

Draft Decision

Access Arrangement by Transmission Pipelines
Australia Pty Ltd and Transmission Pipelines Australia
(Assets) Pty Ltd for the Principal Transmission System

Access Arrangement by Transmission Pipelines
Australia Pty Ltd and Transmission Pipelines Australia
(Assets) Pty Ltd for the Western Transmission System

Access Arrangement by Victorian Energy Networks
Corporation for the Principal Transmission System

Overview and Amendments required for approval

Date: 28 May 1998

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Commissioners:
Fels
Asher
Bhojani
Lieberman
Parry

OVERVIEW OF THE VICTORIAN GAS TRANSMISSION ACCESS ARRANGEMENTS DRAFT DECISION

1. Introduction

On 3 November 1997 the Energy Projects Division of the Victorian Department of Treasury and Finance (EPD) submitted the following three Access Arrangements relating to natural gas transmission pipelines to the Australian Competition and Consumer Commission (the Commission) for approval under the Victorian Third Party Access Code for Natural Gas Pipeline Systems (the Victorian Access Code) on behalf of the respective service providers:

- Principal Transmission System (PTS) Access Arrangement¹ — service provider — Transmission Pipelines Australia (TPA) and Transmission Pipelines Australia (Assets) (TPAA);
- Western Transmission System (WTS) Access Arrangement² — service provider — TPA and TPAA; and
- VENC Corp Access Arrangement covering the PTS³ — service provider — Victorian Energy Networks Corporation (VENC Corp).

The reforms to the natural gas industry in Victoria are far wider in scope than the introduction of these Access Arrangements for gas transmission pipelines. The wider reforms which have occurred, or are proposed in, Victoria include the introduction of new market arrangements for gas (including a market carriage capacity management system); the restructuring of the State owned gas business into three gas retailers, three gas distributors, one transmission business and an independent system operator; and the progressive introduction of contestability into the gas market.

Although the three Access Arrangements constitute separate applications for approval, the Commission's draft decision on each Access Arrangement has been reported within a single document, the *Draft Decision* document. In view of the degree of commonality between the assessment of the TPA's Access Arrangements for the PTS and WTS, the Commission's *Draft Decision* deals with these two Access Arrangements as one, with the exception of those areas in which divergence has necessitated separate considerations and conclusions.

2. The Access Arrangements

The pipeline networks required to transport gas from production to end users (whether transmission or distribution) are recognised as natural monopolies and will initially be subject to regulation in accordance with the requirements of the Victorian Access Code and ultimately the requirements of the National Access Code,⁴ which the Victorian Access Code

¹ Referred to in the *Draft Decision* and *Overview* as TPA's Access Arrangement for the PTS.

² Referred to in the *Draft Decision* and *Overview* as TPA's Access Arrangement for the WTS.

³ Referred to in the *Draft Decision* and *Overview* as VENC Corp's Access Arrangement for the PTS.

⁴ National Third Party Access Code for Natural Gas Pipeline Systems.

largely mirrors. The Victorian Government has introduced the Victorian Access Code in advance of the National Access Code to expedite the restructuring of the Victorian natural gas industry. The *Gas Industry Act 1994* (Victoria) confers powers on the Commission to assess the Victorian Access Arrangements for the transmission system, and on the Office of the Regulator-General Victoria (the ORG) with respect to the Victorian distribution system.

Access to Victorian natural gas transportation services will be through three transmission Access Arrangements and three distribution Access Arrangements. In addition, the Victorian market will be operated according to the Market and System Operations Rules (MSOR).

Access Arrangements for the three natural gas distribution systems, operated by Westar, Stratus and Multinet, were simultaneously submitted to the ORG. While the Commission and the ORG have liaised with each other in the course of reaching their decisions, the Commission's and the ORG's assessments of the proposed Access Arrangements are the subject of separate decisions.

The Commission has also released a separate *Draft Determination* which examines the authorisation applications for the MSOR which were submitted by VENCORP under Part VII of the *Trade Practices Act 1974* on 22 December 1997. The MSOR set out procedures for the operation of the wholesale spot market but also includes provisions for system security, connection to the transmission system, dispatch procedures and metering standards.

3. The Commission's assessment of the Access Arrangements

The Victorian Access Code establishes provisions with which an access arrangement must comply, and sets out criteria that the Commission must follow to assess an access arrangement. Critical features relevant to the Commission's assessment include:⁵

- an access arrangement must contain certain elements and satisfy certain principles as set out in sections 3.1 to 3.22 of the Victorian Access Code. While an arrangement cannot be opposed on the basis that it does not address a matter that section 3 does not require it to address, the Commission is given broad discretion in accepting or opposing an access arrangement;
- in making its assessment, the Commission must take into account the seven factors specified in section 2.24 of the Victorian Access Code. Specific reference tariff principles must be complied with in accordance with section 8 of the Victorian Access Code; and
- section 2 of the Victorian Access Code requires the Commission to issue a draft decision and sets out a procedure for requiring a revised access arrangement (if necessary). If the revised access arrangement is not approved, the Commission must draft and approve its own access arrangement. A final decision is required within six months, unless the Commission has extended the period.

Based on the Commission's assessment of the information provided by EPD and submissions received from interested parties, the Commission proposes (under section 2.13(b) of the

⁵ The Victorian Access Code also provides for ring fencing arrangements (section 4) and dispute resolution (section 6) which are not part of the current Access Arrangements approval process.

Victorian Access Code) not to approve TPA's Access Arrangements for the PTS and WTS or VENCORP's Access Arrangement for the PTS in their present forms. In order for the Commission to grant approval under section 2.16(c) to the proposed Access Arrangements, the amendments identified by the Commission must be made or substantially complied with or the Commission must be satisfied that the issues identified in the *Draft Decision* have been met. This overview provides a summary of the Commission's assessment of the Access Arrangements and lists the amendments identified by the Commission at Appendix A. These proposed amendments and discussion of the rationale for these amendments are set out in the relevant sections in the *Draft Decision*.

The Commission's full assessment of the Access Arrangements against the Victorian Access Code is contained in the *Draft Decision* document and its assessment of the MSOR is in its Authorisation *Draft Determination*. The Commission believes that the overall package of arrangements is likely to produce benefits to consumers. This is because of the potential efficiency benefits in terms of improved utilisation of infrastructure and capital than allowed for under the current regime. Efficiency benefits are also expected from price transparency in trading of the commodity and purchase of transmission services.

4. Broad issues in the Access Arrangements assessment

4.1 Information disclosure

The Commission is concerned that interested parties have not had the opportunity to form an opinion on the reasonableness of a number of policies and terms and conditions either for reasons of limited access to confidential material or because the policies and terms and conditions have not as yet been fully developed. In other cases, information has been made available some time after the Access Arrangements were lodged. In addition, some important elements are not contained in the Access Arrangements themselves but in specified regulatory instruments.

The Commission requires a number of amendments to be made to the Access Arrangements to help redress information inadequacy, including that the queuing policy for the PTS be fully developed prior to approval, that the service providers clearly specify the terms and conditions of access, and that certain pro forma or generic documents be developed and included in the Access Arrangements.

4.2 Market carriage capacity management system - Principal Transmission System

Many participants have expressed concern about what they see as novel, untried and complex market arrangements, in particular the market carriage capacity management policy proposed for the PTS. EPD contends that this system facilitates operation of the pool and helps promote retail competition.

Some submissions suggest that many users desire to use traditional 'firm' contract carriage services, and that consequently the Victorian Access Code requirement, that a services policy must contain one or more services which are likely to be sought by a significant part of the market, is not met. However, the Commission believes this is a misinterpretation of the Victorian Access Code. Retailers and potential retailers are likely to seek market carriage services because these services allow access to the system without the rigidity of traditional

take-or-pay contracts. This is particularly important as retailers' customer bases become less certain through contestability and because of the existing full allocation of PTS capacity.

The Victorian Access Code gives the Commission the power to require that a services policy include any service or services that the Commission thinks should be included. It is noteworthy that the market carriage option was inserted in the National and Victorian Access Codes late in the drafting process specifically to allow the Victorian gas reform proposals to be implemented. Market carriage is an integral part of the reforms, and EPD strongly opposes proposed alternatives such as a hybrid model combining both market and contract carriage services. The Commission does not propose to require amendments to include contract carriage services in the Access Arrangements.

A number of parties who prefer contract carriage services contend that they should not be required to pay for costs associated with VENCORP. However, it is impractical to allocate network costs according to users' stated preferences. Some costs such as system security must be borne regardless of the capacity management system and it is arguable that the existence of an independent system operator is a pre-requisite for a market carriage pipeline.

While it is uncertain how well the Victorian market carriage model will work, this alone is not sufficient justification to not approve the Access Arrangements. The Victorian Access Code only allows the Commission to not approve an access arrangement in terms of the requirements set out in section 2.24 of the Victorian Access Code. Although there has been some concern about whether the proposals might hinder interstate trade, the Commission is satisfied that the market carriage model proposed meets the Victorian Access Code requirements, and notes, for example, the potentially pro-competitive impact of the arrangements on retail entry.

4.3 Potential barriers to interstate trade

TPA's Victorian leg of the Victoria-NSW Interconnect is not proposed to be included in the Access Arrangements. AGL, in particular, is concerned that the possibility of incremental pricing on this pipeline could act as a deterrent to interstate trade in gas in eastern Australia. Amendments are proposed to the extensions/expansions policy to remove TPA's discretion to exclude its segment of the Interconnect without the Commission's consent.

5. Mandatory elements

As noted above, section 2.24 of the Victorian Access Code requires that an access arrangement must contain certain elements and satisfy certain principles (sections 3.1 to 3.22). While an arrangement cannot be opposed on the basis that it does not address a matter that section 3 does not require it to address, the Commission is given a broad discretion in accepting or opposing an access arrangement. The Commission is satisfied that the Access Arrangements contain all the required elements with the exception of reference tariff policies. Its assessment of the more contentious or substantial issues in relation to the relevant sections of the Victorian Access Code is summarised below.

5.1 Reference tariffs and reference tariff policy

The Commission has carefully examined TPA's proposed reference tariffs for compliance

with the reference tariff principles set out in section 8 of the Victorian Access Code. The Commission has concluded that, while the overall cost of service approach adopted complies with the principles, a number of elements do not. This includes the fact that TPA has not included a reference tariff policy in its Access Arrangements. Accordingly, a range of amendments is required to the Access Arrangements before the Commission will approve them.

The Commission has estimated that these amendments will together result in a reduction in proposed revenue to TPA of approximately 17 per cent, which will in turn result in reference tariffs that are, on average, lower than those proposed by the same percentage. The financial indicators consistent with reduced cash flows have been checked to ensure that the business would retain a satisfactory credit rating and could operate in a sustainable manner.

Asset valuation

For a new access arrangement being applied to an existing pipeline system, section 8.10 of the Victorian Access Code allows flexibility for asset valuation with depreciated actual cost (DAC) offering valuations at the lower end and depreciated optimised replacement cost (DORC) (as proposed by EPD) at the upper end of the acceptable range. This may reflect the conclusion that for an existing pipeline being brought into an access regime there is no economically ‘right’ valuation for the purpose of tariff determination and market determined approaches will involve a circular analysis.

The Victorian Access Code also notes other factors to be taken into account including expectations of the previous owner; how tariffs were determined in the past; historical returns; and the price paid for recently purchased assets. These factors can be broadly interpreted as requiring a fairness criterion recognising whether the owner has, to date, achieved a better (or worse) than market return on the assets in question. This may also be viewed as whether existing customers have been paying ‘over the top’ (or been subsidised) for the use of services in the past. In addition, the Victorian Access Code requires the Commission to consider a number of criteria including efficiency and international best practice in determining the value of the assets.

A number of informational shortcomings have made a thorough assessment difficult. In particular, problems arise because the pipeline services in question were, for the greater part of their existence, part of Gas and Fuel Corporation’s integrated business. With the integrated operation, customers paid for a bundled service which did not provide for separation of charges for transmission, distribution and the supply of gas.

However, support for the acceptance of the valuation arising from DORC on the basis of the ‘fairness’ criteria has been provided in an analysis by the ORG. This shows that, based on plausible assumptions about gas prices and retailing margins, the return on the combined transmission and distribution assets has been modest relative to what could have been charged under the proposed regulatory framework which, if it were operating from the inception of the pipeline, would now have a regulatory asset base somewhat in excess of the DORC valuation. This is not that surprising in view of the fact that, historically, State Governments have not sought to achieve a commercial return on their assets.

Finally the optimisation aspect of the DORC valuation and the fact that tariffs based on it reflect long run incremental costs means that many aspects of the best practice/economic efficiency criteria are satisfied.

Weighted average cost of capital

TPA has proposed a rate of return on assets based on a weighted average cost of capital (WACC) using capital asset pricing model (CAPM) benchmark comparisons to establish the cost of equity and historical interest rates to establish the cost of debt. The WACC calculations also take account of dividend imputation which is relevant under the Australian tax system. In the context of TPA's proposal, where a current cost accounting approach to asset valuation is used, the real rate of return becomes the critical parameter. This in turn requires any inflation rate forecast assumption (implicit in WACC proposals) to be specified and used consistently within the regulatory framework.

The Commission considered that concerns over TPA's assumptions used to derive WACC warrant a re-calculation of the proposed WACC and target revenues. The changes in financial parameters required for this included adjustments to interest rates and inflation assumptions to achieve internal consistency and better reflect current financial market conditions as required by the Victorian Access Code. Other required changes relate to the formulation of the CAPM/WACC model to more accurately reflect the role of dividend imputation and effective tax rates. New estimates based on the Commission's adjusted formulation and WACC figures proposed by the Commission to develop reference tariffs are shown below in Table 1.

Table 1: Proposed parameter setting for use in the derivation of tariffs

CAPM parameter	TPA proposal (% pa)	Commission proposal (% pa)
Expected Inflation Rate (f)	3.00	1.70
Risk Free Rate of Return	8.00	5.40
Interest Rate on Debt	8.75	6.20
Post-Tax Nominal WACC (r_0)	8.34	6.20
Post-Tax Real WACC (rr_0)	5.18	4.43
Pre-Tax Nominal WACC (pr_0)	13.02	8.82
Pre-Tax Real WACC (prr_0)	9.73	7.00

Level of reference tariffs

Broadly, the cost of service approach is used to determine the overall revenue ceiling, and then tariffs are set for eight pricing zones to generate that amount of revenue.⁶

The *Draft Decision* provides a detailed analysis of the tariff setting model, and the assumptions used to develop the proposed reference tariffs. The Commission concluded that a number of amendments are needed to TPA's Access Arrangements in order to improve cost-reflectivity and to resolve other concerns. These are listed in Appendix A and include:

⁶ Three tariffs are proposed for customers in each zone: an injection tariff, a peak withdrawal tariff and an anytime tariff.

- substituting a forecast injection of 990 TJ/day at Longford for the 970 TJ/day in the tariff model;
- altering withdrawal tariffs for Metro, Calder, South Hume, Echuca and North Hume for gas sourced from NSW;
- adjusting price control formula so the K factor will correct for any difference between forecast load factor and that actually achieved; and
- adjusting the price control formula so the K factor adjusts for the parameter mix differences between volumes actually achieved and those forecast in the Access Arrangement.

The Commission has also examined the proposed reference tariffs for VENCORP, the not-for-profit independent system operator, and notes that VENCORP has not included a reference tariff policy. The Commission understands industry's concerns expressed in submissions that there is limited incentive for VENCORP to operate efficiently. There are few avenues available for the introduction of incentives to a not-for-profit organisation, though the Commission believes industry participation on the board of VENCORP will produce some discipline.

The Commission has attempted to counter the concerns raised by opening VENCORP operations to greater public scrutiny. The Commission's *Draft Determination* of the MSOR includes a requirement that VENCORP consult with industry over its proposed fees each year and report to the Commission, and that at the end of each year VENCORP report to industry on its actual performance against its budget. The Commission proposes the same amendments to the MSOR for the purposes of this *Draft Decision*.

The Commission notes that VENCORP has constructed its tariffs so that for most users the total charge payable to VENCORP will be about one per cent of that user's total cost of delivered gas. VENCORP believes that this pricing will not distort consumption decisions. The Commission considers that while not a fixed charge, the charge approximates what might be imposed under a Ramsay pricing rule and therefore meets economic efficiency criteria.

The Commission has focussed on the need for VENCORP services to facilitate the operation of Access Arrangements proposed by TPA and the efficient operation of the market for gas. In this broader context, the structure of VENCORP and its tariffs may be considered acceptable as an integral part of an efficient gas market.

5.2 Services policy

An access arrangement must contain a services policy which describes one or more services that are likely to be sought by a significant part of the market, and any which in the regulator's opinion should be included. To the extent practicable and reasonable, a user must be able to obtain only those elements of a service that it wants.

The Commission notes in particular that:

- retailers and potential retailers — who constitute a significant part of the market — are likely to seek market carriage services because these services allow access to the network

services without the rigidity of traditional take-or-pay contracts. This will become increasingly important as retailers' customer bases become less certain through contestability and because of the existing full allocation of PTS capacity;

- the reference services have been unbundled; and
- it has not been persuaded to require contract carriage-based services on the PTS.

5.3 Terms and conditions

The Victorian Access Code requires that an access arrangement include terms and conditions which in the regulator's opinion must be reasonable.

The Commission is concerned that interested parties have not had the opportunity to form an opinion on the reasonableness of a number of terms and conditions because they have not as yet been fully developed or they have only been provided in confidence. In other cases important elements are not contained in the Access Arrangements themselves, but are instead contained in specified regulatory instruments. Amendments proposed for the Access Arrangements listed at Appendix A include:

- that the service provider clearly specifies the terms and conditions of access; and
- that certain pro forma or generic documents be developed and included in the Access Arrangements.

5.4 Trading policy

An access arrangement for a contract carriage pipeline must include a trading policy which allows users to transfer capacity under certain circumstances. There is no such requirement for a market carriage model. Therefore, no trading policy has been proposed for the PTS. The Commission understands that in practice, due to current and expected significant underutilisation, the WTS trading policy is unlikely to be used.

5.5 Queuing policy

An access arrangement must include a queuing policy for determining the priority given to users and potential users for obtaining access to a covered pipeline where there is some available capacity but not enough to meet all parties' requirements.

The service provider has proposed an auction-based queuing policy for the PTS, with all monies received to be used by VENCORP to help offset its costs for the next financial year. Concerns have been raised by interested parties about the use of an auction and the lack of detail currently available on the principles and procedures governing the auction process. While the Commission sees potential merit in the proposed auction process on the basis of economic efficiency, it requires amendments to the Access Arrangement so that the queuing policy for the PTS is fully developed prior to approval.

A traditional 'first-in-first-served' policy is proposed for the WTS. The Commission understands that in practice, due to current and expected significant underutilisation, the WTS queuing policy is unlikely to be used.

5.6 Extensions/expansions policy

The Victorian Access Code requires a policy which sets out the method used to determine whether or not an extension or expansion will be included in the access arrangement.

Under the provisions of the proposed Access Arrangements TPA is only required to seek the Commission's approval if it decides to include an extension/expansion in the Access Arrangement, and not if it decides to exclude an extension/expansion. The Commission does not consider that this is the intention of the Victorian Access Code. The Commission considers that all extensions and expansions outside the service envelope should be incorporated into the Access Arrangements unless the Commission considers otherwise. Consequently, the Commission will require amendments to TPA's Access Arrangements for the PTS and WTS to this effect prior to their approval.

Following the amendment to the PTS Access Arrangement, the Commission expects the Interconnect to be included in the PTS upon its completion unless it considers otherwise.

5.7 Review and expiry of the access arrangement

The Victorian Access Code requires a date to be set for revisions to be submitted to the Commission and a date for their commencement.

The proposed revisions submission date is currently 30 June 2002, six months prior to the proposed commencement date of the second regulatory period. However, this would not allow for the Commission to extend the review process (under section 2.22 of the Victorian Access Code), if required, and allow for TPA to respond to the decisions made by the Commission. The Commission also considers that a six month period would not provide adequate time for a successful public consultation process. The Commission requires amendments to make the revisions submission date 30 March 2002 for TPA's Access Arrangements for the PTS and WTS and VENCORP's Access Arrangement for the PTS.

6. Draft decision

The Victorian Access Code (section 2.13) requires that the Commission issue a draft decision that either:

- (a) proposes to approve the access arrangement; or
- (b) proposes not to approve the access arrangement and states the amendments (or nature of the amendments) which would have to be made to the access arrangement in order for the Commission to approve it.

The Commission's assessment is that the proposed Access Arrangements do not currently fully satisfy the criteria and principles set out in the Victorian Access Code. However, if the proposed amendments are incorporated, the Commission expects that the three Access Arrangements will meet the requirements of the Victorian Access Code.

Accordingly, the Commission is now issuing a *Draft Decision* that proposes not to approve the three Victorian gas transmission Access Arrangements. The Commission has identified amendments to the proposed Access Arrangements that must be made or substantially

complied with, or that satisfy the Commission that the issues identified in the *Draft Decision* have been met, in order for the Access Arrangements to be approved. These amendments are listed in Appendix A of this document.

The Victorian Access Code (section 2.14) also requires the Commission to provide a copy of its *Draft Decision* to the service provider, any person who made a submission on the matter and any other person who requests a copy, and request submissions from those persons by a specified date. The Commission (section 2.15 of the Victorian Access Code) must consider any submissions received by the specified date, and may also consider submissions received after that date.

The Commission invites submissions from interested parties on the Commission's *Draft Decision* on each of the three Access Arrangements. All submissions must be delivered to the Commission by 17 June 1998 and should be addressed to:

Mr Mark Pearson
Senior Assistant Commissioner
Gas Group
Australian Competition and Consumer Commission
PO Box 1199
Dickson ACT 2602

Fax: (02) 6243 1260

All submissions must be in writing, and preferably should also be supplied in electronic format compatible with Microsoft Word 6 for Windows.

After considering submissions, the Commission must issue a final decision (section 2.16 of the Victorian Access Code) which:

- (a) approves the access arrangement; or
- (b) does not approve the access arrangement and provides reasons why it does not approve the access arrangement and states the amendments (or nature of the amendments) which would have to be made to the access arrangement in order for the Commission to approve it and the date by which a revised access arrangement must be submitted; or
- (c) approves the revised access arrangement.

The Victorian Access Code (sections 2.17-2.19) provides for the service provider, if necessary, to provide a revised access arrangement which the Commission may approve.

If the service provider does not submit a revised access arrangement by the required date, or does so but the Commission is not satisfied it incorporates amendments specified in the final decision, the Commission must draft and approve its own access arrangement (section 2.20 of the Victorian Access Code). Such a decision is subject to merits review under the *Gas Industry Act 1994*.

The Commission proposes to issue its final decision on the three Access Arrangements on 2 July 1998. Based on this timetable, the proposed date of effect for the Access

Arrangements is 1 August 1998 (or a date at least 14 days after the release of the final decision, whichever comes second).

Appendix A: Amendments required for approval

In order for the Commission to grant approval under section 2.16(c) to the proposed Access Arrangements, the amendments listed below must be made or substantially complied with, or the Commission must be satisfied that the issues identified in the *Draft Decision* have been met.

Overall reference tariff methodology

PTS and WTS - TPA (see section 3.1.2 in *Draft Decision*)

Proposed Amendment - A3.1

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, the inflation index referred to throughout the Access Arrangements should be based on the CPI (All Groups - Average of eight State Capitals).

The initial capital base

PTS and WTS - TPA (see section 3.2.2 in *Draft Decision*)

Proposed Amendment - A3.2

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, the adjustment of the initial capital base valuation for the period 1 July 1997 to 1 January 1998 (or if appropriate, the commencement of Access Arrangements) should be based on actual changes in the CPI over the period, rather than the 3 per cent per annum rate in the proposed Access Arrangements.

New facilities investment and capital redundancy

PTS and WTS - TPA (see section 3.3.2 in *Draft Decision*)

Proposed Amendment - A3.3

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, clause 9.2(d) of the Tariff Order should be amended to allow the Commission, at the commencement of the subsequent regulatory period, to review, and if necessary to adjust, the asset base for wholly or partially redundant assets.

Rate of return

PTS and WTS - TPA (see section 3.5.2 in *Draft Decision*)

Proposed Amendment - A3.4

In order for the TPA's Access Arrangements for the PTS and WTS to be approved:

- (i) the WACC estimates and associated parameters forming part of the Access Arrangements should be amended to more accurately reflect the current financial market settings. In particular, the pre-tax real WACC should be set at 7.0 per cent and the forecast rate of inflation set at 1.7 per cent; and

- (ii) the target revenues and forecast revenues should be based on these new parameters, including the X factor, and applied in the derivation of individual tariffs.

Operations costs and working capital

PTS and WTS - TPA (see section 3.6.2 in *Draft Decision*)

Proposed Amendment A3.5

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, the operational costs component of the target revenues contained in the Access Arrangements should be reduced by an amount equal to 2.3 per cent per year (cumulative) throughout the initial regulatory period.

Proposed Amendment A3.6

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, the forecast return on working capital, for each year of the initial regulatory period, should be recalculated using the WACC consistent with amendment 3.4.

Cost allocation and tariff setting

PTS and WTS - TPA (see section 3.8.2 in *Draft Decision*)

Proposed Amendment A3.7

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, the return on, and of, TPA's indirect assets should be apportioned between reference and excluded services on the basis of the forecast revenue for those services or on some other basis agreed with the Commission.

Proposed Amendment - A3.8

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, either:

- (i) the Service Envelope Agreement should incorporate an obligation on TPA to provide the Corio loop and the Brooklyn compressor upgrade (or equivalent); or
- (ii) the Corio loop and Brooklyn compressor capital expenditure should be removed from the capital base and the tariff calculations.

Proposed Amendment - A3.9

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, TPA should amend the forecast injection at Longford in the tariff model from 970 TJ/day to 990 TJ/day.

Proposed Amendment - A3.10

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, TPA should offer users in the Metro, Calder, South Hume, Echuca and North Hume pricing zones a withdrawal tariff for gas sourced from NSW equal to the proposed Metro withdrawal tariff (as adjusted in compliance with all other relevant amendments required by the Commission in this *Draft Decision* document).

Proposed Amendment - A3.11

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, reference tariffs should be based on a forecast volume for the Interconnect of 10 PJ per year.

Proposed Amendment - A3.12

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, the Murray Valley tariff should be calculated using a proportion of yearly costs similar to the proportion of yearly volumes forecast for 1998.

Tariff path and incentive structure

PTS and WTS - TPA (see section 3.9.2 in *Draft Decision*)

Proposed Amendment - A3.13

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, the price control formula should be amended so that the K factor adjusts for any difference between the forecast load factor and that actually achieved.

Proposed Amendment - A3.14

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, clauses 5.2.2(a)(2) and 5.2.3(a)(2) of the MSOR should be amended by inserting the words 'and the Commission' after 'Participant'.

Proposed Amendment - A3.15

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, clause 6.1(g) of the Tariff Order should be deleted and the following clause inserted:

If the *Regulator* does not notify a *Regulated Entity* of the *Regulator's* decision regarding a statement given by the *Regulated Entity* under clause 6.1(a) or (c) by the later of the following dates:

- (a) 20 *business days* after the day on which the *Regulator* received the statement; or
- (b) 10 *business days* after the day on which the *Regulator* received VENCORP's forecasts;

the *Regulator* is deemed to have approved the statement with effect from the 21st *business day* after the *Regulator* receives the statement.

Proposed Amendment - A3.16

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, the price control formula should be amended so that the K factor adjusts for the parameter mix differences between volumes actually achieved and those forecast in the Access Arrangements (rather than those revised forecasts given to the Commission with an application for altered tariffs prior to the start of each new regulatory year).

Proposed Amendment - A3.17

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, the word 'distribution' should be inserted before both occurrences of the word 'tariff' in clause 9.2(i) of the Tariff Order.

PTS - VENCORP (see section 3.9.3 in *Draft Decision*)

Proposed Amendment - A3.18

In order for VENCORP's Access Arrangement for the PTS to be approved, clause 2.5 of the MSOR should be amended to the following effect:

- (i) VENCORP, before submitting its annual statement to the Regulator for approval in accordance with clause 6.1 of the Tariff Order, must publish a report setting out:
 - (a) the budgeted expenditures and revenues, and the structure and value of proposed market fees for the next regulatory year;
 - (b) the method used in determining the proposed structure and values; and
 - (c) an assessment of the extent to which the proposed structure and values comply with the principles set out in section 8.1 of the Victorian Access Code.
- (ii) In preparing its proposed structure and value of market fees, VENCORP must consider other fee structures and values in existence which are appropriate for comparison purposes.
- (iii) The above report must be made available to market participants and interested parties upon request, and a copy supplied to the Commission.
- (iv) Interested parties have 20 business days after the release of the report to make submissions to VENCORP.
- (v) VENCORP must consult interested parties and reconsider its fee structure and values in light of any submissions or comments that it receives.
- (vi) VENCORP must compile a report of any submissions and consultations. This report must be submitted to the Commission when fees are submitted to it for the annual regulatory review.
- (vii) One month after the end of each financial year, VENCORP must publish a report setting out its budgeted and actual expenditures and revenues for the previous financial year, and analysis of any significant variation. The report must take into account and separately identify, for the previous financial year,

current and projected expenditures and revenues in respect of each of VENCORP's activities/functions, including:

- system security;
- collection, storage and processing of metering data and billing and settlement of market transactions;
- costs of operating the dispute resolution function; and
- the funding requirements of the participant compensation fund.

The report must be made available to market participants and interested parties upon request, and a copy supplied to the Commission.

Assessment of reference tariffs and reference tariffs policy

PTS and WTS - TPA (see section 3.10.2 in *Draft Decision*)

Proposed Amendment - A3.19

In order for TPA's Access Arrangements for the PTS and WTS to be approved, TPA should develop and include in the Access Arrangements a reference tariff policy as required in section 3.7 of the Victorian Access Code.

PTS - VENCORP (see section 3.10.3 in *Draft Decision*)

Proposed Amendment - A3.20

In order for VENCORP's Access Arrangement for the PTS to be approved, VENCORP should develop and include in the Access Arrangement, a reference tariff policy as required in section 3.7 of the Victorian Access Code.

Terms and conditions

PTS and WTS - TPA (see section 4.3.2 in *Draft Decision*)

Proposed Amendment - A4.1

In order for TPA's Access Arrangements for the PTS and WTS to be approved, the service provider should clearly specify the terms and conditions of access to the PTS and WTS in a guide for users and in the Access Arrangements.

Proposed Amendment - A4.2

In order for TPA's Access Arrangements for the PTS and WTS to be approved, generic or pro forma documents should be developed by TPA and included in the Access Arrangements so that information currently contained in various confidential documents can be made available to users and potential users.

Proposed Amendment - A4.3

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, Access Arrangements should be amended to provide that all amendments to the external documents referred to in the Access Arrangements will not be incorporated in the Access Arrangements unless the procedure in section 2 of the Victorian Access Code is satisfied.

Proposed Amendment - A4.4

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, the Access Arrangements should be amended to provide that all amendments to the external documents referred to in the Access Arrangements will trigger an obligation on the service provider to submit revisions under section 2 of the Victorian Access Code.

PTS - VENCORP (see section 4.3.3 in *Draft Decision*)

Proposed Amendment - A4.5

In order for VENCORP's Access Arrangement for the PTS to be approved, the service provider should clearly specify the terms and conditions of access to the PTS in a guide for users and in the Access Arrangement.

Proposed Amendment - A4.6

In order for VENCORP's Access Arrangement for the PTS to be approved, the Access Arrangement should be amended to provide that all amendments to the external documents referred to in the Access Arrangement will not be incorporated in the Access Arrangement unless the procedure in section 2 of the Victorian Access Code is satisfied.

Proposed Amendment - A4.7

In order for VENCORP's Access Arrangement for the PTS to be approved, the Access Arrangement should be amended to provide that all amendments to the external documents referred to in the Access Arrangement will trigger an obligation on the service provider to submit revisions under section 2 of the Victorian Access Code.

Proposed Amendment - A4.8

In order for VENCORP's Access Arrangement for the PTS to be approved, the procedures for the initial allocation of authorised MDQ should be finalised and included in VENCORP's Access Arrangement.

Queuing policy

PTS and WTS - TPA (see section 4.6.2 in *Draft Decision*)

Proposed Amendment - A4.9

In order for TPA's Access Arrangement for the PTS to be approved, the queuing policy for the PTS should be finalised.

PTS - VENCORP (see section 4.6.3 in *Draft Decision*)

Proposed Amendment - A4.10

In order for VENCORP's Access Arrangement for the PTS to be approved, the procedures for the initial allocation of authorised MDQ should be finalised and included in the VENCORP Access Arrangement.

Extensions and expansions policy

PTS and WTS - TPA (see section 4.7.2 in *Draft Decision*)

Proposed Amendment - A4.11

In order for the TPA's Access Arrangements for the PTS and WTS to be approved, clause 5.7.2(b) of TPA's Access Arrangement for the PTS and clause 5.8.2(b) of TPA's Access Arrangement for the WTS should be amended to provide that any extension or expansion that is outside the service envelope is incorporated into the Access Arrangements unless the Commission decides otherwise.

Proposed Amendment - A4.12

In order for the TPA's Access Arrangement for the PTS to be approved, the Access Arrangement should be amended to provide that the Interconnect is to be incorporated into the Access Arrangement unless the Commission decides otherwise.

Review and expiry of the access arrangement

PTS and WTS - TPA (see section 4.8.2 in *Draft Decision*)

Proposed Amendment - A4.13

In order for TPA's Access Arrangements for the PTS and WTS to be approved, the revisions submission date should be amended to 30 March 2002.

PTS - VENCORP (see section 4.8.3 in *Draft Decision*)

Proposed Amendment - A4.14

In order for VENCORP's Access Arrangement for the PTS to be approved the revisions submission date should be amended to 30 March 2002.