

Economic Regulation Authority
Level 4, Albert Facey House,
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Submitted online at: <https://www.erawa.com.au/consultation>

8 July 2024

Kleenheat submission on the proposed revised access arrangement for Mid-West to South-West Gas Distribution Systems

Dear Sir/Madam,

Thank you for the opportunity to provide feedback on the Economic Regulation Authority's ("ERA") Draft Decision and ATCO's revised proposal of 2025 - 2029 Access Arrangement ("AA6") for the Mid-West and South-West Gas Distribution Systems ("GDS").

Kleenheat is part of the Wesfarmers Limited Group and serves over 220,000 business and residential customers on the GDS. Kleenheat maintains the belief that access to the GDS should remain affordable for its customers and the business sector, avoid exacerbating cost of living pressures in the community, while providing reasonable returns for the GDS operator.

Kleenheat appreciates the ERA's important role in ensuring AA6 satisfies the requirements of the National Gas Rules ("NGR") and is largely supportive of the recommended amendments included as part of the Draft Decision.

Kleenheat is concerned that ATCO has rejected a number of ERA's Draft Decision amendments in its revised proposal. In particular, ATCO maintains the significant increases in the reference tariffs, which are driven from accelerated depreciation rates, and a significant amount of operating expenditure ("Opex") which are not in line with historical expenses.

In response to this submission, Kleenheat would like to make the following comments on specific areas of the proposal:

1. Proposed B3 Price Structure

The ERA's Draft Decision proposes a significant increase to the fixed standing charges for B3 customers to \$165.69 (real 2023) per year¹. Kleenheat acknowledges the increase is to reflect the avoidable cost of connecting B3 customers and provided efficient price signals to new customers².

¹ ERA, Draft Decision – Attachment 3: Revenue and Tariffs, p. 16

² ERA, Draft Decision – Attachment 3: Revenue and Tariffs, p. 16

However, the regulated maximum fixed supply charge that customers pay is currently \$94.54 per year³ and which is increased annually by CPI. Increasing the B3 fixed standing charge would not provide a price signal to customers and would only attribute to a bigger misalignment against the fixed supply charge to a gap of \$71.15 (real 2023). Additionally, increasing the fixed component would mean lower usage customers pay a higher proportion of the costs which is inequitable.

2. Accelerated Depreciation

Kleenheat is concerned that ATCO's revised proposal rejects the ERA's Draft Decision to remove the proposed accelerated depreciation. Kleenheat maintains the belief that continuing straight line depreciation of the GDS in AA6 would not result in the asset being unrecoverable or reduce the incentives for efficient operation of the GDS.

As outlined by Kleenheat in its submission to the initial AA6 proposal, there is strong support from the WA Government for continuing natural gas connections and while there is a net zero target by 2050, the pathway for Western Australia is still unclear. Kleenheat reiterates its view that pre-empting the outcome places unnecessary cost pressures on current customers who are already facing significant increase in the weighted average cost of capital in AA6.

There is little evidence that continuing the straight line depreciation in AA6 would disincentivise the efficient operation of the GDS. ATCO's capital and operating strategy remains unchanged and actually includes a revised spending of \$9.6 million on the 'enabling renewable gas' program⁴ to ensure the GDS can accept and distribute renewable gases. Investment in enabling the GDS for renewable gas would prolong the use of the GDS, which is inconsistent with the proposal to accelerate depreciation.

3. Projected Operational Expenditure

Kleenheat expressed concern over the potential over-estimation and historical underspending in its submission to the initial AA6 proposal. In response to Kleenheat's initial submission on this matter, ATCO stated:

"National Gas Rules encourage network operators to be as efficient as possible as this efficiency establishes a base from which future regulatory decisions can be made, therefore flowing these efficiencies through to retailers as lower network charges."⁵

ATCO has revised its AA6 Opex proposal to \$442 million (real 2023), a \$64 million increase (over 16.5 per cent) when compared to the current Access Arrangement (AA5). Kleenheat questions the claim of efficiencies being flowed through as the proposed Opex is significantly higher than previous Access Arrangements as outlined below.

³ Maximum supply charge as of 1 July 2024 is 25.90 cents per day

⁴ ATCO Gas Australia, Revised Plan, 10 June 2024, p. 77

⁵ ATCO Gas Australia, Revised Plan, 10 June 2024, p. 119

Opex \$ Million	AA4			AA5			AA6
	ERA's Final Decision	Actual Spend	% Difference	ERA's Final Decision	Actual Spend	% Difference	ATCO Revised Plan
Opex	406	367	(10%)	376	372	(1%)	442

In its revised proposal, ATCO is proposing a number of recurrent step changes totalling to \$27.6 million (real 2023). Of note are \$6.6 million on the cyber security program and \$4.1 million on ERP replacement. Kleenheat is concerned with ATCO’s rejection of the ERA’s amendments on these matters, as the expenditure on cyber security program in AA5 is already sufficient to meet its regulatory obligation as assessed by the ERA’s technical consultant⁶, and the justification to reject the ERA’s amendment for the ERP replacement has not been made available.

In addition, Kleenheat is concerned by the addition of nine new step changes previously not reflected in the initial Opex submission as it amounts to an additional \$10.4 million (23 per cent higher than the initial proposal). A number of these expenditure items are on technological enhancements and claim to drive operational efficiencies, yet these efficiencies do not seem to be evident in the Opex proposal.

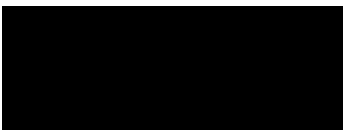
Kleenheat also questions ATCO’s additional expenditure on data enablement program, noting that a program was already established during AA5 and ATCO is proposing to potentially re-design the data platform in AA6⁷. Kleenheat questions if ATCO’s system strategy is well considered as re-designing a data platform within a five year period does not seem to reflect an efficient network operator.

In summary, the issues raised above align with Kleenheat's primary concern that access to the GDS remains safe and affordable for WA households and businesses.

Kleenheat would welcome the opportunity to discuss these issues further with the ERA.

For further information, or to discuss any of the points raised above, please do not hesitate to contact me.

Yours sincerely,



Rick Newnham

Head of Natural Gas & Electricity

Kleenheat

⁶ ERA, Draft Decision – Attachment 5: Operating Expenditure, p. 14

⁷ ATCO Gas Australia, Revised Plan, 10 June 2024, p. 113