 1.9, 7.1, 7.2, 7.3, 7.4, 8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.8, 8.9, 8.10, 9.1, 9.2, 9.3, 9.4, 9.5, 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7, 10.8, 11.6, 13.1, 13.2, 13.2, 13.3, 13.4, 13.5, 14.1 and 14.2.
75	Information in the nature of an extrapolation or inference must be supported by the primary information on which the extrapolation or inference is based.	Final Plan Chapters 7 to 10 and 12 to 14. Attachments 1.4, 1.5, 1.6, 1.7, 1.8, 1.9, 7.1, 7.2, 7.3, 7.4, 8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.8, 8.9, 8.10, 9.1, 9.2, 9.3, 9.4, 9.5, 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7, 10.8, 11.6, 13.1, 13.2, 13.2, 13.3, 13.4, 13.5, 14.1 and 14.2.
76	Total revenue is to be determined for each regulatory year of the <i>access arrangement period</i> using the building block approach in which the building blocks are: (a) a return on the projected capital base for the year (See Divisions 4 and 5); and (b) depreciation on the projected capital base for the year (See Division 6); and (c) the estimated cost of corporate income tax for the year (See Division 5A); and (d) increments or decrements for the year resulting from the operation of an incentive mechanism to encourage gains in efficiency (See Division 9); and (e) a forecast of operating expenditure for the year (See Division 7)	Final Plan Section 12.4 and Attachment 1.9.

77(2)	<p>If an <i>access arrangement period</i> follows immediately on the conclusion of a preceding access arrangement period, the opening capital base for the later <i>access arrangement period</i> is to be:</p> <p>(a) the opening capital base as at the commencement of the earlier <i>access arrangement period</i> adjusted for any difference between estimated and actual capital expenditure included in that opening capital base. This adjustment must also remove any benefit or penalty associated with any difference between the estimated and actual capital expenditure;</p> <p>plus:</p> <p>(b) conforming capital expenditure made, or to be made, during the earlier <i>access arrangement period</i>;</p> <p>plus:</p> <p>(c) any amounts to be added to the capital base under rule 82, 84 or 86;</p> <p>less:</p> <p>(d) depreciation over the earlier <i>access arrangement period</i> (to be calculated in accordance with any relevant provisions of the access arrangement governing the calculation of depreciation for the purpose of establishing the opening capital base); and</p> <p>(e) redundant assets identified during the course of the earlier access arrangement period; and</p> <p>(f) the value of pipeline assets disposed of during the earlier access arrangement period.</p>	Final Plan Chapter 9, Attachments 1.7 and 1.8.
78	<p>The projected capital base for a particular period is:</p> <p>(a) the opening capital base;</p> <p>plus:</p> <p>(b) forecast conforming capital expenditure for the period;</p> <p>less:</p> <p>(c) forecast depreciation for the period; and</p> <p>(d) the forecast value of pipeline assets to be disposed of in the course of the period.</p>	Final Plan Chapter 9, Attachments 1.7, 1.8, 9.1, 9.2, 9.3, 9.4 and 9.5.
79(1)	<p>Conforming capital expenditure is capital expenditure that conforms with the following criteria:</p> <p>(a) the capital expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing services;</p> <p>(b) the capital expenditure must be justifiable on a ground stated in subrule (2).</p>	Final Plan Chapter 8, Attachments 8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.8, 8.9 and 8.10.
79(2)	<p>Capital expenditure is justifiable if:</p> <p>(a) the overall economic value of the expenditure is positive; or</p> <p>(b) the present value of the expected incremental revenue to be generated as a result of the expenditure exceeds the present value of the capital expenditure; or</p> <p>(c) the capital expenditure is necessary:</p> <p>(i) to maintain and improve the safety of services; or</p> <p>(ii) to maintain the integrity of services; or</p> <p>(iii) to comply with a regulatory obligation or requirement; or</p> <p>(iv) to maintain the service provider's capacity to meet levels of demand for services existing at the time the capital expenditure is incurred (as distinct from projected demand that is dependent on an expansion of pipeline capacity); or</p> <p>(d) the capital expenditure is an aggregate amount divisible into 2 parts, one referable to incremental services and the other referable to a purpose referred to in paragraph (c), and the former is justifiable under paragraph (b) and the latter under paragraph (c).</p>	Final Plan Chapter 8, Attachments 8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.8, 8.9 and 8.10.

85(1)	A full access arrangement may include (and the AER may require it to include) a mechanism to ensure that assets that cease to contribute in any way to the delivery of pipeline services (redundant assets) are removed from the capital base.	Final Plan Section 9.5.2 and AA Document Section 4.7.
87(1)	Subject to rule 82(3), the return on the projected capital base for each regulatory year of the <i>access arrangement period</i> is to be calculated by applying a rate of return that is determined in accordance with this rule 87 (the <i>allowed rate of return</i>).	Final Plan Chapter 10. Attachments 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7 and 10.8.
87(2)	The <i>allowed rate of return</i> is to be determined such that it achieves the <i>allowed rate of return objective</i> .	Final Plan Chapter 10. Attachments 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7 and 10.8.
87(4)	(4) Subject to subrule (2), the <i>allowed rate of return</i> for a regulatory year is to be: (a) a weighted average of the return on equity for the access arrangement period in which that regulatory year occurs (as estimated under subrule (6)) and the return on debt for that regulatory year (as estimated under subrule (8)); and (b) determined on a nominal vanilla basis that is consistent with the estimate of the value of imputation credits referred to in rule 87A.	Final Plan Chapter 10. Attachments 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7 and 10.8.
87(5)	In determining the <i>allowed rate of return</i> , regard must be had to: (a) relevant estimation methods, financial models, market data and other evidence; (b) the desirability of using an approach that leads to the consistent application of any estimates of financial parameters that are relevant to the estimates of, and that are common to, the return on equity and the return on debt; and (c) any interrelationships between estimates of financial parameters that are relevant to the estimates of the return on equity and the return on debt.	Final Plan Chapter 10. Attachments 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7 and 10.8.
87(6)	The return on equity for an <i>access arrangement period</i> is to be estimated such that it contributes to the achievement of the <i>allowed rate of return objective</i> .	Final Plan Chapter 10. Attachments 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7 and 10.8.
87(7)	In estimating the return on equity under subrule (6), regard must be had to the prevailing conditions in the market for equity funds.	Final Plan Chapter 10. Attachments 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7 and 10.8.
87(8)	The return on debt for a regulatory year is to be estimated such that it contributes to the achievement of the <i>allowed rate of return objective</i> .	Final Plan Chapter 10. Attachments 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7 and 10.8.
87(9)	The return on debt may be estimated using a methodology which results in either: (a) the return on debt for each regulatory year in the <i>access arrangement period</i> being the same; or (b) the return on debt (and consequently the <i>allowed rate of return</i>) being, or potentially being, different for different regulatory years in the <i>access arrangement period</i> .	Final Plan Chapter 10, Attachments 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7 and 10.8. Attachments 1.5 and 1.6 (Sheet 22. WACC Inputs).
87(10)	Subject to subrule (8), the methodology adopted to estimate the return on debt may, without limitation, be designed to result in the return on debt reflecting: (a) the return that would be required by debt investors in a benchmark efficient entity if it raised debt at the time or shortly before the time when the AER's decision on the access arrangement for that <i>access arrangement period</i> is made; (b) the average return that would have been required by debt investors in a benchmark efficient entity if it raised debt over an historical period prior to the commencement of a regulatory year in the <i>access arrangement period</i> ; or (c) some combination of the returns referred to in subrules (a) and (b)	Final Plan Chapter 10, Attachments 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7 and 10.8. Attachments 1.5 and 1.6 (Sheet 22. WACC Inputs).

87(11)	<p>(11) In estimating the return on debt under subrule (8), regard must be had to the following factors:</p> <p>(a) the desirability of minimising any difference between the return on debt and the return on debt of a benchmark efficient entity referred to in the <i>allowed rate of return objective</i>;</p> <p>(b) the interrelationship between the return on equity and the return on debt;</p> <p>(c) the incentives that the return on debt may provide in relation to capital expenditure over the access arrangement period, including as to the timing of any capital expenditure; and</p> <p>(d) any impacts (including in relation to the costs of servicing debt across <i>access arrangement periods</i>) on a benchmark efficient entity referred to in the <i>allowed rate of return objective</i> that could arise as a result of changing the methodology that is used to estimate the return on debt from one <i>access arrangement period</i> to the next.</p>	Final Plan Chapter 10, Attachments 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7 and 10.8.
87(12)	<p>If the return on debt is to be estimated using a methodology of the type referred to in subrule (9)(b) then a resulting change to the service provider's total revenue must be effected through the automatic application of a formula that is specified in the <i>decision</i> on the access arrangement for that <i>access arrangement period</i>.</p>	Final Plan Chapter 12 and Attachment 1.9.
87A(1)	<p>The estimated cost of corporate income tax of a service provider for each regulatory year of an access arrangement period (ETCt) is to be estimated in accordance with the following formula:</p> $ETCt = (ETIt \times rt) (1 - \gamma)$ <p>Where</p> <p>ETIt is an estimate of the taxable income for that regulatory year that would be earned by a benchmark efficient entity as a result of the provision of reference services if such an entity, rather than the service provider, operated the business of the service provider;</p> <p>rt is the expected statutory income tax rate for that regulatory year as determined by the AER; and</p> <p>γ is the value of imputation credits.</p>	Final Plan Chapter 10 and Attachment 1.9. Attachments 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7 and 10.8.
88(1)	<p>The depreciation schedule sets out the basis on which the pipeline assets constituting the capital base are to be depreciated for the purpose of determining a reference tariff</p>	Final Plan Chapter 9, Attachments 1.7 and 1.8. Attachments 9.1, 9.2, 9.3, 9.4, 9.5.
88(2)	<p>The depreciation schedule may consist of a number of separate schedules, each relating to a particular asset or class of assets.</p>	Final Plan Chapter 9, Attachments 1.7 and 1.8. Attachments 9.1, 9.2, 9.3, 9.4, 9.5.
89(1)	<p>The depreciation schedule should be designed:</p> <p>(a) so that reference tariffs will vary, over time, in a way that promotes efficient growth in the market for reference services; and</p> <p>(b) so that each asset or group of assets is depreciated over the economic life of that asset or group of assets; and</p> <p>(c) so as to allow, as far as reasonably practicable, for adjustment reflecting changes in the expected economic life of a particular asset, or a particular group of assets; and</p> <p>(d) so that (subject to the rules about capital redundancy), an asset is depreciated only once (ie that the amount by which the asset is depreciated over its economic life does not exceed the value of the asset at the time of its inclusion in the capital base (adjusted, if the accounting method approved by the AER permits, for inflation)); and</p> <p>(e) so as to allow for the service provider's reasonable needs for cash flow to meet financing, non-capital and other costs.</p>	Final Plan Chapter 9, Attachments 1.7 and 1.8. Attachments 9.1, 9.2, 9.3, 9.4, 9.5.
90(1)	<p>A full access arrangement must contain provisions governing the calculation of depreciation for establishing the opening capital base for the next <i>access arrangement period</i> after the one to which the access arrangement currently relates.</p>	Final Plan Chapter 9, Attachments 1.7 and 1.8. Attachments 9.1, 9.2, 9.3, 9.4, 9.5. AA Document Section 4.12.

90(2)	The provisions must resolve whether depreciation of the capital base is to be based on forecast or actual capital expenditure.	Final Plan Chapter 9, Attachments 1.7 and 1.8. Attachments 9.1, 9.2, 9.3, 9.4, 9.5. AA Document Section 4.7.
91(1)	Operating expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services.	Final Plan Chapter 7, Attachments 7.1, 7.2, 7.3 and 7.4.
92(1)	A full access arrangement must include a mechanism (a <i>reference tariff variation mechanism</i>) for variation of a reference tariff over the course of an <i>access arrangement period</i> .	Final Plan Section 14.8, Attachments 14.1, 14.2 and AA Document Chapters 4, 5 and Annexure D.
92(2)	The <i>reference tariff variation mechanism</i> must be designed to equalise (in terms of present values): (a) forecast revenue from reference services over the <i>access arrangement period</i> ; and (b) the portion of total revenue allocated to reference services for the <i>access arrangement period</i> .	Final Plan Section 14.8, Attachments 14.1, 14.2 and AA Document Chapters 4, 5 and Annexure D.
93(1)	Total revenue is to be allocated between reference and other services in the ratio in which costs are allocated between reference and other services.	Final Plan Section 14.5 and Attachments 14.1 and 14.2.
93(2)	Costs are to be allocated between reference and other services as follows: (a) costs directly attributable to reference services are to be allocated to those services; and (b) costs directly attributable to pipeline services that are not reference services are to be allocated to those services; and (c) other costs are to be allocated between reference and other services on a basis (which must be consistent with the revenue and pricing principles) determined or approved by the AER.	Final Plan Section 14.5 and Attachments 14.1 and 14.2.
94(1)	For the purpose of determining reference tariffs, customers for reference services provided by means of a distribution pipeline must be divided into tariff classes.	Final Plan Section 14.6, Attachments 14.1 and 14.2. AA Document Annexure B.
94(2)	A tariff class must be constituted with regard to: (a) the need to group customers for reference services together on an economically efficient basis; and (b) the need to avoid unnecessary transaction costs.	Final Plan Section 14.6 and Attachments 14.1 and 14.2. AA Document Sections 2.2.1 and 2.2.2.
94(3)	For each tariff class, the revenue expected to be recovered should lie on or between: (a) an upper bound representing the stand alone cost of providing the reference service to customers who belong to that class; and (b) a lower bound representing the avoidable cost of not providing the reference service to those customers.	Final Plan Section 14.6, Attachments 14.1 and 14.2.
94(4)	A tariff, and if it consists of 2 or more charging parameters, each charging parameter for a tariff class: (a) must take into account the long run marginal cost for the reference service or, in the case of a charging parameter, for the element of the service to which the charging parameter relates; (b) must be determined having regard to: (i) transaction costs associated with the tariff or each charging parameter; and (ii) whether customers belonging to the relevant tariff class are able or likely to respond to price signals.	Final Plan Section 14.6, Attachments 14.1 and 14.2.
94(5)	If, however, as a result of the operation of subrule (4), the service provider may not recover the expected revenue, the tariffs must be adjusted to ensure recovery of expected revenue with minimum distortion to efficient patterns of consumption.	Final Plan Section 14.6, Attachments 14.1 and 14.2.

97(1)	<p>A <i>reference tariff variation mechanism</i> may provide for variation of a reference tariff:</p> <p>(a) in accordance with a schedule of fixed tariffs; or</p> <p>(b) in accordance with a formula set out in the access arrangement; or</p> <p>(c) as a result of a cost pass through for a defined event (such as a cost pass through for a particular tax); or</p> <p>(d) by the combined operation of 2 or more of the above.</p>	Final Plan Section 14.8 and Attachment 14.2. AA Document Chapters 4, 5 and Annexure D.
97(4)	A <i>reference tariff variation mechanism</i> must give the AER adequate oversight or powers of approval over variation of the reference tariff.	Final Plan Section 14.8 and Attachment 14.2. AA Document Chapters 4, 5 and Annexure D.
97(5)	Except as provided by a <i>reference tariff variation mechanism</i> , a reference tariff is not to vary during the course of an <i>access arrangement period</i> .	Final Plan Section 14.8 and AA Document Section 4.3.
98(1)	A full access arrangement may include (and the AER may require it to include) one or more incentive mechanisms to encourage efficiency in the provision of services by the service provider.	Final Plan Chapter 11, Attachments 11.1, 11.2, 11.3, 11.4, 11.5 and 11.6 and AA Document Chapter 5.
98(2)	An incentive mechanism may provide for carrying over increments for efficiency gains and decrements for losses of efficiency from one <i>access arrangement period</i> to the next.	Final Plan Chapter 11, Attachments 11.1, 11.2, 11.3, 11.4, 11.5 and 11.6 and AA Document Chapter 5.
98(3)	An incentive mechanism must be consistent with the revenue and pricing principles.	Final Plan Chapter 11, Attachments 11.1, 11.2, 11.3, 11.4, 11.5 and 11.6 and AA Document Chapter 5.
99(1)	A full access arrangement may include a principle declared in the access arrangement to be fixed for a stated period.	AA Document Section 4.7.
99(2)	A principle may be fixed for a period extending over 2 or more <i>access arrangement periods</i> .	AA Document Section 4.7.
99(3)	A fixed principle approved before the commencement of these rules, or approved by the AER under these rules, is binding on the AER and the service provider for the period for which the principle is fixed.	AA Document Section 4.7.
100	<p>The provisions of an access arrangement must be consistent with:</p> <p>(a) the national gas objective; and</p> <p>(b) these rules and the Procedures as in force when the terms and conditions of the access arrangement are determined or revised.</p>	The Final Plan, Supporting Attachments detailed in Attachment 1.11 and AA Document submitted on or before 3 January 2017.
101(1)	<p>A full access arrangement must specify as a reference service:</p> <p>(a) at least one pipeline service that is likely to be sought by a significant part of the market; and</p> <p>(b) any other pipeline service that is likely to be sought by a significant part of the market and which the AER considers should be specified as a reference service.</p>	Final Plan Chapter 6 and AA Document Chapter 2.
104(1)	Extension and expansion requirements may state whether the applicable access arrangement will apply to incremental services to be provided as a result of a particular extension to, or expansion of the capacity of, the pipeline or may allow for later resolution of that question on a basis stated in the requirements.	Final Plan 15.5.2 and AA Document Chapter 8.
104(2)	Extension and expansion requirements included in a full access arrangement must, if they provide that an applicable access arrangement is to apply to incremental services, deal with the effect of the extension or expansion on tariffs.	Final Plan 15.5.2 and 15.5.3. AA Document Chapters 8 and 9.
104(3)	The extension and expansion requirements cannot require the service provider to provide funds for work involved in making an extension or expansion unless the service provider agrees.	Final Plan 15.5.2 and AA Document Chapter 8.

105(1)	Capacity trading requirements must provide for transfer of capacity: (a) if the service provider is registered as a participant in a particular gas market – in accordance with rules or Procedures governing the relevant gas market; or (b) if the service provider is not so registered, or the relevant rules or Procedures do not deal with capacity trading – in accordance with this rule.	Final Plan 15.5.1 and AA Document Chapter 7.
105(6)	The capacity trading requirements may specify in advance conditions under which consent will or will not be given, and conditions to be complied with if consent is given.	Final Plan 15.5.1 and AA Document Chapter 7.
106(1)	An access arrangement must provide for the change of a receipt or delivery point in accordance with the following principles: (a) a user may, with the service provider's consent, change the user's receipt or delivery point; (b) the service provider must not withhold its consent unless it has reasonable grounds, based on technical or commercial considerations, for doing so.	AA Document Section 7.3.
160(2)	The access arrangement may specify in advance conditions under which consent will or will not be given, and conditions to be complied with if consent is given.	AA Document Section 7.3.