

NOTICE

FURTHER FINAL DECISION AND FINAL APPROVAL MID-WEST AND SOUTH-WEST GAS DISTRIBUTION SYSTEMS

The Economic Regulation Authority (Authority) today issued its Further Final Decision and Final Approval on the revisions proposed by AlintaGas Networks Pty Ltd (AGN) to the Access Arrangement for its Mid-West and South-West gas distribution systems.

The Further Final Decision of the Authority is to approve the proposed revised Access Arrangement submitted by AGN on 29 July 2005. The Authority considered that this Access Arrangement complied with or otherwise addressed all of the amendments required in its Final Decision.

An Access Arrangement sets out the terms and conditions, including prices, for third party use of a gas pipeline. Third party access to such pipelines is provided for under the *National Third Party Access Code for Natural Gas Pipeline Systems (Code)*.

The revised Access Arrangement will commence on 25 August 2005.

KEY ASPECTS OF THE FURTHER FINAL DECISION

Rate of Return

The Authority accepts that its task is to consider whether the Rate of Return used for deriving the Reference Tariffs in AGN's proposed revised Access Arrangement falls within the range of rates that complies with the Code.

After considering the matters indicated by AGN that addressed the reasons in the Authority's Final Decision, the Authority accepted AGN's proposed rate of 6.78 percent (pre-tax real) as being within the range of values of the rate of return that would comply with the Code.

Incentive Mechanism

The Authority has accepted the mechanism for retention of efficiency gains in AGN's proposed revised Access Arrangement, including a carry-forward period of 5 years, as being appropriate under the Code.

Total Revenue

The Authority has considered the total revenue (in present value terms) which AGN would earn over the Access Arrangement period under the proposed tariffs for gas distribution and has concluded that an amount of \$461.7 million proposed by AGN is consistent with the Code.

Reference Tariffs

Reference Tariffs for the gas distribution systems remain at their current levels for 2005 and for the remainder of the Access Arrangement period (i.e. 2006-2009) are expected to increase annually by 0.2 percent (nominal).

AGN proposed a tariff basket mechanism to provide flexibility in varying annual prices for individual tariff components to enhance economic efficiency, subject to remaining within the overall limit on total revenue over the access arrangement period and constraints on the manner in which tariff components may be varied. The constraints on variation of the tariff components are intended to ensure that any tariff increases will result in an allocation of revenue that is fair and reasonable and such increases are consistent with extending

effective competition in the supply of gas to residential and small business consumers. The Authority has accepted the tariff basket mechanism as being in accordance with the Code.

Interconnection Service

In its proposed revised Access Arrangement, AGN has submitted terms and conditions to apply to new connections between gas distribution systems and the Dampier Bunbury Pipeline (DBP) and Parmelia Pipeline or increased volumes through existing connections. AGN's proposal also includes a tariff adjustment mechanism to be applied for the recovery of consequential costs of such pipeline connections from all users of the distribution system. The Authority has accepted this proposal as being consistent with the Code.

BACKGROUND

The AGN gas distribution systems consist of approximately 11,300 km of pipelines. These pipelines distribute natural gas sourced from the DBP 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 percent of the revenue generated from tariffs set under the Code comes from transporting gas for retail companies to small-use customers (i.e. households and small businesses). AlintaGas Sales Pty Ltd, which is 100 percent owned by Alinta Ltd, is currently the only company using the AGN gas distribution system to retail gas to small-use customers. However, since 31 May 2004, the market for small-use gas customers has become contestable and the revised Access Arrangement will, therefore, provide the terms and conditions, including tariffs, upon which retailers may transport gas to all customers, including small-use customers.

FURTHER INFORMATION

A copy of the Further Final Decision and Final Approval together with the approved Access Arrangement documents, are available on the Authority's website <http://www.era.wa.gov.au/>. These documents are available from the Authority on request at a cost of \$25.00 by telephoning the Authority on (08) 9213 1900.

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