



Western Australia

# *Economic Regulation Authority*

## **NOTICE**

### **DRAFT DECISION – MID-WEST AND SOUTH-WEST GAS DISTRIBUTION SYSTEMS**

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

An Access Arrangement sets out the terms and conditions, including prices, for third party use of a gas pipeline but does not directly relate to retail tariffs. Third party access to such pipelines is provided for under the *National Third Party Access Code for Natural Gas Pipeline Systems* (Code).

The Draft Decision of the Authority is that it proposes not to approve the proposed revisions to the Access Arrangement. The reasons for the Authority's decision are based on information made available by AGN and other interested parties through submissions.

The decision by the Authority requires AGN to make amendments to its proposed tariffs and to the terms for access to its Mid-West and South-West gas distribution systems.

### **KEY ASPECTS OF THE DRAFT DECISION**

The Authority's draft decision is that a real pre-tax rate of return for the gas distribution systems of 6.5% is consistent with the Code. This is lower than the figure of 8.5% proposed by AGN due to a number of factors including a fall in interest rates (i.e. risk free rates) which has occurred since AGN lodged its proposed revisions to the Access Arrangement on 31 March 2004. The Authority's rate of return equates to a nominal after-tax return on equity of 11.3% (based on industry financing structures).

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 \$454.8 million is consistent with the Code. Calculated on a comparable basis, AGN submitted a figure of \$520.0 million. The main difference between these amounts is attributable to differences in the rate of return.

To illustrate the impact of the fall in interest rates on the rate of return and total revenue, the Authority estimates that using the interest rates at the time AGN submitted the proposed revisions, the Authority's rate of return would rise to 7.4% which would correspond to additional revenue to AGN amounting to \$26.1 million (in present value terms).

Under the Authority's draft decision, tariffs for gas distribution remain at their current levels for 2005 and for the remainder of the Access Arrangement period (i.e. 2006-2009) are expected to fall annually by 1.5%.

AGN proposed that it be given flexibility to vary the prices for individual tariff elements annually to enhance economic efficiency subject to remaining within the overall limit on total revenue used in calculating tariffs for the 2005 to 2009 period. The Authority has accepted AGN's proposal, subject to certain constraints in relation to the manner in which the tariff elements may be varied. These constraints are intended to ensure that under any tariff increases the allocation of revenue is fair and reasonable and such increases are consistent with extending effective competition in the supply of gas to residential and small business consumers.

AGN proposed an incentive mechanism under which it would be entitled to carry forward efficiency cost savings made during the Access Arrangement period for a period of 10 years. The Authority has accepted that AGN may retain efficiency gains under future Access Arrangements, but has concluded that a carry-forward period of 5 years is appropriate under the Code.

An issue raised by AGN's proposal was the terms and conditions, including tariffs, to apply to new connections between the gas distribution system and the Dampier to Bunbury Natural Gas Pipeline (DBNGP) and Parmelia Pipeline or increased volumes through existing connections. The Authority has concluded that such connections will have system-wide benefits (such as greater security of supply) and may enhance competition. Therefore, the Authority concluded that consequential costs of such connections within the gas distribution system (such as the costs of managing gas of different heating values) should be regarded as costs recoverable from all users of the gas distribution systems through the Access Arrangement.

In its revisions to the Access Arrangement, AGN proposed an Access Arrangement period of 5 years commencing 1 January 2005 and ending 31 December 2009. This has been accepted by the Authority.

## **BACKGROUND**

The AGN gas distribution systems consist of approximately 11,300 km of pipelines. They distribute natural gas sourced from the DBNGP 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.

The first Access Arrangement commenced on 14 July 2000 when AlintaGas was government owned. Following privatisation in October 2000, AlintaGas became a public company (now known as Alinta Ltd) listed on the Australian Stock Exchange. AGN is 74% owned by Alinta Ltd and 26% owned by Diversified Utility and Energy Trusts.

Approximately 80% 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% owned by Alinta Ltd, is currently the only company using the AGN gas distribution system to retail to small use customers. However, since 31 May 2004, the market for small use gas customers has become contestable and the AGN Access Arrangement will, therefore, provide the terms and conditions, including tariffs, upon which retailers may transport gas to all customers, including small use customers.

### **SUBMISSIONS REQUESTED**

Submissions on the Draft Decision are now invited from AGN and other interested parties. Submissions should be received by the Authority by **4:00 pm on Monday 21 March 2005**. All submissions must be in writing and should be provided in both hard copy and electronic format (where possible).

Submissions made to the Authority will be treated as in the public domain and placed on the Authority's website unless confidentiality is claimed in respect of the submission or part of the submission and the issues or parts of the submission in relation to which confidential treatment is sought are clearly marked. Any claim of confidentiality will be considered in accordance with the provisions of sections 7.11 to 7.14 of the Code.

The receipt and publication of a submission lodged by a person with the Authority and placed on this website shall not be taken as indicating that the Authority has knowledge either actual or constructive of the contents of a particular submission and, in particular, whether the submission in whole or part contains information of a confidential nature and no duty of confidence will arise for the Authority in these circumstances.

### **PUBLIC FORUM**

It is intended that interested parties have the opportunity to discuss the Draft Decision with the Authority. If there are sufficient parties wishing to have such discussions a Public Forum will be arranged.

The Authority therefore requests parties wishing to discuss matters relating to the Draft Decision to register their interest with the Authority by **4:00 pm on Friday 4 March 2004** by e-mail to [alintagaspublicforum@era.wa.gov.au](mailto:alintagaspublicforum@era.wa.gov.au) or by fax to (08) 9213 1999.

The Authority will place a notice on its website on Wednesday 9 March 2005 advising whether a Public Forum on the Draft Decision will be held. A copy of the notice will be e-mailed to those who have registered their interest with the Authority and other interested parties.

**FURTHER INFORMATION**

A copy of the Draft Decision is available on the Authority's website <http://www.era.wa.gov.au/>. Printed copies of the Draft Decision are available from the Authority on request at a cost of \$25.00 by telephoning the Authority on (08) 9213 1900.

For further information contact:

Mr Russell Dumas  
Director Gas and Rail Access  
Economic Regulation Authority  
Telephone: (08) 9213 1953  
Fax: (08) 9213 1999

Media Contact:

Mr Tony Dawe  
Ward Holt  
Telephone: (08) 9221 8722

LYNDON ROWE  
**CHAIRMAN**  
28 February 2005