

# **AusNet Gas Services Pty Ltd**

## **Gas Access Arrangement Review 2018–2022**

### **Revised Access Arrangement Proposal**

#### **Appendix 1A: Summary Table of Access Arrangement Revisions**

**Submitted: 11 August 2017**

## SUMMARY OF AUSNET SERVICES' RESPONSES TO AER DRAFT DECISION REQUIRED AMENDMENTS

Required Amendment		Location of AST Response	Required Amendments - Accepted	Required Amendments – Not Accepted
<b>Capital base</b>				
<b>2.1</b>	Make all necessary amendments to reflect this draft decision on the roll forward of the capital base for the 2013–17 access arrangement period, as set out in Table 2.1	<ul style="list-style-type: none"> <li>• RAAP – ‘updates to reflect new information’ section</li> <li>• RFM –2016 and 2017 capex inputs</li> <li>• Capex Model – 2017 capex inputs</li> </ul>	All necessary amendments	
<b>2.2</b>	Make all necessary amendments to reflect this draft decision on the projected capital base for the 2018–22 access arrangement period, as set out in Table 2.2.	<ul style="list-style-type: none"> <li>• RAAP – ‘updates to reflect new information’ section</li> <li>• Capex Model – 2018-22 capex inputs</li> </ul>	<ul style="list-style-type: none"> <li>• All necessary amendments</li> <li>• 2018-22 capex has also been revised to reflect our updated demand forecasts</li> </ul>	
<b>2.3</b>	Remove (and renumber where necessary) access arrangement fixed principle 7.2(b).	AA, Part B, clause 7.2	All necessary amendments	
	Insert the following provision after section 6.4 of the 2018–22 access arrangement: <b>6.5 Depreciation for establishing the capital base as at 1 January 2023</b> The depreciation schedule (straight-line) for establishing the opening capital base as at 1 January 2023 will be based on forecast capital expenditure at the asset class level approved for the 2018–22 access arrangement period.	AA, Part B, clause 6.5	<ul style="list-style-type: none"> <li>• All necessary amendments</li> <li>• “Fifth Access Arrangement Period” has been substituted for “2018-22 access arrangement period” as the</li> </ul>	

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			former is a defined term in Part A	
<b>Rate of return</b>				
<b>3.1</b>	Make all the necessary amendments to the access arrangement proposal to give effect to this draft decision.	<ul style="list-style-type: none"> <li>• RAAP – ‘issues for future consideration’ section</li> <li>• RAAP – ‘updates to reflect new information’ section</li> <li>• PTRM – ‘PTRM input’ sheet</li> </ul>	<ul style="list-style-type: none"> <li>• All necessary amendments</li> <li>• The inflation forecast has also been updated to reflect new information</li> </ul>	
<b>Regulatory Depreciation</b>				
<b>5.1</b>	Make all necessary amendments to reflect this draft decision on the regulatory depreciation allowance for the 2018–22 access arrangement period, as set out in Tables 5.1 and 5.3	<ul style="list-style-type: none"> <li>• AA, Part B, clause 7.2</li> <li>• PTRM – ‘PTRM input’ sheet</li> <li>• Depreciation model</li> </ul>	All necessary amendments	
<b>Capital expenditure</b>				
<b>6.1</b>	Make all necessary amendments to reflect our draft decision on conforming capex for 2018–22, as set out in Table 6.2	<ul style="list-style-type: none"> <li>• RAAP – ‘updates to reflect new information’ section</li> <li>• Capex Model – 2018-22 capex inputs</li> </ul>	<ul style="list-style-type: none"> <li>• All necessary amendments</li> <li>• 2018-22 capex has also been revised to reflect our updated demand forecasts</li> </ul>	
<b>Operating expenditure</b>				

Required Amendment		Location of AST Response	Required Amendments - Accepted	Required Amendments – Not Accepted
<b>7.1</b>	Make all necessary amendments to reflect our draft decision on the proposed opex forecast for the 2018–12 access arrangement period, as set out in Table 7.1	<ul style="list-style-type: none"> <li>RAAP – ‘updates to reflect new information’ section</li> <li>Opex model inputs</li> </ul>	<ul style="list-style-type: none"> <li>All necessary amendments</li> <li>Output growth has also been revised to reflect our updated demand forecasts</li> </ul>	
<b>Corporate income tax</b>				
<b>8.1</b>	Make all necessary amendments to reflect this draft decision on the proposed corporate income tax allowance for the 2018–22 access arrangement period, as set out in Table 8.1	PTRM – ‘PTRM input’ sheet	All necessary amendments	
<b>8.2</b>	Make all necessary amendments to reflect this draft decision on the opening tax asset base as at 1 January 2018, as set out in Table 8.4	<ul style="list-style-type: none"> <li>PTRM – ‘PTRM input’ sheet</li> <li>RFM –2016 and 2017 capex inputs</li> </ul>	All necessary amendments	
<b>8.3</b>	Make all necessary amendments to reflect this draft decision on the remaining tax asset lives for the 2018–22 access arrangement period, as set out in Table 8.5	PTRM – ‘PTRM input’ sheet	All necessary amendments	
<b>Efficiency carryover mechanism</b>				
<b>9.1</b>	<p>Remove clause 6.4.1(a)(2) of the proposed access arrangement and replace it with the following text:</p> <p>6.4.1(a)(2):</p> <p>the carryover that would result in the Service Provider retaining the reward or penalty associated with an operating expenditure</p>	AA, Part B, cl 6.4.1(a)(2)	All necessary amendments	

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	efficiency gains or losses for five years after the year in which the gain or loss was achieved;			
<b>9.2</b>	<p>Remove clause 6.4.2 of the proposed access arrangement and replace it with the following text:</p> <p>6.4.2 Operating Expenditure Incentive Mechanism</p> <p>An efficiency carryover mechanism will apply to operating expenditure. It will operate in the following way:</p> <p>(a) The incremental efficiency gain (loss) for 2018 will be calculated using:</p> $I_{2018} = (F_{2018} - A_{2018}) - [(F_{2017} - A_{2017}) - (F_{2015} - A_{2015})]$ <p>where</p> <p><math>I_{2018}</math> is the incremental efficiency gain (loss) for 2018.</p> <p><math>F_{2018}</math> is the forecast operating expenditure for 2018.</p> <p><math>A_{2018}</math> is the actual operating expenditure for 2018.</p> <p><math>F_{2017}</math> is the forecast operating expenditure for 2017.</p> <p><math>A_{2017}</math> is the actual operating expenditure for 2017.</p> <p><math>F_{2015}</math> is the forecast operating expenditure for 2015.</p> <p><math>A_{2015}</math> is the actual operating expenditure for 2015.</p> <p>(b) The incremental efficiency gain (or loss) for 2019 to 2022 (inclusive) will be calculated using:</p> $I_i = (F_i - A_i) - (F_{i-1} - A_{i-1})$	AA, Part B, cl 6.4.2(a)(2)	<ul style="list-style-type: none"> <li>• All necessary amendments</li> <li>• References to “the access arrangement period following this access arrangement period” have been replaced with “Sixth Access Arrangement Period”</li> </ul>	

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	<p>where</p> <p><math>I_i</math> is the incremental efficiency gain in year <math>i</math> of the access arrangement period.</p> <p><math>F_i</math> is the forecast operating expenditure in year <math>i</math> of the access arrangement period.</p> <p><math>A_i</math> is the actual operating expenditure in year <math>i</math> of the access arrangement period.</p> <p><math>F_{i-1}</math> is the forecast operating expenditure in year <math>i-1</math> of the access arrangement period.</p> <p><math>A_{i-1}</math> is the actual operating expenditure in year <math>i-1</math> of the access arrangement period.</p> <p>(c) Actual operating expenditure in the final year, 2022, of the access arrangement period is to be estimated using:</p> $A_{2022}^* = F_{2022} - (F_b - A_b) + \text{non-recurrent efficiency gain}_b$ <p>where</p> <p><math>A_{2022}^*</math> is the estimate of opex for 2022</p> <p><math>F_{2022}</math> is the forecast opex for 2022.</p> <p><math>F_b</math> is the forecast opex for the base year used to forecast opex in the access arrangement period following this access arrangement.</p> <p><math>A_b</math> is the actual opex for the base year used to forecast opex in the access arrangement period following this</p>			

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	<p>access arrangement.</p> <p>non-recurrent efficiency gain<sub>b</sub> is the adjustment made to base year opex used to forecast opex for the access arrangement period expected to commence 1 January 2023 to account for opex associated with one-off factors.</p> <p>(d) To ensure efficiency gains or losses made in 2022 are retained for five years, opex for the access arrangement period expected to commence 1 January 2023 should be forecast in a manner consistent with the estimate for opex in 2022, <math>A_{2022}^*</math>, in paragraph (c) above. This provides the Service Provider the same reward had the expenditure level in 2022 been known.</p> <p>(e) For the avoidance of doubt, the incremental efficiency gains (or losses) are carried over from year to year in real dollars to ensure that these gains (or losses) are not eroded by inflation. The price indices used in this calculation are to be consistent with those used to forecast opex for the access arrangement period expected to commence on 1 January 2023.</p> <p>(f) Increments or decrements from the summation of incremental efficiency gains or losses calculated in accordance with the approved incentive mechanism in the Access Arrangement Period will give rise to an additional 'building block' in the calculation of the Total Revenue amounts for each year of the subsequent access arrangement period.</p> <p>(g) The following costs will be excluded from the</p>			

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	<p>operation of the efficiency carryover mechanism:</p> <p>(1) movements in provisions</p> <p>(2) losses on scrapping of assets</p> <p>(3) any cost category that is not forecast using a single year revealed cost approach in the access arrangement period following this Access Arrangement Period (expected to commence 1 January 2023). These costs may include, debt raising costs and unaccounted for gas expenses</p> <p>(4) any other activity that the Service Provider and the Regulator agree to exclude from the operation of the efficiency carryover mechanism.</p> <p>(h) The forecast operating expenditure amount for each year of the Applicable Access Arrangement Period will be adjusted to include any Determined Pass Through Amounts or other AER approved expenditure arising from Cost Pass Through Events which apply in respect of that year</p> <p>(i) Where the Service Provider changes its approach to classifying costs as either capital expenditure or operating expenditure during the access arrangement period, the Service Provider will adjust the forecast operating expenditure in the access arrangement information so that the forecast expenditures are consistent with the capitalisation policy changes.</p> <p>(j) If there is a change in the Service Provider's approach to classifying costs as either capital expenditure or</p>			



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	<p>operating expenditure, the Service Provider must provide to the AER a detailed description of the change and a calculation of its impact on forecast and actual operating expenditure.</p> <p>(k) For the avoidance of doubt, the forecast expenditure amounts that are used as the basis for measuring efficiencies are equal to the forecast operating cost for that year as shown in the table below, which exclude the costs listed in clause 6.4.2(g)(1)–(4)</p> <p>Approved forecast opex for the efficiency carryover mechanism (\$ million, 2017)</p> <table><tr><th></th><th>2015</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th></tr><tr><td>Approved forecast opex</td><td>49.2</td><td>50.3</td><td>51.5</td><td>52.2</td><td>52.2</td></tr></table> <p>Note: Excludes debt raising costs</p>		2015	2016	2017	2018	2019	Approved forecast opex	49.2	50.3	51.5	52.2	52.2			
	2015	2016	2017	2018	2019											
Approved forecast opex	49.2	50.3	51.5	52.2	52.2											
9.3	Remove clause 7.2(c) of the proposed access arrangement	AA, Part B, clause 7.2	All necessary amendments													
Reference tariff setting																
Part B, clause 4.1	Amend clause 4.1(b) and clause 4.1(c) of Part B of AusNet's proposed access arrangement to remove AusNet's ability to introduce, vary or remove tariffs within a calendar year	AA, Part B, clauses 4.1(b), (c) and (d), and 4.2(a), (b) and (e)	All necessary amendments													
Reference tariff variation mechanism																
Part B, clause	Amend clause 3.1 in Part B of AusNet's proposed access arrangement to be consistent with figure 11.1, figure 11.2, figure	AA, Part B, clauses 2.2, 3.1.1, 3.1.3 and 3.5.1	All necessary amendments													

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<b>3.1</b>	11.3 and figure 11.4 in our draft decision.			
<b>Part B, 7.2(a)</b>	Amend the proposed access arrangement to specify that proposed fixed principle (a) will apply only to the 2018–22 access arrangement period.	AA, Part B, cl 7.2(a)	<ul style="list-style-type: none"> <li>All necessary amendments</li> </ul>	
<b>Part A, Schedule 2 Definition</b>	Definitions: <ul style="list-style-type: none"> <li>Delete the definition of Declared Retailer of Last Resort Event</li> <li>Amend the definition of Insurance Cap Event</li> <li>Amend the definition of Insurer Credit Risk Event</li> <li>Delete the definition of National Energy Customer Framework Event</li> <li>Delete the definition of NGER event</li> <li>Amend the definition of Relevant Pass Through Event</li> <li>Add the definition of Retailer Insolvency Event</li> <li>Delete the definition of RoLR Event</li> <li>Amend the definition of Service Standard Event</li> <li>Amend the definition of Terrorism Event</li> </ul>	<ul style="list-style-type: none"> <li>RAAP – ‘further information for the AER’s consideration’ section</li> <li>AA, Part A, Schedule 2</li> </ul>	<ul style="list-style-type: none"> <li>All necessary amendments</li> <li>In consultation with the AER, alternative drafting has been suggested for the Retailer Insolvency Event</li> </ul>	
<b>Part B 8(d)</b>	Amend the definition for the number of Business Day time limit	AA, Part B, clause 8(d)	All necessary amendments	
<b>Non tariff components</b>				
<b>12.1</b>	Add the following words before the start of clause 5.6.3(a)(10): "Where the agreed treatment for a new town Extension is to utilise an existing tariff..."	AA, Part A, cl 5.6.3(a)(10)	All necessary amendments	

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<b>Demand</b>				
<b>13.1</b>	Make all necessary revisions to reflect this draft decision, as set out in Section 13.4.3.2	<ul style="list-style-type: none"> <li>RAAP – ‘updates to reflect new information’ section</li> <li>PTRM – ‘PTRM input’ sheet</li> </ul>	<ul style="list-style-type: none"> <li>All necessary amendments</li> <li>The demand forecasts have also been updated to reflect new information</li> </ul>	
<b>Other incentive schemes</b>				
<b>14.1</b>	Remove clauses 6.4.3 (n), (p) and (q) from Access Arrangement Part B, Reference Tariffs and Reference Tariffs Policy.	AA, Part B, cl 6.4.3	All necessary amendments	
	Replace with a clause giving effect to the deferral mechanism described in Better Regulation Capital Expenditure Incentive Guideline for Electricity Network Service Providers November 2013.	AA, Part B, cl 6.4.3	<ul style="list-style-type: none"> <li>All necessary amendments</li> <li>A clause has also been added that ensures networks are not penalised through the CESS for capex that is not rolled into the capital base</li> <li>The drafting has also been amended to clarify that the scheme applies to net capex</li> </ul>	

Required Amendment		Location of AST Response	Required Amendments - Accepted	Required Amendments – Not Accepted
			<ul style="list-style-type: none"> <li>The drafting has also been amended to clarify that reported mains leaks should be adjusted to remove leaks identified as a result of leak surveys</li> </ul>	
<b>14.2</b>	Remove clauses 7.2 (d) and (f) from Access Arrangement Part B, Reference Tariffs and Reference Tariffs Policy	AA, Part B, clause 7.2	<ul style="list-style-type: none"> <li>All necessary amendments</li> <li>In consultation with the AER, a fixed principle has been included to clarify the operation of the cost pass through mechanism</li> </ul>	
<b>14.3</b>	Remove the NIS from the proposed access arrangement	AA, Part B	All necessary amendments	