Economic Regulation Authority

Notice

25 October 2016

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

REVISED DECISION FOLLOWING THE DETERMINATION OF THE AUSTRALIAN COMPETITION TRIBUNAL

The Economic Regulation Authority (**ERA**) has published its Revised Access Arrangement Decision for the Mid-West and South-West Gas Distribution Systems (**GDS**) pursuant to rule 64(4) of the National Gas Rules. The decision was revised by order of the Australian Competition Tribunal made on 13 July 2016. The GDS is operated by ATCO Gas Australia Pty Ltd.

The ERA's decision gives effect to the Revised Access Arrangement for the GDS, with revised tariffs to take effect from 1 January 2017. The Revised Access Arrangement sets out the reference tariffs and terms of access for gas transportation related services (reference services).

The ERA has also published a Revised Access Arrangement Information, which provides information that is necessary to understand the background and derivation of various elements of the Revised Access Arrangement.

Gamma

In complying with the Tribunal's Determination, the ERA has re-made its decision by using a gamma value of 0.25 rather than 0.40. The gamma parameter accounts for the distribution of imputation or franking credits to investors.

First, a lower value for gamma increases the effective level of corporate taxation. It follows then that the change in gamma from 0.4 to 0.25 increases the tax expense of the service provider. Approved revenue therefore also needs to increase.

Second, the ERA also reviewed the interrelated components of the revised gamma value as required by the Tribunal. The lower value for gamma reduces the Market Risk Premium from 7.6 per cent to 7.5 per cent. The resulting change in the Market Risk Premium stemming from the decline in gamma results in a decline in the weighted average cost of capital of 0.03 per cent. The decline in the weighted average cost of capital reduces the approved revenue. Overall, the change to gamma still increases approved revenue as the increased taxation allowance outweighs the reduction in revenue due to the lower Market Risk Premium.

Other Minor Changes

During the course of the appeal process a minor issue concerning the calculation of the B3 tariff calculation was identified. B3 customers are predominantly residential customers. The tariffs for the B3 customers incorporate a fixed charge and consumption charges based on usage within certain consumption bands. In its September 2015 Amended Final Decision, the ERA adopted customer demand assumptions for the nominated B3 usage bands consistent with labels used in ATCO's tariff model. During the ERA's subsequent review of this matter, ATCO provided evidence that the ERA's use of the labelled usage bands was inconsistent with the modelled forecast demand.

The ERA has amended its tariff model to correct this issue and ensure that ATCO has the ability to recover its forecast revenue. The ERA has also made the required consequential changes to the tariff variation mechanism.

Revised 2017 Tariffs

The ERA has recalculated tariffs to give effect to these changes from 1 January 2017 (see table). These tariffs incorporate the Tribunal's determination on imputation credits (gamma) and the ERA's minor revision to the B3 tariff calculation. The revised tariffs are calculated to ensure that ATCO can recover the correct forecast revenue over the regulatory period which ends on 31 December 2019.

The resulting revenue increase of all the above changes is $2.080 million in present value terms.

Nominal $ Million	Units	Current 2017 Tariff[1]	Revised 2017 Tariff
Tariff A1			
Standing charge	$/year	38,642.73	38,802.08
Demand charge			
First 10 km	$/GJ km	162.87	163.54
Distance > 10km	$/GJ km	85.72	86.08
Usage charge			
First 10 km	$/GJ km	0.03455	0.03470
Distance > 10km	$/GJ km	0.01726	0.01733
Tariff A2			
Standing charge	$/year	21,394.66	21,482.89
First 10 TJ	$/GJ	2.07	2.08
Volume > 10 TJ	$/GJ	1.11	1.11
Tariff B1			
Standing charge	$/year	1,077.75	1,082.19
First 5 TJ	$/GJ	4.12	4.13
Volume > 5 TJ	$/GJ	3.53	3.54
Tariff B2			
Standing charge	$/year	270.06	271.18
First 100 GJ	$/GJ	6.87	6.90
Volume > 100 GJ	$/GJ	4.09	4.11
Tariff B3			
Standing charge	$/year	93.15	93.15
First 1.825 GJ	$/GJ	0.00	0.00
Volume > 1.825 and < 9.855 GJ	$/GJ	10.41	10.40
Volume > 9.855 GJ	$/GJ	4.49	4.49

In November 2016, ATCO will submit a tariff variation which will update these tariffs to account for actual inflation, any cost pass-through events which are permitted under the existing tariff variation mechanism, and the yearly change to the Debt Risk Premium, as stipulated in the Revised Access Arrangement for the GDS.

[1] Current 2017 tariff represents the estimated value for tariffs commencing on 1 January 2017 from the 2016 Tariff Variation Model.

Copies of the Revised Access Arrangement Decision, Revised Access Arrangement and Revised Access Arrangement Information for the GDS are available on the ERA website.

Background

The gas distribution systems provide reticulated natural gas to areas including Perth, Bunbury, Busselton, Capel, Eneabba, Geraldton, Harvey, Kemerton, Mandurah and Pinjarra. These combined networks cover around 13,500 km, connecting around 700,000 end users to natural gas.

On 1 October 2015, ATCO sought a review of the ERA's Access Arrangement Decision on six grounds. These grounds were on the allowed rate of return on equity, value of imputation credits, operating expenditure, capital expenditure, depreciation and the reference tariff variation mechanism. ATCO stated at the time that, if the Tribunal found in favour of ATCO, the total revenue forecast would increase from $859.80 million to $959.84 million over the five and a half year regulatory period. The return on the projected capital base was the largest contributor to the increase sought by ATCO, representing $85.18 million. As stated above, the Tribunal only directed the ERA to amend the value of gamma and its interrelated components which has resulted in an increase in revenue of $2.080 million in present value terms.

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