



Notice

10 September 2015

Mid-West and South-West Gas Distribution Systems Access Arrangement 2015 - 2019

The Economic Regulation Authority today published an amended Final Decision on ATCO Gas Australia's Pty Ltd (ATCO) proposed revisions to the access arrangement for the Mid-West and South-West Gas Distribution Systems (GDS). Pursuant to rule 62 of the NGR the amended Final Decision does not approve ATCO's amended revised access arrangement proposal.

As a consequence, by the Final Decision, the ERA has published its Decision to revise ATCO's access arrangement for the GDS in accordance with rule 64 of the NGR. The revised access arrangement becomes effective on 1 October 2015 and sets out the terms and conditions as well as the tariffs that ATCO must offer independent third parties seeking access to the GDS.

In revising an access arrangement for a regulated gas pipeline, the rules and processes that the ERA must follow are governed by the *National Gas Access (WA) Act 2009* (NGL(WA)) and the National Gas Rules (NGR).

On 17 March 2014, ATCO submitted its access arrangement proposal and access arrangement information for the GDS, as well as other supporting information, to the ERA. On 14 October 2014, the ERA issued a Draft Decision on ATCO's proposed revisions to the GDS access arrangement (Draft Decision) that did not approve ATCO's proposal, and specified 45 amendments that were required before it could be approved. On 27 November 2014, ATCO issued its response to the ERA's Draft Decision including ATCO's revised access arrangement proposal. On 1 July 2015, the ERA published a Final Decision on ATCO's proposed revisions to the GDS access arrangement (Final Decision) that did not approve ATCO's revised access arrangement proposal submitted on 27 November 2015 and specified 35 required amendments to it.

On 21 August 2015, the ERA issued a public notice inviting interested parties to make submissions on some amendments proposed by the ERA to correct and clarify aspects of the Final Decision. All submissions received on those proposed amendments have been considered by the ERA and are published on the ERA's website. Accordingly, pursuant to clause 20 of schedule 2 of the NGL(WA), the ERA has amended its Final Decision.

Details on the ERA's amendments to its Final Decision on ATCO's revised Access Arrangement Proposal are provided in the attachment to this notice. A copy of the amended Final Decision is also available on the ERA's website.

As a consequence of these amendments, the ERA's approved total revenue has increased by \$1.19 million (nominal). From 1 January 2016, this amendment has resulted in an annual reduction in network tariffs moving from 10.3 per cent to 10.0 per cent.

Under Rule 64 of the NGR, the ERA's Final Decision not to approve ATCO's access arrangement proposal (or revisions) requires that the ERA itself propose and give effect to the revised access arrangement that will apply to ATCO's GDS. Consequently, the Authority has drafted and approved its own revised access arrangement and access arrangement information for the GDS.

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Attachment 1 – List of Amendments to the Final Decision

Operating Expenditure

The ERA has amended the wording in paragraph 385 to clarify that it has not allowed operating expenditure of \$2.1 million for corporate support to prepare the revised access arrangement in 2014 and 2015. The ERA has also included two new paragraphs 386 and 387 to provide further information about this decision.

The ERA has included two new paragraphs 399 and 400 and amended paragraph 401 to provide ATCO with additional corporate support operating expenditure to allow for ATCO's expense of checking the annually updated value of the debt risk premium.

Opening Capital Base

The ERA has included \$0.65 million in the opening capital base in 2012/13 for IT capital expenditure. The ERA's Final Decision erroneously excluded \$0.65 million for the GIS enhancement project, which was approved in the Draft Decision.

Projected Capital Base

The ERA has corrected a typographical error in Table 67, by changing the amount deducted for capitalised overheads from \$16.31 million to \$16.91 million.

Rate of Return

The ERA has changed the reference to 30 September to 31 October in paragraphs 1711, 1712, 1713, 1714 and Appendix 8 paragraphs 20, 90, 91, 92 and 93, as this aligns with the Authority's required four month window for the nominated averaging period for the debt risk premium of 1 July to 31 October. A similar wording change, deleting 'three' and inserting 'four' referring to the number of months, has been made in paragraphs 1699, 1711, 1712, 1713, 1714 and in Appendix 8 paragraphs 90, 91, 92 and 93.

The ERA has corrected the nominal imputation credit yield row in Table 76 for typographical errors in the reported value.

The ERA has also corrected footnote 594 in paragraph 1387 to reflect the ERA's concerns about the sensitivity and interpretation of estimates for the elasticity of the return on equity to the return on debt provided by DBNGP (WA) Transmission Pty Limited in response to the ERA's Draft Decision on ATCO's access arrangement proposal.

The ERA has removed unnecessary wording on capital expenditure weighting and an incorrect reference to Table 96 in paragraph 1722.

The ERA has included a new paragraph 1767 and an additional footnote 769 to set out the process for implementing the annual update of the debt risk premium. Required Amendment 7 also has an additional paragraph to reflect this process.

The ERA has corrected an error in the estimate of the DRP for the 20 days ending 2 April 2015. This results in a 1 basis point change to the rate of return, with flow on effects for the total revenue and the tariffs. The revised rate of return is set out in Table 94, and commensurate changes have been made to paragraphs 1722, 1762, 1763 and 1765.

Depreciation

The ERA has updated Table 98 to reflect outcomes for new capital expenditure and connections as a result of the amended Final Decision.

The ERA has included two new paragraphs 2041 and 2042 so as to respond to ATCO's submission to the consultation on the Final Decision.

The ERA has included four new paragraphs 2053, 2054, 2055 and 2056 to note that under regulation 7 of Part 2 of the *National Gas Access (WA) (Local Provisions) Regulations 2009*, (which are subsidiary to the *National Gas Access (WA) Act 2009*), the Authority is required,

when approving or making an access arrangement, to take into account the possible impact of the proposed reference tariffs, the method of determining the tariffs and the reference tariff variation mechanisms on small use customers.

The ERA has amended paragraphs 2069 and 2071 to ensure that the text aligns with the modelling analysis of the amended Final Decision.

Haulage Tariffs

The ERA has included two new paragraphs 2265 and 2266 in response to ATCO's submission to the consultation on the Final Decision.

Haulage Tariff Variation Mechanism

The ERA has adjusted the Tariff Class A1, A2 and B1 formulae in Annexure B to:

- Remove the price cap formula and revise it to allow for a tariff basket.
- Refer to the actual quantity sold rather than forecast.
- Clarify that the $P(N-1)$ is the prevailing tariff applied to the customers.

The ERA has adjusted the Tariff Class B3 formulae in Annexure B to:

- Add an additional condition such that the year to year growth of usage charges P3 and P4 are identical.
- Clarify the usage price per GJ for P3 at October 2015 is \$14.98 multiplied by CPI at September 2014 divided by CPI at March 2013.
- Clarify the usage price per GJ for P4 at October 2015 is \$6.47 multiplied by CPI at September 2014 divided by CPI at March 2013.
- Clarify that Q1 refers to one average customer connection.
- Clarify that the $P(N-1)$ is the prevailing tariff applied to the customers.

The ERA has included two new paragraphs 2348 and 2349 and amended paragraph 2341 in response to ATCO's submission regarding the cost pass through mechanism.

Fixed Principles

The ERA has included a new fixed principle 11.3 in relation to cost pass-through events, which is discussed in paragraph 2465 and 2466.

Template Service Agreement

The ERA has updated required amendments in the Final Decision to ensure consistency with defined terms in, and correct referencing to, the Template Service Agreement.

Appendix 8 – Automatic updating formulas for the return on debt

The ERA has amended Appendix 8 to add further detail on the approach to estimating the Debt Risk Premium for the annual updates to be included in each annual tariff variation. The process is outlined in sufficient detail such that replicating it should incur minimal research and development costs for stakeholders. Transparency is enhanced and analyst discretion is removed from the application.

Appendix 9 – Modelling depreciation outcomes to 2080

The ERA has amended Appendix 9 so as to respond to ATCO's submission to the consultation on the Final Decision.

Appendix 10 – Public Reference Tariff Model

The ERA has adjusted the tariff model to:

- Express the time period 1 July 2014 to 31 December 2014 in days/365 rather than as a half year fraction when applying the rate of return in the building block.
- Remove six months of capital expenditure (1 January to 30 June 2000), which has been double counted in the initial tax asset base.
- Apply the same discount rate and inflation throughout the periods 1 January 2015 to 31 December 2015 to calculate tariff revenue; and to be consistent with the discount rate and inflation used in the building block revenue.
- Add the amount equivalent to the value of commercial meters that was erroneously deducted from the tax asset base.