

## OFFICE OF GAS ACCESS REGULATION

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## NOTICE

This is to advise that I have today issued a Final Decision on the Access Arrangement for the Mid-West and South-West Gas Distribution Systems lodged by AlintaGas on 30 June 1999.

The Mid-West and South-West Gas Distribution Systems include natural gas reticulation areas in the Geraldton, Eneabba, Perth metropolitan, Harvey, Bunbury and Busselton regions.

The Final Decision of the Regulator is to not approve the Access Arrangement in its current form.

The decision requires AlintaGas to make amendments to the proposed tariffs for gas transportation and the terms for access to the Mid-West and South-West Gas Distribution Systems.

The initial capital base, which is important in the derivation of Reference Tariffs, was determined to be \$535.9 million as at 31 December 1999. This compares with \$539.4 million sought by AlintaGas in its proposed Access Arrangement, after adjusting the value to be consistent at that date. The calculation of the revised initial capital base was determined having regard to retail margins sufficient to allow competition in the market for all reference services.

The reduction to the initial capital base and other revisions of AlintaGas's assumptions and calculations, as described in the Final Decision, give rise to an overall reduction in average tariffs over the Access Arrangement period of approximately 4 percent as compared with those proposed by AlintaGas.

Another requirement of the Final Decision is for distribution tariff margins, in respect of residential and small business customers, to provide scope for competition between gas traders at the retail level. The effect of these margins on competition at the retail level will be monitored as the market is opened up and be subject to review before the end of the proposed Access Arrangement period on 31 December 2004.

On the basis of independent advice, I have determined that the appropriate rate of return on equity for the AlintaGas distribution systems is 12.7 percent (nominal post-tax), which equates to a real pre-tax weighted average cost of capital (WACC) of 7.5 percent.

In finalising the decision, I had regard to the requirements of the relevant legislation including *National Third Party Access Code for Natural Gas Pipeline Systems* (the Code), the interests of users and prospective users and the legitimate business interests of the AlintaGas distribution business.



The decision has been developed to promote competition, encourage investment and provide value to users of the distribution system and consumers of gas, while maintaining a reasonable rate of return to AlintaGas consistent with market expectations. The decision also seeks to provide for the rational development of the gas distribution systems within a competitive framework.

AlintaGas is required to re-submit its revised Access Arrangement by close of business Friday 14 July 2000 allowing a period of 14 days in accordance with section 2.16(b) of the Code.

A copy of the Final Decision can be obtained from the Office of Gas Access Regulation and is also available on the internet at <http://www.offgar.wa.gov.au/>.

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