OffGAR
WESTERN AUSTRALIA
OFFICE OF GAS ACCESS REGULATION

Issues Paper

To Assist with Submissions on the Proposed Access Arrangement for the AlintaGas Mid West and South West Gas Distribution Networks

July 1999

1. INTRODUCTION

On 30 June 1999, AlintaGas submitted a proposed Access Arrangement and Access Arrangement Information for the Mid West and South West Gas Distribution Networks (the Gas Distribution Networks), for approval under the *National Third Party Access Code for Natural Gas Pipeline Systems* (the Code).

The proposed Access Arrangement and Access Arrangement Information documents are available at no cost from the Office of Gas Access Regulation (*Off*GAR) web site (www.offgar.wa.gov.au). Printed copies of the documentation are also available for $25.00 per set. Requests for the documents can be made to:

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A notice was issued to interested parties and advertisements were published in 'The West Australian' and 'The Australian' on Wednesday 7 July 1999, advising that the proposed Access Arrangement and Access Arrangement Information has been lodged by AlintaGas.

The notice and advertisements invited public submissions to be lodged with O*ff*GAR by 4 pm Thursday 5 August 1999.

After considering all public submissions, the Western Australian Gas Access Regulator (the Regulator) is required to issue a Draft Decision. The Code requires that if the Regulator proposes not to approve the Access Arrangement, the Draft Decision must state the amendments (or nature of the amendments) which need to be made for it to be approved.

After publication of the Draft Decision, interested parties will be given a further opportunity to make submissions (by a specified date). The Regulator is required to issue a Final Decision on the proposed Access Arrangement after considering these submissions.

The purpose of this Issues Paper is to:

- list a number of issues that have been identified as relevant to assessing the Access Arrangement and Access Arrangement Information for the Gas Distribution Networks submitted by AlintaGas; and
- assist interested parties in making submissions on the issues raised in this paper and other relevant issues that they consider should be examined in the assessment of the proposed Access Arrangement.

2. BACKGROUND

2.1 The Network

The AlintaGas network consists of those pipelines owned and operated by AlintaGas comprising the high pressure system and the medium pressure/low pressure system[1]. The networks covered by the Access Arrangement include the following natural gas reticulation areas:

- Perth Region, North Sheet
- Perth Region, South Sheet
- Country Region, Bunbury
- Country Region, Busselton
- Country Region, Eneabba
- Country Region, Geraldton
- Country Region, Harvey

2.2 Access Arrangements in Context

The Code, given effect by the *Gas Pipelines Access (WA) Act 1998*, provides for the regulation of access to gas transmission and distribution systems in Western Australia. Service providers of gas pipelines and gas distribution systems covered by the Code are required to submit an Access Arrangement for approval by the Regulator within a specified time.

The purpose of an Access Arrangement is to provide details about the terms and conditions including price upon which an independent third party (user) can gain access to the gas distribution system.

The Code (sections 3.1 to 3.20) specifies a number of minimum requirements for the content of an Access Arrangement. The central requirement is the inclusion of one or more Reference Services (and applicable Terms and Conditions) and Reference Tariffs for those services. This requires the description of one or more standard services provided by the distribution system that are to be made available to Users, and the Tariffs that are applicable to those services.

A number of other principles and procedures governing access (such as queuing policy, capacity trading, charging policies for extensions and expansions) also have to be specified. The Code requires the Regulator to assess each proposed Access Arrangement against the principles in section 2.24 of the Code which include:

- the legitimate business interests of the Service Provider;
- firm and binding contractual obligations of the Service Provider or other persons (or both) already using the covered pipeline;

[1] High pressure system and medium pressure/low pressure system are defined on pages 1 and 2 of the Access Arrangement document.

- the operational and technical requirements necessary for the safe and reliable operation of the covered pipeline;
- the economically efficient operation of the covered pipeline;
- the public interest, including the public interest in having competition in markets (whether or not in Australia);
- the interests of users and prospective users; and
- any other matters that the Regulator considers are relevant.

It is important to note that the services (and Terms & Conditions including price) that are described in an Access Arrangement do not necessarily preclude a Service Provider and User from agreeing to the provision of a different service at a different price. In addition, the dispute resolution provisions of section 6 of the Code are available should there be a dispute as to the terms of supply of such other services.

The Regulator may approve an Access Arrangement only if satisfied that the Access Arrangement contains the elements and satisfies the principles set out in sections 3.1 to 3.20 of the Code. An Access Arrangement cannot be rejected on the basis that it does not address a matter that section 3 of the Code does not require it to address. Notwithstanding, the Regulator has a broad discretion in accepting or rejecting an Access Arrangement.

3 ISSUES FOR CONSIDERATION

This section raises a number of issues that have been identified as relevant to assessing the AlintaGas proposed Access Arrangement and Access Arrangement Information for the Gas Distribution Networks. Interested parties are invited to comment in response to the issues raised.

As initially raised in section 2 of this Issues Paper, the required contents of an Access Arrangement include the following elements:

- **a services policy** which must include a description of one or more services that the Service Provider will offer to users and prospective users;
- **reference tariffs and reference tariff policy**, including one or more reference tariffs. Tariffs must be determined according to the reference tariff principles in section 8 of the Code;
- **terms and conditions** on which the Service Provider will supply each reference service;
- a statement that the covered pipeline is either a **contract carriage or market carriage** pipeline (capacity management policy);
- **a trading policy** that enables a user to trade its right to obtain a service (on a contract carriage pipeline) to another person;
- **a queuing policy** to determine users' priorities in obtaining access to spare and developable capacity on a pipeline;
- **an extensions/expansions policy** to determine the treatment of an extension or expansion of a pipeline under the Code; and

- **a review date** by which revisions to the Access Arrangement must be submitted, and a date by which the revisions are intended to commence.

3.1 Services Policy

Sections 3.1 and 3.2 of the Code require an Access Arrangement to include a services policy which must include a description of one or more services that the Service Provider will make available to users and prospective users. The policy must contain one or more services which are likely to be sought by a significant part of the market, and any service or services that in the Regulator's opinion should be included in the services policy.

To the extent practicable and reasonable, a Service Provider should make available elements of a service if requested by users and prospective users and apply a separate tariff for each element of such a service.

AlintaGas proposes to offer the following classes of service under its proposed Access Arrangement.

(a) Reference Services

Four reference services are proposed:

(i) Reference Service A is a reference service with a related reference tariff by which a user may take delivery of gas at a delivery point on either the high pressure system or the medium pressure/low pressure system, where at the time the user submitted the application: it was reasonably anticipated that the user would take delivery of 35 terajoules or more of gas during each year of the Haulage Contract; and the user requested a contracted peak rate of 10 gigajoules or more per hour.

(ii) Reference Service B1 is a service by which a user may take delivery of gas at a delivery point on either the high pressure system or the medium pressure/low pressure system, where at the time the user submitted the application, either (or both) (a) it was reasonably anticipated that the user would take delivery of less than 35 terajoules of gas during one or more years of the Haulage Contract; or (b) the user requested a contracted peak rate of less than 10 gigajoules per hour; and the user requested user specific delivery facilities.

(iii) Reference Service B2 is a service by which a user may take delivery of gas at a delivery point on the medium pressure/low pressure system and using standard delivery facilities which include a standard 12 m^3/hr meter.

(iv) Reference Service B3 is a service by which a user may take delivery of gas at a delivery point on the medium pressure/low pressure system and using standard delivery facilities which include a standard 6 m^3/hr meter.

Issues for Consideration - Reference Services

- Do these proposed reference services reasonably cover the range of services that will be sought by a significant part of the market?
- Are the services proposed easily understood by users and prospective users?
- Do the proposed services impose any unreasonable or unnecessary constraints?

(b) Non-reference Services

An Interconnection Service in respect of the interconnection between a sub-network and a pipeline which is, or is to become, an interconnected pipeline.

Division 4 of Chapter 2 of the proposed Access Arrangement identifies listed ancillary services which AlintaGas will offer to users of Reference Service B2 or Reference Service B3 at a set tariff. These include a Disconnection Service, a Reconnection Service, an Additional Meter Reading Service and an Additional Meter Testing Service. AlintaGas believe that each of the services in Division 4 of Chapter 2 of the Access Arrangement is likely to be sought by a significant part of the market which uses Reference Service B2 and Reference Service B3.

If a user of Reference Service A or Reference Service B1 requests a service equivalent to a Disconnection Service, a Reconnection Service, an Additional Meter Reading Service or an Additional Meter Testing Service, then AlintaGas will negotiate the terms and conditions and prices of providing that service. These will be provided other than as listed ancillary services.

Issues for Consideration - Non-reference Services

- Are proposed non-reference services adequately provided for by the Access Arrangement?
- Are there any other services that should be included in the services policy?
- Is the proposed approach for agreeing an Interconnection Service between a sub-network and a pipeline adequate for a gas distribution system?

3.2 Trading policy

Sections 3.9 to 3.11 of the Code set out the requirements of a trading policy. If a pipeline is a contract carriage pipeline (as is proposed by AlintaGas for the Mid-West and South-West Gas Distribution Networks), the Access Arrangement must include a trading policy which explains how users may trade their rights to a service with other persons.

AlintaGas proposes that in the case of a bare transfer[2], the transferee must notify AlintaGas beforehand that it wishes to utilise the portion of the contracted quantity and the nature of the contracted quantity subject to the bare transfer.

For other transfers, AlintaGas proposes that a user may transfer or assign all or part of its contracted capacity with the prior written consent of AlintaGas. AlintaGas also proposes to only withhold its consent on reasonable commercial or technical grounds.

Issues for Consideration - Trading Policy

- Does the proposed trading policy sufficiently provide for users to trade their rights to obtain services with other persons?
- Are matters of commercial information handled appropriately?
- Are the obligations placed on the parties wishing to trade in rights to a service appropriate?
- Is the proposed trading policy likely to facilitate competition?
- Does the policy reasonably balance the interests of the Service Provider and other parties?

3.3 Queuing Policy

Sections 3.12 to 3.15 of the Code set out the requirements for a queuing policy. An Access Arrangement must include a queuing policy that determines the priority given to users and prospective users for obtaining access to a covered pipeline/distribution system and for seeking dispute resolution under section 6 of the Code.

The policy must set out sufficient detail to enable users and prospective users to understand in advance how it will operate and, to the extent reasonably possible, accommodate the legitimate business interests of the Service Provider, users and prospective users, and generate economically efficient outcomes.

AlintaGas is proposing that it will establish and maintain a queuing process for the orderly allocation of capacity. The proposed queuing policy is applicable to all applications for services by prospective users.

When spare capacity becomes available, that capacity will be progressively offered to each prospective user in a first come first served queue determined by reference to the time at which AlintaGas actually received the application.

[2] Where a user transfers or assigns all or part of its contracted capacity and the terms of the contract with the Service Provider are not altered as a result of the transfer or assignment this is referred to as a 'bare transfer'.

Issues for Consideration - Queuing Policy

- Are there sufficient details in the proposed queuing policy that would enable users and potential users to understand how the queuing policy will operate?
- Does the proposed queuing policy accommodate the legitimate business interests of the Service Provider, users and prospective users?
- Is the proposed policy consistent with a reasonable balance of interests between the Service Provider and users?

3.4 Extensions/Expansions Policy

Section 3.16 of the Code requires an Access Arrangement to include an extensions/expansions policy that sets out the method to determine which extensions and expansions will be treated as part of the covered pipeline and, if covered, how they will affect reference tariffs.

AlintaGas proposes that new facilities investment which is part of, or directly connected with an existing sub-network is to be treated as part of the AlintaGas Gas Distribution Network (and may consequently be included in the capital base) for the purposes of this Access Arrangement. The Access Arrangement further states that AlintaGas will decide, with the Regulator's approval, whether any new extension or expansion will be part of the AlintaGas Gas Distribution Network.

In addition to the applicable reference tariffs, AlintaGas may apply a tariff surcharge to users of expansion/extension facilities where permitted by and subject to the provisions of the code.

Issues for Consideration - Extensions/Expansions Policy

- Does the proposed Access Arrangement adequately specify how extensions and expansions will affect reference tariffs?
- To what extent, if any, would tariffs associated with roll-in likely result in incumbent users subsidising new customers?
- Is the proposed extensions/expansions policy consistent with the minimum requirements of the Code?
- Is the proposed extensions/expansions policy consistent with a reasonable balance of interests between the Service Provider and users?

3.5 Terms and Conditions Other Than Price

Access arrangements must contain the Terms and Conditions applicable to Reference Services (section 3.6 of the Code). These will cover such matters as nominations/balancing/capacity management/penalties, as well as clauses relating to liability, contract term etc. To be approved, these terms and conditions must be considered reasonable by the Regulator.

In Chapter 2 of its Access Arrangement AlintaGas proposes that its reference services will be provided under a service agreement on terms and conditions consistent with the principles contained in Schedules 4 to 7 to the Access Arrangement.

Issues for Consideration - Terms and Conditions Other Than Price

- Are the restrictions placed upon access seekers to meet distribution network operation objectives the minimum necessary to achieve this objective?
- Will the proposed terms and conditions facilitate competition?
- Is the allocation of risk between the Service Provider and users implied by the terms and conditions consistent with economic efficiency?
- Is the allocation of risk implied by the terms and conditions consistent with proposed charges including Reference Tariffs?
- Does the Access Arrangement clearly identify the relevant terms and conditions, which enable a prospective user to be sufficiently well informed before making a specific access request?
- Should a generic service agreement be included as part of the Access Arrangement?

3.6 Commencement and Review of an Access Arrangement

(a) Commencement of the Access Arrangement

AlintaGas has proposed that the commencement date of this Access Arrangement will be the later of:

- 1 January 2000; and
- the date specified by the Regulator in its approval of the Access Arrangement.

(b) Review of the Access Arrangement

The Code requires an Access Arrangement to include a date by which the Service Provider must submit revisions to the Access Arrangement, and the commencement date for those revisions. AlintaGas is proposing that revisions to the Access Arrangement will be submitted to the Regulator for approval on or before 30 June 2004 (the revisions submission date). AlintaGas expects the revisions to this Access Arrangement will commence on 1 January 2005. This would imply that the proposed Reference Tariffs would remain in place for 5 years before being reviewed (except for the annual adjustments for inflation and a productivity offset). This term between reviews is referred to as the Access Arrangement Period.

As addressed in section 3.8(e), the choice of the term between tariff reviews involves a trade-off between different efficiency objectives. In addition, the choice of this term has implications for the extent of uncertainty that is faced by market participants.

Issues for Consideration - Commencement & Review of the Access Arrangement

- Does the length of the Access Arrangement Period appropriately balance the need to recognise the rapidly changing nature of the natural gas industry and the uncertainty which arises in such an environment (which suggests a short Access Arrangement period) against the desire to reduce uncertainty created by the regulatory process (which typically coincides with longer periods)?
- Should a trigger for a review of the Access Arrangement be included? If so, what trigger or triggers?
- Should new or increased taxes including the GST and any costs of regulatory changes be automatically passed on to users as proposed by AlintaGas or should such events be treated as major events triggering a review of the Access Arrangement?
- Should reductions in imposts such as taxes and costs of regulatory changes be automatically passed on to users in the same way as increases in such imposts proposed by AlintaGas?
- Should any principles upon which an Access Arrangement is based be agreed to extend beyond the revisions date of the Access Arrangement?

3.7 Implications for Competition and Economic Efficiency

There can be adverse implications for competition and economic efficiency as a result of the Access Arrangement being either too restrictive or too liberal. The objective is to strike a balance between the interests of owners/operators, Users and the broader community.

If an Access Arrangement proposes a tariff for Reference Services that is higher than appropriate it:

- may unreasonably discourage downstream uses or consumers of gas; and
- may lead to lower employment and growth opportunities for the State.

If an Access Arrangement proposes a tariff that is too low it:

- may risk the long run sustainability of the pipeline service, with revenue cash flows being insufficient to finance needed capital expenditure and maintenance;
- could deter future investment in the gas pipeline industry;
- could deter future investment in both upstream and downstream industries to the extent that both customers and producers are exposed to inadequate service reliability and capacity; and
- could result in lower employment and development opportunities for downstream industry.

These broad economic considerations may be relevant in the preparation of submissions to O*ff*GAR. This is not an exhaustive list, and interested parties are free to identify and address any other issues they may consider relevant.

Issue for Consideration - Implications for Competition and Economic Efficiency

- Are there any such implications which the Regulator should take into account?

3.8 Reference Tariffs

One of the key objectives is to provide the Service Provider with a stream of revenue sufficient to cover the efficient cost of providing pipeline services. A second key objective is to provide the Service Provider with an incentive to be efficient.

Estimating a revenue level and developing a tariff methodology that meets these objectives is central to striking an appropriate balance between the interests of providers and users and in promoting competition and efficiency in upstream and downstream markets. Issues involving the revenue requirement which parties may wish to consider in preparing their submissions are considered below.

The main components making up the required revenue are:-

- the initial Capital Base and the Regulatory Rate of Return which together provide for an acceptable return on assets;
- expenditure on new capital;
- operation and maintenance requirements; and
- economic depreciation of assets (return of capital).

(a) Initial Capital Base

The Code requires the value assigned to existing assets (the initial Capital Base) to be established normally between the Depreciated Actual Cost (DAC) and the Depreciated Optimised Replacement Cost (DORC) (section 8.10 - 8.11 of the Code). Within this range, the Regulator is required to exercise judgement, having regard to a number of factors, including:

- economic efficiency;
- other well recognised methodologies for asset valuation;
- reasonable expectations of all parties;
- historical returns to the asset; and
- the price paid in a recent sale of the asset (and the circumstances of that sale).

The use of the DORC methodology involves the following steps:

- determining the optimal size and configuration of pipeline assets;
- establishing the replacement cost of each asset; and
- writing down the asset for the expired portion of its economic life.

The initial Capital Base for the pipeline will be a major determinant of the revenue to the Service Provider and tariffs paid by Users for a significant period of time.

Issues for Consideration - Initial Capital Base

- Does the proposed initial Capital Base by AlintaGas meet the requirement of the Code?
- Have the factors in section 8.10 of the Code for the valuation of the pipeline network been applied appropriately?
- Have any specific asset valuation methodologies been applied correctly and in accordance with prevailing industry practice?

(b) Regulatory Rate of Return

The Regulatory Rate of Return is the return to be provided on the Capital Base for the purposes of determining the required revenue.

The Code requires the Rate of Return to reflect an estimate of the cost of capital (as set in the market for assets) that is associated with the provision of the regulated services. The Code makes reference to recognised models from finance theory for estimating costs of capital, such as the Capital Asset Pricing Model. The AlintaGas Access Arrangement Information (sections 3.7 to 3.10) outlines the approach used for calculating the rate of return on equity and debt using the weighted average cost of capital and the Capital Asset Pricing Model.

Issues for Consideration - Regulatory Rate of Return

- Does the proposed Rate of Return that has been used to derive Reference Tariffs reflect a reasonable estimate of the market-determined cost of capital for the relevant assets?
- Have the tariff models been applied (such as from finance theory) in an appropriate and consistent manner?
- Do the inputs that have been used in these models (such as estimates of the risk free rate; asset or equity betas; market risk premium; treatment of taxation and dividend imputation etc.) appear reasonable?

(c) New Capital Expenditure

The Code permits (sections 8.15 - 8.19) new capital expenditure to be included in the Capital Base (and hence reflected in Reference Tariffs), provided that:

- the expenditure represents efficient investment (ie reflects least-cost technologies and is necessary expenditure); and
- if the expenditure is required to meet "market growth", it is normally required to be “economically justified” (that is, to generate incremental revenues that exceed incremental costs, in present value terms).

In addition, where Reference Tariffs are based on a forecast of future capital expenditure there needs to be a reasonable basis for such a forecast.

Issues for Consideration - New Capital Expenditure

- Is the proposed capital expenditure appropriate for both refurbishment and growth to meet forecast demand?
- Does the proposed capital expenditure represent efficient-cost expenditure?
- Will the incremental revenue associated with new investment exceed the incremental costs (ie pass the economic justification test)?
- Is there a reasonable basis for the forecasts of capital expenditure?

(d) Operations and Maintenance (O&M) Expenditure

The Code permits the recovery of forecast operations and maintenance costs, provided that these costs reflect prevailing industry best practice and that there is a reasonable basis for the forecasts.

Issues for Consideration - Operations and Maintenance Expenditure

- Is there a reasonable basis for the forecasts of operating and maintenance costs?
- Do the forecast O&M costs represent prevailing industry best practise?

(e) Economic Depreciation of Assets (Return of Capital)

AlintaGas has chosen to forecast the total cost of providing all services by means of their Gas Distribution Networks in accordance with the cost of service method which is calculated as the sum of a return on the capital base, depreciation of the capital base and the non-capital costs. The depreciation of the capital base has been determined in accordance with the requirements of section 8.32 and 8.33 of the Code.

AlintaGas has determined a depreciation schedule for each group of assets that form the Gas Distribution Networks and this schedule (refer to pages 27 to 29 of the AlintaGas Access Arrangement Information) has been used for the purpose of determining reference tariffs. Depreciation for each group of assets has been calculated using the current cost accounting method[3].

AlintaGas proposes to calculate the depreciation on a straight line basis on the adjusted regulatory asset values. Assets in each group will be depreciated over the assumed economic life of the group. The resulting depreciation is then further adjusted for the change in nominal asset values during the year caused by inflation.

[3] The objective of the current cost accounting depreciation measurement is to ensure that a current cost is matched against current income. To achieve this the value of the regulatory assets is adjusted for the expected rate of inflation.

Issues for Consideration - Economic Depreciation of Assets (Return of Capital)

- Is the use of the current cost accounting method of calculating depreciation and the proposed depreciation schedule appropriate? Does it reflect changes in the expected economic value of the assets?
- Would an alternative depreciation methodology be appropriate? If so please specify.
- Are the assumed economic lives of the various assets appropriate?

(f) Regulatory Efficiency Incentives

The Code encourages mechanisms for providing the Service Provider with the incentive for efficient operation. One mechanism that is commonly used is for prices to be predetermined until the next review (eg. escalated by CPI-X). This permits the Service Provider to earn greater profits if it can reduce costs or increase throughput.

The strength of the incentive to reduce costs and expand the market will depend (amongst other things) upon the time for which Reference Tariffs (or a formula for determining Reference Tariffs) are predetermined. However, while longer periods between reviews imply that the Service Provider can retain a greater benefit from cost reduction or demand growth (and therefore enhance the incentive to reduce costs and expand the market), longer periods delay the time before the effect of cost reductions are passed on to end-users and result in prices diverging from costs for a longer period (which is inefficient). This is often referred to as the 'rent-efficiency trade-off'.

In addition, the specific form of price control adopted may influence the extent to which the entity will have the incentive to promote only efficient market growth and to set efficient prices for all end-users. This is because the form of price control will determine the incremental revenue that a regulated entity will receive from additional gas sales (or lose if an existing customer left the system). 'Efficient growth' implies that the growth in the market would not lead to price rises for existing customers, and also that the service that is sought by all customers is provided in the least-cost manner.

AlintaGas has proposed a revenue yield price control formula. One effect of this price control is that the additional revenue that AlintaGas receives from new customers (or the revenue that would be lost if an existing customer left the system) could be greater than or less than that realised by the price that is charged to those new customers

Issues for Consideration - Regulatory Efficiency Incentives

- Is the incentive mechanism in the proposed Access Arrangement appropriate and does it provide an appropriate incentive for the Service Provider to be efficient?
- Does the proposed term for the Access Arrangement represent a reasonable compromise between the competing objectives of providing incentives for efficiency on the one hand, and passing on efficiency gains to end-users and encouraging efficient pricing, on the other?
- Is the proposed revenue yield price control likely to lead to AlintaGas setting efficient prices for customers and does it avoid encouraging inefficient market growth?

(g) Methodology for Determining Total Revenue

Once the separate components listed above are calculated, the Code provides a choice of three methodologies for determining the revenue required to compensate for the efficient cost of providing the service (Total Revenue). These methodologies are:-

- the Cost of Service method;
- the Net Present Value (NPV) approach; and
- the Internal Rate of Return (IRR) approach.

Each of these methodologies delivers the same outcome if applied correctly.

AlintaGas has calculated total revenue using the cost of service method as described in section 8.4 of the Code and is equal to the cost of providing all services, calculated as the sum of a return on the capital base, depreciation and non-capital costs.

Issues for Consideration - Methodology for Determining Total Revenue

- Is the methodology for calculating Total Revenue appropriate?
- Has the methodology for calculating Total Revenue been applied correctly?

4 ACCESS ARRANGEMENT INFORMATION

The purpose of the Access Arrangement Information is to permit interested parties to understand the derivation of the "elements" in the proposed Access Arrangement and to form an opinion as to the compliance of the Access Arrangement with provisions of the Code (section 2.6). The term "elements" refers to Reference Tariffs, Reference Services and other minimum requirements discussed above.

Attachment A to the Code specifies a number of categories of information that must be included in the Access Arrangement Information, including pricing principles, information regarding capital, operations and maintenance costs, system capacity, volume assumptions and key performance indicators (refer to the Appendix to this

Issues Paper).

While there is no requirement for the Access Arrangement Information to be approved, the Service Provider can be asked to provide more information to the public if the Access Arrangement Information does not meet the purposes or minimum requirements discussed above. Any person may request the Regulator to consider whether the Access Arrangement Information is sufficient in relation to any particular matter.

While ensuring that sufficient information is available to users and prospective users, the Regulator must also ensure that any information disclosed is not unduly harmful to the legitimate business interests of the Service Provider, users or prospective users.

Issues for Consideration - Information Disclosure

- Is the information disclosed in the Access Arrangement and the Access Arrangement Information sufficient to enable users and prospective users to understand the derivation of the elements in the proposed Access Arrangement?
- Is the information sufficient to allow users and prospective users to form an opinion as to the compliance of the Access Arrangement with the provisions of the Code?
- Are the items listed in Attachment A to the Code adequately addressed? If not, what additional information (including any relevant information in addition to Attachment A) should be provided, and in what form?

5 MAKING A SUBMISSION

Submissions are invited from all interested parties on the proposed Access Arrangement which must be received by 4pm Thursday 5 August 1999, Western Standard Time. *Off*GAR would also appreciate comments on whether the Access Arrangement Information is sufficient for its purpose as described above.

5.1 Confidentiality

In general, all submissions from interested parties will be treated as in the public domain and placed on the O*ff*GAR web site. Where an interested party wishes to keep part or all of the contents of a submission confidential, it should indicate these parts clearly. However, where the Regulator considers that the release of this information would not be 'unduly harmful' to the legitimate business interests of any party, it will return the submission to the party making the submission and provide that party with the option of revising or withdrawing its submission.

5.2 Format for Submissions

Submissions with comments on the proposed Access Arrangement should be in both written and electronic form, preferably in Microsoft Word 6.0 or 97 and addressed to:

Mr Robert Pullella
Office of Gas Access Regulation
Level 6 Governor Stirling Tower
197 St Georges Terrace
PERTH WA 6000
Email: Robert_Pullella@offgar.wa.gov.au

⇒ Attachment

APPENDIX

Attachment A to the Code

Information Disclosure by a Service Provider to Interested Parties

Pursuant to Section 2.7 the following categories of information must be included in the Access Arrangement Information.

The specific items of information listed under each category are examples of the minimum disclosure requirements applicable to that category but, pursuant to Sections 2.8 and 2.9, the Relevant Regulator may:

- allow some of the information disclosed to be categorised or aggregated; and
- not require some of the specific items of information to be disclosed,

if in the Relevant Regulator's opinion it is necessary in order to ensure the disclosure of the information is not unduly harmful to the legitimate business interests of the Service Provider or a or Prospective User.

Category 1: Information Regarding Access & Pricing Principles

Tariff determination methodology
Cost allocation approach
Incentive structures

Category 2: Information Regarding Capital Costs

Asset values for each pricing zone, service or category of asset
Information as to asset valuation methodologies - historical cost or asset valuation
Assumptions on economic life of asset for depreciation
Depreciation
Accumulated depreciation
Committed capital works and capital investment
Description of nature and justification for planned capital investment
Rates of return - on equity and on debt
Capital structure - debt/equity split assumed
Equity returns assumed - variables used in derivation
Debt costs assumed - variables used in derivation

Category 3: Information Regarding Operations & Maintenance

Fixed versus variable costs
Cost allocation between zones, services or categories of asset & between regulated/unregulated
Wages & Salaries - by pricing zone, service or category of asset
Cost of services by others including rental equipment
Gas used in operations - unaccounted for gas to be separated from compressor fuel

Materials & supply
Property taxes

Category 4: Information Regarding Overheads & Marketing Costs

Total service provider costs at corporate level
Allocation of costs between regulated/unregulated segments
Allocation of costs between particular zones, services or categories of asset

Category 5: Information Regarding System Capacity & Volume Assumptions

Description of system capabilities

Map of piping system - pipe sizes, distances and maximum delivery capability
Average daily and peak demand at "city gates" defined by volume and pressure
Total annual volume delivered - existing term and expected future volumes
Annual volume across each pricing zone, service or category of asset
System load profile by month in each pricing zone, service or category of asset
Total number of customers in each pricing zone, service or category of asset

Category 6: Information Regarding Key Performance Indicators

Industry KPIs used by the Service Provider to justify "reasonably incurred" costs
Service provider's KPIs for each pricing zone, service or category of asset