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## National energy regulator paves way for major investment program in South Australian and Queensland gas networks



Australia's largest gas distributor, Envestra Limited (ASX: ENV) announced today it would embark on a multi-million dollar investment program of its gas networks in South Australia and Queensland.

The program includes the progressive replacement of about 1,300 kilometres of ageing gas pipes across both networks.

The announcement follows today's release by the Australian Energy Regulator (AER) of its Draft Decisions on the review of Envestra's Access Arrangements, which cover the Company's gas distribution networks in South Australia and Queensland, representing around 50% of the Company's business.

Envestra's Managing Director, Mr Ian Little said, "The AER has accepted many of the business initiatives proposed by Envestra in its submissions to the Regulator last October.

"This includes a major investment program by Envestra to replace a significant proportion of aged pipes across both networks," he said.

"Our investment program will reduce repair costs and improve the security of supply, thereby reducing the long-term costs to gas consumers.

"Overall, the Draft Decisions pave the way for Envestra to double its capital investment in the two networks over the next five years to around \$600 million.

"The Decisions also mean that revenue over the five-year period from 2011 to 2016 would be around \$1.3 billion, an increase of almost 30% relative to the previous regulatory period," Mr Little said.

"While the AER has accepted Envestra's proposal to increase investment in South Australia and Queensland, it has rejected a number of proposals that we believe would be beneficial to gas consumers".

Mr Little said today's announcements by the AER were only its Draft Decisions, and an opportunity existed for Envestra to provide further justification to the Regulator in respect to a number of significant issues, including the proposed rate of return on the Company's assets, before the Final Decision is handed down in May 2011.

Mr Little said while there were some encouraging aspects of the Draft Decision, the AER's 600 page report contained a large number of matters that had been inadequately addressed or understood.

He said the Company would engage in a constructive dialogue with the AER to have these matters addressed.

Details of the Draft Decision are summarised overleaf.

### **Note for Editors**

The Access Arrangements set out the terms and conditions under which natural gas will be distributed for South Australian and Queensland retailers over the five years commencing 1 July 2011.

Copies of the Draft Decisions are available on the AER website: [www.aer.gov.au](http://www.aer.gov.au)

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## Summary of AER Draft Decisions

### South Australia

The draft decision for the South Australian network proposes that the following key financial criteria will apply over the five years commencing 1 July 2011:

- A 9.96% nominal post tax rate of return;
- Network tariffs will change by CPI plus 7.5% on 1 July 2011 and by an average of CPI plus 5% per annum thereafter;
- Revenue of \$165.6 million in 2011-12, increasing to \$228.3 million in 2015-16 (totalling \$983.1 million over the five years);
- An adjusted regulatory asset base of \$1018.1 million as at 1 July 2011;
- Operating costs of \$58.3 million for 2011-12 reducing to \$54 million in 2015-16; and
- \$463 million for capital expenditure over the five year period, about 125% above the previous regulatory period. The AER approved the full scope of the mains replacement program proposed by Envestra of approximately 1,070 kms over the five years.

### Queensland

The Draft Decision for the Queensland network proposes that the following key financial criteria will apply over the five years commencing 1 July 2011:

- A 9.96% nominal post tax rate of return;
- Network tariffs will change by CPI plus 3.26% on 1 July 2011 and by an average of CPI plus 2.5% per annum thereafter;
- Revenue of \$52.2 million in 2011-12, increasing to \$67.2m million in 2015-16 (totalling \$299.2 million over the five years);
- An adjusted regulatory asset base of \$316.4 million as at 1 July 2011;
- Operating costs of \$19.4 million reducing to \$16.9 million in 2015-16; and
- \$135 million for capital expenditure over the five year period, about 48% above the previous regulatory period. The AER approved a mains replacement program for Queensland totalling approximately 230 kms over the five years.