



Notice

18 April 2019

Proposed revised access arrangement for the Mid-West and South-West Gas Distribution Systems

Draft Decision

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

The Mid-West and South-West Gas Distribution Systems consist of gas reticulation networks servicing Geraldton, Bunbury, Busselton, Harvey, Pinjarra, Brunswick Junction, Capel and the Perth greater metropolitan area (including Mandurah). These combined networks supply approximately 750,000 residential, commercial and industrial customers through more than 14,000 kilometres of pipeline.

The ERA has not approved ATCO's proposed revised access arrangement, and has made 37 required amendments. Most of these amendments affect the terms and conditions for reference services, which are services commonly sought by users of the gas distribution system.

During the previous access arrangement, prices declined to levels below ATCO's cost of supply. The National Gas Rules allow ATCO to recoup its efficient costs, and prices must rise in the next few years to allow ATCO to recover those costs. In order that the next access arrangement does not also conclude with prices that are not aligned to costs, ATCO has proposed a sharp increase in prices in the first year of the coming access period (2020), with modest increases thereafter. The ERA's draft decision also proposes prices that increase more in the first year than later years, although the increases in the first year are mostly smaller than those proposed by ATCO because the ERA has not accepted ATCO's estimate of its proposed revenue requirement. Although prices rise sharply over the coming access period, they will remain below prices at the start of the previous access period, in 2015.

Another reason for the increase in network prices is decreasing average consumption per customer. For example, average gas consumption per residential customer is expected to have decreased from around 20 GJ in 2005 to around 12 GJ in 2024. If the current trend of decreasing consumption per customer persists, network prices will continue to increase in future.

ATCO had proposed a network price increase of 22.4 per cent in real terms for industrial and commercial customers in 2020, followed by an annual increase of 2.3 per cent in real terms. The increases are due to the disparity of current prices and network costs and ATCO's

proposed revenue requirement. The network price increase in 2020 is lower in the ERA's draft decision, at 7.56 per cent. In subsequent years annual network price increases are maintained at 2.3 per cent.

The ERA has maintained ATCO's proposal for no increases to the fixed component of the network price in real terms for residential customers. ATCO proposed increases of 71.7 per cent for the first of the two tier gas consumption prices (for residential customers with relatively low consumption) and 194.8 per cent for the second tier of consumption (for households using more gas) for 2020, followed by annual increases of 2.3 per cent in real terms for both tiers of gas consumption. The ERA's draft decision provides for lower price rises in 2020, with increases of 22.2 per cent and 142 per cent, while maintaining the 2.3 per cent annual price increases after 2020.

The residential gas consumption price increases are 22 per cent for the first tier and 142 per cent for the second tier, and would result in an increase of 12 per cent in real terms in 2020 on the bill of a residential customer with average consumption of 13.5 GJ. Although the annual network bill for the average residential customers is expected to increase in 2020, the network bill of \$184 will be below the annual equivalent bill for the same customer at the start of the previous access arrangement period of \$251. The estimated annual network bill in 2024 of \$190 for the same customer would be well below the bill at the start of the previous access arrangement period in 2015.

The ERA's lower forecast network price increases during AA5 compared to ATCO's proposal are the result of the ERA's lower forecast costs. The lower forecast costs are due to reductions in operating and capital expenditure and lower estimated taxation payments. Based on the information provided by ATCO, the ERA has determined that only 47 per cent of ATCO's proposed capital expenditure and 89 per cent of operating expenditure is efficient and prudent. The National Gas Rules require the ERA to consider capital expenditure only if it provides a positive economic value to the gas industry, if its incremental revenue exceeds its incremental expenditure, or if it is necessary for the safety and integrity of the network. The ERA also determined that only 17 per cent of ATCO's proposed cost of corporate income tax should be recovered, due to carried forward tax losses from the previous access arrangement period not being incorporated by ATCO in its proposed forecasts.

The ERA's detailed reasons are outlined in the Draft Decision document, with the 37 amendments required to enable the ERA to approve ATCO's proposed access arrangement.

Revision period

Under rule 59(3) of the NGR, the ERA is required to fix a period (revision period) within which ATCO may, under rule 60, submit additions or other amendments to its access arrangement proposal to address the matters raised in this draft decision. The ERA has set the revision period at 30 business days from the date of this decision. ATCO may submit revisions to its proposal by 4:00 pm (WST) Wednesday, 5 June 2019.

Invitation for submissions

The ERA invites interested parties to make submissions on the draft decision.

Submissions close 4:00 pm (WST) Wednesday, 3 July 2019.

Submissions should be lodged online using the form on our website www.erawa.com.au/consultation.

Extension of time to make final decision

The ERA will disregard the time given to ATCO for it to revise its proposed access arrangement and the following consultation period for interested parties to make submissions on its proposed revisions (as stated above). This is done to calculate the deadline for the ERA to make its final decision under the National Gas Rules. The ERA also gives notice that it will extend the time to make the final decision by a two month period as allowed under rule 62(8) of the National Gas Rules. As a result it is expected that the final decision will be published by 12 September 2019.

Further information

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