



Final Approval

**Revised Access Arrangement for Gas
Distribution Networks:
Allgas Energy**

June 2006

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FOREWORD

The *Gas Pipelines Access (Queensland) Act 1998* (the Act) and the National Third Party Access Code for Natural Gas Pipeline Systems (the Code) provide for the Authority to approve access arrangements for ‘covered’ gas distribution networks in Queensland.

The current access arrangement in respect of the distribution network owned by Allgas Energy Limited (Allgas) expires on 30 June 2006.

On 30 September 2005, Allgas submitted a revised access arrangement and access arrangement information to the Authority for the five year period from 1 July 2006 to 30 June 2011.

In accordance with the Code, the Authority sought input from stakeholders and has published Draft and Final Decisions in relation to the revised access arrangement. In particular, the Authority

- requested submissions on the revised access arrangement and access arrangement information by 11 November 2005;
- released a Draft Decision on 21 December 2005;
- requested submissions on the Draft Decision by 27 February 2006;
- released the amended revised access arrangement submitted by Allgas on 27 February 2006 in response to the Draft Decision; and
- released a Final Decision on 22 May 2006.

The Authority’s Final Decision was to not approve the access arrangement in the form submitted. The Final Decision required a series of amendments to be made to the access arrangement and access arrangement information. Under section 2.38(b) of the Code, the Authority required Allgas to submit an amended revised access arrangement and access arrangement information incorporating the amendments required by the Final Decision by 5 June 2006.

Allgas’ response to the Final Decision

Allgas submitted a further amended version of its revised access arrangement (new revised access arrangement) and access arrangement information to the Authority on 7 June 2006, having sought and obtained a two day extension to the deadline set by the Authority. Allgas’ new revised access arrangement incorporated all of the amendments required by the Authority’s Final Decision. This is discussed in the following section.

The new revised access arrangement included Allgas’ proposed reference tariff schedules for 2006-07 and price path constraints for large (demand) and small (volume) customers for the next regulatory period. The revenue requirement and reference tariffs included in Allgas’ new revised access arrangement reflect those included in the Authority’s Final Decision.

Decision

The Authority is satisfied that Allgas’ new revised access arrangement and access arrangement information reflect the amendments that were required by the Authority in its Final Decision.

This Final Approval document constitutes the “further final decision” required by section 2.41 of the Code. The Authority’s “further final decision” is to approve the revised access arrangement, which will take effect from 1 July 2006.

The Final Approval should be read in conjunction with the Final Decision, copies of which are available from the Authority or the Authority’s website at www.qca.org.au.

1. ASSESSMENT OF ALLGAS' REVISED ACCESS ARRANGEMENT AND ACCESS ARRANGEMENT INFORMATION AGAINST THE REQUIRED AMENDMENTS

1.1 Terms and Conditions

Amendment 4.1

In order for Allgas' access arrangement to be approved, Allgas must amend section 3.4 of the terms and conditions so that Allgas will have an obligation to maintain the network in accordance with legislative and statutory requirements where relevant and, to the extent not covered by legislation, in accordance with good engineering and industry practice.

Allgas' response

Allgas has amended section 3.4 of the terms and conditions in accordance with the required amendment.

QCA position

Allgas has met the requirements of this amendment.

Amendment 4.2

In order for Allgas' access arrangement to be approved, Allgas must include provisions in sections 12 of its terms and conditions that:

- **set out the order of priority with which various types of users will be subject to interruptions or curtailments of reference services;**
- **sets out how Allgas will treat users of reference services with the same priority when interrupting or curtailing reference services, noting that users with the same priority should be treated in an equitable manner; and**
- **provide customers with the right to request an explanation from Allgas as to why they have been placed in a particular category.**

Allgas' response

Allgas has amended section 12 of the terms and conditions in accordance with the required amendment.

QCA position

Allgas has met the requirements of this amendment.

1.2 General Principles for Determining Revenue and Tariffs

Amendment 10.1

For Allgas' access arrangement to be approved, Allgas must remove the fixed principle for an efficiency carry-over mechanism.

Allgas' response

Allgas has removed all references to the fixed principle in its revised access arrangement.

QCA position

Allgas has met the requirements of this amendment.

1.3 Rolling Forward the Capital Base

Amendment 11.1

In order for Allgas' access arrangement to be approved, Allgas must amend its roll-forward of the capital base for the current period in accordance with Table 11.6.

Table 11.6 from the Final Decision is reproduced below.

Table 11.6: Roll-forward of Allgas' capital base to 30 June 2006 (\$m, nominal)

	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>
Opening assets	202.6	217.6	234.3	252.4	273.2
Less depreciation	4.7	5.1	5.2	5.3	5.6
Less disposals	0.04	0.33	3.14	0.33	0.13
Plus inflation	5.9	6.1	6.0	6.5	8.0
Plus capex	13.8	16.1	20.4	19.9	27.8
Closing assets	217.6	234.3	252.4	273.2	303.1

Numbers may not add due to rounding.

Allgas' response

Allgas has amended its access arrangement information to include the roll forward of its capital base to 30 June 2006 as shown in Table 11.6.

QCA position

Allgas has met the requirements of this amendment.

Amendment 11.2

In order for Allgas' access arrangement to be approved, Allgas must amend its forecast capital expenditure for the five years of the next access arrangement period in accordance with Table 11.10.

Table 11.10 from the Final Decision is reproduced below.

Table 11.10: Forecast capital expenditure, 2006-07 to 2010-11 (\$m, nominal)

	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>
Customer requested	12.81	14.10	15.56	16.82	19.40
Augmentation	1.49	2.46	2.94	5.54	0.09
Network renewal	6.52	6.51	6.59	6.66	6.73
Non-system	6.90	2.98	3.06	3.15	3.23
Total	27.72	26.05	28.15	32.17	29.45
ECG total	27.72	26.05	28.15	32.17	29.45
Allgas total	30.7	29.2	31.8	34.5	35.9

Numbers may not add due to rounding.

Allgas' response

Allgas has amended its access arrangement information to include the forecast capital expenditure shown in Table 11.10.

QCA position

Allgas has met the requirements of this amendment.

Amendment 11.3

In order for Allgas' access arrangement to be approved, Allgas must amend its depreciation charges for the five years of the access arrangement period must be amended in accordance with Table 11.12.

Table 11.12 from the Final Decision is reproduced below.

Table 11.12: Forecast depreciation, 2006-07 to 2010-11 (\$m, nominal)

	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>
Forecast	8.1	9.5	10.4	11.4	11.9

Allgas' response

Allgas has amended its access arrangement information to include the forecast depreciation shown in Table 11.12.

QCA position

Allgas has met the requirements of this amendment.

Amendment 11.6¹

In order for Allgas' access arrangement to be approved, Allgas must amend its roll-forward of the capital base for the five years of the access arrangement period in accordance with Table 11.14.

Table 11.14 from the Final Decision is reproduced below.

Table 11.14: Roll-forward of the capital base, 2006-07 to 2010-11 (\$m, nominal)

	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>
Opening assets	303.2	331.6	357.7	385.7	417.7
Plus capex	27.7	26.1	28.2	32.2	29.5
Less disposals	0.0	0.0	0.0	0.0	0.0
Plus inflation	8.8	9.5	10.3	11.1	12.0
Less depreciation	8.1	9.5	10.4	11.4	11.9
Closing assets	331.6	357.7	385.7	417.7	447.2

Numbers may not add due to rounding.

Allgas' response

Allgas has amended its access arrangement information to include the roll forward of the capital base to 30 June 2011 as shown in Table 11.14.

QCA position

Allgas has met the requirements of this amendment.

1.4 Rate of Return**Amendment 12.1**

Allgas is required to amend its WACC value to 8.75 per cent.

Allgas' response

Allgas has amended the access arrangement to incorporate a WACC of 8.75 per cent.

QCA position

Allgas has met the requirements of this amendment.

¹ There is no Amendment 11.4 or 11.5.

1.5 Non-Capital Costs

Amendment 13.1

In order for Allgas' access arrangement to be approved, Allgas must amend its forecast non-capital costs (excluding UAG) over the next regulatory period in accordance with Table 13.3.

Table 13.3 from the Final Decision is reproduced below.

Table 13.3: Forecast non-capital expenditure (excluding UAG), 2006-07 to 2010-11 (\$m, nominal)

<i>Type of Cost</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>
Inspection	1.29	1.73	1.73	1.83	1.72
Planned Maintenance	3.04	3.03	3.00	2.67	2.82
Corrective Maintenance	2.52	2.46	2.34	2.03	1.87
Customer Service	0.99	0.99	1.08	1.17	1.25
Maintenance Planning and Support	2.48	2.27	2.35	2.33	2.32
Network Development	0.60	0.60	0.60	0.60	0.60
Ancillary Services	0.60	0.59	0.68	0.78	0.77
Total	11.52	11.67	11.78	11.41	11.35
ECG Total	11.34	11.50	11.63	11.27	11.22
Allgas' Total	12.00	12.00	12.00	11.80	11.80

Allgas' response

The access arrangement information (section 6.2) incorporates the non-capital costs outlined in Table 13.3 of the Authority's Final Decision.

QCA position

Allgas has met the requirements of this amendment.

Amendment 13.2

In order for Allgas' access arrangement to be approved, Allgas must amend its forecast UAG over the next access arrangement period in accordance with Table 13.5

Table 13.5 from the Final Decision is reproduced below.

Table 13.5: Forecast UAG, 2006-07 to 2010-11 (\$m, nominal)

	2006-07	2007-08	2008-09	2009-10	2010-11
UAG	1.5	1.4	1.4	1.3	1.2

Allgas' response

The access arrangement information (section 6.5) incorporates the forecast UAG costs outlined in Table 13.5 of the Authority's Final Decision.

QCA position

Allgas has met the requirements of this amendment.

Amendment 13.3

In order for Allgas' access arrangement to be approved, Allgas must include the forecast cost of tax as outlined in Table 13.7.

Table 13.7 from the Final Decision is reproduced below.

Table 13.7: Forecast tax, 2006-07 to 2010-11 (\$m, nominal)

	2006-07	2007-08	2008-09	2009-10	2010-11
Forecast Tax	2.8	2.7	2.8	3.2	3.5
Regulatory tax	1.4	1.3	1.4	1.6	1.8

Allgas' response

The access arrangement information (section 6.6) incorporates the forecast tax costs outlined in Table 13.7 of the Authority's Final Decision.

QCA position

Allgas has met the requirements of this amendment.

1.6 Reference Tariffs and Tariff Paths**Amendment 15.1**

In order for Allgas' access arrangement to be approved, Allgas must revise its total revenue requirements for each year of the access arrangement period to those indicated in Table 15.2.

Table 15.2 from the Final Decision is reproduced below.

Table 15.2: Total revenue targets, 2006-07 to 2010-11 (\$m, nominal)

<i>Year end 30 June</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>
Return on capital	27.7	30.2	32.5	35.2	37.8
Return of capital (depreciation)	8.1	9.5	10.4	11.4	11.9
Non-capital costs	11.7	11.8	11.9	11.6	11.5
Unaccounted for gas	1.5	1.4	1.4	1.3	1.2
Tax (net of franking credits)	1.4	1.3	1.4	1.6	1.8
Disposals (2001-2006)	0.04	0.04	0.04	0.04	0.05
Less inflationary gain	8.8	9.5	10.3	11.1	12.0
Less capital contributions	0.5	0.5	0.5	0.5	0.5
Less income from ancillary services	0.6	0.6	0.7	0.8	0.8
Total	40.6	43.6	46.2	48.6	51.0

Numbers may not add due to rounding. Figures are end-year values.

Allgas' response

Allgas has amended its access arrangement information to include the total revenue targets shown in Table 15.2.

QCA position

Allgas has met the requirements of this amendment.

Amendment 15.2

In order for Allgas' access arrangement to be approved, Allgas must amend:

- **the weighted average price path for demand customers to CPI-0.2% over the revised access arrangement period (with a value in 2005-06 of \$419.76 per GJ of MDQ);**
- **the weighted average price path for volume customers to CPI over the revised access arrangement period (with a value in 2005-06 of \$10.43 per GJ).**

Allgas' response

Allgas has amended its access arrangement and access arrangement information to include a weighted average price path over the next access arrangement period of CPI-0.2% for demand customers and CPI for volume customers.

QCA position

Allgas has met the requirements of this amendment.

Amendment 15.3

In order for Allgas' access arrangement to be approved, Allgas must revise its side constraint to be a maximum of CPI+3% or any higher amount approved by the Authority where this increase can be demonstrated to result in tariffs becoming more cost reflective.

Allgas' response

Allgas has amended its access arrangement and access arrangement information to include the side constraint of CPI+3%, and has undertaken to seek the Authority's approval for any price increases above this constraint where this would promote cost reflectivity.

QCA position

Allgas has met the requirements of this amendment.

Amendment 15.4

In order for Allgas' access arrangement to be approved, Allgas must revise its tariff schedules such that they are consistent with the revenue requirement amendments of this Final Decision.

Allgas' response

Allgas has included revised tariff schedules in its access arrangement which are consistent with the revenue requirement of the Final Decision.

QCA position

Allgas has met the requirements of this amendment.