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15 December 2017

Mr Craig de Laine  
General Manager Strategy & Regulation  
Australian Gas Networks Limited

By email ([Craig.deLaine@agnl.com.au](mailto:Craig.deLaine@agnl.com.au))

Dear Mr de Laine

**Proposed revocation and substitution of Australian Gas Networks (SA) access arrangement 2016-2021**

On 26 May 2016 the Australian Energy Regulator (AER) made its access arrangement for Australian Gas Networks (AGN) for the regulatory control period 1 July 2016 to 30 June 2021.<sup>1</sup>

Subsequent to making the access arrangement, in the merits review of Victorian Electricity and ACT Gas decisions the Australian Competition Tribunal (ACT) became aware of an inflation estimation error impacting each of the AER's determinations on review in this process.<sup>2</sup> The Tribunal noted the error in each of its decisions and stated it left it to the AER to determine the appropriate response to its error.<sup>3</sup>

The estimation error identified by the Tribunal in the above proceedings is also reflected in the AER's 26 May 2016 AGN access arrangement for its 2016-21 regulatory control period. This is a mathematical calculation error that impacts the AGN distribution access arrangement for 2016-2021.

The mathematical error results from an incorrect geometric average calculation undertaken on the annual inflation rates. In the final decision the geometric average is calculated using percentage numbers (e.g. 2.5% is expressed as 2.5). The correct approach is to calculate the geometric average using 1 + rate values (e.g. 1 + 2.5% (or 0.025) equals 1.025).

Under clause 68 of the NGR, the AER may revoke an access arrangement where there has been a material error or deficiency of one or more of the following kinds:

<sup>1</sup> AER, *AGN Final decision 2016-2021*, 26 May 2016

<sup>2</sup> File Nos: ACT 3, 4, 5, 6, 7, 8 of 2016; <http://www.competitiontribunal.gov.au/current-matters/tribunal-documents>

<sup>3</sup> For example, see ACT, Application by ActewAGL Distribution [2017] ACompT 2, 17 October 2017, p i – iii.

- (1) a clerical mistake or an accidental slip or omission;
- (2) a miscalculation or misdescription;
- (3) a defect in form; or
- (4) a deficiency resulting from the provision of false or materially misleading information to the *AER*.

For the purposes of clause 68 (1), we consider the error identified above is material and would come within the scope of a ‘clerical mistake or an accidental slip or omission’ or a ‘miscalculation or misdescription’.

The AER, therefore, considers it appropriate to revoke the access arrangement under clause 68 of the NGR and substitute it with a new access arrangement. The substituted access arrangement may only vary from the prior access arrangement to the extent necessary to correct the relevant material error or deficiency. The revenue difference that would result from correcting the error is set out at Table 1.<sup>4</sup>

**Table 1 Revenue impact in nominal net present value (unsmoothed) terms of the correction of inflation rates**

| Access arrangement | Inflation Rate (input for PTRM) |                 | NPV Unsmoothed (\$m, Nominal) |                 |                 |                |
|--------------------|---------------------------------|-----------------|-------------------------------|-----------------|-----------------|----------------|
|                    | Final Decision                  | Corrected Value | Final Decision                | Corrected Value | Difference (\$) | Difference (%) |
| AGN 2016-21        | 2.39%                           | 2.40%           | 811.532786                    | 811.009557      | 0.523229        | 0.064516%      |

Subject to consideration of any submissions on our proposal, we intend to make an access arrangement to correct the identified error set out above under clause 68 of the NGR by no later than 1 March 2018.

If you wish to provide a submission in response to this letter, please respond by no later than 1 February 2018.

If you have any queries on this matter please contact me on (03) 9290 1956.

Yours sincerely



Esmond Smith

Director

AER Network Finance and Reporting

<sup>4</sup> Calculated in 2015/16 dollars using the 2017-18 return on debt update PTRM.