



**APT Allgas Energy  
Pty Limited**

Access Arrangement  
Information

Effective  
01 July 2011 – 30 June 2016



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# 1 Introduction

This Access Arrangement Information (AAI) document has been prepared, in accordance with Rule 43(1) of the National Gas Rules 2008 (NGR), to provide Users and Prospective Users with sufficient information to understand the derivation of the Access Arrangement and its compliance with the NGR.

This Access Arrangement Information accompanies APT Allgas' access arrangement for the Queensland Natural Gas Network. The revised access arrangement is expected to commence on 1 July 2011.

The APT Allgas network supplies Natural Gas to End Users in Brisbane (south of the river), South Coast (extending into northern New South Wales), Toowoomba and Oakey through over 2,900 km of distribution mains. A more detailed description of the Network, including a map, is available on APA Group's website at [www.apa.com.au](http://www.apa.com.au), which shows the general location and key points of the Network (such as intersections with transmission pipelines).

## 1.1 *Structure of this document*

This document follows the structure of Rule 72<sup>1</sup> setting out the requirements for content of the access arrangement information for a full access arrangement proposal.

APT Allgas' access arrangement proposal commences at the end of an earlier access arrangement period, and therefore contains information relevant to the earlier access arrangement period (in this case spanning from 1 July 2006 to 30 June 2011) as required under the NGR. This information is included in Part 2 of the AAI. The remaining parts of this AAI are as follows:

- Part 3 establishes the capital base for the access arrangement period (in this case proposed to span 1 July 2011 to 30 June 2016), including forecast capital expenditure for the access arrangement period;
- Part 4 discusses forecast utilisation for the network, including forecast customer numbers and volumes used to derive tariffs;
- Part 5 outlines forecast operating expenditure for the access arrangement period;
- Part 6 sets out key performance indicators for the network;
- Part 7 sets out the rate of return used in the access arrangement;

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<sup>1</sup> All references to Rules or a particular Rule in this document refer to the National Gas Rules 2008, or part thereof, unless an alternative meaning is expressly stated.



- Part 8 outlines the approach to taxation and how the tax asset base has been calculated;
- Parts 9 and 11 discuss historical and proposed incentive mechanisms;
- Part 10 describes the reference services, approach to tariff setting and reference tariff variation mechanism; and
- Part 12 sets out the total revenue requirement for the network for each year of the access arrangement.



## 2 Information relevant to the earlier access arrangement period

### 2.1 Capital expenditure

Capital expenditure by asset class over the earlier access arrangement period<sup>2</sup> is set out in Table 2.1 below. These costs are based on actual costs for financial years 2006/07 to 2009/10, and forecast costs for financial year 2010/11.

Table 2.1 – Capital expenditure by asset class over the earlier access arrangement period (\$'000 nominal)

	2006/07	2007/08	2008/09	2009/10	2010/11 F	Total
HP Steel Mains	1,734	964	1,854	151	272	4,975
Other Mains	8,057	7,151	7,996	10,183	8,598	41,984
HP Steel Services	40	75	165	151	50	481
Other Services	3,507	4,801	4,327	7,877	9,002	29,514
Regulator Stations	1,187	214	3,104	3,289	2,187	9,982
Metering Stations	3,877	3,085	5,157	2,748	3,597	18,464
<b>System Total</b>	<b>18,402</b>	<b>16,289</b>	<b>22,603</b>	<b>24,400</b>	<b>23,706</b>	<b>105,400</b>
Non System	5,807	2,007	1,474	819	927	11,034
<b>Total</b>	<b>24,209</b>	<b>18,296</b>	<b>24,078</b>	<b>25,219</b>	<b>24,632</b>	<b>116,434</b>

### 2.2 Operating expenditure

Operating expenditure by category over the earlier access arrangement period<sup>3</sup> is set out in Table 2.2 below. These costs are based on actual costs for financial years 2006/07 to 2009/10, and forecast costs for financial year 2010/11.

<sup>2</sup> As required by Rule 72(1)(a)(i)

<sup>3</sup> As required by Rule 72(1)(a)(ii)



Table 2.2 – Operating expenditure by category over the earlier access arrangement period (\$'000 nominal)

	2006/07	2007/08	2008/09	2009/10	2010/11 F
<i>Controllable Costs</i>					
Network Operations & Maintenance	8,196	5,462	5,147	8,161	9,357
Marketing	0	2,553	3,012	1,309	1,047
Admin & Strategic Planning	577	979	1,646	1,394	1,336
<b>Total Controllable Costs</b>	<b>8,773</b>	<b>8,994</b>	<b>9,805</b>	<b>10,864</b>	<b>11,740</b>
<i>Non-Controllable Costs</i>					
Customer Services	1,010	50	7	1,090	860
UAG	1,877	1,961	2,263	2,178	2,439
Government Charges	241	440	286	378	480
Metering & Billing	1,556	1,588	1,708	1,410	1,177
Corporate Costs	732	1,365	1,266	995	1,426
<b>Total Non-Controllable Costs</b>	<b>5,417</b>	<b>5,404</b>	<b>5,531</b>	<b>6,051</b>	<b>6,383</b>
<b>Total Operating Costs</b>	<b>14,190</b>	<b>14,398</b>	<b>15,336</b>	<b>16,915</b>	<b>18,122</b>

### 2.3 Network usage

Distribution network minimum, maximum and average demand figures over the earlier access arrangement period<sup>4</sup> are set out in Table 2.3 below. These figures are based on actual demand for financial years 2006/07 to 2009/10, and forecast demand for financial year 2010/11.

<sup>4</sup> As required by Rule 72(1)(a)(iii)(A)



*Table 2.3 – Network minimum, maximum and average demand over the earlier access arrangement period*

	2006/07	2007/08	2008/09	2009/10	2010/11 F
Minimum Demand (TJ/d)	12.28	12.77	14.38	13.24	12.14
Maximum Demand (TJ/d)	42.29	42.15	41.72	40.15	38.52
Average Demand (TJ/d)	29.60	30.22	29.87	30.12	27.99

Distribution network customer numbers in total and by tariff class over the earlier access arrangement period<sup>5</sup> are set out in Table 2.4 below. These figures are based on actual customer numbers for financial years 2006/07 to 2009/10, and forecast customer numbers for financial year 2010/11.

*Table 2.4 – Customer numbers in total and by tariff class*

	2006/07	2007/08	2008/09	2009/10	2010/11 F
Volume Class	73,656	76,522	79,483	81,722	84,290
Demand Class	108	109	114	102	101
<b>Total</b>	<b>73,764</b>	<b>76,631</b>	<b>79,597</b>	<b>81,824</b>	<b>84,391</b>

<sup>5</sup> As required by Rule 72(1)(a)(iii)(B)



### 3 The capital base

#### 3.1 Opening capital base

##### 3.1.1 Opening capital base for access arrangement period

The opening capital base for the access arrangement period<sup>6</sup> is shown in Table 3.1 below.

Table 3.1 – Opening capital base for the access arrangement period (\$'000 nominal)

	2005/06 <sup>7</sup>	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
<b>Opening capital base</b>	275,511	302,687	326,011	350,510	370,150	396,203	421,673
<i>plus capex</i>	29,689	25,194	19,265	24,979	26,360	26,428	
<i>plus speculative capex</i>	-	-	-	-	-	-	
<i>plus re-used redundant assets</i>	-	-	-	-	-	-	
<i>less depreciation</i>	7,359	8,148	9,462	10,404	11,386	11,934	
<i>plus indexation<sup>8</sup></i>	7,535	6,278	14,696	5,111	11,304	10,975	
<i>less redundant assets</i>	-	-	-	-	-	-	
<i>less disposals and transfers</i>	2,689	-	-	46	225	-	
<b>Closing capital base</b>	302,687	326,011	350,510	370,150	396,203	421,673	

<sup>6</sup> As required by Rule 72(1)(b)

<sup>7</sup> Information on the roll forward of the 2005/6 capital base is drawn from the Allgas 2005/06 regulatory accounts, Schedule E.

<sup>8</sup> 2005/06 numbers include allocation difference of \$1,768,000 as per the Allgas 2005/06 regulatory accounts, Schedule E.



### 3.2 *Projected capital base*

The projected capital base for the access arrangement period is made up of the following components:

- Opening capital base; plus
- Forecast conforming capital expenditure; less
- Forecast depreciation; less
- Forecast disposals.

These components are described in the following sections, and the projected capital base is provided in section 3.2.5 below.

#### 3.2.1 Forecast conforming capital expenditure for the access arrangement period

Forecast conforming capital expenditure by asset class over the access arrangement period<sup>9</sup> is set out in Table 3.2 below.

*Table 3.2 – Forecast capital expenditure by asset class over the access arrangement period (\$'000 nominal)*

	2011/12	2012/13	2013/14	2014/15	2015/16	Total
HP Steel Mains	1,444	1,730	3,459	2,803	3,089	12,525
Other Mains	7,507	8,003	8,331	8,859	9,366	42,067
HP Steel Services	58	62	66	70	75	331
Other Services	8,787	9,426	9,909	10,608	11,319	50,049
Regulator Stations	1,230	946	907	952	994	5,029
Metering Stations	3,556	3,601	4,111	5,002	4,806	21,076
<b>System Total</b>	<b>22,581</b>	<b>23,769</b>	<b>26,782</b>	<b>28,295</b>	<b>29,649</b>	<b>131,077</b>
Non System	3,212	2,067	1,477	682	534	7,973
<b>Total</b>	<b>25,794</b>	<b>25,836</b>	<b>28,259</b>	<b>28,977</b>	<b>30,183</b>	<b>139,050</b>

<sup>9</sup> As required by Rule 72(1)(c)(i)



APT Allgas' capital expenditure forecast is derived based on purpose in categories as follows:

- Customer initiated capital expenditure – expenditure required to meet growth in customer numbers and demand;
- Network augmentation capital expenditure – expenditure required to maintain capacity to meet current customer demand and to provide additional capacity to meet future customer demand;
- Network renewal capital expenditure – expenditure necessary for renewal and replacement of ageing network assets and compliance requirements relating to safety and reliability.

Non-system capital expenditure is related to IT systems and software, motor vehicles, and plant and equipment which are not part of the distribution network, but which are otherwise required to deliver pipeline services.

Forecast conforming capital expenditure by category over the access arrangement period is shown in Table 3.3 below.

*Table 3.3 – Forecast conforming capital expenditure by category over the access arrangement period (\$'000 nominal)*

	2011/12	2012/13	2013/14	2014/15	2015/16	Total
Customer requested	15,165	16,304	17,172	18,415	19,709	86,765
Network Augmentation	1,611	1,563	3,198	2,537	2,788	11,697
Network renewal	5,806	5,902	6,412	7,343	7,152	32,615
<b>System total</b>	<b>22,581</b>	<b>23,769</b>	<b>26,782</b>	<b>28,295</b>	<b>29,649</b>	<b>131,077</b>
Non-system	3,212	2,067	1,477	682	534	7,973
<b>Total</b>	<b>25,794</b>	<b>25,836</b>	<b>28,259</b>	<b>28,977</b>	<b>30,183</b>	<b>139,050</b>



### 3.2.2 Forecast depreciation

Forecast depreciation by asset class over the access arrangement period<sup>10</sup> is shown in Table 3.4 below.

*Table 3.4 – Forecast depreciation by asset class over the access arrangement period (\$'000 nominal)*

	2011/12	2012/13	2013/14	2014/15	2015/16
Depreciation	1,911	986	911	854	1,263

APT Allgas has adjusted the economic lives of its assets to bring them in line with industry practice and ensure sufficient cash flow for the business. Table 3.5 sets out APT Allgas' previous and revised asset economic lives. The revised economic lives have been used to derive the depreciation forecast of the access arrangement period.

*Table 3.5 – Asset economic lives (years)*

	Previous economic life	Revised economic life
HP Steel mains	105	80
HP Services	105	50
Distribution mains and services	PVC – 30 PE – 80 Steel – 45 Copper – 85 Cast iron – 80	50
District Regulators	50	40
Contract Meters	30	15
Tariff Meters	25	15

APT Allgas has applied a straight-line methodology in determining future depreciation.

<sup>10</sup> As required by Rule 72(1)(c)(ii)



### 3.2.3 Forecast disposals

Forecast disposals for the access arrangement period are set out in Table 3.6 below.

*Table 3.6 – Forecast disposals over the access arrangement period (\$'000 nominal)*

	2011/12	2012/13	2013/14	2014/15	2015/16
<b>Disposals</b>	-	-	-	-	-

### 3.2.4 Forecast redundant assets

The forecast of assets that will be made redundant in the access arrangement period is set out in Table 3.7 below.

*Table 3.7 – Forecast redundant assets over the access arrangement period (\$'000 nominal)*

	2011/12	2012/13	2013/14	2014/15	2015/16
<b>Redundant assets</b>	-	-	-	-	-

### 3.2.5 Projected capital base over the access arrangement period

The projected capital base for the access arrangement period<sup>11</sup> is shown in Table 3.8 below.

<sup>11</sup> As required by Rule 72(1)(c)



*Table 3.8 – Projected capital base for the access arrangement period  
(\$'000 nominal)*

	2011/12	2012/13	2013/14	2014/15	2015/16
<b>Opening capital base</b>	<b>421,673</b>	<b>446,520</b>	<b>472,335</b>	<b>500,740</b>	<b>529,946</b>
<i>plus</i> forecast capex	26,758	26,801	29,316	30,060	31,311
<i>less</i> forecast depreciation	1,911	986	911	854	1,263
<i>less</i> forecast disposals	-	-	-	-	-
<i>less</i> forecast redundant assets	-	-	-	-	-
<b>Closing Capital Base</b>	<b>446,520</b>	<b>472,335</b>	<b>500,740</b>	<b>529,946</b>	<b>559,994</b>



## 4 Forecast network demand and utilisation

### 4.1 Forecast customer numbers and volumes

Forecast customer numbers and volumes by customer class for the access arrangement period are set out in Table 4.1 below.

*Table 4.1 – Forecast customer numbers and volumes by customer class over the access arrangement period*

	2011/12	2012/13	2013/14	2014/15	2015/16
Volume class customer number	87,169	90,119	93,143	96,243	99,441
Demand class customer number	102	103	104	105	106
<b>Total customer number</b>	<b>87,271</b>	<b>90,222</b>	<b>93,247</b>	<b>96,348</b>	<b>99,547</b>
Volume class (TJ)	2,908	2,984	3,062	3,154	3,249
Demand class (TJ)	6,970	6,985	7,000	7,015	7,030
<b>Total customer volume (TJ)</b>	<b>9,878</b>	<b>9,969</b>	<b>10,062</b>	<b>10,169</b>	<b>10,278</b>

### 4.2 Forecast network capacity and utilisation

Forecast network capacity and utilisation for the access arrangement period<sup>12</sup> is shown in Table 4.2 below. Network capacity has been calculated using aggregated gate station maximum daily quantities and dividing them by aggregated gate station capacity for each year.

*Table 4.2 – Forecast network capacity and utilisation for the access arrangement period*

	2011/12	2012/13	2013/14	2014/15	2015/16
Network capacity (TJ/d)	53.86	54.40	54.94	59.06	59.65
Utilisation of network capacity (%)	71.8	71.8	71.7	67.3	67.1

<sup>12</sup> As required by Rule 72(1)(d)



4.3 *Forecast demand*

Forecast maximum and average demand for the network over the access arrangement period is shown in Table 4.3 below.

*Table 4.3 – Forecast maximum and average demand for the network over the access arrangement period (TJ/d)*

	2011/12	2012/13	2013/14	2014/15	2015/16
Maximum Demand	38.66	39.06	39.37	39.75	40.02
Average Demand	28.09	28.38	28.61	28.88	29.08



## 5 Forecast operating expenditure

Forecast operating expenditure by category over the access arrangement period is set out in Table 5.1 below.

*Table 5.1 – Forecast operating expenditure by category over the access arrangement period (\$m nominal)*

	2011/12	2012/13	2013/14	2014/15	2015/16
<i>Controllable Costs</i>					
Network Operations & Maintenance	10,745	11,147	11,473	11,856	12,255
Marketing	1,751	1,812	1,881	1,957	2,038
Admin & Strategic Planning	754	942	978	1,223	1,273
<b>Total Controllable Costs</b>	<b>13,250</b>	<b>13,900</b>	<b>14,332</b>	<b>15,035</b>	<b>15,567</b>
<i>Non-Controllable Costs</i>					
Customer Services	912	976	1,047	1,125	1,211
UAG	2,589	2,786	3,152	3,208	3,242
Government Charges	542	611	634	660	687
Metering & Billing	1,224	1,283	1,348	1,420	1,497
Corporate Costs	1,464	1,514	1,572	1,635	1,703
<b>Total Non-Controllable Costs</b>	<b>6,731</b>	<b>7,169</b>	<b>7,753</b>	<b>8,048</b>	<b>8,340</b>
<b>Total Operating Costs</b>	<b>19,981</b>	<b>21,069</b>	<b>22,085</b>	<b>23,084</b>	<b>23,906</b>

APT Allgas' forecast of operating expenditure for the access arrangement period has been prepared using the base year methodology. This methodology involves the following steps:

- Selection of an appropriate base year in which to measure costs;
- Modification of the base year costs to ensure that all costs required for future operation of the network are added to the base year costs, and all costs in the



base year costs which are not relevant to future operation of the network are subtracted from the base year costs;

- Modification of base year costs as required to reflect changed consumer numbers, additional network facilities required to supply gas to these additional consumers, and increased loads from existing consumers;
- Modification of the base year costs to reflect changes in input costs anticipated over the access arrangement period; and
- Modification of the base year costs to reflect appropriate productivity improvements.



## 6 Key performance indicators

Key performance indicators for the access arrangement period<sup>13</sup> are shown in Table 6.1 below.

*Table 6.1 – Key Performance indicators (\$2010/11)*

<b>Indicator</b>	<b>Unit</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Total Operating Costs per km Mains	\$/km	6,436	6,509	6,540	6,554	6,506
Total Operating Costs per Customer	\$/Cust	223	222	220	217	212

<sup>13</sup> As required by Rule 72(1)(f)



## 7 Rate of return

APT Allgas has calculated a nominal vanilla weighted average cost of capital (WACC). The formula in is used to derive the nominal vanilla WACC is set out below.

$$WACC = K_e \frac{E}{V} + K_d \frac{D}{V}$$

where:

$K_e$  = the expected rate of return on equity or cost of equity

$K_d$  = the expected rate of return on debt or cost of debt

$\frac{E}{V}$  = the market value of equity as a proportion of the market value of equity and debt, which is  $1 - \frac{D}{V}$

$\frac{D}{V}$  = the market value of debt as a proportion of the market value of equity and debt

The cost of equity,  $K_e$ , is calculated with the following formula:

$$K_e = R_f + \beta_e \times MRP$$

where:

$R_f$  = the nominal risk free rate of return

$\beta_e$  = the equity beta

$MRP$  = the expected market risk premium

The cost of debt,  $K_d$ , is calculated with the following formula:

$$K_d = R_f + DRP$$

where:

$R_f$  = the nominal risk-free rate of return

$DRP$  = the debt risk premium.



Table 7.1 below sets out proposed input parameters and the calculated rate of return used to derive APT Allgas' revenue requirement for the access arrangement period<sup>14</sup>.

*Table 7.1 – Proposed weighted average cost of capital for the access arrangement period*

<b>Parameter</b>	<b>Estimate</b>
Risk-free rate	5.07%
Debt to value	60%
Debt margin	3.85%
Debt raising costs	0.108%
MRP	6.5%
Gamma	0.2
Equity beta	1.1
Cost of equity	12.22%
Cost of debt	9.03%
<b>Nominal vanilla WACC</b>	<b>10.30%</b>

<sup>14</sup> As required by Rule 72(1)(g)



## 8 Taxation

APT Allgas is using a post tax framework to derive its revenue requirement for the access arrangement period<sup>15</sup>. This requires APT Allgas to establish a tax asset base (TAB).

The estimated cost of corporate income tax for each year of the access arrangement period ( $ETC_t$ ) is calculated in accordance with the following formula:

$$ETC_t = (ETI_t \times r_t) (1 - \gamma)$$

Where:

$ETI_t$  is an estimate of the taxable income for regulatory year  $t$  that would be earned by a benchmark efficient entity as a result of the provision of regulated services if such an entity, rather than the service provider, operated the business of the service provider, such estimate being determined in accordance with the AER's post-tax revenue model

$r_t$  is the expected statutory income tax rate for that regulatory year assumed to be 30 per cent

$\gamma$  (gamma, the assumed utilisation of imputation credits) is deemed to be 0.2

The estimate must take into account the depreciation of the TAB for tax purposes.

APT Allgas has calculated its TAB in a manner consistent with the guidelines set out by the AER's June 2007 *Transition of energy businesses from pre-tax to post-tax regulation* released issues paper, in particular by:

- establishing its opening tax asset base by reconstructing the APT Allgas tax base as at 30 June 2001;
- using the opening tax values as at 30 June 2001; APT Allgas has utilised the National Tax Equivalent Regime (NTER) values associated with the Allgas entity;
- determining a TAB applying tax rates to the written down values using the diminishing value method;
- deriving tax asset values from asset registers, tax working papers and other supporting documentation and ensuring that the standard tax and remaining tax life inputs to the post tax revenue model were consistent with relevant source material;

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<sup>15</sup> As required by Rule 72(1)(h)



- treating past additions based on actual capital expenditure in a manner consistent with generally accepted accounting principles;<sup>16</sup>
- adding additions to the TAB using the same rates and maturity profiles as actual additions to the APT Allgas TAB;
- including capital contributions in its TAB, net of contributions, and treating depreciation on contributed assets consistent with other distribution assets;
- adjusting for disposals in line with regulatory financial statements;
- applying an appropriate method to separate Regulatory Asset Base (RAB) and non-RAB components; and
- not including work in progress derived from the audited regulatory financial statements in its opening tax asset base for the next regulatory control period.

Asset class standard lives (in years) or the Australian Tax Office statutory cap used to prepare the APT Allgas TAB are set out in Table 8.1 below.

*Table 8.1 Historical and statutory tax asset lives (years)*

Category	Life	Statutory Cap	Remaining Life
TRS & DRS - Valves & Regulators	40	20	15.7
HP Steel Mains and services	50	20	9.2
Distribution Mains and services	50	20	8.1
Meters - Tariff	15	n/a	6.1
IT Systems	2.5	n/a	0.1
Land and Building	25	n/a	18.7

APT Allgas' tax asset base roll forward for the access arrangement period is shown in Table 8.2 below.

<sup>16</sup> As the Allgas cost allocation and capitalisation methodology was developed during its ownership by Energex, APT Allgas has applied the same methodology adopted by Energex.



*Table 8.2 – Tax asset base roll forward for the access arrangement period  
(\$'000 nominal)*

	2011/12	2012/13	2013/14	2014/15	2015/16
<b>Opening TAB</b>	<b>112,952</b>	<b>124,137</b>	<b>134,889</b>	<b>146,237</b>	<b>156,514</b>
Forecast capex	25,794	25,836	28,259	28,977	30,183
Straight line depreciation	14,608	15,084	16,912	18,700	19,388
<b>Closing TAB</b>	<b>124,137</b>	<b>134,889</b>	<b>146,237</b>	<b>156,514</b>	<b>167,310</b>



## 9 Historical incentive mechanism

There was no incentive mechanism operative in the earlier access arrangement period giving rise to increments or decrements that need to be included in the revenue requirement for the access arrangement period<sup>17</sup>.

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<sup>17</sup> As required by Rule 72(1)(i)



## 10 Approach to tariff setting

### 10.1 Reference services

The Reference Services offered under the access arrangement are as follows:

- Volume Customer Service
- Demand Customer Service
- Reference Ancillary Services

APT Allgas also provides prudent discount and negotiated services.

### 10.2 Tariff structure

#### 10.2.1 Volume Customer Service

The Volume Customer Service class reference tariff is a single reference tariff for all regions which includes a standing charge and stepped throughput charge. The stepped throughput charge is structured as a decreasing block tariff with the second step starting at a consumption of 1.7GJ/day and tariff reducing to approximately 73% of the first step and the third step starting at 10 GJ/day and the tariff reducing to approximately 53% of the first step.

This tariff structure has been designed to minimise administrative cost associated with multiple zones and reflects the relatively high fixed cost component of providing the meter and service whilst enabling the end user to respond to price signals on consumption behaviour.

#### 10.2.2 Demand Customer Service

The Demand Customer Service reference tariff is designed to discourage inefficient physical bypass of the network. The pricing zones are based on distance from the transmission pipeline:

- Brisbane – 3 zones;
- Toowoomba – 2 zones;
- Oakey – 2 zones; and
- South Coast – 3 zones.



The pricing zone reference tariffs for the Demand Customer Service were developed using a number of stand-alone networks. These stand alone networks were used to calculate the portion of the allocated costs attributable to the Demand Customer Service group in a particular supply area.

### *10.3 Reference Ancillary Services*

There are three Reference Ancillary Services:

- Special Meter Reading – at the request of the user, where the meter reading is not a scheduled meter reading (including final meter readings);
- Inlet Disconnection Service – physical disconnection of pipe-work joining a delivery point to the network; and
- Inlet Reconnection Service – physical reconnection of a delivery point.

These services are based on user requirements.

Relevant tariffs are derived on a cost recovery basis.

### *10.4 Allocation of revenue to tariffs*

Reference tariffs are designed to recover the total revenue allocated to each customer service group based on the forecast utilisation and customer growth. This approach equalises revenue derived from the application of reference tariffs with the total revenue requirement, assuming that assumptions regarding costs and demand hold.

The Forecast Revenue Requirement for the access arrangement period is shown in Table 10.1 below.



*Table 10.1 – Forecast revenue requirement for the access arrangement period (\$'000 nominal)*

	2011/12	2012/13	2013/4	2014/5	2015/6
APT Allgas Revenue Requirement	67,843	70,509	73,907	77,632	82,235
<i>less</i> Forecast Reference Ancillary Service Revenue	624	645	667	689	712
<i>less</i> Forecast Capital Contribution Revenue	583	612	643	676	715
<b>Reference Tariff Revenue Requirement</b>	<b>66,636</b>	<b>69,252</b>	<b>72,596</b>	<b>76,267</b>	<b>80,808</b>

The net present value of the reference tariff revenue stream when discounted at the nominal vanilla WACC of 10.3% is \$272.5 million.

Table 10.2 details the revenue expected from each customer class at expected load and demand forecasts.

*Table 10.2 – Proposed Reference Tariff Revenue Stream (\$'000 nominal)*

	2011/2	2012/3	2013/4	2014/5	2015/6
Demand Class Revenue	17,301	19,103	21,124	22,740	23,435
Volume Class Revenue	41,429	47,214	53,798	59,766	63,303
<b>Reference Tariff Revenue</b>	<b>58,730</b>	<b>66,317</b>	<b>74,921</b>	<b>82,507</b>	<b>86,738</b>

*Note: The Demand Class revenue forecasts include prudent discount and negotiated service revenues as approved by the Relevant Regulator*

The net present value of the reference tariff revenue stream when discounted at the nominal vanilla WACC of 10.3% is \$272.5 million which is equal to the revenue requirement.



## 10.5 Reference Tariffs

Tariffs for reference services are set out in Appendix B of the access arrangement. Tariffs are published for 2011/12 (in \$2011/12) and are exclusive of goods and services tax (GST).

### 10.5.1 Reference tariff variation mechanism

Reference Tariffs are varied in later years of the access arrangement period through the operation of the reference tariff variation mechanism, made up of:

- an Annual Scheduled Reference Tariff Adjustment Formula Mechanism - which applies in respect of each year during the access arrangement period; and
- Cost Pass-through Reference Tariff Variation Mechanism - under which APT Allgas may seek to vary one or more of the reference tariffs as a result of a cost pass-through event.

### 10.5.2 Annual reference tariff adjustment formula mechanism

The annual tariff variation adjustment formula adjusts tariffs on each 1 July of the access arrangement period as follows:

- Volume Customer Service and Demand Customer Service will be varied by CPI, differences between forecast and actual unaccounted for gas (UAG) procurement costs for the coming year, and an X factor; and
- Reference Ancillary Services will be varied by CPI only.

These adjustments are intended to ensure efficient tariffs over the access arrangement period. Relevant values and formulae for the above parameters are set out in section 4.5 of the access arrangement.

### 10.5.3 Cost pass-through reference tariff variation mechanism

A cost pass through reference tariff variation mechanism is included in the access arrangement to allow tariffs to be adjusted to recover incremental costs resulting from material unforeseen or uncontrollable events.

Relevant cost pass-through events are defined as events that are uncontrollable, and that are unforeseen or not able to be accurately forecast at the time the access arrangement is approved, that lead to or are expected to lead to material changes in costs that are not already included in reference tariffs.



Part 4.5 of the access arrangement sets out the tariff variation process, including requirements for tariff variation notifications and relevant materiality thresholds for cost pass-through events.



## 11 Proposed incentive mechanism

The access arrangement does not include an incentive mechanism of the type described under the Rules<sup>18</sup>, however APT Allgas faces incentives to reduce costs and increase demand over the access arrangement period compared with the forecast on which the access arrangement is based, as total revenue will not be adjusted to reflect differences between forecast and actual gas deliveries and/or business costs.

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<sup>18</sup> See Rule 98



## 12 Total revenue

The total revenue requirement to be derived from pipeline services over the access arrangement period is shown in Table 12.1 below.

*Table 12.1 – Total revenue to be derived from pipeline services over the access arrangement period (\$'000 nominal)*

	2011/12	2012/13	2013/14	2014/15	2015/16
Return on capital	43,453	46,013	48,673	51,600	54,610
Return of capital	1,911	986	911	854	1,263
O&M	19,981	21,069	22,085	23,084	23,906
Benchmark Tax liability	2,499	2,441	2,238	2,094	2,456
Carry-over amounts	-	-	-	-	-
<b>APT Allgas Building Block Revenue Requirement</b>	<b>67,843</b>	<b>70,509</b>	<b>73,907</b>	<b>77,632</b>	<b>82,235</b>