

This fact sheet contains summary information for ATCO's 2020-24 Plan. This fact sheet supports our 2018 proposed revisions submission to the Economic Regulation Authority (ERA).

## PURPOSE OF THE 2020-24 PLAN

ATCO's 2020-24 Plan follows the May 2018 release of our Draft Plan and incorporates feedback received from our extensive customer and stakeholder engagement activities. We believe it is important that our decisions and plans are supported and guided by effective stakeholder engagement.

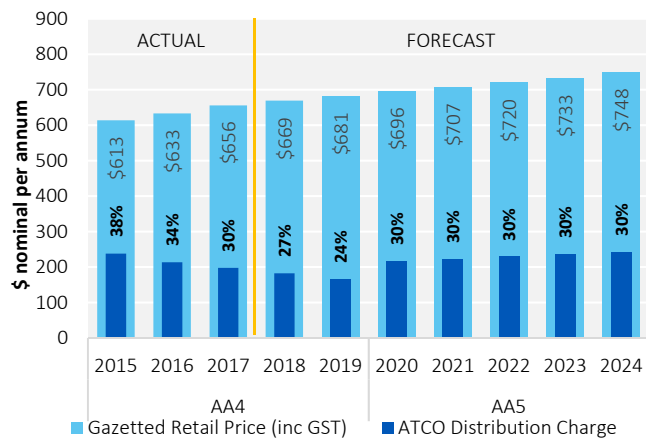
We will submit our 2020-24 Plan to the Economic Regulation Authority (ERA) along with proposed revisions to our access arrangement and a suite of supporting documents. These supporting documents include our Asset Management Plan, Asset Lifecycle Strategies, and associated investment business cases. Together these documents are ATCO's AA5 proposal to the ERA.

Our 2020-24 Plan provides detailed information on our costs, our investment plans, the services we intend to offer, and the proposed distribution charges for 2020-24. After we submit our Plans to the ERA, they will review our submission against the National Gas Rules and will undertake further public consultation before issuing a draft decision in early 2019. The ERA will then publish their final decision in Q3 2019 on our revisions to the access arrangement.

## OUTCOMES FOR CUSTOMERS

The prices that we charge determine the distribution component of a customer's gas bill. Distribution charges typically account for approximately 30% of the average residential customer gas bill. Other elements of customer's gas bills include the cost of production and processing gas, transmission pipeline costs, and retailer costs.

### ATCO's share of an indicative residential annual gas bill



We intend to recover \$1,023 million (nominal) from our customers over the five-year period, which commences January 1, 2020. We applied the building block method on a post-tax basis to determine the total revenue required in 2020-24 (AA5) for the provision of reference services.

Our primary considerations when setting tariffs is to incorporate the preferences of customers and retailers, as discussed during our Voice of the Customer Consultation program, while also ensuring that market price signals are as economically efficient as possible and comply with our legislative requirements.

We estimate the average annual bill for ATCO's residential customers over AA5 is \$14 higher (due to the distribution charge component) than the average annual bill in AA4. The distribution charge at the end of 2024 is estimated to be less than it was at the start of AA4 in 2015 (for an average consumption customer).

We tested our proposed price path during our Voice of Customer program and

customers were supportive of the initial price increase from AA4 to AA5. However, following feedback from retailers on our Draft Plan, we have moderated the initial increase in 2019-2020, and offset this by slight increases in each of the following years to 2024.

The expected annual distribution charge change due to our AA5 submission for each tariff class is outlined in the table below. In nominal terms the increases range from 4% to 11%, which compares to inflation over the AA4 period of 10%. Note, these are indicative annual average changes only, and individual customer's actual bills will depend on their usage patterns, retail tariff structure, and any changes in costs for other components of their gas bills.

TARIFF CLASS FORECAST #s IN 2020	AVG % CHANGE OVER TOTAL 5 YEARS	AVG \$ CHANGE OVER TOTAL 5 YEARS
A1 (72 Customers)	11%	\$12,193
A2 (96 Customers)	7%	\$3,748
B1 (1,816 Customers)	4%	\$236
B2 (12,527 Customers)	7%	\$76
B3 (747,479 Customers)	7%	\$14

## KEY ELEMENTS OF OUR PROPOSAL

We provide services to our customers on the gas distribution network. Three main components drive our revenue from these services: the investment return to ATCO ('rate of return'), our operating expenditure, and our capital expenditure. These are discussed in turn below.

### 1. RATE OF RETURN

Significant investment is required to build a gas distribution network. The return that ATCO must pay lenders and investors is referred to as the rate of return. The ERA details the rate of return in its 'Rate of Return Guideline'.

ATCO expects to adopt the ERA's updated Rate of Return Guideline to determine the rate of return for AA5 once it is finalised later in 2018. As the finalised guideline is not currently available, we have prepared our estimate of the rate of return based on the methods and values detailed in the Draft Rate of Return Guidelines (with some notable exceptions) and market data to the end of 29 March 2018.

Our 2020-24 Plan is based on a required rate of return of 6.03%. This proposed rate is based on the following assumptions:

COMPONENT	PROPOSED RATE
Nominal risk-free rate	2.37%
Real risk-free rate	0.52%
Inflation rate	1.84%
Debt proportion	55%
Debt Risk Premium (10-year average)	2.267%
5-year IRS (effective yield)	2.590%
5-year interest rate swap spread	0.22%
Debt issuing cost (0.125%) + hedging (0.114%)	0.214%
<b>Return on debt</b>	<b>5.07%</b>
Market Risk Premium	6.90%
Equity beta	0.7
Corporate tax rate	30%
Gamma (franking credits)	0.34
<b>Nominal after tax return on equity</b>	<b>7.20%</b>
<b>Nominal after tax WACC</b>	<b>6.03%</b>
Real after tax WACC	4.11%

## 2. OPERATING EXPENDITURE

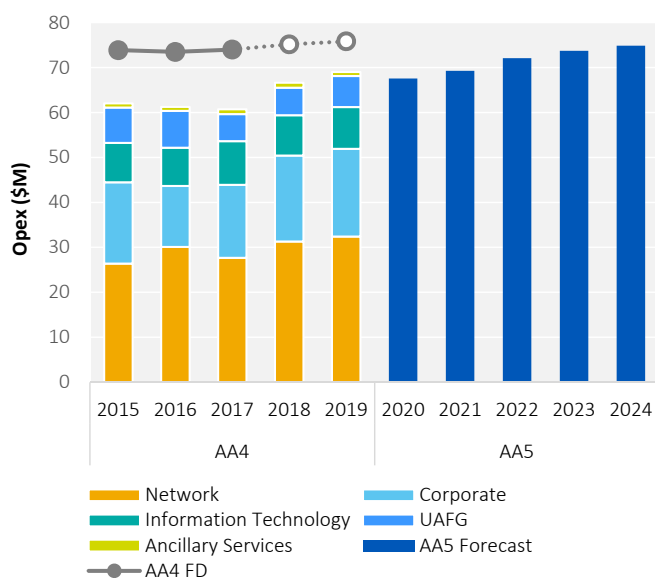
ATCO incurs operating expenditure (opex) to operate and maintain the network for our customers, respond to publicly reported gas leaks, and read customer meters. Our opex is categorised into network, corporate, information technology, unaccounted for gas, and ancillary services.

We have applied the 'base-step-trend' (BST) approach to forecasting network, corporate and information technology operating expenditure for the AA5 period. The BST approach is commonly accepted by regulators.

Using the BST approach, we have based our opex forecasts on the actual costs incurred during 2017 as this is the most recent full year. Unaccounted for gas and ancillary services have been forecast separately to account for forecast trends.

Our 2020-24 Plan total forecast operating expenditure for AA5 is \$357 million (\$real as at 31 December 2019), which is \$15 million lower than what was in the ERA AA4 Final Decision for the five-year period 2014-19. This forecast takes into consideration our network, corporate, information technology, unaccounted for gas and ancillary services expenditure.

### AA4 and AA5 forecast opex (\$M real as at 31 December 2019)



The National Gas Rules require us to ensure that our proposed expenditure reflects the costs of a 'prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services'.

To ensure we are meeting this objective, we have conducted benchmarking of our Western Australian operations in comparison with similar measures from a range of Australian and New Zealand gas suppliers. This benchmarking analysis suggests that we are the most efficient operator on an operating expenditure per customer basis and one of the most efficient on an operating expenditure per kilometre basis in our peer group.

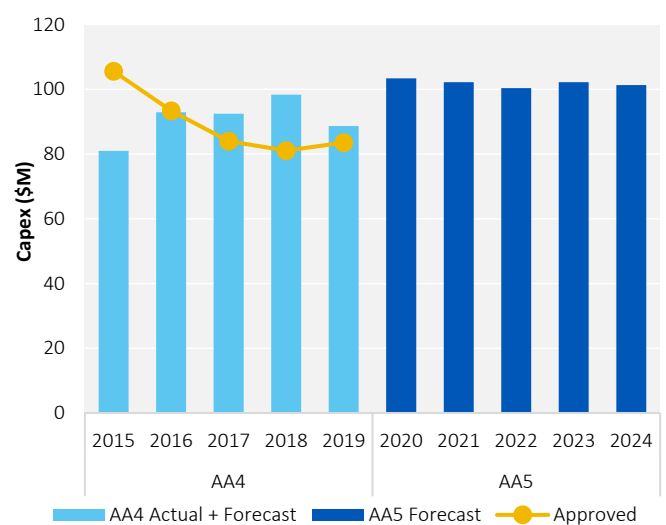
## 3. CAPITAL EXPENDITURE

Capital expenditure (capex) refers to the cost of building new facilities or replacing existing infrastructure to allow us to maintain service levels to new and existing customers. Factors that influence our required level of capex include the age and condition of existing assets, customer growth, and industry gas usage.

As with opex, we must be satisfied that our level of capex reflects the costs that a prudent operator, with efficient costs and a realistic expectation of demand and cost inputs, would need to operate its network safely and to comply with its obligations and service standards.

We have estimated in our 2020-24 Plan a forecast net total capex of \$509 million (\$real 31 December 2019) for the AA5 period, which is \$19 million (4%) above what was in the ERA AA4 Final Decision for the five-year period 2014-19. The capex program incorporates network sustaining capex, network growth capex, information technology, and structures and equipment.

### AA4 and AA5 forecast capex (\$M real as at 31 December 2019)



## NEXT STEPS

The ERA will review our submission against the NGR and will undertake further public consultation before issuing a draft decision. The ERA will then publish their final decision on our revisions to the access arrangement.

For more information on our 2020-24 Plan please visit our website: [www.youngas.com.au/energy-future/2020-24-plan](http://www.youngas.com.au/energy-future/2020-24-plan).

