

**APT Allgas Energy
Pty Limited**

Access Arrangement
Information

Effective
01 July 2011 – 30 June 2016

June 2011

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1 Introduction

This Access Arrangement Information (AAI) document has been prepared, in accordance with Rule 43(1) of the National Gas Rules 2008 (NGR), to provide Users and Prospective Users with sufficient information to understand the derivation of the Access Arrangement and its compliance with the NGR.

This Access Arrangement Information accompanies APT Allgas' access arrangement for the Queensland Natural Gas Network. The revised access arrangement is expected to commence on 1 July 2011.

The APT Allgas network supplies Natural Gas to End Users in Brisbane (south of the river), South Coast (extending into northern New South Wales), Toowoomba and Oakey through over 2,900 km of distribution mains. A more detailed description of the Network, including a map, is available on APA Group's website at www.apa.com.au, which shows the general location and key points of the Network (such as intersections with transmission pipelines).

1.1 *Structure of this document*

This document follows the structure of Rule 72¹ setting out the requirements for content of the access arrangement information for a full access arrangement proposal.

APT Allgas' access arrangement commences at the end of an earlier access arrangement period, and therefore contains information relevant to the earlier access arrangement period (in this case spanning from 1 July 2006 to 30 June 2011) as required under the NGR. This information is included in Part 2 of the AAI. The remaining parts of this AAI are as follows:

- Part 3 establishes the capital base for the access arrangement period (in this case proposed to span 1 July 2011 to 30 June 2016), including forecast capital expenditure for the access arrangement period;
- Part 4 discusses forecast utilisation for the network, including forecast customer numbers and volumes used to derive tariffs;
- Part 5 outlines forecast operating expenditure for the access arrangement period;
- Part 6 sets out key performance indicators for the network;
- Part 7 sets out the rate of return used in the access arrangement;

¹ All references to Rules or a particular Rule in this document refer to the National Gas Rules 2008, or part thereof, unless an alternative meaning is expressly stated.

- Part 8 outlines the approach to taxation and how the tax asset base has been calculated;
- Parts 9 and 11 discuss historical and proposed incentive mechanisms;
- Part 10 describes the reference services, approach to tariff setting and reference tariff variation mechanism; and
- Part 12 sets out the total revenue requirement for the network for each year of the access arrangement.

2 Information relevant to the earlier access arrangement period

2.1 Capital expenditure

Capital expenditure by asset class over the earlier access arrangement period² is set out in Table 2.1 below. These costs are based on actual costs for financial years 2006/07 to 2009/10, and forecast costs for financial year 2010/11.

Table 2.1 – Capital expenditure by asset class over the earlier access arrangement period

(\$000 Nominal)	2006/07	2007/08	2008/09	2009/10	2010/11 F	Total
HP Steel Mains	1,734	964	1,854	151	272	4,975
Other Mains	8,057	7,151	7,996	10,183	8,598	41,984
HP Steel Services	40	75	165	151	50	481
Other Services	3,507	4,801	4,327	7,877	9,002	29,514
Regulator Stations	1,187	214	3,104	3,289	2,187	9,982
Metering Stations	3,877	3,085	5,157	2,748	3,597	18,464
System Total	18,402	16,289	22,603	24,400	23,706	105,400
Non System	5,807	2,007	1,474	819	927	11,034
Total	24,209	18,296	24,078	25,219	24,632	116,434

2.2 Operating expenditure

Operating expenditure by category over the earlier access arrangement period³ is set out in Table 2.2 below. These costs are based on actual costs for financial years 2006/07 to 2009/10, and forecast costs for financial year 2010/11.

² As required by Rule 72(1)(a)(i)

³ As required by Rule 72(1)(a)(ii)

Table 2.2 – Operating expenditure by category over the earlier access arrangement period

(\$000 Nominal)	2006/07	2007/08	2008/09	2009/10	2010/11 F
<i>Controllable Costs</i>					
Network Operations & Maintenance	8,196	5,462	5,147	8,161	9,357
Marketing	0	2,553	3,012	1,309	1,047
Admin & Strategic Planning	577	979	1,646	1,394	1,336
Total Controllable Costs	8,773	8,994	9,805	10,864	11,740
<i>Non-Controllable Costs</i>					
Customer Services	1,010	50	7	1,090	860
UAG	1,877	1,961	2,263	2,178	2,439
Government Charges	241	440	286	378	480
Metering & Billing	1,556	1,588	1,708	1,410	1,177
Corporate Costs	732	1,365	1,266	995	1,426
Total Non-Controllable Costs	5,417	5,404	5,531	6,051	6,383
Total Operating Costs	14,190	14,398	15,336	16,915	18,122

2.3 *Network usage*

Distribution network minimum, maximum and average demand figures over the earlier access arrangement period⁴ are set out in Table 2.3 below. These figures are based on actual demand for financial years 2006/07 to 2009/10, and forecast demand for financial year 2010/11.

⁴ As required by Rule 72(1)(a)(iii)(A)

Table 2.3 – Network minimum, maximum and average demand over the earlier access arrangement period

	2006/07	2007/08	2008/09	2009/10	2010/11 F
Minimum Demand (TJ/d)	12.28	12.77	14.38	13.24	12.14
Maximum Demand (TJ/d)	42.29	42.15	41.72	40.15	38.52
Average Demand (TJ/d)	29.60	30.22	29.87	30.12	27.99

Distribution network customer numbers in total and by tariff class over the earlier access arrangement period⁵ are set out in Table 2.4 below. These figures are based on actual customer numbers for financial years 2006/07 to 2009/10, and forecast customer numbers for financial year 2010/11.

Table 2.4 – Customer numbers in total and by tariff class

	2006/07	2007/08	2008/09	2009/10	2010/11 F
Volume Class	73,656	76,522	79,483	81,722	84,311
Demand Class	108	109	114	102	101
Total	73,764	76,631	79,597	81,824	84,391

⁵ As required by Rule 72(1)(a)(iii)(B)

3 The capital base

3.1 *Opening capital base*

3.1.1 Opening capital base for access arrangement period

The opening capital base for the access arrangement period⁶ is shown in Table 3.1 below.

Table 3.1 – Opening capital base for the access arrangement period

(\$000 Nominal)	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Opening capital base	302,687	327,108	350,680	373,882	399,270	426,958
<i>plus capex</i>	25,206	19,215	25,070	26,304	26,465	
<i>plus speculative capex</i>	-	-	-	-	-	
<i>plus re-used redundant assets</i>	-	-	-	-	-	
<i>less depreciation</i>	8,170	9,513	10,484	11,498	12,073	
<i>plus indexation⁷</i>	7,386	13,869	8,662	10,805	13,296	
<i>less redundant assets</i>	-	-	-	-	-	
<i>less disposals and transfers</i>	-	-	46	225	-	
Closing capital base	327,108	350,680	373,882	399,270	426,958	

3.2 *Projected capital base*

The projected capital base for the access arrangement period is made up of the following components:

- Opening capital base; plus
- Forecast conforming capital expenditure; less
- Forecast depreciation; less

⁶ As required by Rule 72(1)(b)

⁷ 2005/06 numbers include allocation difference of \$1,768,000 as per the Allgas 2005/06 regulatory accounts, Schedule E.

- Forecast disposals.

These components are described in the following sections, and the projected capital base is provided in section 3.2.5 below.

3.2.1 Forecast conforming capital expenditure for the access arrangement period

Forecast conforming capital expenditure by asset class over the access arrangement period⁸ is set out in Table 3.2 below.

Table 3.2 – Forecast capital expenditure by asset class over the access arrangement period (\$m, 2010-11)

	2011/12	2012/13	2013/14	2014/15	2015/16	Total
HP Steel Mains	1.41	1.65	3.21	2.54	2.73	11.54
Other Mains	7.32	7.62	7.74	8.03	8.28	38.98
HP Steel Services	0.06	0.06	0.06	0.06	0.07	0.31
Other Services	8.57	8.97	9.20	9.61	10.00	46.36
Regulator Stations	1.20	0.90	0.84	0.86	0.88	4.68
Metering Stations	3.47	3.43	3.82	4.53	4.25	19.49
System Total	22.03	22.62	24.87	25.63	26.21	121.36
Non System	3.13	1.97	1.37	0.62	0.47	7.56
Total	25.16	24.59	26.24	26.25	26.68	128.93

Capital expenditure forecasts have been derived from categories relating to purpose, as follows:

- Customer initiated capital expenditure – expenditure required to meet growth in customer numbers and demand;
- Network augmentation capital expenditure – expenditure required to maintain capacity to meet current customer demand and to provide additional capacity to meet future customer demand;
- Network renewal capital expenditure – expenditure necessary for renewal and replacement of ageing network assets and compliance requirements relating to safety and reliability.

⁸ As required by Rule 72(1)(c)(i)

Non-system capital expenditure is related to IT systems and software, motor vehicles, and plant and equipment which are not part of the distribution network, but which are otherwise required to deliver pipeline services.

Forecast conforming capital expenditure by category over the access arrangement period is shown in Table 3.3 below.

Table 3.3 – Forecast conforming capital expenditure by category over the access arrangement period

(\$m Real 2010–11)	2011/12	2012/13	2013/14	2014/15	2015/16	Total
Customer requested	14.80	15.52	15.95	16.68	17.42	80.36
Network Augmentation	1.57	1.49	2.97	2.30	2.46	10.79
Network renewal	5.66	5.62	5.95	6.65	6.32	30.21
System total	22.03	22.62	24.87	25.63	26.21	121.36
Non-system	3.13	1.97	1.37	0.62	0.47	7.56
Total	25.16	24.59	26.24	26.25	26.68	128.93

3.2.2 Forecast depreciation

Forecast depreciation by asset class over the access arrangement period⁹ is shown in Table 3.4 below.

Table 3.4 – Forecast depreciation over the access arrangement period

(\$000 Nominal)	2011/12	2012/13	2013/14	2014/15	2015/16
Depreciation	270	3,642	3,663	4,435	4,872

The economic lives of APT Allgas' assets have been adjusted to bring them in line with industry practice and ensure sufficient cash flow for the business. Table 3.5 sets out APT Allgas' previous and revised asset economic lives. The revised economic lives have been used to derive the depreciation forecast of the access arrangement period.

⁹ As required by Rule 72(1)(c)(ii)

Table 3.5 – Asset economic lives (years)

	Previous economic life	Revised economic life
HP Steel mains	105	80
HP Services	105	50
Distribution mains and services	PVC – 30 PE – 80 Steel – 45 Copper – 85 Cast iron – 80	50
District Regulators	50	40
Contract Meters	30	15
Tariff Meters	25	15

A straight-line methodology has been applied to determine future depreciation.

3.2.3 Forecast disposals

Forecast disposals for the access arrangement period are set out in Table 3.6 below.

Table 3.6 – Forecast disposals over the access arrangement period

(\$000 Nominal)	2011/12	2012/13	2013/14	2014/15	2015/16
Disposals	-	-	-	-	-

3.2.4 Forecast redundant assets

The forecast of assets that will be made redundant in the access arrangement period is set out in Table 3.7 below.

Table 3.7 – Forecast redundant assets over the access arrangement period

(\$000 Nominal)	2011/12	2012/13	2013/14	2014/15	2015/16
Redundant assets	-	-	-	-	-

3.2.5 Projected capital base over the access arrangement period

The projected capital base for the access arrangement period¹⁰ is shown in Table 3.8 below.

Table 3.8 – Projected capital base for the access arrangement period

(\$000 Nominal)	2011/12	2012/13	2013/14	2014/15	2015/16
Opening capital base	426,958	453,355	476,436	502,018	527,584
<i>plus</i> forecast capex	26,667	26,723	29,245	30,002	31,266
<i>less</i> forecast regulatory depreciation	270	3,642	3,663	4,435	4,872
<i>less</i> forecast disposals	-	-	-	-	-
<i>less</i> forecast redundant assets	-	-	-	-	-
Closing Capital Base	453,355	476,436	502,018	527,584	553,979

¹⁰ As required by Rule 72(1)(c)

4 Forecast network demand and utilisation

4.1 Forecast customer numbers and volumes

Forecast customer numbers and volumes by customer class for the access arrangement period are set out in Table 4.1 below.

Table 4.1 – Forecast customer numbers and volumes by customer class over the access arrangement period

	2011/12	2012/13	2013/14	2014/15	2015/16
Volume class customer number	87 213	90 178	93 215	96 327	99 533
Demand class customer number	102	103	104	105	106
Total customer number	87 315	90 281	93 319	96 432	99 639
Volume class (TJ)	2927	3016	3107	3201	3297
Demand class (TJ)	6970	6985	7000	7015	7030
Total customer volume (TJ)	9897	10001	10107	10216	10327

4.2 Forecast network capacity and utilisation

Forecast network capacity and utilisation for the access arrangement period¹¹ is shown in Table 4.2 below. Network capacity has been calculated using aggregated gate station maximum daily quantities and dividing them by aggregated gate station capacity for each year.

Table 4.2 – Forecast network capacity and utilisation for the access arrangement period

	2011/12	2012/13	2013/14	2014/15	2015/16
Network capacity (TJ/d)	53.86	54.40	54.94	59.06	59.65
Utilisation of network capacity (%)	71.8	71.8	71.7	67.3	67.1

¹¹ As required by Rule 72(1)(d)

4.3 *Forecast demand*

Forecast maximum and average demand for the network over the access arrangement period is shown in Table 4.3 below.

Table 4.3 – Forecast maximum and average demand for the network over the access arrangement period (TJ/day)

TJ/day	2011/12	2012/13	2013/14	2014/15	2015/16
Maximum Demand	37.05	37.77	37.59	37.81	37.93
Average Demand	27.12	27.40	27.69	27.99	28.29

5 Forecast operating expenditure

Forecast operating expenditure by category over the access arrangement period is set out in Table 5.1 below.

Table 5.1 – Forecast operating expenditure by category over the access arrangement period (\$m, 2010-11)

	2011/12	2012/13	2013/14	2014/15	2015/16
<i>Controllable Costs</i>					
Network Operations & Maintenance	10.7	10.7	10.8	10.8	10.9
Marketing	1.1	1.1	1.1	1.1	1.1
Admin & Strategic Planning	0.8	0.8	0.8	1.0	1.0
<i>Non-Controllable Costs</i>					
Customer Services	0.9	1.0	1.0	1.1	1.1
UAG	4.0	4.0	4.0	4.0	4.0
Government Charges	0.5	0.5	0.5	0.5	0.6
Metering & Billing	1.2	1.3	1.3	1.3	1.4
Corporate Costs	1.4	1.5	1.5	1.5	1.5
Total opex	20.6	20.8	21.1	21.4	21.6
Debt Raising Costs	0.3	0.3	0.3	0.3	0.3
Total Operating Costs	20.9	21.1	21.4	21.7	21.9

Forecast operating expenditure for the access arrangement period has been prepared using the base year and roll forward methodology. This methodology involves the following steps:

- Selection of an appropriate base year in which to measure costs;
- Modification of the base year costs to ensure that all costs required for future operation of the network are added to the base year costs, and all costs in the base year costs which are not relevant to future operation of the network are subtracted from the base year costs;

- Modification of base year costs as required to reflect changed consumer numbers, additional network facilities required to supply gas to these additional consumers, and increased loads from existing consumers;
- Modification of the base year costs to reflect changes in input costs anticipated over the access arrangement period; and
- Modification of the base year costs to reflect appropriate productivity improvements.

6 Key performance indicators

Key performance indicators for the access arrangement period¹² are shown in Table 6.1 below.

Table 6.1 – Key Performance indicators (\$2010/11)

Indicator	Unit	2011/12	2012/13	2013/14	2014/15	2015/16
Total Operating Costs per km Mains	\$/km	6,436	6,509	6,540	6,554	6,506
Total Operating Costs per Customer	\$/Cust	223	222	220	217	212

¹² As required by Rule 72(1)(f)

7 Rate of return

The rate of return has been calculated using a nominal vanilla weighted average cost of capital (WACC). The formula used to derive the nominal vanilla WACC is set out below.

$$WACC = K_e \frac{E}{V} + K_d \frac{D}{V}$$

where:

K_e = the expected rate of return on equity or cost of equity

K_d = the expected rate of return on debt or cost of debt

$\frac{D}{V}$ = the market value of debt as a proportion of the market value of equity and debt

$\frac{E}{V}$ = the market value of equity as a proportion of the market value of equity and debt, which is $1 - \frac{D}{V}$

The cost of equity, K_e , is calculated using the capital asset pricing model, with the following formula:

$$K_e = R_f + \beta_e \times MRP$$

where: R_f = the nominal risk free rate of return

β_e = the equity beta

MRP = the expected market risk premium

The cost of debt, K_d , is calculated with the following formula:

$$K_d = R_f + DRP$$

where: R_f = the nominal risk free rate of return

DRP = the debt risk premium.

Table 7.1 below sets out the input parameters and the calculated rate of return used to derive APT Allgas' revenue requirement for the access arrangement period¹³.

¹³ As required by Rule 72(1)(g)

Table 7.1 – Weighted average cost of capital for the access arrangement period

Parameter	Estimate
Risk-free rate	5.40%
Debt to value	60.00%
Debt risk premium	3.64%
MRP	6.00%
Gamma	0.25
Equity beta	0.80
Cost of equity	10.20%
Cost of debt	9.04%
Nominal vanilla WACC	9.50%

8 Taxation

A post tax framework has been used to derive the revenue requirement for the access arrangement period¹⁴. This requires a tax asset base (TAB) to be established.

The estimated cost of corporate income tax for each year of the access arrangement period (ETC_t) is calculated in accordance with the following formula:

$$ETC_t = (ETI_t \times r_t) (1 - \gamma)$$

Where:

ETI_t is an estimate of the taxable income for regulatory year t that would be earned by a benchmark efficient entity as a result of the provision of regulated services if such an entity, rather than the service provider, operated the business of the service provider, such estimate being determined in accordance with the AER's post-tax revenue model

r_t is the expected statutory income tax rate for that regulatory year assumed to be 30 per cent

γ (gamma, the assumed utilisation of imputation credits) is assumed to be 0.25

The estimate must take into account the depreciation of the TAB for tax purposes.

The TAB has been calculated in a manner consistent with the guidelines set out by the AER's June 2007 *Transition of energy businesses from pre-tax to post-tax regulation* released issues paper.

The tax allowance for the access arrangement period is set out in table 8.1.

Table 8.1: Tax allowance for the access arrangement period (\$m, nominal)

	2011/12	2012/13	2013/14	2014/15	2015/16
Tax payable	0.0	0.0	0.7	0.8	1.1
Less value of imputation credits	0.0	0.0	0.2	0.2	0.3
Tax allowance	0.0	0.0	0.5	0.6	0.8

¹⁴ As required by Rule 72(1)(h)

9 Historical incentive mechanism

There was no incentive mechanism operative in the earlier access arrangement period giving rise to increments or decrements that need to be included in the revenue requirement for the access arrangement period¹⁵.

¹⁵ As required by Rule 72(1)(i)

10 Approach to tariff setting

10.1 Reference services

The Reference Tariffs offered by APT Allgas are designed to meet the requirement of Rule 101 in the NGR for services that are likely to be sought by a significant part of the market.

The Reference Services derived for application under the Access Arrangement are as follows:

- Volume Customer Service
- Demand Customer Service
- Reference Ancillary Services

APT Allgas also provides prudent discount and negotiated services.

10.2 Revenue and Cost Allocation Process

Reference Tariffs are designed to recover the Total Revenue allocated to each customer service group based on the forecast utilisation and customer growth and as such no shortfall in revenue is proposed under Rule 94(5).

This Total Revenue apportionment and cost allocation approach ensures that the revenue derived from the application of the Reference Tariffs (modelled using the forecast load and customer growth) is equal to the Total Revenue should the assumptions regarding costs and demand growth hold.

10.3 Tariff design

Tariffs must be designed consistent with the rules of the NGR.

10.3.1 Stand alone and Avoidable Costs

APT Allgas's tariffs are consistent with rule 94(3) of the NGR which requires the tariffs to be between stand alone and avoidable costs. See chapter 10 of the AER's final decision for an analysis of this issue.

10.3.2 Long Run Marginal Costs

APT Allgas's tariffs are consistent with rule 94(4) of the NGR which requires long run marginal costs to be taken into account when designing tariffs. See chapter 10 of the AER's final decision for an analysis of this issue.

10.4 Prudent Discounts

APT Allgas currently has a number of prudent discount and negotiated service End Users. Details of these have been approved by the AER.

10.5 Ancillary services

Three Reference Ancillary Services are offered based on User requirements. APT Allgas costed Reference Ancillary Services on a cost recovery basis and forecast activity levels based on historical analysis. Forecasts of customer contributions have been escalated in line with CPI and forecast connection rates and Reference Ancillary Service volumes escalated in accordance with overall customer numbers.

10.6 Reference Tariffs

Tariffs for reference services are set out in Appendix B of the access arrangement. Tariffs are published for 2011/12 (in \$2011/12) and are exclusive of goods and services tax (GST).

10.6.1 Reference tariff variation mechanism

Reference Tariffs are varied in later years of the access arrangement period through the operation of the reference tariff variation mechanism, made up of:

- an Annual Scheduled Reference Tariff Adjustment Formula Mechanism - which applies in respect of each year during the access arrangement period; and
- Cost Pass-through Reference Tariff Variation Mechanism - under which APT Allgas may seek to vary one or more of the reference tariffs as a result of a cost pass-through event.

10.6.2 Annual reference tariff adjustment formula mechanism

The annual tariff variation adjustment formula adjusts tariffs on each 1 July of the access arrangement period as follows:

- Volume Customer Service and Demand Customer Service will be varied by CPI and an X factor; and
- Reference Ancillary Services will be varied by CPI only.

There is scope under the tariff variation mechanism to adjust the weighting of fixed and variable demand charges within the constraints of the rebalancing formula.

Relevant values and formulae for the above parameters are set out in section 4.5 of the access arrangement.

10.6.3 Cost pass-through reference tariff variation mechanism

A cost pass through reference tariff variation mechanism is included in the access arrangement to allow tariffs to be adjusted to recover incremental costs resulting from defined events.

Defined cost pass-through events are:

- an insurance cap event
- an insurer credit risk event
- a natural disaster event
- a network user failure event
- a regulatory change event
- a service standard event
- a tax change event
- a terrorism event

A materiality threshold of one per cent of the smoothed forecast revenue specified in the final decision applies to costs arising from a cost pass through event.

Part 4.5 of the access arrangement sets out the tariff variation process.

11 Proposed incentive mechanism

The access arrangement does not include an incentive mechanism of the type described under the Rules¹⁶, however APT Allgas faces incentives to reduce costs and increase demand over the access arrangement period compared with the forecast on which the access arrangement is based, as total revenue will not be adjusted to reflect differences between forecast and actual gas deliveries and/or business costs.

¹⁶ See Rule 98

12 Total revenue

The total revenue requirement to be derived from pipeline services over the access arrangement period is shown in Table 12.1.

Table 12.1: APT Allgas's annual revenue requirement and X factors (\$m, nominal)^a

	2011/12	2012/13	2013/14	2014/15	2015/16
Return on capital	40.6	43.1	45.3	47.7	50.1
plus regulatory depreciation ^b	0.3	3.6	3.7	4.4	4.9
plus operating and maintenance	21.4	22.2	23.0	24.0	24.8
plus corporate income tax	0.0	0.0	0.5	0.6	0.8
Total revenue	62.2	68.9	72.5	76.8	80.6
less ancillary services revenue	0.7	0.7	0.8	0.8	0.9
less forecast capital contributions	0.6	0.6	0.6	0.7	0.7
Total haulage services revenue	61.0	67.6	71.1	75.3	79.1
Smoothed haulage services revenue	58.5	64.5	71.1	77.6	84.0
X factors ^c					
Haulage reference services (%)	-10.50	-5.00	-5.00	-4.00	-3.00
Ancillary service fees (%)	0	0	0	0	0

(a) Numbers may not add due to rounding.

(b) Regulatory depreciation includes the negative depreciation impact of inflation on the capital base.

(c) Negative values for X indicate real price increases under the CPI-X formula.