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12 January 2015

Assistant Director Gas Access;
Level 4, Albert Facey House;
469 Wellington Street
Perth
Western Australia 6000

Email: publicsubmissions@erawa.com.au

Re: Kleenheat Gas submission on the Draft Decision and Proposed Revised Access Arrangement for the Mid-West and South-West Gas Distribution System Access Arrangement.

Dear Sir / Madam,

Wesfarmers Kleenheat Gas Pty Ltd ("Kleenheat") welcomes the opportunity to provide further comments on the Proposed Revisions to the Mid-West and South-West Gas Distribution System ("MWSDS" or "Network") Access Arrangement ("AA4"). In particular this submission focuses on ATCO Gas Australia's ("ATCO") Proposed Revised Access Arrangement and the ERA's Draft Decision.

Kleenheat's broad view of the proposal remains unchanged, with ATCO's revisions partially addressing the concerns raised previously. The Proposed Revised Access Arrangement still contains a significant increase in both capital and operating expenditure which would lead to a material tariff increase for customers. There also remain a number of mechanisms in the proposal designed to minimise ATCO's risk profile and transfer additional risk and volatility onto customers.

To this extent, Kleenheat believes the ERA's Draft Decision generally addresses the concerns previously raised.

Further comments on specific areas of concern are detailed below:

- 1. Rate of Return on the Regulatory Asset Base:** Kleenheat reiterates that it broadly supports the ERA's Rate of Return guidelines and the implementation of these guidelines in the ERA's Draft Decision. ATCO's proposed rate of return of 7.64% still appears high relevant to the ERA's guidelines and current financial market conditions.
- 2. Depreciation of the Capital Base:** Kleenheat remains concerned about the significant short to medium term impact of the proposed depreciation of the capital base, and considers the depreciation methodology under the ERA's draft decision to be more appropriate.
- 3. Capital Base:** ATCO's Proposed Revised Access Agreement does not address Kleenheat's concerns that the proposed increase in capital base will have a significant impact on both current and future tariffs. The proposed increase in the capital base remains disproportionate to forecast network growth.

4. **Capital Expenditure on Greenfields Connections:** Kleenheat welcomes further network growth and the opportunity for additional businesses and households to enjoy the benefits of natural gas. However, this growth must be economically efficient for the network, with consideration relative to alternative sources of energy, and not at the expense of higher tariffs for existing customers. Kleenheat is concerned about the prospect of existing users paying higher tariffs to subsidise new greenfield connections in both the short and medium term. Higher tariffs in this scenario may have a detrimental effect on network growth.
5. **Operating Expenditure:** ATCO's proposed Operating Expenditure remains to be significantly higher than both the ERA's Draft Decision and that of the previous Access Arrangement. Kleenheat reiterates its concern as to the significant increase in marketing and business development expenditure by ATCO and considers this spend to be excessive for a network operator. Where any significant increases in operating expenditure are approved, Kleenheat believes appropriate incentive mechanisms should be conducted in an efficient manner with clearly defined targets and monitoring.
6. **Additional Safety Spend:** Kleenheat considers safety to be paramount and supports ATCO's continued focus on ensuring network safety. However, any safety expenditure must be carefully scrutinised to ensure it is required, efficient and appropriate. Kleenheat welcomes the ERA working closely with EnergySafety and other industry regulators to ensure that ATCO is meeting its safety obligations efficiently.
7. **Security of Supply:** Kleenheat agrees with the ERA's assessment that this expenditure may be excessive and believes a cost benefit analysis should be performed on any significant capital expenditure of this nature.
8. **Terms and Conditions:** Kleenheat notes that a number of concerns raised in its previous submission have not been addressed, as well as additional concerns with the revised Terms and Conditions as detailed below:
 - a. The Glossary contains a number of redundant entries and terms which are inconsistent with those used in the Service Agreement. Kleenheat requests that the Glossary be updated to address these issues;
 - b. The previously raised inconsistencies between Clause 10.3(b) and Clause 10.4 remain uncorrected;
 - c. Kleenheat agrees with the ERA's comments that clause 13.5(b) should be deleted;
 - d. Kleenheat's concerns around the transfer of obligations under Clause 14.8 remain unaddressed;
 - e. As previously submitted, payment disputes under clause 10.3(d)(ii) should not be subject to the "de minimis" limitations set out in clause 19.1(c). Kleenheat reiterates this point and suggests that clause 19.1(c) should be deleted in its entirety, and clause 19.1(a) should be made subject to clause 10;
 - f. Kleenheat is comfortable for clauses 21.1(a) and (b) to remain as drafted, but submits that clause 21.1(c) is not appropriate in a haulage contract and should be deleted;
 - g. Annexure C appears to be missing from the template haulage agreement;
 - h. Clause 1(a)(iii)B should including the words "acting reasonably" after "minimum prudential and financial requirements specified by Service Provider";
 - i. The words "Service Agreement" in the second last line of Clause 8.1 should be deleted;
 - j. Kleenheat is concerned about the inclusion of Clause 9.3(b) and 11.1(a)(vi), particularly where these items relate to obtaining leases, licences and easements;
 - k. The security regime under Clause 16.2 appears excessive;



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- I. Clause 18.4(c): "this clause 18" should be changed to read "this Service Agreement" to ensure that all warranties and representations set out anywhere in the Service Agreement are covered, not just those in clause 18; and
- m. Kleenheat is uncomfortable with ATCO's proposed amendments to Clause 4(b) in Schedules 4 and 5 under which it allows the <Service Provider> to amend gas pressure.

It is important to note that the comments above have been provided in good faith and reflect Kleenheat's broad view on ATCO's AA4 proposal. They are not intended to be used as expert technical advice; but to provide comments for consideration by the ERA in reviewing the proposal.

Should you wish to discuss any points raised in this submission please contact Colin York at colin.york@kleenheat.com.au.

Yours sincerely,

Colin York
General Manager Natural Gas and Electricity
Wesfarmers Kleenheat Gas Pty Ltd