

AGLGN A A Response to IPART Draft Decision

2006 - 2010

AGLGN AA Response to IPART DD - Overview



- (2) Additional analysis of existing issues
- (3) New Issues arising during 2004
- (4) Adjustments required to the Cost of Service
- (5) Review of Amendments

(2) Additional Analysis - Overview



- Rate of Return (Based on new research prepared for Victorian EDPR Review)
- Proposed write-down of Wilton/Wollongong Pipeline (issue raised late in the review process)
- Ancillary Charges (position developed subsequent to Draft Decision - results in reduced charges)

2.1 Rate of Return



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- AGLGN 2003 Submission 7.85 %
 - Reduced Real Interest Rates
 - Draft Decision 7.00%
 - AGLGN Response 7.90%
 - New Evidence
 - Monte Carlo Analysis
 - Parameters
 - Gamma
 - Beta
 - Debt Margin

2.1 Rate of Return - Monte Carlo Simulation



- Recognises CAPM can only ever estimate WACC by estimating variables (MRP, Beta, Cost of Debt)
- Statistical analysis using 10,000 random samples
- Proposed 80% confidence limit
- Recommended RoR - 7.9%

2.1 Monte Carlo Simulation - Why 80 % confidence level ?



- Severe consequences of under-investment
 - Deterrent to efficient investment
 - Future Services to Users & Prospective Users
 - Viability of Service Providers
- Productivity Commission Final Report on the Review of the Gas Access Regime - "Reference Tariffs should be set so as to generate revenue for a reference service or services that is **at least** sufficient to meet the efficient costs of providing access to the reference service or services."
- Consistent with sections 8.1 and 2.24 of Gas Code
 - Interests of Users and Prospective Users
 - Service Providers legitimate business interests

2.1 Rate of Return - Parameters



- New evidence supporting lower gamma
- New evidence supporting Beta=1
- Debt Margin (Bloombergs, Westpac, Snowy Hydro)
- Debt Hedging Costs
 - Inflation hedge (lower than originally proposed)
 - Timing Hedge

2.2 - Write-down of Wilton to Wollongong Pipeline



- Discretionary Power under Gas Code
- Unique application of power by IPART - Increases Risk for all efficient investments
- Must be taken into consideration on determining RoR - Section 8.27
- Role of Pipeline in providing Security Of Supply & Market Operations
- Replacement Cost Valuation

(3) New Issues



- Government Water Saving Measures
 - Metropolitan Water Strategy, 703 TJ reduction
 - Basix, 534 TJ increase
- Mines Subsidence
- Guaranteed Customer Service Standards

(4) Cost of Service Adjustments

- Additional Cost due to Increased Demand Forecast
 - 35,000 additional customers
 - \$36 m additional capital expenditure
 - additional operating costs
- IT Asset Utilisation - (\$25m capital expenditure)
- Other Adjustments
 - Depreciation of Land
 - Working Capital
 - Capital Supervision Costs

(5) Review of Amendments



- AGLGN agree to implement 24 of 38 Amendments
- AGLGN agree in principle to 5 Amendments, but have proposed clarifications
- Propose changes to 9 Amendments

(4) Proposed Changes to Amendments

- Amendment 7 - Demand Forecasts
- Amendment 10 - Roll Forward of Asset Base
- Amendment 11 - Rate of Return
- Amendment 12 - Non Capital Costs
- Amendment 13 - Working Capital

(4) Proposed Changes to Amendments



- Amendment 15 - Gas Swaps - Retain User Swap
- Amendment 24 - Notification and Approval Process - maximum time available 40 business days
- Amendment 25 - Payment Security - retain the minimum level of flexibility to effectively manage credit risk
- Amendment 34 - Deletion of Delivery Points - allow churn, not permanent deletions

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