



## Media Statement

14/10/2014

### **Economic Regulation Authority Releases Draft Decision on the Mid-West and South-West Gas Distribution Systems Access Arrangement**

The Economic Regulation Authority (**ERA**) has released a Draft Decision that does not approve ATCO Gas Australia Pty Ltd's (**ATCO**) proposed changes to the Mid-West and South-West Gas Distribution Systems Access Arrangement.

The ERA's Draft Decision has reduced ATCO's expected revenue for the gas distribution system for 1 July 2014 to 31 December 2019 from ATCO's proposed \$1,208.50 million to \$836.10 million.<sup>1</sup> The ERA's decision means ATCO's expected revenue will be 31 per cent below the amount it proposed and on an annual basis 17 per cent below what ATCO is currently earning.

Industrial and commercial users would expect to see a 30 per cent reduction in their bills in 2015. From 2015 onwards these customers would expect to see annual increases in line with inflation.

If the ERA's changes to the network prices for residential customers were passed through in full by retailers, the average residential customer consuming 15 gigajoules (**GJ**) of gas would see their annual gas bill fall by around \$70 in real terms in 2015. A residential retail gas bill includes costs for production of the gas, transmission of the gas to the distribution network, distribution of the gas through the distribution network and retailing the gas. The current distribution network charge for a B3 customer consuming 15 GJ is around \$241. Following the \$70 reduction in 2015, this B3 customer would expect to see annual increases in line with inflation for network charges.

The main differences between the ERA's Draft Decision and ATCO's proposal result from:

- a return on assets of 5.94 per cent compared to ATCO's proposed value of 8.53 per cent;
- a lower allowance for capital expenditure due to adjustments relating to ATCO's proposed growth and sustaining capital expenditure; and
- a lower allowance for operating expenditure due to adjustments to ATCO's proposed corporate operating expenditure, IT operating expenditure and Unaccounted for Gas operating expenditure.

The detailed reasons for the ERA's decision are outlined in the Draft Decision document, together with 45 amendments that the ERA requires ATCO to implement. The ERA's required

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<sup>1</sup> In nominal terms.

amendments not only cover tariffs, but also cover the terms and conditions of the revised GDS access arrangement.

ERA Member Stephen King said “This is a draft decision and ATCO has six weeks to respond (by 25 November 2014). Interested parties have slightly longer, until 23 December 2014, to lodge a submission in response to both this draft decision and ATCO’s forthcoming response.”

“ATCO’s proposal departed from the Rate of Return Guidelines published by the ERA last year without providing sufficient reason to do so. The ERA has reviewed ATCO’s proposal and assessed the return that ATCO receives on its regulated assets taking into account relevant new information and the Guidelines.”

“Also, the ERA has significantly reduced ATCO’s proposed capital and operating expenditure because ATCO failed to demonstrate that it was justified. Should ATCO provide further justification to support the increased levels of capital and operating expenditure, the allowed revenue and tariffs would be higher in the final decision.”

“The decision means that gas users can see a reduction in their gas bills whilst still allowing ATCO sufficient revenue to grow and maintain the gas network.”

## **Background**

This gas distribution system provides reticulated natural gas to areas including Perth, Bunbury, Busselton, Capel, Eneabba, Geraldton, Harvey, Kemerton, Mandurah and Pinjarra. These networks combined comprise in excess of 12,000 km of gas distribution pipelines and service over 600,000 residential, small businesses and large commercial customers.

The access arrangement sets out the terms and conditions, including tariffs, under which ATCO is required to provide third party users seeking access to the Mid-West and South-West Gas Distribution System.

STEPHEN KING

**MEMBER**

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**Attachment - Background**

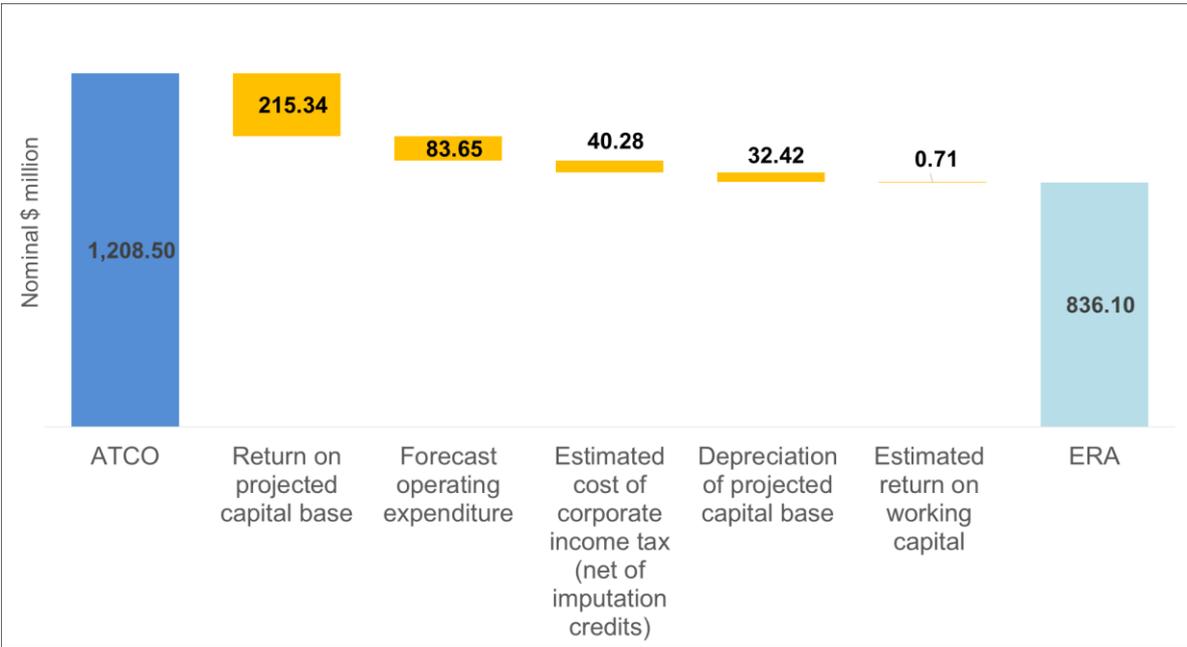
Table 1 below provides a comparison of the total revenues in ATCO’s proposal and the ERA Draft Decision.

**Table 1 Comparison of ATCO’s Proposal and the ERA Draft Decision – Total Revenue**

Component	ATCO Proposal	Draft Decision
Total Revenue (\$ nominal millions)	1,208.50	836.10
Forecast Operating Expenditure (\$ real millions in June 2014)	421.33	347.48
Forecast Capital Expenditure (\$ real millions in June 2014)	606.92	286.44
WACC (per cent)	8.53	5.94
Depreciation (\$ nominal millions) <sup>2</sup>	263.44	231.87
Estimated Cost of Corporate Income Tax (\$ nominal millions)	44.35	4.07
Return on Working Capital (\$ nominal millions)	1.26	0.55

Figure 1 below shows how the ERA has reduced ATCO’s proposed revenue building blocks (i.e. the components that contribute to ATCO’s proposed total revenue amount). Each adjustment shows the difference between what ATCO proposed and what the ERA has determined for each building block in nominal dollars.

**Figure 1 Difference between ATCO’s Proposed and ERA’s Approved Revenue Building Blocks (\$ nominal millions)**



<sup>2</sup> ATCO’s proposal does not exclude the inflationary gain of \$136.11 million that it proposed to remove from depreciation. The Authority removes this inflationary gain as a separate line item in the building blocks.

Table 2 below compares tariff changes per tariff class in ATCO’s proposal and the ERA’s Draft Decision. Note that the ERA has assumed inflation will be 2.2 per cent.

**Table 2 Comparison of ATCO’s Proposal and the ERA Draft Decision – Tariffs (Nominal)**

Annual Change	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
<b>ATCO Proposal</b>					
A1, A2 and B1 Tariffs	5.1%	5.1%	5.1%	5.1%	5.1%
B2 Standing charge	7.1%	5.1%	5.1%	5.1%	5.1%
B2 Usage Charge 100 GJ	4.2%	5.1%	5.1%	5.1%	5.1%
B2 Usage Charge > 100 GJ	4.2%	5.1%	5.1%	5.1%	5.1%
B3 Standing Charge	90.0%	5.1%	5.1%	5.1%	5.1%
B3 Usage Charge >2<10 GJ	(28.6%)	5.1%	5.1%	5.1%	5.1%
B3 Usage Charge >10 GJ	(28.6%)	5.1%	5.1%	5.1%	5.1%
<b>Draft Decision</b>					
A1, A2 and B1 Tariffs	(30.0%)	2.2%	2.2%	2.2%	2.2%
B2 Standing charge	(30.0%)	2.2%	2.2%	2.2%	2.2%
B2 Usage Charge 100 GJ	(30.0%)	2.2%	2.2%	2.2%	2.2%
B2 Usage Charge > 100 GJ	(30.0%)	2.2%	2.2%	2.2%	2.2%
B3 Standing Charge	10.8%	10.2%	9.6%	9.1%	8.7%
B3 Usage Charge >2<10 GJ	(28.3%)	(4.1%)	(4.5%)	(5.0%)	(5.5%)
B3 Usage Charge >10 GJ	(38.5%)	(4.1%)	(4.5%)	(5.0%)	(5.5%)