

27 November 2014

Mr Greg Watkinson
CEO
Economic Regulation Authority
Level 4, Albert Facie House
469-489 Wellington Street
Perth WA 6000

Dear Mr Watkinson

Re: ATCO Gas Australia's Response to the ERA's Draft Decision

ATCO Gas Australia (AGA) is pleased to submit its response to the Economic Regulation Authority (ERA) Draft Decision on AGA's proposed revisions to the Access Arrangement for the Mid-West and South-West Gas Distribution System (herein referred to as the Response). The ERA's Draft Decision, released on 14 October, 2014 specifies 45 required amendments to AGA's proposed revised access arrangement (including AGA's access arrangement information and other documentation) submitted on 17 March, 2014.

In the Response, AGA has accepted some of the required amendments , and has not accepted or accepted with proposed alternatives to the required amendments that it does not accept, in each case providing evidence in support.

AGA has not accepted all of the required amendments as AGA consider that as a total package, the Draft Decision does not promote the use of natural gas in Western Australia, does not promote efficient investment in natural gas services and does not satisfy the National Gas Objective (NGO):

“to promote efficient investment in , and efficient operation and the use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety , reliability and security of supply of natural gas”

There are readily available energy substitutes for natural gas applications, particularly from electricity and LPG,AGA therefore has a considerable incentive to maintain competitive gas prices for consumers as required by the NGO.

In addition, and consistent with the NGO, efficient investment in the Gas Distribution Network (GDS) to ensure that safety, reliability and security of the network is maintained is also required. This is a basic tenet of the NGO and is a cornerstone of AGA's business model.



AGA also proposes in its Response to continue its ongoing efficient investment in growing the GDS to connect new customers to achieve real and sustainable cost reductions for all of its customers in the long term.

AGA submits with this letter proposed revisions to the Access Arrangement that satisfies the NGO and in particular, is in the best long term interests of consumers.

In addition AGA provides with the Response the following expert reports by way of further supporting evidence and information:

1. *Evaluation of ERA's Draft Decision against the National Gas Objective*, Greg Houston, HoustonKemp
2. *Gas Demand Forecast, Mid-West and South-West Distribution System*, Core Energy Group
3. *Expert Witness report on the Authority's adjusted demand forecast* – Paul Taliangis, Core Energy Group
4. *Review of ATCO Gas Australia Capital and Operating Expenditure*, Zincara
5. *Gas Distribution Benchmarking, Partial Productivity Measures* – Acil Allen Consulting
6. *Operating Expenditure, Forecasting using the revealed cost approach*, Marianne Lourey, Acil Allen Consulting
7. *The corporate support operating costs of the Mid-West and South-West Gas Distribution Systems*, Keith Lockey, KPMG
8. *Opinion as to ATCO Gas' Business Development and Marketing Strategy and its alignment with ATCO Gas' target market*, Brent Stewart, Waveride
9. *The IT Operating Expenditure of the Access Arrangement for the Mid-West and South-West Gas Distribution System*, Ted Surette, KPMG
10. *The required return on equity: Response to ATCO Gas Draft Decision*, Stephen Gray, SFG Consulting
11. *Cost of debt consistent with the NGR and NGL*, Dr Tom Hird, Competition Economists Group
12. *Estimating Gamma: Response ATCO Gas Draft Decision*, Stephen Gray, SFG Consulting
13. *Evaluation of ERA's Draft Decision on ATCO's Depreciation allowance*, Greg Houston, HoustonKemp



14. *Review of regulated tax asset base for regulated revenue purposes – addendum to the report of Vaughan Lindfield, Ernst and Young*

I invite the ERA to contact AGA should any further information or clarification be required to assist in the completion of review process and the release of the Final Decision.

Yours sincerely

Alan Dixon
President

