



# NOTICE

## Draft Decision

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

The Authority today issued its draft decision not to approve the proposed revisions to the Mid-West and South-West Gas Distribution Systems (**GDS**) access arrangement. The reasons for the Authority's decision are set out in the draft decision. The draft decision is available on the Authority's [website](#).

The proposed revisions to the GDS access arrangement were submitted by WA Gas Networks Pty Ltd (**WAGN**) under the *National Gas Access (Western Australia) Act 2009* (**NGA**), which came into effect on 1 January 2010. The NGA adopts, as law in Western Australia, a modified form of the National Gas Law (**NGL**) and National Gas Rules (**NGR**) which apply in the Eastern States.

The Authority has set out, in its draft decision, 74 required amendments to WAGN's proposed access arrangement revisions.

The impact of the draft decision on the average household gas user is expected to be negligible.

## Background

The GDS is owned by WAGN, which is majority owned by Prime Infrastructure with the remaining part owned by Diversified Utility Energy Trusts. WestNet Energy Services Pty Ltd provides asset management, operational, construction and maintenance services to WAGN for the GDS.

The gas distribution systems comprising the GDS form the majority of the reticulated natural gas infrastructure in Western Australia and consist of many discrete segments or sub-networks of gas pipelines. This gas distribution network comprises approximately 12,500 kilometres of pipeline. These pipelines distribute gas sourced from the Dampier to Bunbury Natural Gas Pipeline and the Parmelia Pipeline to industrial, commercial, small business and residential customers in the mid and south western coastal areas of Western Australia. The distribution systems stretch from Perth to Geraldton in the north and to Busselton in the south.

Approximately 80 per cent of the revenue generated from reference tariffs on the GDS comes from transporting gas for retail companies to small use customers (households and small businesses).

## **Key Aspects of the draft decision**

### **Total Revenue**

WAGN forecast the total revenue it would earn over the access arrangement period to be \$624.7 million (in present value terms). The draft decision is to require a lower value for total revenue of \$528 million (in present value terms). This amounts to a reduction in total revenue of about 15 per cent. The principal reason for this reduction is the lower rate of return provided in the draft decision compared with WAGN's proposal, as outlined below.

### **Rate of Return**

The draft decision is that the real pre-tax rate of return for the GDS should be 6.89 per cent. This is lower than the figure of 11.1 per cent proposed by WAGN due to a number of factors including the Authority not accepting WAGN's proposed cost of equity based on the four cost of equity models in its proposal and the Authority adopting values lower than those proposed by WAGN for the market risk premium and the debt margin. The draft decision rate of return provides for a nominal after-tax return on equity of 9.96 per cent (based on industry financing structures).

### **Gas Usage**

WAGN forecasts a significant reduction in the average volume of gas used by about 600,000 small use (household) gas customers over the access arrangement period. The draft decision is not to accept WAGN's average gas use forecasts for these customers but rather to adopt a higher figure. The draft decision also requires WAGN to provide updated information on forecast gas volumes and customer numbers.

### **Unaccounted For Gas**

WAGN forecasts a significant increase in gas volumes over the access arrangement period resulting from unaccounted for gas (gas which is lost in the GDS due to a range of causes such as leakages and metering inaccuracy). The draft decision is not to accept WAGN's proposed forecast volume for unaccounted for gas but rather to adopt a lower figure.

### **Network Costs**

WAGN's operating cost forecast includes costs (network costs) it claims have been incurred due to the delayed implementation of the NGA in Western Australia. As noted in the draft decision, WAGN was provided with extensions of time (from 31 March 2009 to 31 January 2010) to submit its revised access arrangement to the Authority. The NGA became effective in Western Australia on 1 January 2010. The draft decision is not to accept these network costs.

### **Consumer Price Index (CPI)**

WAGN proposed to use the CPI for Perth to escalate costs. The draft decision is not to accept the use of the Perth CPI but rather to adopt the CPI based on the eight Australian capital cities.

## Reference Tariffs

Under the draft decision, reference tariffs for the GDS will decrease from current levels when the revised access arrangement becomes effective. For an average gas-using customer this reduction will be about 5.5 per cent (in real terms). Reference tariffs would then, subject to regulatory cost adjustments as provided for in the access arrangement, remain constant in real terms for the remainder of the access arrangement period.

## Access Arrangement Period

The draft decision accepts WAGN's proposed access arrangement period of 4 years and six months, commencing on 1 January 2010 and ending on 30 June 2014. The submission date of 1 July 2013 proposed by WAGN for the next access arrangement revision has also been approved in the draft decision.

## Revision Period

Where, in a draft decision, the Authority requires the service provider to revise its access arrangement proposal the NGR requires the Authority to fix a period, of not less than 15 business days, for revision of the proposal (revision period).

In the case of this draft decision, the Authority is required to fix a revisions period for WAGN as the draft decision identifies a number of amendments required to WAGN's proposed revised access arrangement.

The Authority requires WAGN to respond to the draft decision and provide revisions to its access arrangement proposal by **4:00 pm (WST) on Friday, 1 October 2010**.

## Public submissions

The NGR requires the Authority to allow at least 20 business days from the end of the revision period for public submissions on the draft decision.

Interested parties are invited to make submissions in printed and electronic form on the Authority's draft decision by **4:00 pm (WST) on Friday, 29 October 2010**.

Submissions should be sent to:

Mid-West and South-West Gas Distribution Systems  
Gas Access  
Economic Regulation Authority  
PO Box 8469  
Perth BC WA 6849

Electronic submissions should be sent to: [publicsubmissions@erawa.com.au](mailto:publicsubmissions@erawa.com.au)

In general, all submissions from interested parties will be treated as being in the public domain and placed on the Authority's website. Where an interested party wishes to make a submission in confidence, it should clearly indicate the parts of the submission for which confidentiality is claimed and specify in reasonable detail the basis on which the claim is made.

The publication of a submission on the Authority's website shall not be taken as indicating that the Authority has knowledge either actual or constructive of the contents of a particular

submission and, in particular, whether the submission in whole or in part contains information of a confidential nature and no duty of confidence will arise for the Authority.

## **Public Hearing**

Under the NGR, the Authority may hold a hearing about the draft decision either on its own initiative or on request by any person.

Parties are invited to request the Authority to hold a hearing. Section 61(2) of the NGR sets out the requirements for such a request, including that the request be in writing within 10 business days after publication of the draft decision and that the request include the reasons for requiring a hearing. Parties can email the Authority at the email address set out above for public submissions.

The Authority will advise parties, through a notice on its website and by email, of the appropriate hearing details. Should such a hearing be held, it is likely to take the form of a forum discussion (such as a roundtable).

## **Time Limits**

The NGR sets out, under section 61, time limits for issuance of the final decision. Section 11 of the NGR provides the Authority with the discretion to disregard specified time periods in the calculation of the elapsed time for a final decision. Accordingly, the Authority has decided to disregard the public submission periods for WAGN's proposal (15 February to 12 April 2010) and this draft decision (17 August to 29 October 2010).

For further information contact:

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LYNDON ROWE  
**CHAIRMAN**

17 August 2010