



# Media Statement

15 November 2019

## ERA decision limits price rise for gas customers

The Economic Regulation Authority has released its final decision for [ATCO Gas Australia's revised access arrangement](#) for the Mid-West and South-West Gas Distributions Systems.

ATCO owns and operates the Gas Distribution Systems, which service around 750,000 residential, commercial and industrial customers in Geraldton, Bunbury, Busselton, Harvey, Pinjarra, Brunswick Junction, Capel, Mandurah and the Perth greater metropolitan area.

Under the ERA's decision, the average cost for residential customers to access ATCO's network will go up in real terms by 5.77 per cent in 2020, and around 0.5 per cent each following year from 2021 to 2024. This charge makes up around 30 per cent of the average household gas bill.

ERA Chair Nicky Cusworth said the authority had carefully considered the effect on consumers and substantially reduced the price increases from the amount originally proposed by ATCO.

"The State Government sets the maximum amount that small use customers such as households and small businesses can be charged for their gas, and that capped price goes up by the rate of inflation each year," Ms Cusworth said.

"The ERA's decision puts some upward pressure on gas prices but is necessary to ensure that ATCO can recover the cost of operating the network.

"Customers paying the capped price will probably not see any change in their bill, but gas retailers may choose to reduce the size of discounts on offer to recover some or all of the increase.

"Thanks to increased competition from gas retailers, lower gas prices and lower ERA-approved network tariffs over the previous access arrangement, Western Australian gas consumers are still in a better position than they were five years ago."

An access arrangement sets the terms and conditions, including prices, for third parties to access monopoly infrastructure. ATCO's revised access arrangement will start on 1 January 2020 and run until 31 December 2024.

The following pages contain a detailed explanatory statement of the ERA's decision, its effect on gas bills, the access arrangement process and the role of ERA.

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## EXPLANATORY STATEMENT

This explanatory statement provides a summary of the ERA's final decision on proposed revisions to the fifth access arrangement (AA5) for ATCO Gas Australia's Mid-West and South-West Gas Distribution Systems. This overview does not form part of the ERA's final decision or the reasons for the final decision.

### The final decision

The ERA has not approved ATCO's revised access arrangement and requires 21 amendments for the access arrangement to comply with the National Gas Rules and National Gas Law.

The summary of required amendments is on page iii of the final decision.

The ERA has prepared and published its own approved access arrangement in line with the required amendments. This approved access arrangement will take effect on 1 January 2020.

The ERA's final decision, approved access arrangement and access arrangement information is available at [www.erawa.com.au/ATCO-AA5](http://www.erawa.com.au/ATCO-AA5). This page also lists ATCO's initial and revised proposals and all submissions received from stakeholders during the review process.

### Gas demand

Gas demand and customer numbers over the five years of AA5 are expected to be relatively flat.

Forecast modest growth in gas use by small and mid-sized commercial users will be more than offset by declining use by residential and large industrial customers.

ATCO attributed the flat demand forecast to competition from other energy sources and appliances becoming more energy efficient.

#### Forecast annual change in gas usage from 2020 to 2024 by customer group

Customer group	Annual usage change (%)
A1 – Large industrial customers using more than 35TJ per year	-0.9
A2 – Industrial and commercial customers using between 10TJ and 35TJ per year	-1.0
B1 – Smaller industrial and commercial customers using between 1TJ and 10TJ per year	1.6
B2 – Commercial customers using up to 1TJ per year	0.9
B3 – Residential customers and very small commercial users	-0.4
<b>Total</b>	<b>-0.4</b>

More information on demand forecasts is on pages 24 to 60 of the final decision.

### Effect on gas prices

A household gas bill is made up of several elements, including the cost of accessing ATCO's distribution network, the cost of gas (as well as any production or storage costs), transmission

costs (from where the gas is produced to the gas distribution network) and the costs of the retailer who sells the gas.

[The State Government](#) sets the maximum price that small use gas customers can be charged each year by regulating a fixed supply charge and variable per unit charges for actual gas consumed.

The maximum price is set by the *Energy Coordination (Gas Tariffs) Regulations 2000* and goes up by the Consumer Price Index each year. Small use is defined as a customer using less than 1 terajoule of gas per year and includes household gas users and some small businesses.

Roughly half of small use customers are currently paying the maximum price set by Government. Through increased retail competition, the other half of customers are receiving discounts of up to 44 per cent of the variable part of their bill.

Through an access arrangement, the ERA sets the amount that ATCO can charge its users to access its distribution network. This network charge makes up about 30 per cent of an average household gas bill.

The ERA's final decision will increase the network charge in real terms by 5.77 per cent in 2020, and by around 0.5 per cent per year between 2021 and 2024. This is around one third of the increase originally proposed by ATCO.

This puts some upward pressure on gas bills but is necessary to ensure that ATCO can recover the cost of efficiently operating its network.

Customers paying the maximum price set by Government will not see any change in their bills under the current regulations. Gas retailers may choose to reduce the size of discounts on offer to recover some or all of the increase in the network charge.

**ERA final decision price path– real annual percentage change in network tariffs - 2020**

Tariff	Price change on 1 January 2020 (%)			
	ATCO initial proposal	ERA draft decision	ATCO revised proposal	ERA final decision
A1, A2, B1 and B2	22.4	7.56	10.6	1.50
B3 fixed charge	0	0	0	0
B3 first 1.825 GJ	-	-	-	-
B3 volume > 1.825 GJ and < 9.855 GJ	71.7	22.19	46.4	10.22
B3 volume > 9.855 GJ	194.8	142.49	142.2	70.62

## ERA final decision price path - real annual percentage change in network tariffs – 2021 to 2024

Tariff	Price change on 1 January each year after 2020 (%)			
	ATCO initial proposal	ERA draft decision	ATCO revised proposal	ERA final decision
A1, A2, B1 and B2	2.3	2.30	2.30	1.40
B3 fixed charge	0	0	0	0
B3 first 1.825 GJ	-	-	-	-
B3 volume > 1.825 GJ and < 9.855 GJ	2.3	2.30	2.30	1.40
B3 volume > 9.855 GJ	2.3	2.30	2.30	1.40

Network charges for industrial and commercial gas are expected to rise at a lower rate in 2020, which will be maintained over the subsequent years.

More information about tariffs is on pages 353 to 380 of the final decision.

### Development rebate scheme

In its initial proposal, ATCO proposed to implement a development rebate scheme to encourage the take-up of gas in commercial property developments.

The proposed scheme would allow commercial land developers to receive a rebate from ATCO on some or all of the cost of connecting to the network. That rebate would be paid from ATCO's approved capital costs, which ultimately flow through to tariffs for all gas customers.

ATCO said that feedback from commercial land developers was that new subdivisions were not being connected to the gas network because the cost of connection and reticulation was too high.

In the draft decision, the ERA did not allow the scheme as proposed, saying it did not comply with the requirements of National Gas Rule 79. This rule intends to ensure that the cost of infrastructure that does not deliver a corresponding benefit to consumers is not reflected in regulated tariffs.

The ERA did propose an alternate way for ATCO to recover some of the costs of supplying gas to new land developments that would comply with the National Gas Rules, but ATCO did not adopt this alternative in its revised proposal.

The ERA is of the view that the proposed development rebate scheme is not justified on economic efficiency grounds or by the national gas regime.

The ERA's final decision upholds the draft decision to not allow the scheme.

More information on the proposed development rebate scheme is on pages 466 to 475 of the final decision.

## Rate of return

The rate of return provides a service provider with a return on the capital it has invested in its business. The rate, expressed as a weighted average cost of capital, is used in an access arrangement to determine part of the annual revenue that a company can earn.

The ERA is required to have a published guideline setting out the methods it will use to determine the rate of return for regulated gas networks. The guideline was published in December 2018 and in April 2019 that guideline became binding following a decision by the Council of Australian Governments' Energy Council. This means the ERA must not depart from the guideline when determining the rate of return.

This is the first access arrangement review the ERA has completed since the binding guideline was introduced. This change reduces the need to consider complexities of the rate of return at the time of making regulatory decisions and allows for more timely decision making.

The decline in the rate of return seen over the AA5 review process reflects the declining conditions in financial markets, and especially in the yield on government bonds.

### Rate of return estimate – AA5 review process

	ATCO initial proposal	ERA draft decision	ATCO revised proposal	ERA final decision
Nominal after-tax Weighted Average Cost of Capital (%)	6.03	5.70	4.87	<b>4.16</b>

The guideline will next be reviewed in 2021.

More information on the rate of return is on pages 282 to 296 of the final decision.

## Background

The ERA is responsible for regulating third party access to gas pipelines in Western Australia.

There are currently three fully regulated pipelines in Western Australia: the Dampier to Bunbury Natural Gas Pipeline, Goldfields Gas Pipeline and Mid-West and South-West Gas Distribution Systems.

The Mid-West and South-West Gas Distribution Systems services around 750,000 residential, commercial and industrial customers in Geraldton, Bunbury, Busselton, Harvey, Pinjarra, Brunswick Junction, Capel, Mandurah and the Perth greater metropolitan area. The network contains around 14,000 kilometres of pipeline and is owned by ATCO Gas Australia.

On 31 August 2018, ATCO submitted a proposed revised access arrangement for the network, for the period 1 January 2020 to 31 December 2024.

An access arrangement sets the terms and conditions, including prices, under which third parties can access a pipeline network. Those third parties generally include industrial gas users and gas retailers.

The National Gas Law and National Gas Rules set out the requirements for what should be included in an access arrangement, as well as the processes the ERA must follow when considering whether or not to approve ATCO's proposal.

The ERA published an issues paper for public comment on 11 October 2018.

On 18 April 2019, the ERA published its draft decision to not approve the proposed access arrangement and required ATCO to make 37 amendments.

ATCO submitted an amended proposal on 13 June 2019. The ERA has considered this amended proposal along with submissions from stakeholders to make its final decision.

### **About the ERA**

The ERA is Western Australia's independent economic regulator. We aim to ensure the delivery of water, electricity, gas and rail services in Western Australia is in the long-term interest of consumers.

The ERA also undertakes inquiries, which provide recommendations to government on economic issues that are likely to have significant implications for the people and businesses of Western Australia.