



# **AER Public Forum**

## **Country Energy Gas Networks'**

### ***Access Arrangement for the Wagga Wagga Natural Gas Distribution Network***

Wagga Wagga

28 July 2009

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Gas Networks

**countryenergy**

# Access Arrangement Proposal

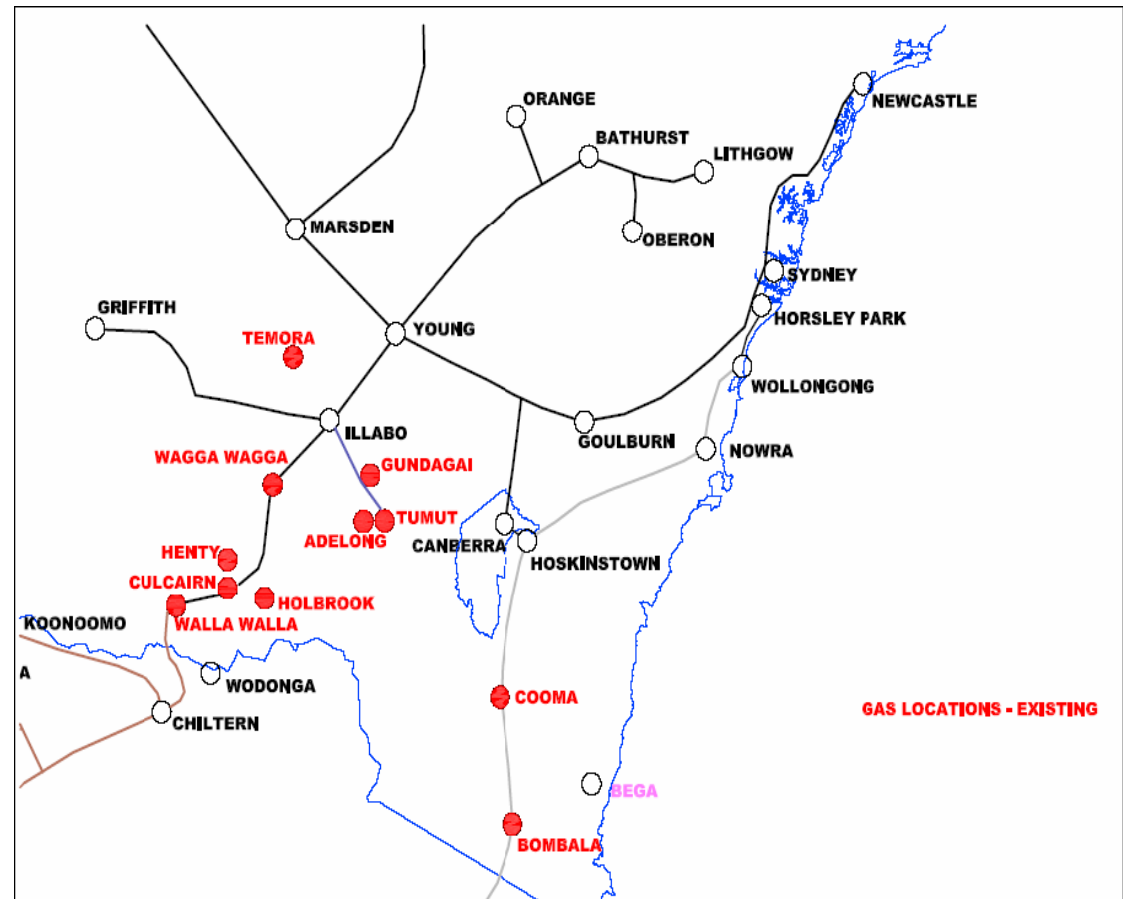
- Introduction and background of the network
- Overview of Country Energy Gas Networks' submission
  - review of current access arrangement period
  - the forthcoming access arrangement period
- Questions



# Introduction and Background

# Country Energy Gas Networks

- A fully owned subsidiary of Country Energy
- Provides gas distribution services across Southern NSW to:
  - Wagga Wagga
  - South West Slopes
  - Temora
  - Cooma
  - Bombala
  - Tumut

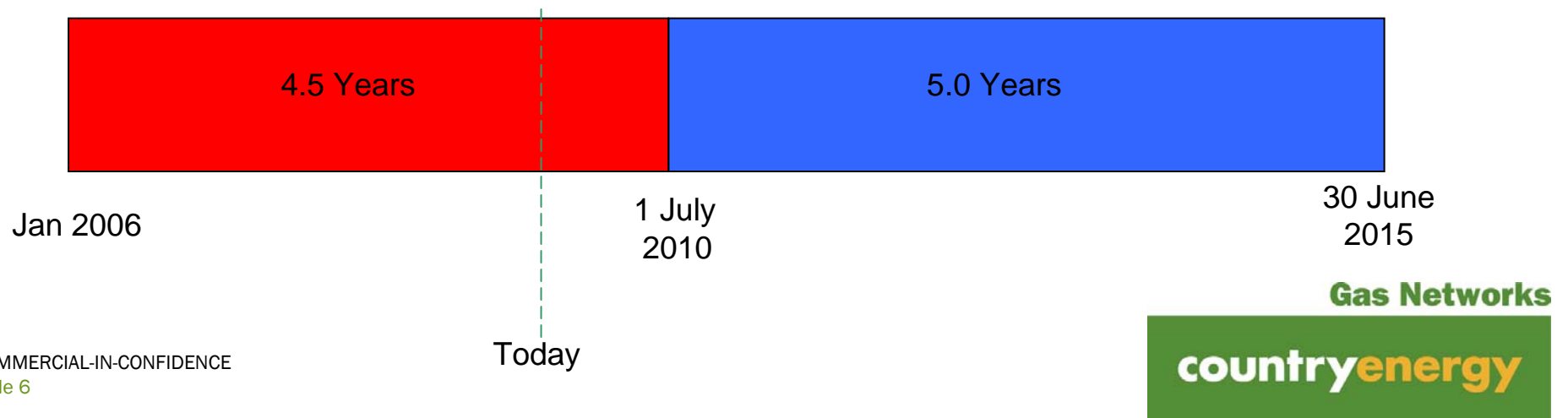


# Wagga Wagga Gas Distribution Network

- Gas has been available in Wagga Wagga since the late 1880's
- One of the smallest regulated distribution networks in Australia
- Serves approximately 18,300 customers through approximately 680km of mains and approximately 190km of service mains
- Transported a total of 1.6PJ of gas in 2008/09
  - Volume customers account for over 99 per cent of customer numbers and consume 57 per cent of total load
  - Contract customers consume 43 per cent of total load

# Access Arrangement History

- Current Access Arrangement has been in place since 1 January 2006
- Revised Access Arrangement due to commence 1 July 2010
- Country Energy Gas Networks' submission of proposed revisions was lodged with the AER on 1 July 2009



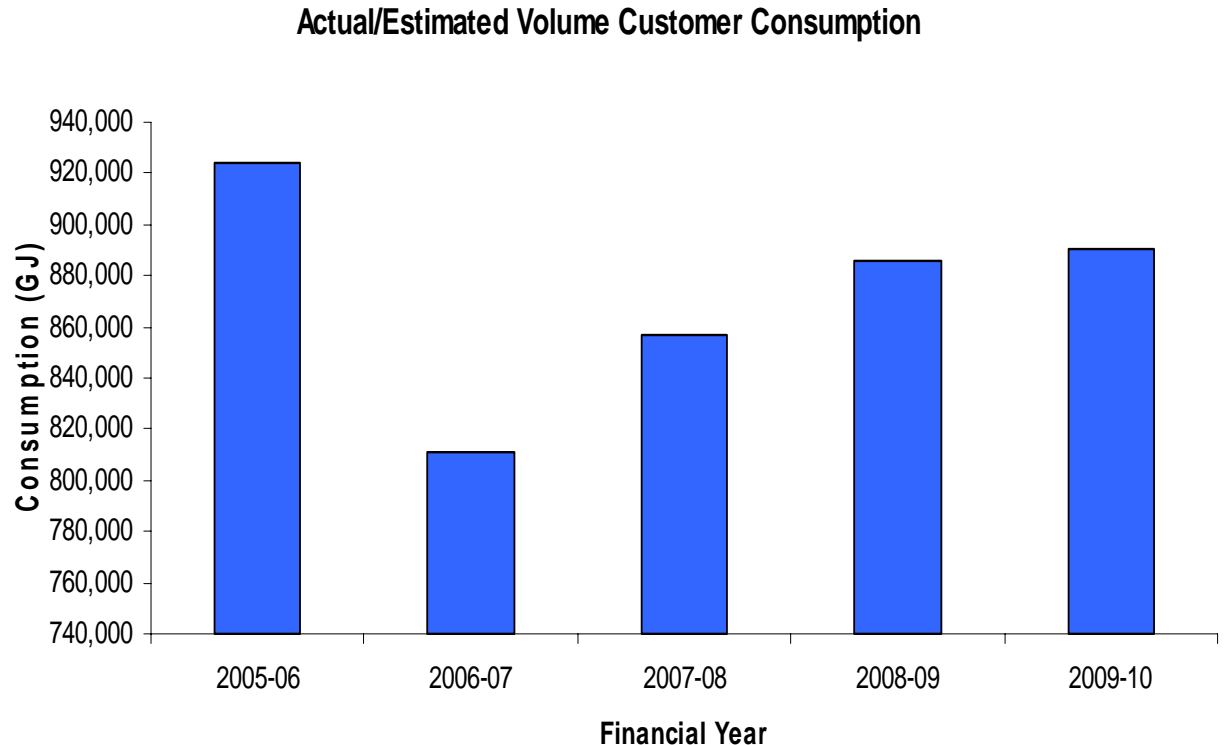


# Current Access Arrangement Period



# Current Access Arrangement Period – Load Growth

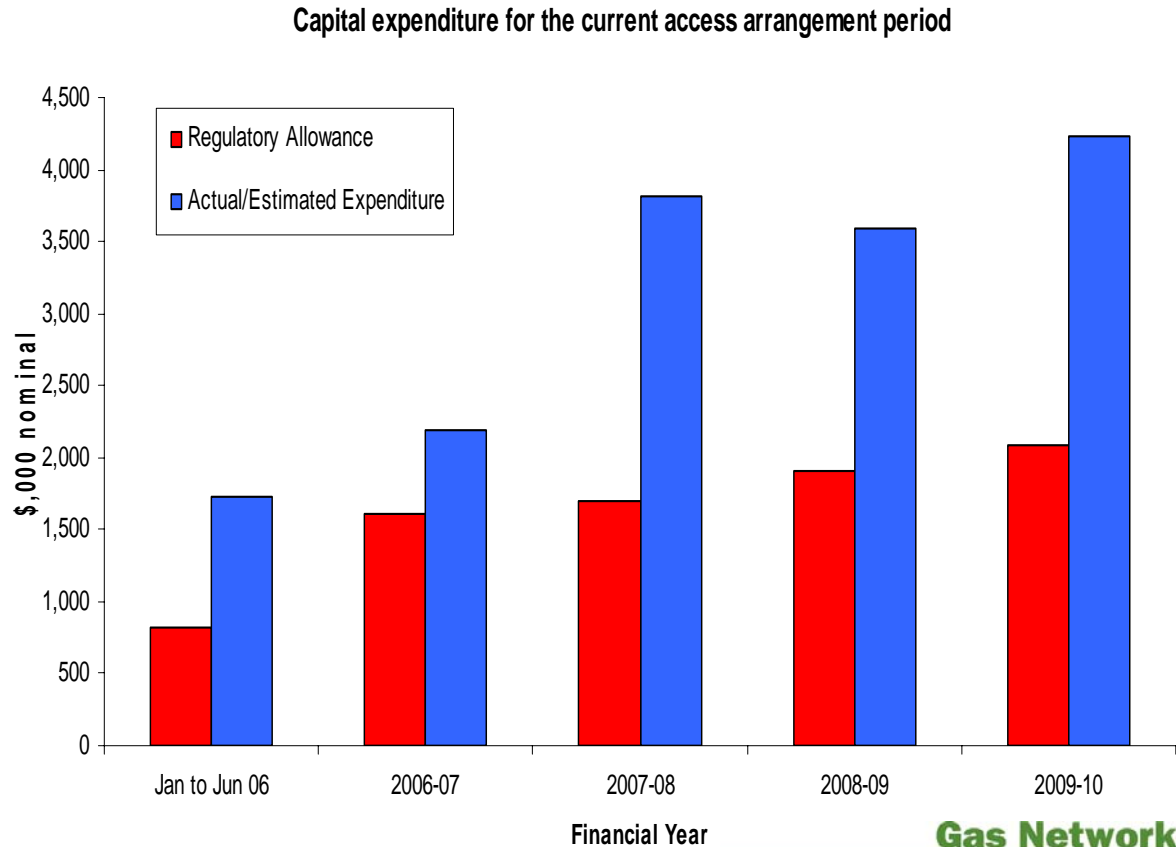
- Load Growth Forecasts
  - Volume customer numbers increased above forecast due to higher growth in customer connections (approximately 64% above IPART allowances)





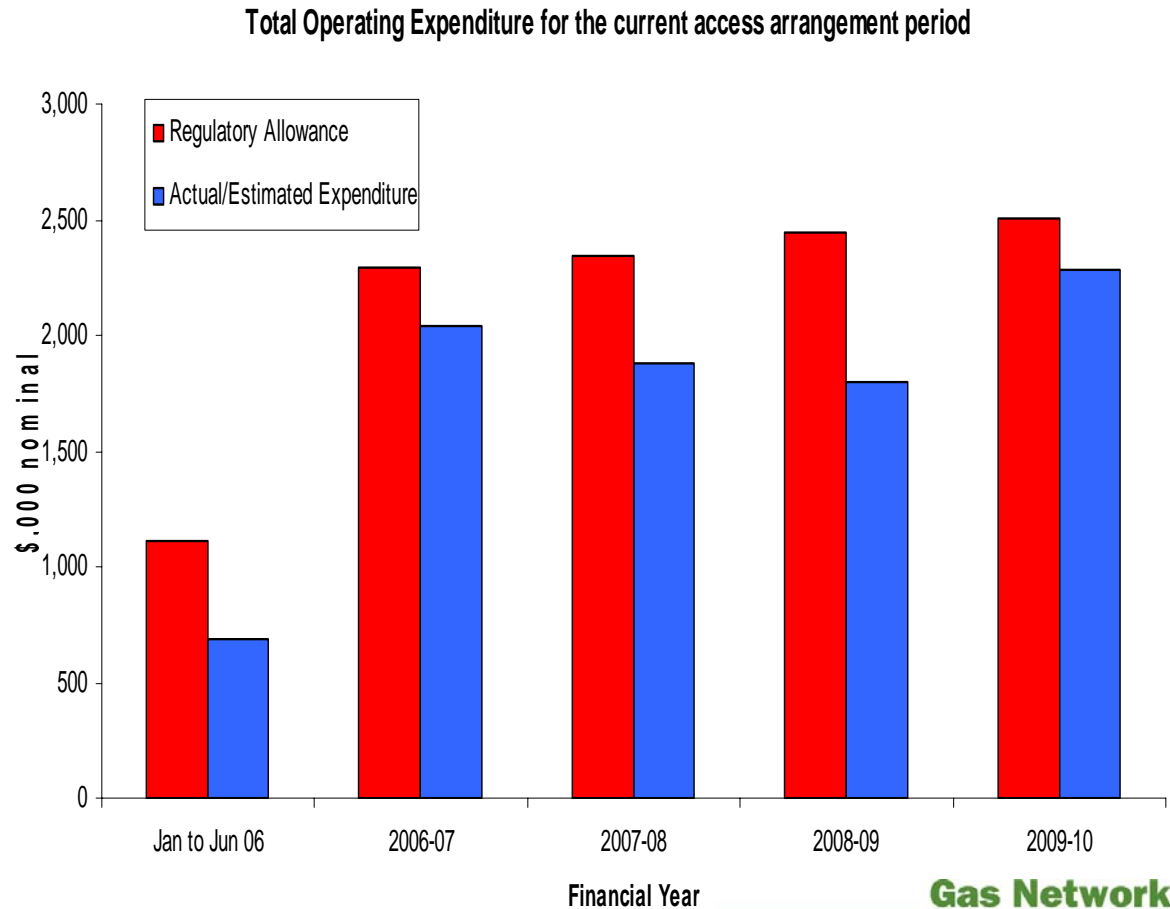
# Current Access Arrangement Period - Capex

\$,000 (nominal)	Regulatory Allowance	Actual/ Estimated Expenditure	Difference
Jan to Jun 06	827	1,727	(900)
2006-07	1,603	2,191	(588)
2007-08	1,692	3,816	(2,124)
2008-09 estimate	1,909	3,594	(1,685)
2009-10 forecast	2,089	4,225	(2,136)
Total	8,120	15,554	(7,434)



# Current Access Arrangement Period - Opex

\$,000 (nominal)	Regulatory Allowance	Actual/Estimated Expenditure	Difference
Jan to Jun 06	1,111	691	420
2006-07	2,297	2,045	252
2007-08	2,346	1,882	464
2008-09 estimate	2,444	1,803	641
2009-10 forecast	2,504	2,286	218
Total	10,702	8,706	1,996





# Next Access Arrangement Period

# Next Access Arrangement Period - Content

- Seeking a simple and practical Access Arrangement
- The layout and structure of the Access Arrangement is similar to the current Access Arrangement
- Focuses on the spending needed to maintain safe, secure and reliable natural gas supplies for all Wagga Wagga customers
- Operating expenditure is forecast to remain steady in real terms
- Adopted nominal vanilla WACC of 10.84%

# Next Access Arrangement Period - Changes

- A change from a *Reference Service Agreement* to separate *Terms and Conditions*
- Reintroduction of provisions relating to queuing
- Introduction of a *Deactivation Service* to the list of *Additional Services*
- A change from a pre tax framework to a post tax framework consistent with AER practice
- A change in the naming of volume *Reference Tariffs* to reduce confusion between definitions and naming conventions for *Users*
- The merger of the Central and Fringe contract zones
- A change in reporting of the *Capital Base* from physical classes to asset classes

# Next Access Arrangement Period – Load Growth

- Load growth forecasts:
  - Forecast consumption growth of 0.52% for volume customers
  - Volume customer number growth forecast to be 150per annum (0.83%)
  - Contract customer numbers and consumption steady

# Next Access Arrangement Period – Capex

- Forecast capital expenditure is planned to be in line with current levels of spending
- Asset refurbishment capex relates to continuation of the long term pressure upgrade program, entailing the refurbishment of a large percentage of existing mains, consumer services and metering installations
- Continuation of the meter replacement program
- Growth related expenditure of approx \$1.8M per annum to cover augmentation, expansions and new connections of 150 customers per year

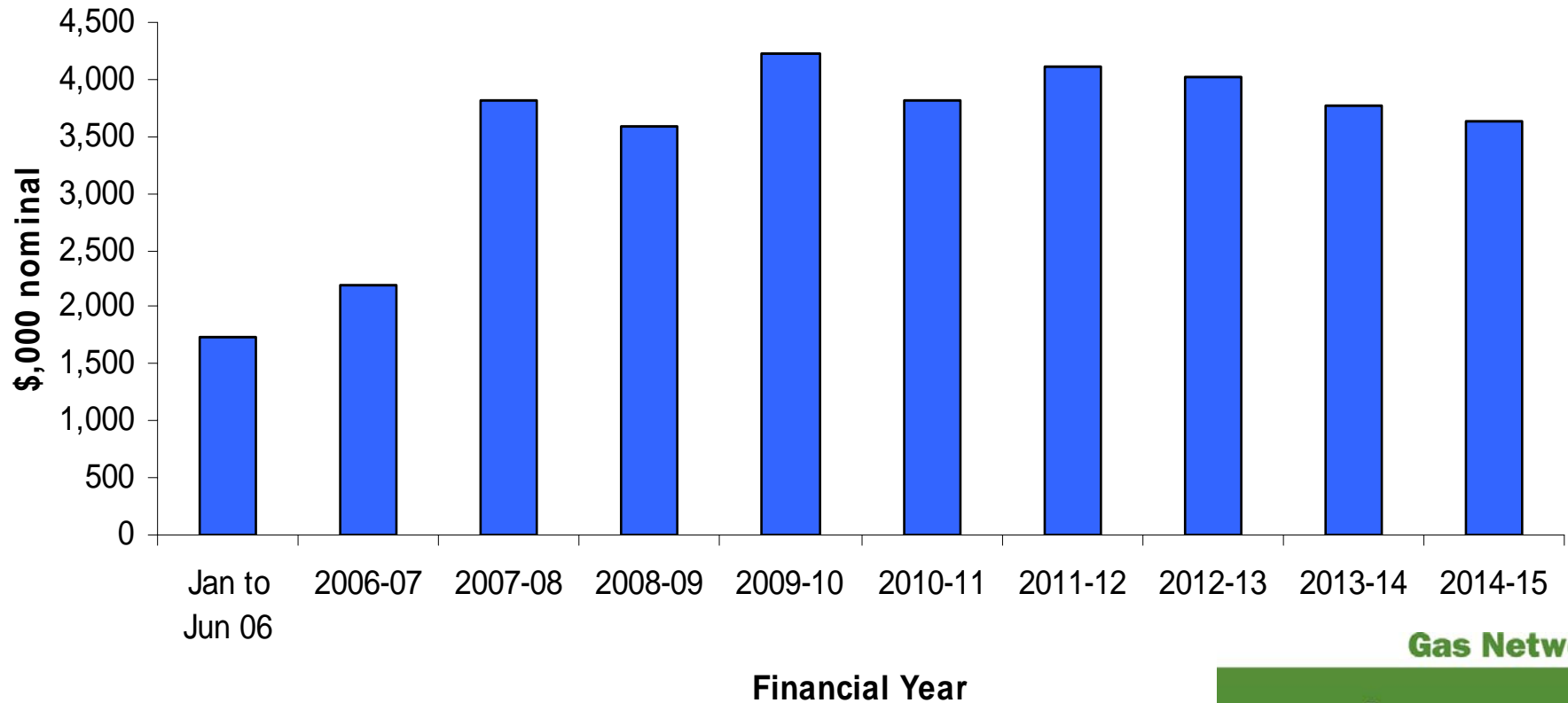


# Next Access Arrangement Period – Capex 2

\$,000 (real 2009-10)	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Asset replacement & refurbishment	2,016	1,715	1,874	1,928	1,446	8,978
Growth related	1,715	2,193	1,866	1,496	1,763	9,034
<b>Total</b>	<b>3,731</b>	<b>3,908</b>	<b>3,741</b>	<b>3,424</b>	<b>3,208</b>	<b>18,012</b>

# Next Access Arrangement Period – Capex 3

Actual/Estimated Capital Expenditure



Gas Networks

Financial Year

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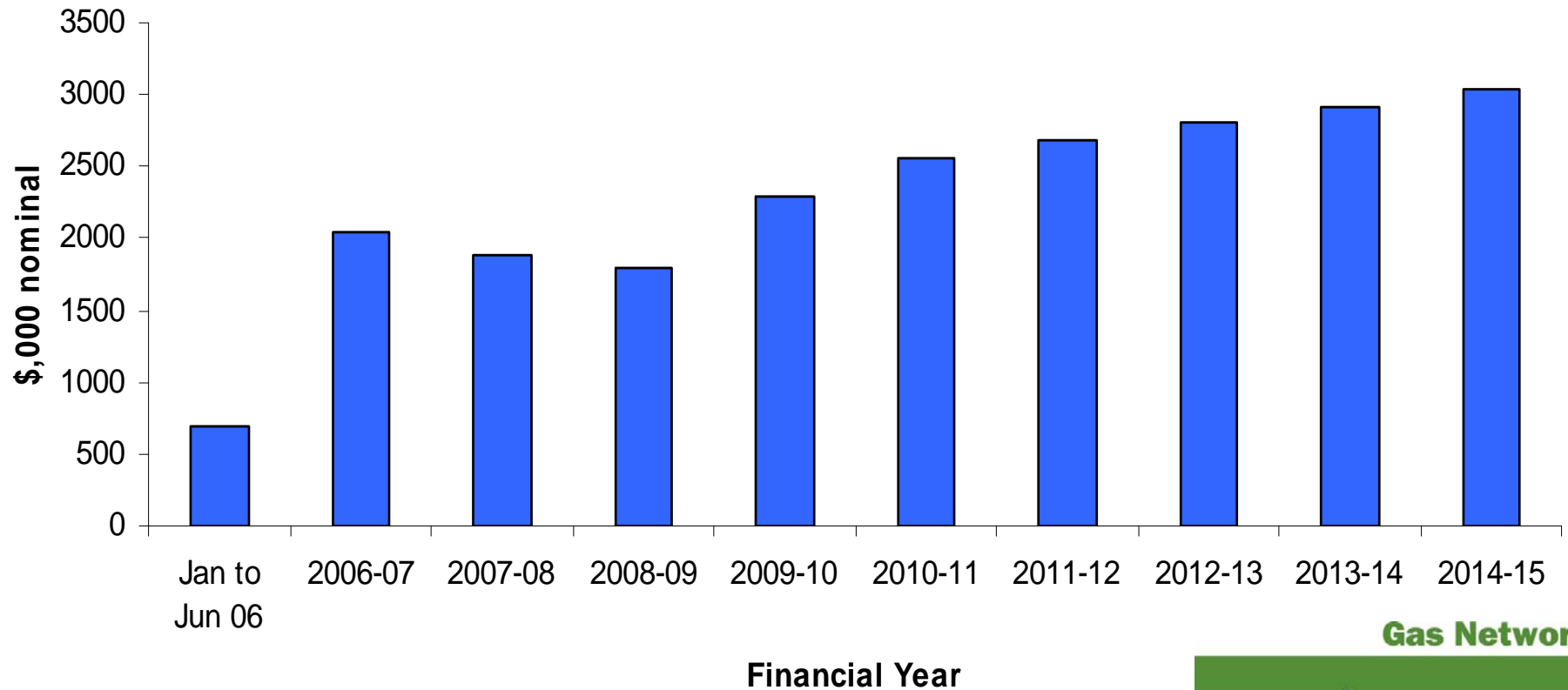
# Next Access Arrangement Period – Opex

- Forecast operating expenditure is consistent with the expenditure in the current access arrangement period increased for cost escalators and asset growth escalators

\$,000 (real 2009-10)	2010-11	2011-12	2012-13	2013-14	2014-15
Network operations and maintenance	1,275	1,303	1,329	1,349	1,372
Marketing	144	148	150	153	155
Direct Gas Network management	404	413	421	428	435
Corporate allocation	523	534	545	553	562
Self insurance	127	127	127	127	127
Debt raising costs	30	31	31	32	33
<b>Total non-capital costs</b>	<b>2,503</b>	<b>2,556</b>	<b>2,603</b>	<b>2,642</b>	<b>2,684</b>

# Next Access Arrangement Period – Opex 2

Actual/Estimated Operating Expenditure



Gas Networks

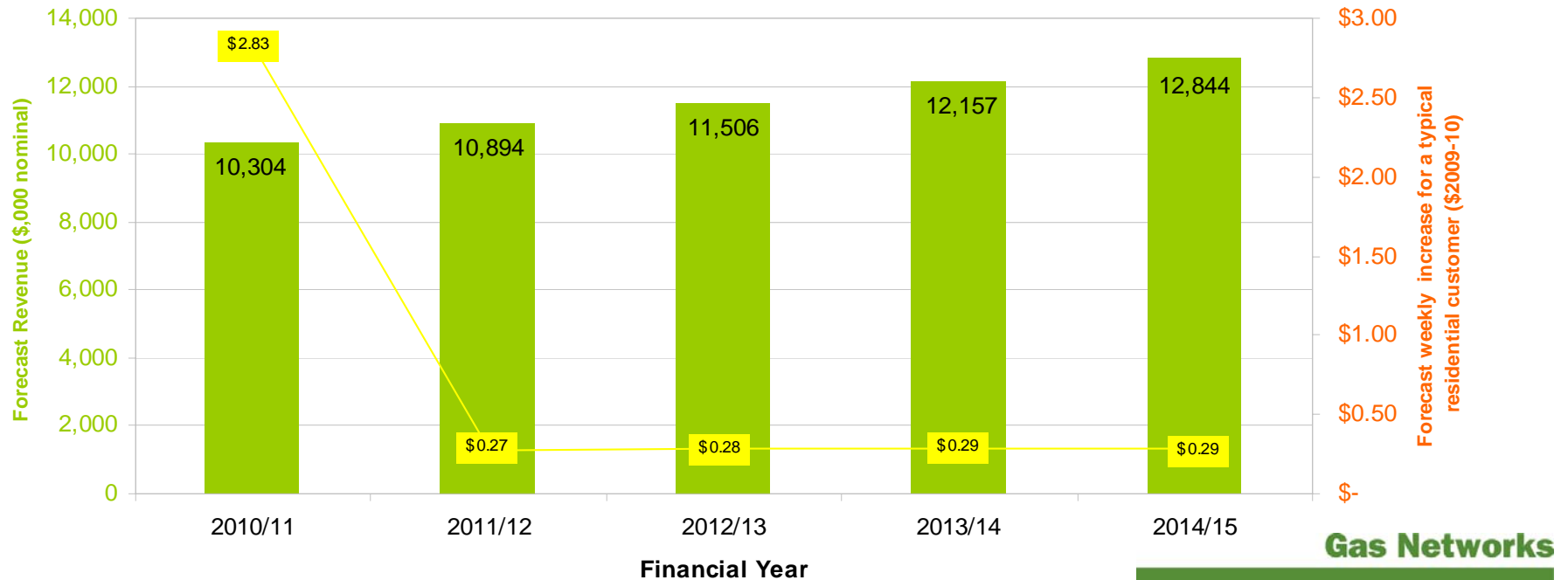
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# Outcomes and Summary

# Outcomes

- Current tariff structures retained
- Network prices account for approximately half of most volume customers' gas bills, and much less for contract customers



# Summary

- Country Energy's Access Arrangement is designed to deliver a safe and efficient natural gas network through:
  - a responsive investment program matched to the growing population and changing consumption patterns of the Wagga Wagga network
  - a cost reflective maintenance and refurbishment program aiming to maintain 'end to end' asset condition
  - updated skills, tools and technological capability to resource these tasks
- Country Energy believes that its proposal can deliver a reliable, affordable and sustainable natural gas network for customers