



FINAL DECISION REVISIONS TO ENVESTRA GAS DISTRIBUTION ACCESS ARRANGEMENTS

NOTICE ISSUED 30 JUNE 2006

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

The Essential Services Commission today issued its Final Decision on the revisions proposed by Envestra Ltd to the Access Arrangement for its gas distribution system in South Australia for the period 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 Final 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 Final Decision is based on information made available by Envestra and other interested parties through submissions. The Final Decision requires Envestra to make amendments to its proposed Access Arrangement and resubmit those to the Commission by 24 July 2006 in order that a Further Final Decision may be made in accordance with the Code.

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

The Commission released a Draft Decision on 28 March 2006 that Envestra's proposals did not comply with the Code. The changes specified in the Draft Decision would have resulted in an increase in haulage Reference Tariffs of 0.3% above CPI per year over the five years from 1 July 2006.

COMMISSION'S FINAL DECISION

In rejecting Envestra's proposals, the Commission has indicated changes it considers would be Code compliant. Adopting the changes specified in the Commission's Final Decision would result in an increase in haulage Reference Tariffs of 0.064% above CPI per year from 1 July 2007 (with a CPI-only increase from 1 July 2006).

A copy of the Final Decision is available on the Commission's website www.escosa.sa.gov.au.

KEY ASPECTS:

Total Revenue

The Commission has considered the total revenue which Envestra would earn over the next (five-year) Access Arrangement period under Envestra's proposed tariffs for gas distribution and has concluded that an amount of \$529.7 million (in present value terms) is consistent with the Code. This implies a rate of return for Envestra of 6.14% (pre-tax, real).

The total revenue amount allowed for in the Commission's Final Decision is greater than was allowed for in the first regulatory period, and includes significant real increases in allowances for both capital expenditure (70%) and operating expenditure (11%) on the gas distribution network over the levels from the current regulatory period.

The allowances include provision for:

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

Scope of the decision

In reaching a Final Decision under the Code, the Commission is required to make assessments of various categories of costs and other matters as put forward by Envestra, as set out in the Code. An outcome of that process is that the Commission establishes a Total Revenue. However, the effect of a Final Decision is not to determine the actual projects that Envestra must undertake or the actual structures or arrangements it must adopt (for example, whether to outsource operations). Envestra remains responsible for arranging and conducting its own operations.

Envestra's distribution tariffs typically account for around half of a residential gas bill.