



**DRAFT DECISION**  
**REVISIONS TO ENVESTRA GAS DISTRIBUTION ACCESS ARRANGEMENTS**

**NOTICE ISSUED 28 MARCH 2006**

*This notice is intended to assist in understanding the principal draft decisions which have been reached by the Commission in its Draft Decision. It is not a complete statement of the Commission's Draft Decision and does not have any regulatory status. The only authoritative statement of the Commission's Draft Decision and associated reasons is that contained in the published Draft Decision which is available on the Commission's website at [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au), together with this notice and all documents associated with the Gas Access Arrangement Review.*

The Essential Services Commission today issued its Draft Decision on the revisions proposed by Envestra Ltd to the Access Arrangement for its gas distribution system in South Australia for the five-year period 1 July 2006 to 30 June 2011.

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)*.

Under the provisions of the Code, Envestra proposes terms and conditions (including the reference tariffs payable for gas distribution services) upon which it will provide access to the gas distribution system that it operates. The Commission's role under the Code is to assess whether those proposals meet the requirements specified in the Code.

The Commission's Draft Decision is that it does not approve all of Envestra's proposed revisions to the Access Arrangement on the basis that the Code's requirements have not been met. The Commission's Draft Decision is based on information made available by Envestra and other interested parties through submissions. The Draft Decision requires Envestra to make amendments to its proposed access arrangement and resubmit those to the Commission in order that a Final Decision may be made prior to 30 June 2006.

**ENVESTRA'S PROPOSALS**

On 30 September 2005, Envestra submitted to the Commission its proposed revisions to the Access Arrangement for the South Australian Gas Distribution System. Envestra's proposals would have resulted in an increase in haulage reference tariffs of 5.9% above CPI per annum over the next five years from 1 July 2006.

## COMMISSION'S DRAFT DECISION

In rejecting Envestra's proposals as being non-compliant with the Code, the Commission has indicated changes which it considers would be Code compliant. If Envestra were to adopt the changes specified in the Commission's Draft Decision, it would result in an increase in haulage reference tariffs of 0.3% above CPI per annum over the next five years from 1 July 2006.

### KEY ASPECTS:

#### *Total Revenue*

The Commission has considered the total revenue which Envestra would earn over the five-year Access Arrangement period under Envestra's proposed tariffs for gas distribution and has concluded that an amount of \$538 million (in present value terms) is consistent with the Code. This implies a rate of return for Envestra of 6.16% (pre-tax, real).

The total revenue amount allowed for in the Commission's Draft Decision is greater than was allowed for in the first regulatory period, and includes significant increases in allowances for both capital and operating expenditure on the gas distribution network over the five-year period.

The allowances made by the Commission in its Draft Decision include provision for:

- the ongoing operation of the gas distribution system in accordance with all regulatory requirements;
- 100 km of cast iron and unprotected steel mains replacement in each year of the regulatory period;
- improvements to security of supply in the gas distribution system (including improvements on the Le Fevre Peninsula, in Adelaide's northern suburbs and a new gate station for the SEA Gas pipeline);
- new reticulation to the townships of McLaren Vale, Monarto Industrial Estate and Tanunda;
- competitive outcomes for the South Australian gas market through interconnection between the SEA Gas and Moomba to Adelaide Pipelines; and
- a recognition that the expenditures associated with two major projects (the Eastern Ring Main and the Southern Loop) may be incorporated into total revenue if those projects are actually required to be undertaken during the five-year period.

#### *Tariffs*

Under the Commission's Draft Decision, Envestra is required to make a number of changes to the reference tariffs payable for gas distribution services. The actual changes are, under the terms of the Code, for Envestra to develop. Nevertheless, the Commission requires changes to reflect the Commission's Draft Decision, including:

- ▲ changes in demand forecasts over those proposed by Envestra;

- ▲ an allocation of the total revenue to demand haulage reference services that is demonstrably no greater than the efficient stand-alone cost of providing that service; and
- ▲ amendment of the tariff basket approach proposed by Envestra such that it applies separately to each haulage reference service.

The Commission has also required Envestra to amend its proposed side-constraint (which limits the amount by which any given Reference Tariff may vary year upon year) so as to apply a 2.5% side-constraint relative to each reference tariff's price path. These changes provide Envestra with pricing flexibility while reducing the potential for large price variations from year to year.

### **SUBMISSIONS REQUESTED**

Submissions on the Draft Decision are now invited from Envestra and other interested parties. Submissions should be received by **5:00 pm on Friday 21 April 2006**. All submissions must be in writing and should be provided in both hard copy and electronic format (where possible).

Submissions will be treated as in the public domain and placed on the Commission 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 and placed on the Commission's website shall not be taken as indicating that the Commission 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 Commission in these circumstances.

A copy of the Draft Decision is available on the Commission's website [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au).