

## **Attachment 1.1**

# **Relevant Regulatory Framework**

**Final Plan 2023/24 – 2027/28**

---

July 2022

# 1 Introduction

This attachment explains the relevant regulatory framework governing the Access Arrangement (AA) review process applying to MGN's gas distribution network. The attachment focuses on the overarching requirements that must be satisfied for the AA Proposal to be approved by the Australian Energy Regulator (AER).

More specifically, this Attachment outlines:

- Section 2 – the Overarching Regulatory Obligations, including the National Gas Objective.
  - These obligations set out the rules that apply to MGN in relation to the supply of natural gas, as well as the responsibility of the AER.
  - It is these rules, laws and objectives that govern the way in which we operate the Victoria and Albury gas distribution network and as such, it is these elements that have guided our AA Proposal.
- Section 3 – the Revenue and Pricing Principles, including Interrelationships.
- Section 4 – Requirements of an AA Submission.
  - The information we must provide in our AA Proposal and where we have addressed these requirements within the Final Plan (also known as an AA Information (AAI)), supporting attachments and AA Document.

## 2 Overarching Regulatory Framework

The overarching regulatory framework for MGN's gas distribution networks is set out in the *National Gas (Victoria) Act 2008*. Section 7 of these Acts applies the National Gas Law (NGL), which is set out in a Schedule to the Acts, as a law of Victoria.

The NGL, among other things, establishes the National Gas Objective (NGO) and the functions and powers of key administrative bodies. Importantly:

- Section 26 of the NGL gives the National Gas Rules (NGR) the force of law in Victoria. The NGR establish the process for the review of an AA and sets out the detailed requirements of an AA revision proposal; and
- Section 27 of the NGL makes the AER responsible for making a decision in relation to an AA revision proposal submitted by MGN.

In April 2019, the Victorian Minister for Energy, Environment and Climate Change advised of the intention to make changes to the timing of the Victorian electricity and gas network price resets to operate on a financial year basis.

On 27 October 2020 the National Energy Legislation Amendment Act 2020 (Vic) (NELA Act) came into effect. On 30 September 2021 the Victorian Government published an Order in

Council under the National Gas (Victoria) Act 2008 to give effect to the extension of the current AA period.

Section 5 of the Order in Council covers the revision commencement date to an applicable 2018-2022 access arrangement. It provides that the revision commencement date is 1 July 2023, and all references in the applicable 2018-2022 access arrangement to 1 January 2023 are taken to be references to 1 July 2023.

Rule 52 of the NGR requires that MGN submit by the 'review submission date' (1 July 2023) an AA revision proposal for the next AA period (1 July 2023 to 30 June 2028). Rule 43 requires MGN, when submitting an AA revision proposal, to submit AAI for the AA. Rule 42 states that an AAI is to contain information that is reasonably necessary for users and prospective users to:

- understand the background to the AA revision proposal; and
- understand the basis and derivation of the various elements of the AA revision proposal.

An AA sets out the terms and conditions under which MGN provides access to users of the gas distribution network.

### National Gas Objective

Section 27 of the NGL prescribes the functions and powers of the AER, which includes economic regulatory functions and powers. Section 28 of the NGL provides that the AER must, in performing or exercising an economic regulatory function or power, perform or exercise that function or power in a manner that will or is likely to contribute to the achievement of the NGO, which is set out in Section 23 of the NGL.

The NGO is:

"...to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas."

Further, pursuant to Section 28(1)(b)(iii), where there are two or more possible decisions open to the AER that will contribute to the achievement of the NGO, the AER must make the decision that the AER is satisfied will or is likely to contribute to the achievement of the NGO to the greatest degree. NGR 100 requires the provisions of an access arrangement to be consistent with the NGO.

## 3. Revenue and pricing principles

Section 28(2) of the NGL provides that the AER must also take into account the revenue and pricing principles when exercising a discretion in approving or making those parts of an AA relating to reference tariffs. Section 24 of the NGL sets out the revenue and pricing principles, which include the following:

- under Sub-section 24(2), a service provider should be provided with a reasonable opportunity to recover at least the efficient costs the service provider incurs in providing reference services and complying with a regulatory obligation or requirement or making a regulatory payment;

- under Sub-section 24(3), a service provider should be provided with effective incentives in order to promote economic efficiency with respect to reference services the service provider provides, including:
  - efficient investment in, or in connection with, a pipeline with which the service provider provides reference services;
  - the efficient provision of pipeline services; and
  - the efficient use of the pipeline;
- under Sub-section 24(5), a reference tariff should allow for a return commensurate with the regulatory and commercial risks involved in providing the reference service to which that tariff relates;
- under Sub-section 24(6), regard should be had to the economic costs and risks of the potential for under and over investment by a service provider in a pipeline with which the service provider provides pipeline services; and
- under Sub-section 24(7), regard should be had to the economic costs and risks of the potential for under and over utilisation of a pipeline with which a service provider provides pipeline services.

### **Interrelationships**

Pursuant to Section 28(1)(b)(ii) of the NGL, the AER in making its decision must specify the manner in which the constituent components of the decision relate to each other and the manner in which that interrelationship has been taken into account in making the decision.

## 4. Requirements of an Access Arrangement Proposal

To ensure our AA Proposal complies with all the applicable regulatory requirements we have developed a compliance checklist. Table 1 cross-references the relevant NGR requirements with the applicable sections within our AA Proposal (comprising our Final Plan, supporting attachments and the AA Document) which addresses the requirement.

Table 1: Compliance checklist – NGR requirements

Provision	NGR Requirement	Our AA Proposal Reference
42(1)	<p><i>Access arrangement information</i> for an access arrangement or an <i>access arrangement proposal</i> is information that is reasonably necessary for users and prospective users:</p> <p>(a) to understand the background to the access arrangement or the <i>access arrangement proposal</i>; and</p> <p>(b) to understand the basis and derivation of the various elements of the access arrangement or the <i>access arrangement proposal</i>.</p>	Final Plan, supporting Attachments detailed in Attachment 1.3 and AA Document submitted on 1 July 2022
42(2)	<i>Access arrangement information</i> must include the information specifically required by the <i>Law</i> .	Final Plan, supporting Attachments detailed in Attachment 1.3 and AA Document submitted on 1 July 2022
43(1)	A service provider, when submitting an <i>access arrangement proposal</i> for the AER's approval, must submit, together with the proposal, <i>access arrangement information</i> for the <i>access arrangement proposal</i> .	Final Plan, supporting Attachments detailed in Attachment 1.3 and AA Document submitted on 1 July 2022
43(2)	<p>If particular information (<b>sensitive information</b>) is confidential, and its public disclosure could cause undue harm to the legitimate business interests of the service provider, a user or prospective user, the AER may permit the service provider to submit <i>access arrangement information</i> in a form, approved by the AER, in which the sensitive information:</p> <p>(a) is aggregated or generalised so as to avoid disclosure of the elements that make it sensitive; or</p> <p>(b) if that is not possible – is entirely suppressed.</p>	Attachment 1.4 Confidentiality Claims

Provision	NGR Requirement	Our AA Proposal Reference
47A(1)	<p>(1) A service provider in respect of a full regulation pipeline must, whenever required to do so under subrule (3), submit to the AER a reference service proposal in respect of a forthcoming full access arrangement proposal that:</p> <p>(a) identifies the pipeline and includes a reference to a website at which a description of the pipeline can be inspected;</p> <p>(b) sets out a list of all the pipeline services that the service provider can reasonably provide on the pipeline and a description of those pipeline services having regard to the characteristics in subrule (2);</p> <p>(c) from the list referred to in subrule (1)(b), identifies at least one of those pipeline services that the service provider proposes to specify as reference services having regard to the reference service factors including any supporting information required by the AER; and</p> <p>(d) if the service provider has engaged with pipeline users and end users in developing its reference service proposal, describes any feedback received from those users about which pipeline services should be specified as reference services.</p>	<p>Already completed prior to lodgment of this AA Proposal. This AA Proposal is consistent with the Final Decision of the AER in respect of our Reference Service Proposal</p>
47A(3)	<p>A service provider in respect of a full regulation pipeline must submit a reference service proposal to the AER:</p> <p>(a) no later than 12 months prior to the review submission date for the access arrangement; or</p> <p>(b) if no access arrangement applies, in accordance with rule 46.</p>	<p>Already completed prior to lodgment of this AA Proposal. This AA Proposal is consistent with the Final Decision of the AER in respect of our Reference Service Proposal</p>
48(1)(a)	<p>A full access arrangement must:</p> <p>(a) identify the pipeline to which the access arrangement relates and include a reference to a website at which a description of the pipeline can be inspected; and</p>	<p>Final Plan Chapter 2</p> <p>AA Document Section 1 and Annexure A</p>
48(1)(b)	<p>A full access arrangement must:</p> <p>(b) describe all of the pipeline services that the service provider can reasonably provide on the pipeline, which must be consistent with the AER's reference service decision under rule 47A, unless there has been a material change in circumstances; and</p>	<p>Final Plan Chapter 7</p> <p>AA Document Section 2</p>
48(1)(c)	<p>A full access arrangement must:</p> <p>(c) specify the reference services, which must be consistent with the AER's reference service proposal decision under rule 47A, unless there has been a material change in circumstances; and</p>	<p>Final Plan Chapter 7</p> <p>AA Document Section 2</p>
48(1)(c1)	<p>A full access arrangement must:</p> <p>(c1) if the information provided under subrules (1)(b) or (1)(c) is different to the AER's reference service proposal decision under rule 47A, describe the material change in circumstances that necessitated the change having regard to the reference service factors; and</p>	<p>Not applicable – this proposal is consistent with the Reference Service Proposal Approved</p>



Provision	NGR Requirement	Our AA Proposal Reference
48(1)(d)	A full access arrangement must: (d) specify for each reference service: (i) the reference tariff; and (ii) the other terms and conditions on which each reference service will be provided; and	Final Plan Chapter 14 and AA Document
48(1)(f)	A full access arrangement must: (f) set out the capacity trading requirements; and	AA Document Section 7
48(1)(g)	A full access arrangement must: (g) set out the extension and expansion requirements; and	AA Document Section 8
48(1)(h)	A full access arrangement must: (h) state the terms and conditions for changing receipt and delivery points; and	AA Document Section 7
48(1)(i)	A full access arrangement must: (i) if there is to be a review submission date – state the review submission date and the revision commencement date; and	AA Document Section 10
48(1)(j)	A full access arrangement must: (j) if there is to be an expiry date – state the expiry date	Not applicable
49(1)	A full access arrangement (other than a voluntary access arrangement): (a) must contain a review submission date and a revision commencement date; and (b) must not contain an expiry date.	AA Document Section 10
50(1)	A service provider, as part of an access arrangement proposal for a full access arrangement (other than a voluntary access arrangement), must propose a review submission date and a revision commencement date. The proposed revision commencement date must be not less than 12 months after the proposed review submission date.	AA Document Section 10
52(1)	A service provider must, on or before the <i>review submission date</i> of an applicable access arrangement, submit an <i>access arrangement revision proposal</i> to the AER.	Final Plan, supporting Attachments detailed in Attachment 1.3 and AA Document submitted on 1 July 2022
52(2)	The access arrangement revision proposal must: (a) set out the amendments to the access arrangement that the service provider proposes for the ensuing access arrangement period; and (b) incorporate the text of the access arrangement in the revised form.	Final Plan Chapter 15, Attachments 15.1 and 15.2, AA Document

Provision	NGR Requirement	Our AA Proposal Reference
72(1)(a)(i)	<p>The <i>access arrangement information</i> for a <i>full access arrangement proposal</i> (other than an access arrangement variation proposal) must include the following:</p> <p>(a) if the <i>access arrangement period</i> commences at the end of an earlier <i>access arrangement period</i>:</p> <p>(i) capital expenditure (by asset class) over the earlier <i>access arrangement period</i>; and</p>	Final Plan Chapter 9
72(1)(a)(ii)	<p>The <i>access arrangement information</i> must include the following:</p> <p>(a) if the <i>access arrangement period</i> commences at the end of an earlier <i>access arrangement period</i>:</p> <p>(ii) operating expenditure (by category) over the earlier <i>access arrangement period</i>; and</p>	Final Plan Chapter 8 Section 7.9 and Attachment 8.1
72(1)(a)(iii)	<p>The <i>access arrangement information</i> must include usage of the pipeline over the earlier <i>access arrangement period</i>:</p> <p>(A) <b>for a distribution pipeline, minimum, maximum and average demand</b> and, for a transmission pipeline, minimum, maximum and average demand for each receipt or delivery point; and</p> <p>(B) <b>for a distribution pipeline, customer numbers in total and by tariff class</b> and, for a transmission pipeline, user numbers for each receipt or delivery point;</p>	Final Plan Chapter 13 and Attachments 13.1, 13.2 and 13.3
72(1)(b)	<p>The <i>access arrangement information</i> must include the following:</p> <p>(b) how the capital base is arrived at and, if the <i>access arrangement period</i> commences at the end of an earlier <i>access arrangement period</i>, a demonstration of how the capital base increased or diminished over the previous <i>access arrangement period</i>;</p>	Final Plan Chapter 10, Table 10.1
72(1)(c)	<p>The <i>access arrangement information</i> must include the following:</p> <p>(c) the projected capital base over the <i>access arrangement period</i>, including:</p> <p>(i) a forecast of conforming capital expenditure for the period and the basis for the forecast; and</p> <p>(ii) a forecast of depreciation for the period including a demonstration of how the forecast is derived on the basis of the proposed depreciation method;</p>	Final Plan Chapter 10, Table 10.6 and Attachments 1.5 and 9.3



Provision	NGR Requirement	Our AA Proposal Reference
72(1)(d)	The <i>access arrangement information</i> must include the following:  (d) to the extent it is practicable to forecast pipeline capacity and utilisation of pipeline capacity over the access arrangement period, a forecast of pipeline capacity and utilisation of pipeline capacity over that period and the basis on which the forecast has been derived;	Such parameters are not relevant or have no meaning in the context of a natural gas distribution network. This reflects that the network consists of a variety of interlinked pipe materials, each with a different capacity (unlike natural gas transmission pipelines).  The capacity of different sections of the network is analysed on an ongoing basis. Pressures and flows are simulated in order to ensure that the network has adequate capacity to meet customer needs. Where modelling or field data (for example telemetry or pressure recorders) indicate that potential capacity or pressure problems exist, mains reinforcement projects or other required actions are instigated to augment network capacity.  The capacity of the network is continually increasing as a result of the replacement of the low pressure cast iron and unprotected steel mains with high pressure polyethylene mains.
72(1)(e)	The <i>access arrangement information</i> must include the following:  (e) a forecast of operating expenditure over the <i>access arrangement period</i> and the basis on which the forecast has been derived;	Final Plan Chapter 8 Sections 8.4, 8.5 and 8.6 and Attachment 8.1
72(1)(g)	The <i>access arrangement information</i> must include the following:  (g) the allowed rate of return for each regulatory year of the access arrangement period;	Final Plan Chapter 11
72(1)(h)	The <i>access arrangement information</i> must include the following:  (h) the estimated cost of corporate income tax calculated in accordance with rule 87A, including the proposed value of imputation credits referred to in that rule;	Final Plan Chapter 11 Section 11.3
72(1)(i)	The <i>access arrangement information</i> must include the following:  (i) if an incentive mechanism operated for the <i>previous access arrangement period</i> —the proposed carry-over of increments for efficiency gains or decrements for efficiency losses in the previous <i>access arrangement period</i> and a demonstration of how allowance is to be made for any such increments or decrements;	Final Plan Chapter 12

Provision	NGR Requirement	Our AA Proposal Reference
72(1)(j)	The <i>access arrangement information</i> must include the following: (j) the proposed approach to the setting of tariffs including: (i) the suggested basis of reference tariffs, including the method used to allocate costs and a demonstration of the relationship between costs and tariffs; and (ii) a description of any pricing principles employed but not otherwise disclosed under this rule;	Final Plan Chapter 14 Section 14.4 Attachment 14.1
72(1)(k)	The <i>access arrangement information</i> must include the following: (k) the service provider's rationale for any proposed reference tariff variation mechanism;	Final Plan Chapter 14 and Attachment 14.1
72(1)(l)	The <i>access arrangement information</i> must include the following: (l) the service provider's rationale for any proposed incentive mechanism;	Final Plan Chapter 12 Attachments 12.1 and 12.2
72(1)(m)	The <i>access arrangement information</i> must include the following: (m) the total revenue to be derived from pipeline services for each regulatory year of the access arrangement period.	Final Plan Chapter 14
72(2)	The <i>access arrangement information</i> for an <i>access arrangement variation proposal</i> related to a full access arrangement must include so much of the above information as is relevant to the proposal.	Final Plan, supporting Attachments detailed in Attachment 1.3 and AA Document
72(3)	Where the AER has published financial models under Rule 75A, the <i>access arrangement information</i> for a <i>full access arrangement proposal</i> must be provided using the financial models	The AER's PTRM, RFM and Depreciation models have been used- see Attachment 1.5
73(1)	Financial information must be provided on: (a) a nominal basis; or (b) a real basis; or (c) some other recognised basis for dealing with the effects of inflation.	All financial information quoted is in dollars of December 2022, unless otherwise labelled
73(2)	The basis on which financial information is provided must be stated in the access arrangement information.	Refer to responses to Rule 73(1) above.
73(3)	All financial information must be provided, and all calculations made, consistently on the same basis and using any applicable financial models published by the AER under the Rules.	Refer to responses to Rule 73(1) above.
74(1)	Information in the nature of a forecast or estimate must be supported by a statement of the basis of the forecast or estimate.	Final Plan Chapters 7 to 14 Attachments 8.1, 8.4, 8.5, 8.6, 9.3, 9.6, 13.1 – 13.3  The bases of all forecasts or estimates are set out in the relevant chapters of the Final Plan and relevant Attachments.

Provision	NGR Requirement	Our AA Proposal Reference
74(2)	A forecast or estimate: (a) must be arrived at on a reasonable basis; and (b) must represent the best forecast or estimate possible in the circumstances.	Final Plan Chapters 7 to 14 Attachments 8.1, 8.4, 8.5, 8.6, 9.3, 9.6, 13.1 – 13.3  The bases of all forecasts or estimates are set out in the relevant chapters of the Final Plan and relevant Attachments.
75	Information in the nature of an extrapolation or inference must be supported by the primary information on which the extrapolation or inference is based.	All relevant primary information is identified in the Final Plan and its Attachments.
76	Total revenue is to be determined for each regulatory year of the <i>access arrangement period</i> using the building block approach in which the building blocks are: (a) a return on the projected capital base for the year (See Divisions 4 and 5); and (b) depreciation on the projected capital base for the year (See Division 6); and (c) the estimated cost of corporate income tax for the year (See Division 5A); and (d) increments or decrements for the year resulting from the operation of an incentive mechanism to encourage gains in efficiency (See Division 9); and (e) a forecast of operating expenditure for the year (See Division 7)	Final Plan Chapter 14, Table 14.1 (a) Final Plan Chapters 10 (b) Final Plan Chapter 10 (c) Final Plan Chapter 11 (d) Not applicable during AA6 (e) Final Plan Chapter 8, Attachment 8.1

Provision	NGR Requirement	Our AA Proposal Reference
77(2)	<p>If an <i>access arrangement period</i> follows immediately on the conclusion of a preceding access arrangement period, the opening capital base for the later <i>access arrangement period</i> is to be:</p> <p>(a) the opening capital base as at the commencement of the earlier <i>access arrangement period</i> adjusted for any difference between estimated and actual capital expenditure included in that opening capital base. This adjustment must also remove any benefit or penalty associated with any difference between the estimated and actual capital expenditure;</p> <p>plus:</p> <p>(b) conforming capital expenditure made, or to be made, during the earlier <i>access arrangement period</i>;</p> <p>plus:</p> <p>(c) any amounts to be added to the capital base under rule 82, 84 or 86;</p> <p>plus:</p> <p>(c1) in relation to any existing extension specified in the extension and expansion requirements in accordance with rule 104(2), the following value: (i) the cost of construction of the extension; plus (ii) capital expenditure on the extension since construction of the extension; less: (iii) depreciation of the extension since the date the extension was commissioned; and (iv) the value of pipeline assets constituting the extension disposed of since commissioning of the extension;</p> <p>less:</p> <p>(d) depreciation over the earlier <i>access arrangement period</i> (to be calculated in accordance with any relevant provisions of the access arrangement governing the calculation of depreciation for the purpose of establishing the opening capital base); and</p> <p>(e) redundant assets identified during the course of the earlier access arrangement period; and</p> <p>(f) the value of pipeline assets disposed of during the earlier <i>access arrangement period</i>.</p>	Final Plan Chapter 10, Table 10.1
78	<p>The projected capital base for a particular period is:</p> <p>(a) the opening capital base;</p> <p>plus:</p> <p>(b) forecast conforming capital expenditure for the period;</p> <p>less:</p> <p>(c) forecast depreciation for the period; and</p> <p>(d) the forecast value of pipeline assets to be disposed of in the course of the period.</p>	Final Plan Chapter 10, Table 10.6

Provision	NGR Requirement	Our AA Proposal Reference
79(1)	<p>Conforming capital expenditure is capital expenditure that conforms with the following criteria:</p> <p>(a) the capital expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing services; and</p> <p>(b) the capital expenditure must be justifiable on a ground stated in subrule (2); and</p> <p>(c) the capital expenditure must be for expenditure that is properly allocated in accordance with the requirements of subrule (6).</p>	<p>Final Plan Chapter 9</p> <p>Attachments 9.1 - 9.14.</p>
79(2)	<p>Capital expenditure is justifiable if:</p> <p>(a) the overall economic value of the expenditure is positive; or</p> <p>(b) the present value of the expected incremental revenue to be generated as a result of the expenditure exceeds the present value of the capital expenditure; or</p> <p>(c) the capital expenditure is necessary:</p> <p>(i) to maintain and improve the safety of services; or</p> <p>(ii) to maintain the integrity of services; or</p> <p>(iii) to comply with a regulatory obligation or requirement; or</p> <p>(iv) to maintain the service provider's capacity to meet levels of demand for services existing at the time the capital expenditure is incurred (as distinct from projected demand that is dependent on an expansion of pipeline capacity); or</p> <p>(d) the capital expenditure is an aggregate amount divisible into 2 parts, one referable to incremental services and the other referable to a purpose referred to in paragraph (c), and the former is justifiable under paragraph (b) and the latter under paragraph (c).</p>	<p>Final Plan Chapter 9</p> <p>Attachments 9.1 - 9.14.</p>
79(4)	<p>In determining the present value of expected incremental revenue:</p> <p>(a) a tariff will be assumed for incremental services based on (or extrapolated from) prevailing reference tariffs or an estimate of the reference tariffs that would have been set for comparable services if those services had been reference services; and</p> <p>(b) incremental revenue will be taken to be the gross revenue to be derived from the incremental services less incremental operating expenditure for the incremental services; and</p> <p>(c) a discount rate is to be used equal to the rate of return implicit in the reference tariff.</p>	<p>Final Plan Chapter 14</p>
79(6)	<p>Conforming capital expenditure that is included in an access arrangement revision proposal must be for expenditure that is allocated between:</p> <p>(a) reference services</p> <p>(b) other services provided by means of a covered pipeline; and</p> <p>(c) other services provided by means of uncovered parts (if any) of the pipeline.</p> <p>in accordance with Rule 93.</p>	<p>Final Plan Chapter 14 Section 14.4</p> <p>Attachment 14.1 and 14.2</p>

Provision	NGR Requirement	Our AA Proposal Reference
83(1)	When the service provider makes non-conforming capital expenditure, it may notify the AER that it proposes to recover the amount, or part of the amount, of the expenditure by means of a surcharge.	Not applicable
84(1)	A full access arrangement may provide that the amount of non-conforming capital expenditure, to the extent that it is not to be recovered through a surcharge on users or a capital contribution, is to be added to a notional fund (the speculative capital expenditure account).	Not applicable
85(1)	A full access arrangement may include (and the AER may require it to include) a mechanism to ensure that assets that cease to contribute in any way to the delivery of pipeline services (redundant assets) are removed from the capital base.	Final Plan Chapter 10
87	<p>The return on the projected capital base for a service provider for a regulatory year of an access arrangement period for an applicable access arrangement (RPCB<sub>t</sub>) is to be calculated using the following formula:</p> $RPCB_t = a_t \times v_t$ <p>where:</p> <p><math>a_t</math> is the allowed rate of return for the regulatory year; and</p> <p><math>v_t</math> is the value, as at the beginning of the regulatory year, of the projected capital base for the regulatory year (as established under rule 78 and subject to rule 82(3)).</p> <p>The allowed rate of return for the regulatory year means the rate of return calculated in the way stated in the <i>applicable rate of return instrument</i>. Under NGL 30C, a rate of return instrument is binding on the AER and each covered pipeline service provider.</p>	Final Plan Chapter 10
87A	<p>The estimated cost of corporate income tax of a service provider for each regulatory year of an access arrangement period (ETC<sub>t</sub>) is to be estimated in accordance with the following formula:</p> $ETC_t = (ETI_t \times r_t) (1 - \gamma)$ <p>Where</p> <p>ETI<sub>t</sub> is an estimate of the taxable income for that regulatory year that would be earned by a benchmark efficient entity as a result of the provision of reference services if such an entity, rather than the service provider, operated the business of the service provider;</p> <p><math>r_t</math> is the expected statutory income tax rate for that regulatory year as determined by the ERA; and</p> <p><math>\gamma</math> is the allowed imputation credits for the regulatory year. Allowed imputation credits for a regulatory year means the value of imputation credits stated, or calculated in the way stated in the <i>applicable rate of return instrument</i>. Under NGL 30C, a rate of return instrument is binding on the AER and each covered pipeline service provider.</p>	Final Plan Chapter 11

Provision	NGR Requirement	Our AA Proposal Reference
88(1)	The depreciation schedule sets out the basis on which the pipeline assets constituting the capital base are to be depreciated for the purpose of determining a reference tariff	Final Plan Chapter 10 and Attachments 1.6 - 1.7
88(2)	The depreciation schedule may consist of a number of separate schedules, each relating to a particular asset or class of assets.	Final Plan Chapter 10 and Attachments 1.6 - 1.7
89(1)	<p>The depreciation schedule should be designed:</p> <p>(a) so that reference tariffs will vary, over time, in a way that promotes efficient growth in the market for reference services; and</p> <p>(b) so that each asset or group of assets is depreciated over the economic life of that asset or group of assets; and</p> <p>(c) so as to allow, as far as reasonably practicable, for adjustment reflecting changes in the expected economic life of a particular asset, or a particular group of assets; and</p> <p>(d) so that (subject to the rules about capital redundancy), an asset is depreciated only once (ie that the amount by which the asset is depreciated over its economic life does not exceed the value of the asset at the time of its inclusion in the capital base (adjusted, if the accounting method approved by the AER permits, for inflation)); and</p> <p>(e) so as to allow for the service provider's reasonable needs for cash flow to meet financing, non-capital and other costs.</p>	Final Plan Chapter 10 and Attachments 1.6 - 1.7
90(1)	A full access arrangement must contain provisions governing the calculation of depreciation for establishing the opening capital base for the next <i>access arrangement period</i> after the one to which the access arrangement currently relates.	Final Plan Chapter 10 and Attachments 1.6 - 1.7 AA Document Section 4.
90(2)	The provisions must resolve whether depreciation of the capital base is to be based on forecast or actual capital expenditure.	Final Plan Chapter 10 Attachments 1.5 - 1.7 AA Document Section 4.
91(1)	Operating expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services.	Final Plan Chapter 8 Attachments 8.1 – 8.6
91(2)	<p>The forecast of required operating expenditure that is included in the full access arrangement must be for expenditure that is allocated between:</p> <p>(a) reference services;</p> <p>(b) other services provided by means of the covered pipeline; and</p> <p>(c) other services provided by means of uncovered parts (if any) of the pipeline,</p> <p>in accordance with Rule 93.</p>	Final Plan Chapter 8 Attachments 8.1 – 8.6



Provision	NGR Requirement	Our AA Proposal Reference
92(1)	A full access arrangement must include a mechanism (a <i>reference tariff variation mechanism</i> ) for variation of a reference tariff over the course of an <i>access arrangement period</i> .	Final Plan Chapter 14 Section 14.4 Attachment 14.1 AA Document Annexure D
92(2)	The <i>reference tariff variation mechanism</i> must be designed to equalise (in terms of present values): (a) forecast revenue from reference services over the <i>access arrangement period</i> ; and (b) the portion of total revenue allocated to reference services for the <i>access arrangement period</i> .	Final Plan Chapter 14 Section 14.4 Attachment 14.1 AA Document Annexure D
93(1)	Total revenue is to be allocated between reference and other services in the ratio in which costs are allocated between reference and other services.	Final Plan Chapter 14 Section 14.4 Attachment 14.1 AA Document Annexure D
93(2)	Costs are to be allocated between reference and other services as follows: (a) costs directly attributable to reference services are to be allocated to those services; and (b) costs directly attributable to pipeline services that are not reference services are to be allocated to those services; and (c) other costs are to be allocated between reference and other services on a basis (which must be consistent with the revenue and pricing principles) determined or approved by the ERA.	Final Plan Chapter 14 Section 14.4 Attachment 14.1 AA Document Annexure D
94(1)	For the purpose of determining reference tariffs, customers for reference services provided by means of a distribution pipeline must be divided into tariff classes.	Final Plan Chapter 14 Section 14.4 Attachment 14.1 AA Document Annexure D
94(2)	A tariff class must be constituted with regard to: (a) the need to group customers for reference services together on an economically efficient basis; and (b) the need to avoid unnecessary transaction costs.	Final Plan Chapter 14 Section 14.4 Attachment 14.1 AA Document Annexure D
94(3)	For each tariff class, the revenue expected to be recovered should lie on or between: (a) an upper bound representing the stand alone cost of providing the reference service to customers who belong to that class; and (b) a lower bound representing the avoidable cost of not providing the reference service to those customers.	Final Plan Chapter 14 Section 14.4 Attachment 14.1 AA Document Annexure D

Provision	NGR Requirement	Our AA Proposal Reference
94(4)	<p>A tariff, and if it consists of 2 or more charging parameters, each charging parameter for a tariff class:</p> <p>(a) must take into account the long run marginal cost for the reference service or, in the case of a charging parameter, for the element of the service to which the charging parameter relates;</p> <p>(b) must be determined having regard to: (i) transaction costs associated with the tariff or each charging parameter; and (ii) whether customers belonging to the relevant tariff class are able or likely to respond to price signals.</p>	<p>Final Plan Chapter 14 Section 14.4</p> <p>Attachment 14.1</p> <p>AA Document Annexure D</p>
94(5)	<p>If, however, as a result of the operation of subrule (4), the service provider may not recover the expected revenue, the tariffs must be adjusted to ensure recovery of expected revenue with minimum distortion to efficient patterns of consumption.</p>	<p>Final Plan Chapter 14 Section 14.4</p> <p>Attachment 14.1</p> <p>AA Document Annexure D</p>
97(1)	<p>A <i>reference tariff variation mechanism</i> may provide for variation of a reference tariff:</p> <p>(a) in accordance with a schedule of fixed tariffs; or</p> <p>(b) in accordance with a formula set out in the access arrangement; or</p> <p>(c) as a result of a cost pass through for a defined event (such as a cost pass through for a particular tax); or</p> <p>(d) by the combined operation of 2 or more of the above.</p>	<p>Final Plan Chapter 14 Section 14.4</p> <p>Attachment 14.1</p> <p>AA Document Annexure D</p>
97(4)	<p>A <i>reference tariff variation mechanism</i> must give the AER adequate oversight or powers of approval over variation of the reference tariff.</p>	<p>Final Plan Chapter 14 Section 14.4</p> <p>Attachment 14.1</p> <p>AA Document Annexure D</p>
97(5)	<p>Except as provided by a <i>reference tariff variation mechanism</i>, a reference tariff is not to vary during the course of an <i>access arrangement period</i>.</p>	<p>Final Plan Chapter 14 Section 14.4</p> <p>Attachment 14.1</p> <p>AA Document Annexure D</p>
98(1)	<p>A full access arrangement may include (and the AER may require it to include) one or more incentive mechanisms to encourage efficiency in the provision of services by the service provider.</p>	<p>Final Plan Chapter 12</p> <p>Attachments 12.1</p> <p>AA Document Section 5</p>
98(2)	<p>An incentive mechanism may provide for carrying over increments for efficiency gains and decrements for losses of efficiency from one <i>access arrangement period</i> to the next.</p>	<p>Final Plan Chapter 12</p> <p>Attachments 12.1</p> <p>AA Document Section 5</p>
98(3)	<p>An incentive mechanism must be consistent with the revenue and pricing principles.</p>	<p>Final Plan Chapter 12</p> <p>Attachments 12.1</p> <p>AA Document Section 5</p>

Provision	NGR Requirement	Our AA Proposal Reference
99(1)	A full access arrangement may include a principle declared in the access arrangement to be fixed for a stated period.	AA Document Section 4.7
99(2)	A principle may be fixed for a period extending over 2 or more <i>access arrangement periods</i> .	AA Document Section 4.7
99(3)	A fixed principle approved before the commencement of these rules, or approved by the AER under these rules, is binding on the AER and the service provider for the period for which the principle is fixed.	AA Document Section 4.7
100	The provisions of an access arrangement must be consistent with: (a) the national gas objective; and (b) these rules and the Procedures as in force when the terms and conditions of the access arrangement are determined or revised.	Final Plan, supporting Attachments detailed in Attachment 1.3 and AA Document submitted on 1 July 2022
104(1)	Extension and expansion requirements may state whether the applicable access arrangement will apply to incremental services to be provided as a result of a particular extension to, or expansion of the capacity of, the pipeline or may allow for later resolution of that question on a basis stated in the requirements.	AA Document Section 8
104(2)	Extension and expansion requirements may, if the service provider agrees, state that the applicable access arrangement will apply to incremental services to be provided as a result of a particular extension to the pipeline made before the revision commencement date for the applicable access arrangement.	AA Document Section 8
104(3)	Extension and expansion requirements must state that the applicable access arrangement will apply to incremental services to be provided as a result of any expansion to the capacity of the pipeline during the access arrangement period and deal with the effect of the expansion on tariffs.	AA Document Section 8
104(4)	Extension and expansion requirements included in a full access arrangement must, if they provide that an applicable access arrangement is to apply to incremental services provided as a result of an extension to the pipeline:  (a) in the case of extensions made before the revision commencement date for the applicable access arrangement deal with:  (i) the effect of the extension on the opening capital base under rule 77(2)(c1); and  (ii) the effect of the extension on the description of reference services specified in the access arrangement proposal; and  (b) in all cases, deal with the effect of the extension on tariffs.	AA Document Section 8

Provision	NGR Requirement	Our AA Proposal Reference
105(1)	<p>Capacity trading requirements must provide for transfer of capacity:</p> <p>(a) if the service provider is registered as a participant in a particular gas market – in accordance with rules or Procedures governing the relevant gas market;</p> <p>or</p> <p>(b) if the service provider is not so registered, or the relevant rules or Procedures do not deal with capacity trading – in accordance with this rule.</p>	AA Document Section 7
105(6)	The capacity trading requirements may specify in advance conditions under which consent will or will not be given, and conditions to be complied with if consent is given.	AA Document Section 7
106(1)	<p>An access arrangement must provide for the change of a receipt or delivery point in accordance with the following principles:</p> <p>(a) a user may, with the service provider's consent, change the user's receipt or delivery point;</p> <p>(b) the service provider must not withhold its consent unless it has reasonable grounds, based on technical or commercial considerations, for doing so.</p>	AA Document Section 7
106(2)	The access arrangement may specify in advance conditions under which consent will or will not be given, and conditions to be complied with if consent is given.	AA Document Section 7