



27 August 2015

Mr Tyson Self
 Economic Regulation Authority
 Level 4, Albert Facey House
 469-489 Wellington Street
 Perth WA 6000

Dear Tyson

Mid–West and South–West Gas Distribution Systems Access Arrangement 2015-2019 – Consultation on Proposed Amendments to the Final Decision

Alinta Energy welcomes the opportunity to comment on the Proposed Amendments to the Mid–West and South–West Gas Distribution Systems Access Arrangement 2015-2019 (the Consultation Paper).

The Consultation Paper outlines a number of proposed corrections to the Final Access Arrangement to address issues raised following the Authority’s Final Decision. Alinta Energy does not wish to make any specific comment on those corrections, however raises the important issue of how ATCO’s costs are to be recovered from its customers.

Alinta Energy notes the Authority’s Final Decision published the following price path for ATCO:

Table 4 Authority’s Final Decision – Tariffs (Nominal) Percentage Change from Previous Period

Percentage Change from previous period	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	(100.0%)	-	-	-	-
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.

Alinta Energy has a number of concerns with the price path adopted by the Authority and requests the Authority, as part of its revised decision, review the price path.

As stated by Alinta Energy in its submissions to the Authority's consultation on the ATCO Access Arrangement, there is currently a misalignment between how network and retail gas tariffs are set, restricting a retailers' ability to reflect revised network tariffs in standard small use customers' retail tariffs. In particular, WA gas retailers are restricted to increasing each component of the gas tariff by CPI each financial year.

It is noted that the Authority's Final Decision results in a restructure of gas network tariffs for residential and some small business customers (i.e. those on the B3 Tariff), including:

- A new tariff band has been introduced (i.e. 0-2GJ) which is not contemplated by the tariff regulations (*Energy Coordination (Gas Tariffs) Regulations 2000*);
- ATCO's Standing Charge increases well above CPI each year; and
- ATCO's Usage Charges first increases on 1 October 2015 above CPI and then decreases each year thereafter.

Accordingly, because of the price path and structure of the network tariff adopted by the Authority, retailers are not able to reflect the change in network tariffs in their own standard retail tariffs. For retailers this may create groups of customers that become immediately unprofitable, significantly impacting Alinta Energy as the default supplier.

Another factor to consider is that a significant number of larger business customers are on *pass-through contracts*¹. As a result of the Authority's Final Decision, these customers will see two price changes within four months. The administrative costs to retailers and to customers of making two price changes is not, in Alinta Energy's view, outweighed by any economic benefit.

Alinta Energy urges the Authority to simplify the price path to a single price movement in the form of a higher upfront decrease as soon as possible (but no later than 1 January 2016), followed by a lower smoothed decrease in the later years. This will deliver the same overall outcome in terms of the ERA objectives and simplify the administrative burden to gas retailers while immediately promoting competition for all gas customers.

If you have any queries on this matter please contact me on 9486 3762.

Yours sincerely



Michelle Shepherd
General Manager Regulatory and Government Affairs

¹ Pass-through contracts require the retailer to pass-through to the customer the actual network costs published by ATCO Gas Australia.