



PUBLICATION

Mid-West and South-West Gas Distribution System revised Access Arrangement

FINAL DECISION

The Economic Regulation Authority has released its [final decision](#) not to approve the proposed revisions to the Mid-West and South-West Gas Distribution Systems access arrangement (**GDS access arrangement**).

WA Gas Networks Pty Ltd (**WAGN**) as owner of the Mid-West and South-West Gas Distribution Systems (**GDS**) submitted the proposed revisions to the GDS access arrangement, access arrangement information and supporting information to the Authority on 29 January 2010.

The GDS consists of reticulated gas networks in Western Australia which serve Geraldton, Bunbury, Busselton, Harvey, Pinjarra, Brunswick Junction, Capel and the Perth Greater Metropolitan Area including Mandurah. These combined networks constitute approximately 12,000km of gas mains and associated infrastructure and service approximately 600,000 residential and business customers.

The access arrangement sets out the terms and conditions, including tariffs, under which WAGN is required to provide third party users seeking access to the GDS.

On 26 February 2010 the Authority released an issues paper on the proposed revised access arrangement, identifying key areas where WAGN had proposed changes of significance to shippers or other interested parties.

The Authority issued its draft decision not to approve the proposed revisions to the GDS access arrangement on 17 August 2010. The draft decision contained 74 required amendments.

WAGN did not submit a revised access arrangement that complied with or otherwise addressed the required amendments of the Authority's draft decision.

Where the Authority decides to not approve proposed revisions to an access arrangement it must, within 2 months after making its final decision, propose an access arrangement or revisions to an access arrangement for the pipeline (rule 64 of the National Gas Rules).

The final decision and supporting information are available on the Authority's [website](#).

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LYNDON ROWE
CHAIRMAN

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Key Aspects of the final decision

Total Revenue

In its proposal in February 2010, WAGN forecast the total revenue it would earn over the access arrangement period to be \$624.7 million. The Authority's draft decision required a lower value for total revenue of \$528.0 million, mostly as a result of a lower rate of return. In its response to the Draft Decision, WAGN sought total revenue of \$616.9 million. The Authority does not accept WAGN's revised proposal in relation to the total revenue it would earn over the access arrangement period. The Authority has approved a lower value of \$548.0 million.

Rate of Return

In its proposed access arrangement revisions WAGN proposed a real pre-tax rate of return of 11.1 per cent. The draft decision required a real pre-tax rate of return of 6.89 per cent. In its response to the draft decision WAGN proposed a revised real pre-tax rate of return of 9.6 per cent. The final decision requires that the real pre-tax rate of return for the WAGN access arrangement be 7.40 per cent.

Reference Tariffs

In its response to the draft decision WAGN proposed a Discounted Weighted Average Tariff (DWAT) of \$7.23/GJ. The Authority has determined in the final decision that the DWAT for GDS will be \$6.07/GJ. The lower figure is primarily the result of the lower rate of return approved by the Authority.

The reference tariffs proposed by WAGN are for five benchmark services known as reference services, hence the term reference tariffs. The broad customer groups are comprised of large industrial customers (A1 reference service), medium sized industrial and large commercial customers, e.g. hospitals (A2 reference service), large to medium commercial customers, e.g. take away food outlet stores (B1 reference service), medium to small commercial customers with some large residential customers, e.g. retail stores (B2 reference service), and other residential customers (B3 reference service).

Under the Authority's final decision there would be no tariff increases for the medium to large industrial and commercial customers and modest tariff increases for small commercial and residential customers.

Impact of Tariff Increase

Retail tariffs are made up of distribution tariffs, cost of gas, and retail margin. The Authority's final decision relates to distribution tariffs only.

The Authority's final decision reduces the impact of distribution tariff changes for a typical large family consuming 50GJ of gas per year from an increase of \$112 over the access arrangement period as proposed by WAGN to \$28 as determined by the Authority in its Final Decision – a reduction of \$84.

The increase in distribution tariffs would be reflected directly in retail tariffs if the full cost increase is passed through to retail gas tariffs. The Authority notes that small

households (using 10 GJ per year, approximately half of the average use) will pay approximately \$54 per annum more than under the current access arrangement. The Authority does not consider that a rise of around \$1 a week is an unsustainable retail tariff increase. These increases in distribution tariffs will apply from 1 July 2011. It should be noted that distribution tariffs last changed on 1 January 2009.

(All quoted values are expressed as ex GST and in real dollars values of December 2009)