Our Ref: 2281434 v1
Enquiries: Mr Grant Draper
Telephone: (08) 9326 4521

21 March 2005

Lyndon Rowe
Chairman
Economic Regulation Authority
Level 6, Governor Stirling Tower
197 St. Georges Terrace
PERTH WA 6000

Dear Mr Rowe

Re: Draft Decision on the Proposed Revisions to the Access Arrangement for the Mid-West and South-West Gas Distribution Systems (28 February 2005)

Western Power (Retail) as a retailer and shipper of gas would make the following comments in relation to the Proposed Revisions to the Access Arrangement for the Mid-West and South-West Gas Distribution Systems.

Marketing Costs

Paragraph 400 states that *"AGN submits that it should be allowed to continue to spend at historical levels on marketing activities that include advertising and sponsorship to promote the efficient use of gas, the promotion of gas appliances, and advice to industry concerning benefits of gas usage and gas appliances."*

Western Power would argue that the responsibility for promoting either increased gas usage or efficient gas usage should be with gas retailers. Gas retailers will incur additional costs (capacity) if they promote inefficient gas usage, so it is in their best interest to ensure that the pipeline is used efficiently. Thus, these costs should be excluded from the calculation of network charges (ie Non-Capital Cost component).

Prudent Discounts

Paragraph 443 outlines a submission by the AGN to ERA on further reasons why it should continue to offer prudent discounts to users. *"For the Second Arrangement Period it is anticipated that those Users who received discounts in the First Access Arrangement Period, and continue to be in the same situation in the Second Access Arrangement Period, will continue to receive prudent discounts."*

While Western Power can understand that discounts can be offered for short periods of time to provide an incentive for users to make use of the gas distribution network, this should not be an ongoing basis for using the network. Price discounts should not be offered in the longer term, as a user must share in the cost of network replacement and enhancement. Providing ongoing discounts to one set of users will disadvantage other users who are paying the full cost of network services.

Regulatory Costs
Table 22 and Table 23 both include a regulatory cost component of $0.74-0.75m. In Table 22, regulatory costs are included as part of the Corporate cost of $6.53m, while in Table 23, the regulatory cost is itemised at $0.74 to 0.75m. However, the Corporate cost in Table 23 still remains at $6.53m. Shouldn't the amount of Corporate cost been reduced by $0.74m-0.75m per year? It appears that table 23 is 'double-counting' the regulatory cost component.

We hope that our comments are useful and look forward to further discussions with the ERA on other matters moving forward.

Yours sincerely

GRANT DRAPER
MANAGER BUSINESS STRATEGY AND REGULATION
RETAIL BUSINESS UNIT