Decision

Access arrangement variation

Wagga Wagga natural gas distribution network

1 July 2010–30 June 2015

September 2010

Contents

Shortened forms

access arrangement approved by the AER	AER, *Access arrangement for the Wagga Wagga gas distribution network*, April 2010
access arrangement information approved by the AER	AER, *Access arrangement information for the AER's access arrangement for the Wagga Wagga gas distribution network*, April 2010
AER	Australian Energy Regulator
NGR	National Gas Rules

Background

Country Energy Gas Pty Ltd's (Country Energy) Wagga Wagga gas distribution network has around 680 km of pipeline, delivers approximately 1.6 PJ of gas annually and supplies gas to over 18 700 customers located primarily in the districts of Wagga Wagga and its surrounding areas.[1]

Wagga Wagga is supplied by gas from the Cooper Basin via a lateral pipeline off the Moomba–to–Sydney Pipeline. Gas is also sourced from the New South Wales–Victoria interconnection pipeline that runs from Wagga Wagga to Barnawatha (near Wodonga.)[2]

Country Energy's distribution network is classified as a covered distribution pipeline.[3]

On 23 April 2010, the Australian Energy Regulator (AER) approved the access arrangement (including the access arrangement information) drafted by the AER for the Wagga Wagga gas distribution network. The approved access arrangement came into effect on the 1 July 2010 and expires on the 30 June 2015.[4]

Notification of error

On 6 August 2010, the AER received notification from Country Energy that there was an error in the taxation asset base. Country Energy identified that its 2008–09 taxation asset base is overestimated by an intangible asset valued at $14.2 million.[5]

Consultation with Country Energy

Before the AER can vary an approved access arrangement, the AER must first consult with the relevant service provider and any other persons with whom it considers consultation appropriate (r. 68(4) of the NGR).

The AER consulted with Country Energy.[6] As part of the consultation, the AER requested Country Energy provide a reconciliation of the total revenue impact as part of the 2011-12 tariff variation application (including the change in estimated taxation) and tariff changes in the second year of the access arrangement period. The AER sought to use this information to verify the impact of the change. In addition, the AER requested that Country Energy confirm that the effect and removal of the intangible amount in the taxation asset base does not also need to be accounted for and removed from the approved capital asset base. The AER also provided Country Energy with a

---

1 Country Energy, *Access arrangement information for the Wagga Wagga natural gas distribution network,* January 2010, pp. 5, 19.

2 Pipeline Publications, *Map of major Australian Gas pipelines*, viewed 15 October 2009, <http://pipeliner.com.au/pipeline_map_of_australia>.

3 AEMC, *List of natural gas pipelines – description and classifications*, viewed 6 September 2010, <http://www.aemc.gov.au/Gas/Scheme-Register/Pipeline-list-summary.html >.

4 AER, *Access arrangement for the Wagga Wagga gas distribution network,* April 2010

5 Country Energy, email to AER, 6 August 2010.

6 AER, email to Country Energy, *Country Energy – taxation base error,* 30 August 2010.

draft varied access arrangement information that incorporated the proposed changes to the taxation asset base.

Country Energy made a submission on 1 September 2010.[7] In its submission, Country Energy confirmed that it would provide a reconciliation of the revenue impact and tariff changes at the time of the 2010-12 tariff variation application. Country Energy's submission confirmed that the effect of the removal of the intangible amount in the taxation asset base does not have to be accounted for and removed from the approved capital base. Country Energy also noted that the intangible amount in question was already excluded from the opening capital base.[8]

In addition, Country Energy reviewed the proposed variation to the access arrangement information and confirmed that the changes appropriately rectified the material error.[9]

Materiality of error

The AER considers that the reduction of $14.2 million in the taxation asset base is material because the removal of the intangible asset represents about 19.8 per cent of the opening taxation asset base in 2008-09. Further, given that the error impacts future access arrangement periods, and that this error will compound over time due to inflation, the AER considers that this error should be corrected.

Effect of the error on tariffs

The AER considers that this error impacts total revenue and tariffs in the access arrangement previously approved by the AER. This is because the reduction in the taxation asset base reduces the taxation building block in total revenue. As a result, the average tariffs will be 0.66 per cent higher than approved for 2011-12 and subsequent years of the access arrangement period (as reflected in a higher X factor of -3.16 per cent from the -2.50 per cent previously approved).

Decision to vary the access arrangement

In accordance with r. 68(1)(b) of the NGR, the AER decides that the access arrangement approved by the AER is affected by a material error based on a miscalculation. The AER varies the access arrangement approved by the AER (including the access arrangement information approved by the AER) to correct for this error. The variation is set out in the appendix.

7 Country Energy, email to AER, *Country Energy – taxation base error,* 1 September 2010.

8 Country Energy, email to AER, *Country Energy – taxation base error,* 1 September 2010.

9 Country Energy, email to AER, *Country Energy – taxation base error,* 1 September 2010.

Appendix– Variation

The AER varies the access arrangement approved by the AER as follows:

- include the following on the title page: “As varied by the AER on 10 September 2010 under rule 68 of the National Gas Rules. The changes are in the access arrangement information.”

The AER varies the access arrangement information approved by the AER as follows:

- include the following on the title page: “As varied by the AER on 10 September 2010 under rule 68 of the National Gas Rules”
- include the following on page 2: “Note: This version includes changes for the correction of an error in the taxation asset base. The changes were made on 10 September 2010.”
- delete table 24 on page 32 and replace it with the following:

$,000 (nominal)	2010-11	2011-12	2012-13	2013-14	2014-15
Forecast tax depreciation	1,468	1,574	1,677	1,779	1,887

- delete the third paragraph on page 32 and replace it with the following: “Refer to chapter 6 of the *Final Decision* for further information. Note: Table 24 has been amended to correct for an error in the taxation asset base.”
- delete table 25 on page 32 and replace it with the following:

$,000 (nominal)	2010-11	2011-12	2012-13	2013-14	2014-15
Tax payable	636	601	645	691	737
Less value of imputation credits	413	391	419	449	479
Net tax allowance	223	210	226	242	258

- delete the fourth paragraph on page 32 and replace it with the following: “Refer to chapter 6 of the *Final Decision* for further information. Note: Table 25 has been amended to correct for an error in the taxation asset base.”
- delete the first paragraph on page 34 and replace it with the following: “Table 29 contains the total revenue requirement as set out in the previous sections and the real price adjustments as approved in the *Final Decision* and the decision to vary the access arrangement made on 10 September 2010.”
- delete table 29 and explanation on page 34 and replace them with the following:

$,000 (nominal)	2010-11	2011-12	2012-13	2013-14	2014-15
Return on Capital	5,788	6,136	6,529	6,913	7,269

Depreciation	786	633	693	761	848
Operating & maintenance	2,901	3,001	3,074	3,190	3,299
Corporate income tax	223	210	226	242	258
Total	9,698	9,980	10,522	11,106	11,674
X factor tariff revenue [a] (%)	-12.81[b]	-3.16	-2.50	-2.50	-2.50

a: Negative values for X indicate real price increases under the CPI-X formula.

b: X factor is P0. The P0 is unchanged from that approved in April 2010. However, due to an error in the taxation asset base notified by *Country Energy Gas* on 3 August 2010, the increase in the taxation asset base has resulted in an increase in net taxation (refer also to Table 25 for the revised net taxation estimates). The increase in net taxation has resulted in an increase in the total revenue requirement from $52.7 million ($nominal) to $53.0 million ($nominal) for the *Access Arrangement Period*. In order to recoup this increase in total revenue, the X factor in 2011-12 has changed from -2.5 per cent to -3.16 per cent. The X factors for 2012-13 to 2014-15 remain unchanged.

- delete the last paragraph on page 34 and replace it with the following: “Refer to chapter 8 of the *Final Decision* for further information. Note: Table 29 has been amended to correct for an error in the taxation asset base.”