

Attachment 13.4

Response to Draft Decision on Revenue and Pricing

SA revised Final Plan July 2021 – June 2026
January 2021

1. Response to Draft Decision on revenue and pricing

We are proposing a 9.6% (real) cut in prices over the next Access Arrangement period.

1.1. Overview

This attachment sets out our response to the AER’s Draft Decision on our revenue and pricing for our SA gas distribution network to apply over the next (2021/22 to 25/2026) Access Arrangement (AA) period for our SA gas distribution network.

1.2. AER Draft Decision

The AER’s Draft Decision in respect of our revenue and pricing is summarised in Table 1.1 below.

Table 1.1: Summary of the AER’s Draft Decision on revenue and pricing

	AER Draft Decision	AER Comment
Network Revenue		
Building Block Total Revenue	Modify	The AER’s Draft Decision revenue was \$970 million (\$2020/21) reflecting the reductions to the proposed building blocks for the return on capital, depreciation, opex and revenue adjustments. ¹
Price path	Modify	The AER price path provides for a lower total smoothed revenue than our proposal, in line with the AER’s amendments to total unsmoothed revenue. Expressed in nominal terms, the Draft Decision provided for an initial cut of 14.8% in 2021, followed by increases of 3.2% per years in subsequent years of the next AA period. ²
Ancillary reference services	Accept	The AER accepted our ARS forecast. ³
Prices		
Form of revenue control	Accept	Approved the weighted average price cap formula, subject to the changes to the automatic adjustment factor calculations.

¹ AER Draft Decision, Overview, pp. 30-31.

² AER Draft Decision, Overview, pp. 32-34.

³ AER Draft Decision, Attachment 9, p. 8.

Current Pricing Structure	Accept	Satisfied our proposed structure of the reference tariffs for the next AA period complies with the requirements of the NGR and also consistent with those which applied in the current AA period. ⁴
Allocation of revenue and costs	Accept	Satisfied with our approach to allocating revenue and costs between our reference and non-reference service. ⁵
Haulage Reference Service Tariff Classes	Accept	Satisfied the proposed tariff classes are consistent with the requirements of the NGR. ⁶
Tariff variation mechanism	Accept	Accepted our proposed reference tariff variation mechanism for the next AA period. ⁷
Cost pass through mechanisms	Modify	<ul style="list-style-type: none"> Accepted our proposal to delete the Network User Failure Event⁸ Not accepted our proposed minor amendment to the Terrorism Event definition to align with the Criminal Code 1995 and preferred to retain the current wording as this is consistently defined for all network service providers and minimise any confusion about the Terrorism Event⁹ Made other minor amendments to the definition of our Insurer Credit Risk Event, Natural Disaster Event and Terrorism Event to provide greater drafting consistency between us and other network service providers.¹⁰

Note: In this 'traffic light' table, green shading represents the AER's acceptance of our Final Plan, orange represents the AER's modification of our Final Plan and red shading represents the AER's rejection of our Final Plan.

⁴ AER, Draft Decision, Attachment 9, p. 4.

⁵ AER, Draft Decision, Attachment 9, p. 9.

⁶ AER, Draft Decision, Attachment 9, p. 9.

⁷ AER, Draft Decision, Attachment 10, p. 6.

⁸ AER, Draft Decision, Attachment 10, p. 12.

⁹ AER, Draft Decision, Attachment 10, pp. 12-13.

¹⁰ AER, Draft Decision, Attachment 10, pp. 12-13.

1.3. Our Response to the Draft Decision

Table 1.2: Summary of our response to the AER's Draft Decision on revenue and pricing

	AER Draft Decision	Our Response	Our Comment
Network Revenue			
Building Block Total Revenue	Modify	Modify	Building Block Revenue has been updated reflecting updates to our Final Plan
Price path	Modify	Modify	Price Path has been updated reflecting updates to our Final Plan
Ancillary reference services	Accept	Accept	We accept the AER's Draft Decision
Prices			
Form of revenue control	Accept	Accept	We accept the AER's Draft Decision
Current Pricing Structure	Accept	Accept	We accept the AER's Draft Decision
Allocation of revenue and costs	Accept	Accept	We accept the AER's Draft Decision
Haulage Reference Service Tariff Classes	Accept	Accept	We accept the AER's Draft Decision
Tariff variation mechanism	Accept	Accept	We accept the AER's Draft Decision
Cost pass through mechanisms	Modify	Accept	We accept the AER's Draft Decision

Note: In this 'traffic light' table, green shading represents the acceptance, orange represents a modification and red shading represents a rejection

1.4. Financeability of a pricing decision

The AER assumes a weighted average of credit ratings between A- (one third) and BBB+ (two thirds) when it sets the return on debt (as the assumed credit rating directly impacts borrowing costs).

We therefore consider it is good regulatory practice to consider whether our proposal meets the credit metrics required of A-/BBB+ rated business. The ratings agencies focus on the following two key credit metrics in determining a credit rating for a business:

- Funds from Operations (FFO) to debt – which is defined as FFO divided by debt (and which measures the availability of cash flow to repay the balance of outstanding debt); and

- FFO to interest – which is defined as FFO plus interest divided by interest (and which measures the availability of cash flow to pay interest costs).

Our conservative view is that the ratings agencies require a sustained FFO to debt ratio of at least 9% and an FFO to interest ratio above 2.5 to determine a weighted average credit rating of between A- and BBB+. We also consider that the key focus of the credit rating agencies is on the FFO to debt ratio given the prevailing very low interest rate environment (making interest coverage an easier constraint to achieve).

The AER's Draft Decision metrics delivered an FFO to debt ratio of 7.9%, which does not meet the threshold of 9.0% that ratings agencies would expect of a business with the credit rating assumed in the AER's Rate of Return Instrument. If the cash flow generated from our tariffs is not sufficient to maintain the assumed credit rating, the cost of our debt funding will increase in the future.

If cash flows are insufficient, other measures would need to be taken to increase cash flow, for example changing the classification of spending from capex to opex. Our revised Final Plan delivers an FFO to debt ratio of 9.6% which reflects what the ratings agencies expect in order to maintain our credit rating.

1.5. Summary

Table 1.3 provides the revised building block total revenue including and excluding ARS.

Table 1.3: Building Block Revenue 2021-22 to 2025-26 (\$nominal, million)

	2021-22	2022-23	2023-24	2024-25	2025-26
Return on Capital	79.2	77.8	75.9	73.5	71.3
Return of Capital (Regulatory Depreciation)	62.6	69.3	74.2	72.2	77.8
Opex	73.9	75.9	77.9	80.1	82.4
Incentive Mechanism	4.5	0.1	4.3	-3.5	-
Cost of Tax	-	-	-	-	-
Building Block Total Revenue (including ARS)	220.1	223.1	232.3	222.4	231.6
<i>Less ARS</i>	2.5	2.5	2.6	2.7	2.8
Building Block Total Revenue (excluding ARS)	217.6	220.5	229.7	219.7	228.8

Table 1.4 presents the “smoothed” tariff revenue and price path for South Australia.

Table 1.4: Proposed Price Path, 2021-22 to 2025-26 (\$nominal, million)

	2021-22	2022-23	2023-24	2024-25	2025-26
Building Block Revenue	217.6	220.5	229.7	219.7	228.8
Price Revenue	212.5	218.2	223.8	228.8	234.3
Real Price Path	9.6%	-1.25%	-1.25%	-1.25%	-1.25%

Table 1.5 sets out the ARS building block total revenue for South Australia.

Table 1.5: Forecast Revenue from Ancillary Reference Services, 2021-22 to 2025-26 (\$2020-21, million)

	2021-22	2022-23	2023-24	2024-25	2025-26
Special Meter Read	1.21	1.22	1.23	1.25	1.26
Disconnection	0.51	0.52	0.52	0.53	0.53
Reconnection	0.51	0.52	0.52	0.53	0.54
Meter Removal	0.17	0.18	0.18	0.18	0.18
Meter Reinstallation	0.00	0.00	0.00	0.00	0.00
Meter Gas and Installation Test	0.01	0.01	0.01	0.01	0.01
Total (\$2020-21)	2.42	2.44	2.47	2.50	2.53
Total (\$Nominal)	2.48	2.56	2.65	2.75	2.85

Note: Totals may not add due to rounding.

Tables 1.6 to 1.8 show the Tariff R and C Domestic Haulage Service Tariffs (\$Nominal) and the Tariff D Demand Haulage Service Tariffs (\$Nominal) in our revised Final Plan

Table 1.6: Tariff R and C Domestic Haulage Reference Service Tariffs (\$2020/21, million)

Charges per Network Day (excluding GST)	
Tariff R (excluding New Towns)	
Base Charge (\$ per day)	\$0.2940
Charge for the first 0.0274 gigajoules of gas delivered (\$ per gigajoule)	\$30.1017
Charge for the next 0.0219 gigajoules of gas delivered (\$ per gigajoule)	\$10.6938
Charge for additional gas delivered (\$ per gigajoule)	\$3.6202
Tariff C (excluding New Towns)	
Base Charge (\$ per day)	\$0.6194
Charge for the first 0.9863 gigajoules of gas delivered (\$ per gigajoule)	\$14.8461
Charge for the next 4.2740 gigajoules of gas delivered (\$ per gigajoule)	\$5.9177
Charge for the next 11.1780 gigajoules of gas delivered (\$ per gigajoule)	\$2.5564
Charge for additional gas delivered (\$ per gigajoule)	\$1.9785
Tariff R (New Towns)	
Base Charge (\$ per day)	\$0.2940
Charge for the first 0.0274 gigajoules of gas delivered (\$ per gigajoule)	\$39.1321
Charge for the next 0.0219 gigajoules of gas delivered (\$ per gigajoule)	\$13.9019
Charge for additional gas delivered (\$ per gigajoule)	\$4.7062
Tariff C (New Towns)	
Base Charge (\$ per day)	\$0.6194
Charge for the first 0.9863 gigajoules of gas delivered (\$ per gigajoule)	\$19.2999
Charge for the next 4.2740 gigajoules of gas delivered (\$ per gigajoule)	\$7.6930
Charge for the next 11.1780 gigajoules of gas delivered (\$ per gigajoule)	\$3.3233

Notes to Table 1.6

The total daily Charge will comprise the Base Charge plus a Charge for the Quantity of Gas delivered (or estimated to have been delivered) through the Domestic Delivery Point.

- The Charge for the Quantity of Gas delivered (or estimated to have been delivered) through the Domestic Delivery Point will be calculated at the rates shown in the table.
- A reference in the table to the Gas delivered through the Domestic Delivery Point is a reference to Gas delivered through the Domestic Delivery Point whether for the account of the Network User or for the account of any other person or persons.
- Charges will be calculated to the nearest four decimal places.

Table 1.7: Tariff D (Demand Haulage Reference Service - Adelaide Region)

MDQ at Delivery Point	Monthly Charge (excl GST)		
	Northern Zone	Central Zone	Southern Zone
50GJ or less	\$2,567.5073	\$2,567.5073	\$2,567.5073
Next 50GJ \$/GJ of MDQ for MDQ over 50GJ	\$49.9235	\$59.2877	\$69.9182
Next 900GJ \$/GJ of MDQ for MDQ over 100GJ	\$31.1671	\$37.7043	\$43.7875
Additional GJ \$/GJ of MDQ for MDQ over 1,000GJ	\$9.4434	\$10.8051	\$13.2051

Table 1.8: Tariff D (Demand Haulage Reference Service - Other Regions)

MDQ at Delivery Point	Monthly Charge (excl GST)				
	Port Pirie Region	Riverland Region	South East Region	Peterborough Region	Whyalla Region
50GJ or less	\$2,567.5073	\$3,624.0978	\$2,567.5073	\$3,624.0978	\$2,567.5073
Next 50GJ \$/GJ of MDQ for MDQ over 50GJ	\$49.9228	\$72.8944	\$49.9228	\$72.8944	\$49.9228
Next 900GJ \$/GJ of MDQ for MDQ over 100GJ	\$17.3015	\$45.4227	\$25.7675	\$45.4227	\$25.7675
Additional GJ \$/GJ of MDQ for MDQ over 1,000GJ	\$8.6934	\$9.4434	\$9.4434	\$9.4434	\$9.4434

Notes to Table 1.8:

- The Demand Haulage Charges shown above are charges for a complete calendar month.
- The Charge for a calendar month will accrue from day to day in equal portions.
- Charges will be calculated to the nearest four decimal places.
- For the purpose of calculating daily overrun charges pursuant to Clause 5 of the General Terms and Conditions, the overrun rate is \$15 per gigajoules (excluding Goods and Services Tax).

Table 1.9: Ancillary Reference Service Tariffs

Ancillary Reference Service	Tariff
Special Meter Read	\$11.20
Disconnection	\$76.00
Reconnection	\$76.00
Meter Removal	\$76.00
Meter Reinstallation	\$83.00
Meter Gas and Installation test	\$229.00

Note:

Where the Reference Tariff for an Ancillary Reference Service (as varied) is less than \$20, the Reference Tariff (as varied) will be rounded to the nearest 10 cents (with five cents rounded upwards). Where the Reference Tariff for an Ancillary Reference Service (as varied) is \$20 or more, the Reference Tariff (as varied) will be rounded to the nearest dollar (with 50 cents rounded upwards).