

OFFICE OF GAS ACCESS REGULATION

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NOTICE

This is to advise that I have today issued a Draft Decision on the Access Arrangement for the Mid-West and South-West Gas Distribution Systems lodged by AlintaGas on 30 June 1999.

My Draft Decision is to not approve the Access Arrangement in its current form and to require AlintaGas to make the amendments as detailed in the decision.

A key factor of the Draft Decision relates to a requirement on the AlintaGas distribution business to set distribution access tariffs consistent with a minimum retail price margin for natural gas to provide scope for competition between gas traders at the retail level.

Consideration of retail margins and other factors had an impact on the assessment of the Initial Capital Base. AlintaGas proposed an Initial Capital Base of \$530.3 million as at 31 December 1998, corresponding to a value of \$539.4 million as at 31 December 1999. The revised Initial Capital Base after allowing for the adjustments determined by the Draft Decision is \$510.4 million as at 31 December 1999, representing a 5.4 percent reduction on that proposed by AlintaGas. The calculation of the revised Initial Capital Base has been based on an assumed minimum 2 percent retail margin.

The reduction to the Initial Capital Base and other revisions of AlintaGas's assumptions and calculations, as described in the Draft Decision, give rise to an overall reduction in weighted average tariffs of 5 percent as compared with those proposed by AlintaGas.

AlintaGas will also be required to review proposed distribution tariff structures to permit reasonable retail margins in the delivery and sale of gas to residential and small business customers. The effect of these margins on competition at the retail level will be monitored as the market is opened up and be subject to review before the end of the proposed Access Arrangement period on 31 December 2004.

On the basis of independent advice, I have determined that the appropriate rate of return on equity for the AlintaGas Distribution Systems is 13.2 percent (nominal post-tax), which equates to a Weighted Average Cost of Capital (WACC) of 7.9 percent (real pre-tax).

In handing down this Draft Decision, I have set a period of time for responses from AlintaGas and other interested parties. Submissions should be received by the Office of Gas Access Regulation by close of business Friday 5 May 2000.

A copy of the Draft Decision can be obtained from the Office of Gas Access Regulation and is also available on the internet at <http://www.offgar.wa.gov.au/>.

The Office of Gas Access Regulation proposes to hold a public forum on the issues raised in the Draft Decision. The forum is proposed to be held on Tuesday 2 May 2000. Details may be obtained from the Office of Gas Access Regulation (telephone +61 8 9213 1900) or from the OffGAR web site.



In summary, the Draft Decision has been developed to promote competition, encourage investment and provide value to users of the distribution system and consumers of gas, while maintaining a reasonable rate of return to AlintaGas consistent with market expectations.

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