

18 September 2017

Attention: Mr Tyson Self
Economic Regulation Authority
PO Box 8469
PERTH BC WA 6849

Submitted online

Dear Mr Self,

INQUIRY INTO THE EFFICIENT COSTS AND TARIFFS OF THE WATER CORPORATION, AQWEST AND BUSSELTON WATER (2016) DRAFT REPORT

Thank you for the opportunity to comment on the Economic Regulation Authority's (ERA) draft report relating to the *Inquiry into the efficient costs and tariffs of the Water Corporation, Aqwest and Busselton Water (2016)* (the Inquiry). This letter outlines ATCO Gas Australia's (AGA) submission as a gas distribution network service provider that is subject to the National Gas Law and regulatory oversight by the ERA.

AGA is part of the ATCO Australia Group. AGA owns and operates the vast majority of Western Australia's gas distribution network, serving approximately 740,000 end users via the Mid-West and South West Gas Distribution System. In addition to the WA gas distribution network, the ATCO Australia Group includes businesses that operate within the electricity sector through the ownership and operation of gas-fired power stations in Karratha (wholly-owned) and Adelaide (co-owned).

The ATCO Australia Group is part of the worldwide ATCO Group of companies with more than 7,000 employees and assets of approximately \$20 billion. ATCO's companies are engaged in pipelines and liquids (natural gas transmission, distribution and infrastructure development, energy storage, and industrial water solutions); electricity (electricity generation, transmission, and distribution); retail energy; and structures and logistics.

AGA is a strong supporter of efficient costs and tariffs and notes the former WA Treasurer, Hon. Mike Nahan MLA, tasked the ERA with the Inquiry, in accordance with documented terms of reference. AGA notes the ERA has applied a traditional regulatory framework (the building blocks method, typically applied by Australian regulators to utility businesses) to determine the revenue requirements and associated tariffs for the Water Corporation, Aqwest and Busselton Water for the five-year period commencing 2018-19.



Customer engagement

AGA agrees with the ERA's comments that efficient costs and prices are an outcome of effective competition in the market. Further, that competition creates incentives to invest and operate efficiently, to innovate, provide services at a level expected by consumers and share efficiencies with consumers through lower tariffs. However, AGA believes that in a regulated environment this should be overlayed with a strong customer engagement framework to assist the ERA in making better regulatory determinations in the long-term interests of consumers, through having visibility of issues of importance to those consumers.

AGA acknowledges the ERA's view that the Inquiry's recommendations are consistent with good regulatory practice. AGA further acknowledges the Inquiry notes Water Corporation's intention to focus on its customer engagement to better understand what its customer's value. As such, AGA strongly recommends the ERA consider whether the Water Corporation's current 'Tap-In' customer engagement process, or similar, can be incorporated into the current inquiry or future regulatory processes for all utilities.

AGA also encourages the ERA to take a further step and develop and apply a local program which includes prioritising the view of the customer in this Inquiry and in future regulatory processes. The local program could be informed by similar programs applied by the Australian Energy Regulator (AER) and/or the Essential Services Commission (ESC).

To provide further context, in April 2014 the AER released its *Overview of the Better Regulation reform package* which aims to deliver an improved regulatory framework focused on the long-term interests of consumers through the consumer challenge panel¹, improved engagement and communication. Although not required by law, the AER considers its program as good regulatory practice and expects utility service providers to apply these reforms.

Additionally, in October 2016 the ESC reviewed the approach it had traditionally applied to the regulation of water utilities and confirmed it would implement an updated framework and approach incorporating customer engagement, incentives and accountability for its next price review.² The ESC's framework and approach puts the customer at the centre of the regulatory process and requires genuine consultation before, during, and after the development of the regulatory submission.

Should the ERA pursue a local program AGA would welcome the opportunity to work with the ERA on this project.

¹ The Consumer Challenge Panel should be considered an important tool in the regulatory process, particularly in WA where there are less public advocacy groups than in the national energy market.

² Essential Services Commission 2016, Water Pricing Framework and Approach: Implementing PREMO from 2018, October 2016



AGA access arrangement and customer engagement

AGA's fifth Access Arrangement (AA5) submission is due to the ERA on 1 September 2018 for the five-year period commencing on 1 January 2020. In preparation of its AA5 submission, AGA is undertaking a customer engagement stream of work, similar to the approach outlined in the AER's *Consumer Engagement Guideline for Network Service Providers* (the Guideline). Whilst the application of the Guideline is not a requirement of the *National Gas Access (WA) Act 2009*, AGA considers the link between consumer preferences and discretionary expenditure is fundamental to operating and investing in the network for the long-term interests of consumers, which is a core component of the National Gas Objective. AGA intends to engage extensively to seek the perspectives of all types of customers, including commercial and industrial, households, retailers, industry bodies and other stakeholders and/or their representatives.

Opportunities for AGA to collaborate with the water utilities

AGA would also like to acknowledge the Inquiry's commentary around improving practices to make them more efficient. AGA is a supporter of efficient costs and practices and welcomes the opportunity to work with the Water Corporation, other key utility providers and government planning agencies to collaborate on projects and reduce the traffic congestion, noise, time and costs associated with infrastructure works. A practical example of this is how AGA has worked collaboratively with Water Corporation, as part of the Smarter Planning Perth initiative, during the replacement of natural gas and water mains in Fremantle. This collaborative approach allowed for an efficient delivery of the mains replacement program, shared costs associated with re-instatement and reduced community disruption. AGA looks forward to continuing such alliances in the future.

If you have any questions or would like to discuss any of these issues further, please contact myself or Matthew Cronin, General Manager Regulation ATCO Gas Australia.

Yours sincerely

Pat Donovan
President ATCO Gas Australia

