



Economic Regulation Authority

Notice

1 July 2015

Revised Proposed Access Arrangement for the Mid-West and South-West Gas Distribution Systems - Final Decision

FINAL DECISION PUBLISHED

The Economic Regulation Authority (ERA) has published on its website the Final Decision on ATCO Gas Australia Pty Ltd's (ATCO) revised proposed access arrangement for the Mid-West and South-West Gas Distribution Systems (GDS).

The ERA has not approved ATCO's revised proposed changes to the access arrangement for the GDS. The main differences between the ERA's Final Decision and ATCO's Revised Proposal result from:

- a return on assets of 6.01 per cent compared to ATCO's revised proposed value of 7.64 per cent;
- a reduced allowance for capital expenditure due to adjustments largely relating to ATCO's proposed growth and sustaining capital expenditure;
- a reduced allowance for operating expenditure due to adjustments to ATCO's proposed network, corporate support and business development and marketing expenditure; and
- not approving ATCO's proposed depreciation methodology.

The Final Decision has reduced ATCO's expected revenue for the Gas Distribution System for the period 1 July 2014 to 31 December 2019 from ATCO's revised proposed \$1,124.52 million to \$914.04 million.¹

The ERA's decision and relevant information is available on the ERA website at <https://www.erawa.com.au/home>.

The National Gas Rules (NGR) require that the final decision be published within a six month period unless the ERA extends the time allowed or disregards time as permitted by the NGR. The ERA disregarded time for this purpose as a result of extending the revision period for ATCO and the public consultation period on the draft decision. The ERA further disregarded time for the submissions period and consultation on the discussion paper on the return on debt.

Rule 11 of the NGR lists the periods of time that may be disregarded, which include:

- any period allowed for the proponent to correct or revise the proposal (rule 11(1)(a)); and
- any period allowed for public submissions on the proposal or the ERA's draft decision (rule 11(1)(c)).

¹ In nominal terms.

However, there is also an overall time limit of 13 months. In accordance with the overall time limit, the ERA's final decision was due to be published by 17 April 2015. The ERA was unable to publish its final decision by this date due to the complexity of issues raised and delays experienced in receiving information.

As the ERA was unable to meet the requirements of rule 13(2) of the NGR, the ERA will be required under rule 14 of the NGR to provide a report regarding the delay to the Ministerial Council of Energy (MCE). The ERA proposes to publish its report to the MCE as soon as practicable after it is given to the MCE. Pursuant to section 332(1) of the National Gas Law, the ERA's final decision will remain valid as if it had been made within the time limit.

Background

This gas distribution system provides reticulated natural gas to areas including Perth, Bunbury, Busselton, Capel, Eneabba, Geraldton, Harvey, Kemerton, Mandurah and Pinjarra. These combined networks cover approximately 13,500 km, connecting about 683,000 end users to natural gas.

The ERA received submissions from 23 stakeholders in response to its draft decision on ATCO's initial proposal. These submissions largely focussed on the impact of the ERA's draft decision to limit ATCO's capital expenditure on greenfields developments. A small number of public submissions were received regarding the appropriate rate of return.

The access arrangement sets out the terms and conditions, including tariffs, under which ATCO is required to provide third party users seeking access to the GDS.

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Attachment – Background

Table 1 below provides a comparison of the total revenues in ATCO's initial and revised proposals and the ERA's draft and final decisions.

Table 1 Comparison of ATCO's Proposals and Authority's Decisions – Total Revenue

Component	ATCO Proposal	Draft Decision	ATCO Revised Proposal	Final Decision
Total Revenue (\$ nominal millions)	1,208.50	836.10	1,124.52	914.04
Forecast Operating Expenditure (\$ real millions in June 2014)	421.33	347.48	407.08	369.91
Forecast Capital Expenditure (\$ real millions in June 2014)	606.92	286.44	592.22	446.60
WACC (per cent)	8.53	5.94	7.64	6.01
Depreciation (\$ nominal millions)	127.33	94.91	127.68	123.70
Estimated Net Cost of Corporate Income Tax (\$ nominal millions)	44.35	4.07	41.05	12.74
Return on Working Capital (\$ nominal millions)	1.26	0.55	1.24	0.76

Source: ATCO Gas Australia, *Tariff Model, September 2014*. ATCO Gas Australia, *Tariff Model, December 2014*. ERA, *GDS Tariff Model, October 2014*. ERA, *GDS Tariff Model, June 2015*.

Table 2 provides the tariff changes per tariff class in ATCO's revised proposal, while Table 3 shows the tariff changes for the ERA's final decision. Note that the ERA has assumed that inflation will be 1.9 per cent.

Table 2 ATCO's Revised Proposal – Tariffs (Nominal) Percentage Change from Previous Period

Percentage Change	1 Jul 2015	1 Jan 2016	1 Jan 2017	1 Jan 2018	1 Jan 2019
ATCO Revised Proposal					
A1, A2 and B1 Tariffs	0.6%	0.6%	0.6%	0.6%	0.6%
B2 Standing charge	3.3%	3.2%	3.1%	3.0%	2.9%
B2 Usage Charge 100 GJ	0.3%	0.3%	0.3%	0.3%	0.3%
B2 Usage Charge > 100 GJ	0.3%	0.3%	0.3%	0.3%	0.3%
B3 Standing Charge	21.4%	17.6%	15.0%	13.0%	11.5%
B3 Usage Charge First 2 GJ	(100%)	-	-	-	-
B3 Usage Charge >2<10 GJ	9.9%	(7.5%)	(8.6%)	(10.0%)	(11.7%)
B3 Usage Charge >10 GJ	9.9%	(7.5%)	(8.6%)	(10.0%)	(11.7%)

Source: ATCO Gas Australia, *Tariff Model, December 2014*.

Table 3 Authority's Final Decision – Tariffs (Nominal) Percentage Change from Previous Period

Percentage Change	1 Oct 2015	1 Jan 2016	1 Jan 2017	1 Jan 2018	1 Jan 2019
Final Decision					
A1, A2 and B1 Tariffs	(2.1%)	(8.6%)	(8.6%)	(8.6%)	(8.6%)
B2 Standing charge	(2.1%)	(8.6%)	(8.6%)	(8.6%)	(8.6%)
B2 Usage Charge 100 GJ	(2.1%)	(8.6%)	(8.6%)	(8.6%)	(8.6%)
B2 Usage Charge > 100 GJ	(2.1%)	(8.6%)	(8.6%)	(8.6%)	(8.6%)
B3 Standing Charge	10.1%	4.9%	13.5%	12.3%	11.3%
B3 Usage Charge First 2 GJ	(100%)	-	-	-	-
B3 Usage Charge >2<10 GJ	11.0%	(15.4%)	(22.2%)	(27.4%)	(36.4%)
B3 Usage Charge >10 GJ	11.0%	(15.4%)	(22.2%)	(27.4%)	(36.4%)

Source: ERA, GDS Tariff Model, June 2015.

ATCO's tariff classes are as follows:

Tariff Class A1 - customers that require in excess of 35 TJ/year supplied at high or medium pressures, a contracted peak rate of 10 GJ or more per hour and user specific delivery facilities.

Tariff Class A2 - customers that require volumes of gas in excess of 10 TJ/year but less than 35 TJ/year supplied at high or medium pressures, a contracted peak rate of less than 10 GJ/hour or above 10 TJ/hour and user specific delivery facilities.

Tariff Class B1 - customers that require volumes of gas that do not exceed 10 TJ/year supplied at high or medium pressures, a contracted peak rate of less than 10 GJ/hour, and possibly user specific delivery facilities.

Tariff Class B2 - large residential and small industrial customers that can be supplied from the medium and low pressure parts of the GDS.

Tariff Class B3 - residential and small industrial customers that can be supplied from the medium and low pressure parts of the GDS.