

4 November 2020

Jenness Gardner
Chief Executive Officer
Economic Regulation Authority
Level 4, 469 Wellington Street
PERTH WA 6000

Submitted via email: records@erawa.com.au

Dear Ms Gardner

Re: Reference Tariff Variation for period beginning 1 January 2021

In accordance with the Revised Access Arrangement (approved by the Economic Regulation Authority on 15 November 2019), ATCO has calculated the reference tariffs that will come into effect on 1 January 2021. The attached reference tariff schedule (see Attachment 1) details the revised reference tariffs that will apply from 1 January 2021 and the attached tariff variation report (see Attachment 2) provides information to support the proposed variations to the reference tariffs.

On 1 January 2021, haulage reference tariffs will increase by 2.5% with the exception of the B3 fixed charge, which will increase by 1.2%. Ancillary reference services will increase by 1.2%.

In preparing this tariff variation, ATCO has been mindful of the impact that COVID-19 has had on the Western Australian community and economy. We have sought to minimise the effect on the Western Australian community and will not seek to recoup the costs we incurred to comply with Government and Health Department COVID-19 directives, which for reference are over \$250,000. These costs arose due to changes to our operational activities to ensure mandated physical separation of staff in the workplace; training in critical skill areas to avoid potential skill shortages; and the ongoing supply of critical materials while domestic and international borders are closed. Strict application of the tariff variation mechanism would enable ATCO to recover these costs. Given the already significant cost of COVID-19 on WA households and businesses, ATCO will absorb these costs and not seek to recover them in this tariff variation.

As provided for in the tariff variation mechanism, ATCO has varied its reference tariffs to account for:

- movements in inflation;
- the annual update of the debt risk premium (DRP); and
- cost pass-through events described in the tariff variation mechanism for the periods 1 October 2018 to 30 September 2020 related to:
 - **Gate station costs** - Costs from October 2018 to December 2019 pertaining to a new physical gate point that came into operation in April 2016;
 - **Safeguard mechanism** – the National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015 to apply from 1 July 2016; and
 - **Protecting whistleblower disclosure** – the Treasury Laws Amendment (Enhancing Whistleblower Protections) Act 2019 that came into force on 1 July 2019.

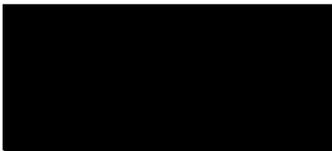
In accounting for the movements in inflation, we have adopted the trimmed mean CPI in this tariff variation instead of the headline CPI. This is on the basis that over 2020 there have been abnormal movements in headline CPI. The unusual movements are due to Government action, such as providing free childcare, the stage 3 and 4 restrictions in Melbourne, as well as the inability of the Australian Bureau of Statistics (ABS) to measure all components of the CPI in the September 2020 quarter including domestic and international travel. These have resulted in a material change in the basis of CPI compared to its basis at the time of the last revisions to the Access Arrangement.

We also want to bring to your attention that ATCO has in good faith applied the tariff variation mechanism formulas as we intended in our response to the AA5 Draft Decision. This means that we have effectively excluded the fixed component of the B3 reference tariff from the overall constraint formula. This results in changes to tariffs that are of a lesser amount than what is permitted under a strict application of the overall constraint formula.

It is requested that in order to allow sufficient time for changes to ATCO's billing system, the retail market hub and retailers' systems to account for the tariff variation that the ERA advise of its decision before the end of November.

If you have any questions or would like to discuss this tariff variation further please contact me or Hugh Smith, General Manager Regulation and Corporate Affairs.

Yours sincerely



John Ivulich
Chief Financial Officer

Attachment 1: 2021 Reference Tariffs

Attachment 2: 2021 Tariff Variation Report

ATTACHMENT 1: 2021 REFERENCE TARIFFS

FROM 1 JANUARY 2021

EIM# 103527568

PUBLIC

4 November 2020

2021 REFERENCE TARIFFS

FROM 1 JANUARY 2021

Table 1: Haulage reference tariffs

Charging parameter	Units	Varied Tariffs (\$ nominal GST exclusive)
Reference tariff A1		
Standing charge	\$/year	\$34,323.06
Demand charge		
First 10 km	\$/GJ km	\$144.66
Distance > 10 km	\$/GJ km	\$76.14
Usage charge		
First 10 km	\$/GJ km	\$0.03060
Distance > 10 km	\$/GJ km	\$0.01543
Reference tariff A2		
Standing charge	\$/Year	\$18,991.23
First 10 TJ per year	\$/GJ	\$1.85
Volume > 10 TJ per year	\$/GJ	\$0.98
Reference tariff B1		
Standing charge	\$/Year	\$960.08
First 5 TJ per year	\$/GJ	\$3.65
Volume > 5 TJ per year	\$/GJ	\$3.14
Reference tariff B2		
Standing charge	\$/Year	\$239.46
First 274 MJ per day	\$/GJ	\$6.11
Volume > 274 MJ per day	\$/GJ	\$3.64
Reference tariff B3		
Standing charge	\$/Year	\$120.21
First 5 MJ per day	\$/GJ	\$0.00
Volume > 5 and < 27 MJ per day	\$/GJ	\$5.62
Volume > 27 MJ per day	\$/GJ	\$3.75

Table 2: Ancillary reference tariffs

Ancillary reference service	Varied Tariffs (\$ nominal GST exclusive)
Applying a Meter Lock	\$50.26
Removing a Meter Lock	\$27.34
Deregistering a Delivery Point	\$125.34
Disconnecting a Delivery Point	\$100.16
Reconnecting a Delivery Point	\$141.79
Special Meter Reading	\$13.11

Notes

This reference tariff schedule:

- is to be read in conjunction with Annexures A and C of the Revised Access Arrangement for the ATCO Gas Australia Mid-West and South-West Gas Distribution Systems (dated 15 November 2019)
- does not supersede or amend any tariff variation or reference tariff published by the Economic Regulation Authority



ATTACHMENT 2: TARIFF VARIATION REPORT

TARIFF VARIATION 1 JANUARY 2021

GAS DIVISION

Access Arrangement 2020-24

PUBLIC

04/11/2020

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1. INTRODUCTION

This variation report details the varied tariff components of the natural gas haulage reference tariffs that will apply from 1 January 2021 to 31 December 2021.

The varied tariff components have been determined in accordance with Annexure B of the Revised Access Arrangement for the Mid-West and South-West Gas Distribution Systems.

All haulage tariffs commencing 1 January 2021 have been recalculated to reflect the X-Factor₂₀₂₁ and the annual CPI adjustment.

2. COVID-19

The advent of the COVID-19 pandemic has given rise to two matters to be considered in the 1 January 2021 tariff variation process:

- **COVID-19 costs** – First, the additional costs of complying with Government and Health Department directives, as well as suggested hygiene measures aimed at minimising the spread of COVID-19. For example, the need to ensure mandated physical separation of staff in the workplace and ensuring ongoing supply of critical skills and materials while borders are closed.
- **Inflation** – Second, the abnormal movement in the CPI, All Groups Weighted Average of Eight Capital Cities (CPI), due to Government action such as providing free childcare as well as the inability of the Australian Bureau of Statistics (ABS) to measure all components of the CPI in the September 2020 quarter, leading to a change in CPI basis compared to its basis at the time of the last revisions to the Access Arrangement.

2.1 COVID-19 costs

Throughout 2020, ATCO incurred significant costs to comply with Government and Health Department COVID-19 directives. This included changes to our operational activities to ensure mandated physical separation of staff in the workplace; training in critical skill areas to avoid potential skill shortages; and the ongoing supply of critical materials while domestic and international borders are closed. Hygiene measures to minimise the spread of COVID-19 were also implemented.

Costs to comply with various COVID 19 directives up to September 2020 are over \$250,000. Strict application of the tariff variation mechanism would enable ATCO to recover these costs. Given the already significant cost of COVID-19 on WA households and businesses, ATCO will absorb these costs and not seek to recover them in this tariff variation.

Context

On 15 March 2020, the Minister for Emergency Services on behalf of the State Government declared a State of Emergency under the Emergency Management Act and on 23 March 2020 the Minister for Health declared a public health state of emergency under the Public Health Act in response to COVID-19. These states of emergency remain in force.

ATCO's costs to comply with COVID-19 directives

ATCO Gas Australia has incurred over \$250,000 in response to COVID-19 related Government and Health Department directives made as a result of the state of emergency and Government recommendations regarding hygiene. The costs are summarised in Table 1.

Table 2.1: COVID-19 costs

Expense	Amount (\$)	Explanation	Emergency Powers Directive
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

-
- rose 1.6% in the September 2020 quarter – out of trend and not reflective of underlying inflation
 - rose 0.7% over the twelve months to the September 2020 quarter
 - 0.9% of the September 2020 quarter price increase was driven by Government decisions in relation to free child care.

The ABS advised through its note “Methods changes during the COVID-19 period”¹ issues with the measurement of the CPI for the June and September quarters as a result of the COVID-19 pandemic:

- **Data collection** - Effects on its ability to measure prices; for the June quarter 13% of prices were missing and were imputed from other goods or the headline CPI changing the basis and data on which the CPI was computed. With many businesses remaining closed during the September quarter, the proportion of missing prices was again higher than usual for the September quarter at around 7% of the CPI sample, while in Melbourne it was around 10%.
- **Government policy** - The influence of Government decisions particularly with regard to free childcare and rental support which changed the reference base from which the CPI was computed. This effect continued into the September quarter even though there was the removal of free child care on 13 July, as the Australian Government announced further support for child care centres in Victoria. Melbourne's movement for the child care series differs from the other seven capital cities. Nationally, Melbourne contributes 24% to the child care series.
- **Unavailable goods and services** – Measuring price change for some of the CPI series in the September quarter was affected by COVID-19. These included Domestic holiday travel and accommodation, International holiday travel and accommodation and seven series were imputed for Melbourne due to the Stage 3 and 4 restrictions. Melbourne contributes around 30% to the national figure for each of these CPI series.
- **Re-weighting the CPI** - Consumption patterns have changed as a result of the pandemic with people staying at home, social distancing requirements and restrictions in place. The CPI index has not been updated to reflect the changing patterns of consumption.

Both the Reserve Bank of Australia (RBA) and the Australian Energy Regulator (AER) have noted difficulties in using the headline CPI given the measurement difficulties, volatility and changing consumption patterns. The RBA mentioned a number of specific matters but in summary stated²:

“Overall, the large price changes resulting from changes to government policies and the measurement challenges during the quarter, make it more difficult to use the aggregate inflation measures to gauge the inflationary impulse in the economy.”

The Access Arrangement provides for an alternate measure

Under the Access Arrangement, ATCO can propose to use a different measure of CPI than the All Groups, Weighted Average of Eight Capital Cities, if CPI is published on a materially different basis.

This is provided for as follows:

1. In Section 1.3.1 of Annexure B, the tariff variation formula includes CPI terms that are defined as “the value of the CPI All Groups, Weighted Average of Eight Capital Cities for 30 September”

¹ ABS, Methods changes during the COVID-19 period, 17 June 2020, Available from: <https://www.abs.gov.au/articles/methods-changes-during-covid-19-period#measuring-the-consumer-price-index-september-quarter-update>

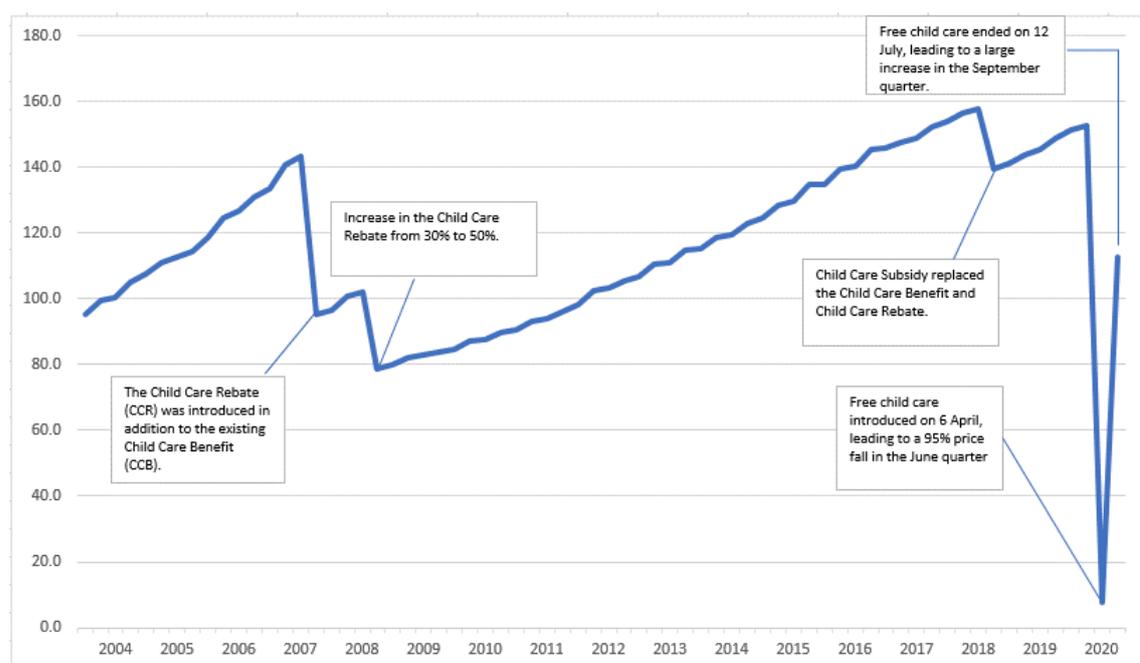
² RBA, Statement on Monetary Policy, August 2020, Section 5, Inflation

2. Earlier in the Access Arrangement (in the definitions chapter), “CPI All Groups, Weighted Average of Eight Capital Cities” is defined as “the Consumer Price Index All Groups Index Number for All Groups, Weighted Average of Eight Capital Cities published by the Australian Bureau of Statistics or, if applicable, an alternative index determined under clause 2(b) of Annexure C of the Access Arrangement.”
3. Clause 2(b) of Annexure C of the Access Arrangement, includes the following: “If the Consumer Price Index referred to in clause 2(a) of this Annexure C ceases to be published quarterly by the ABS or in the reasonable opinion of ATCO Gas Australia is published on a materially different basis (including due to a change in its nature, composition, data or reference base) to its basis at the time of the last revisions to the Access Arrangement, then (subject to the ERA’s approval):
 - i) if the ABS publishes a substitute index, ATCO Gas Australia may use the substitute index if it believes the use of that substitute index (with, if necessary, any arithmetical correction factor) will maintain a reasonable level of continuity between a Reference Tariff calculated using the Consumer Price Index and a Reference Tariff calculated using the substitute index; or
 - ii) if ATCO Gas Australia does not adopt a substitute index under clause 2(b)(i) of this Annexure C, ATCO Gas Australia will nominate a substitute index in its discretion, exercised reasonably.”

ATCO consider that the September 2020 CPI is published on a materially different basis (due to changes in its nature, composition, data or reference base) to its basis at the time of the last revisions to the Access Arrangement. This is because the September 2020 CPI was materially impacted by COVID-19 (for the reasons described above), including:

- **Government policies:** free childcare & rental support and its continued flow on effects into the September CPI. The following chart shows that the child care series is still 26% below the pre-COVID-19 March quarter index level of 152.8.

Figure 2.1: Child care index in the CPI (2011-12 = 100.0)³



³ ABS, Methods changes during the COVID-19 period, 17 June 2020, Figure 1, Available from: <https://www.abs.gov.au/articles/methods-changes-during-covid-19-period#measuring-the-consumer-price-index-september-quarter-update>

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- **Imputed prices:** prices for two series were imputed to have a quarterly change equal to that of the headline CPI, rather than being measured by the ABS. The two series were: Domestic holiday travel and accommodation; International holiday travel and accommodation. In addition, seven series were imputed for Melbourne due to the Stage 3 and 4 restrictions. Melbourne contributes around 30% to the national figure for each of these CPI series.

The ABS note titled “Methods changes during the COVID-19 period” describes in detail the key changes in the methods used to produce and disseminate ABS economic statistics during the COVID-19 period. As a result of these changes, the Weighted Average of Eight Capital Cities CPI in the September 2020 quarter is on a materially different basis (including due to a change in its nature, composition, data or reference base) to its basis at the time of the last revisions to the Access Arrangement.

September 2020 Trimmed Mean adopted

As the September quarter CPI outcome is materially impacted by COVID-19, ATCO has adopted the Trimmed Mean measure of inflation rather than the All Groups, Weighted Average of Eight Capital Cities measure. As highlighted above, the reported headline CPI movement is out of trend and does not reflect the cost movements being experienced by ATCO intended to be compensated for by the annual tariff variation. Further discussion on the basis and reasoning can be found in Appendix B.

The trimmed mean measure of inflation for the period September 2020 to September 2021 is 1.2%.

ATCO has examined actions taken and statements made by relevant authorities to determine an appropriate temporary replacement inflation series. In particular ATCO has noted:

- Information presented by the RBA on the stability of the Trimmed Mean measure
- The precedent of the AER assessing the trimmed mean as a better measure of inflation to remove the volatility in the CPI measure in these uncertain times.

There is regulatory precedent for adopting the trimmed mean; the AER in its draft position on the regulatory treatment of inflation⁴ states the rationale for using the trimmed mean rather than headline CPI as a measure of inflation in its final decisions for SA Power Networks, Energex, Ergon Energy, Directlink and JGN in June 2020 as follows:

*“In our final decision, to address concerns about transient volatility affecting CPI forecasts, we used the RBA’s trimmed mean inflation (TMI) forecasts for the first two regulatory years (year-to-June 2021, and year-to-June 2022). Our usual method is to use the (headline) CPI forecasts for these periods.”*²³

This decision was based on the impact of COVID-19 pandemic in the May 2020 SMP only, where we considered that the TMI series better reflected expectations of core inflation as set out in the RBA’s SMP and was the best possible estimate of expected inflation in the circumstances.”

Although the AER’s statement refers to forecast inflation the core issue recognised is the better reflection of underlying inflation by the trimmed mean (TMI) inflation data series compared to headline CPI data in current circumstances.

⁴ AER, Draft position, Regulatory treatment of inflation, October 2020, page 16

The change to the trimmed mean measure of inflation is in accordance with clause 2(b) of Annexure C and the definition of CPI All Groups, Weighted Average of Eight Capital Cities in the Dictionary of the revised Access Arrangement.

ATCO expects that the use of the trimmed mean is a temporary measure and will not be used as a precedent for its use in future tariff variations.

CPI adjustment

In accordance with the formulas provided in clause 1.3 of Annexure B of the Revised Access Arrangement for the Mid-West and South-West Gas Distribution Systems, haulage tariffs have been adjusted to reflect inflation.

For the period 1 January 2020 to 31 December 2020, inflation was applied using the CPI All Groups, Weighted Average of Eight Capital Cities. The following CPI values applied:

Table 2.2: CPI All Groups, Weighted Average of Eight Capital Cities

Date	CPI Index
September 2018	113.5
September 2019	115.4

For the reasons set out above, for the period 1 January 2021 to 31 December 2021 the Trimmed Mean measure of inflation, has been used.

Table 2.3: Trimmed mean inflation⁵

Date	Trimmed mean Index
September 2019	116.1
September 2020	117.5

ATCO has also adopted the Trimmed Mean measure of inflation to adjust the ancillary reference service tariffs from 1 January 2021.

⁵ ABS series A3604509L

3. X-FACTOR CALCULATION

The X-Factor₂₀₂₁ is the real dollar price change from 1 January 2020 to 1 January 2021 after including approved cost pass-through events and the annual update of the trailing average debt risk premium for 2021, in 31 December 2019 dollars.

The X-Factor₂₀₂₁ value applied to haulage tariffs is 1.3%.

The X-Factor₂₀₂₁ has been calculated using an updated trailing average debt risk premium (DRP) of 2.243%.

The X-Factor₂₀₂₁ also includes the following cost pass-through events:

- \$13,023 operating expenditure for gas quality sampling due to the installation of a new physical gate point at Russell Road, Munster.
- \$165,287 operating expenditure to comply with the National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015 to apply from 1 July 2016, which was legislated in 2015.
- \$2,681 relating to policies, procedures and documentation for the new legislative requirements in Schedule 1, clause 9 of the Treasury Laws Amendment (Enhancing Whistleblower Protections) Act 2019.

3.1 Annual update of trailing average debt risk premium

There is an automatic annual adjustment to the rate of return for the revised debt risk premium. The trailing average debt risk premium has been updated to incorporate DRP₂₀₂₁.

The ten DRP estimates used to derive the trailing average debt risk premium are detailed in the table below:

Table 3.1:2021 trailing average debt risk premium

	DRP _t
Calendar year 2012: DRP ₂₀₁₂	3.172%
Calendar year 2013: DRP ₂₀₁₃	3.068%
Calendar year 2014: DRP ₂₀₁₄	2.250%
Calendar year 2015: DRP ₂₀₁₅	1.953%
Calendar year 2016: DRP ₂₀₁₆	2.467%
Calendar year 2017: DRP ₂₀₁₇	2.326%
Calendar year 2018: DRP ₂₀₁₈	1.689%
Calendar year 2019: DRP ₂₀₁₉	1.663%
Calendar year 2020: DRP ₂₀₂₀	1.770%
Calendar year 2021: DRP ₂₀₂₁	2.075%
2021 TRAILING AVERAGE	2.243%

4. COST PASS-THROUGH EVENTS

4.1 Physical gate point at Russell Road, Munster

The Munster physical gate point connects the Mid-West and South-West Gas Distribution System with the Parmelia Gas Pipeline. The physical gate point was requested by APA in 2015, and an agreement to construct the new Munster interconnection was signed on 11 December 2015. As a result, the costs associated with the new physical gate point were unforeseen at the time ATCO Gas Australia (ATCO) submitted its November 2014 access arrangement proposal, and were not provided for in the ERA's AA4 Final Decision.

Physical gate point costs are cost pass-through events defined at clause 2.1(a) (ii) of Annexure B of the Revised Access Arrangement. Clause 2.1(a)(ii) is noted below:

2.1 Cost Pass-Through Events

For the purpose of this clause 2, each of the following is a "Cost Pass-Through Event"...

...(ii) ATCO Gas Australia incurs Physical Gate Point Costs that constitute Conforming Capital Expenditure or Conforming Operating Expenditure;

Costs for the period 1 October 2018 to 31 December 2019 have been included as a cost pass through event in accordance with clause 2.1(b) of Annexure B of the Revised Access Arrangement.

ATCO must maintain the natural gas in its distribution system to a specific quality and odorant level as required by Division 2 of the *Gas Standards (Gas Supply and System Safety) Regulations 2000*. Regular testing of natural gas at and near the point where gas enters the distribution system from a transmission pipeline helps ensure gas being supplied to customers is of sufficient quality. In particular, odorant analysis is a critical component of network safety as properly odorised gas allows leaks and faults to be detected.

The gas sampling and analysis costs are such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services, and therefore conform to National Gas Rule 91(1) as:

- gas sampling and analysis is required to meet Gas Standards legislated requirements; and
- the provider of gas sampling services is selected by a competitive tender process to minimise costs.

The Munster physical gate point came into operation on 29 April 2016. Samples relating to the new interconnection are taken at Russell Road, Munster and nearby Moylan Road, Wattleup.

Natural gas sampling and analysis is conducted for ATCO by [REDACTED]. Fees are invoiced to ATCO at the service fee rates agreed in [REDACTED]. Confidential Appendix A.1 lists the gas sampling and analysis costs related to the Russell Road, Munster interconnection from October 2018 to the end of December 2019 not included in prior Tariff Variation Notices. The amount is \$13,023.

4.2 National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015

On 1 July 2016 the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015 (the Safeguard Mechanism)* came into effect having been signed into force by the Federal Minister for the environment on 7 October 2015.

The Safeguard Mechanism creates a baseline of carbon emissions based on historical data and emissions formulas contained within it. If in future the emitter has emissions greater than the baseline, a liability arises in connection with those increased emissions. The liability can be acquitted by purchasing Australian Carbon Credit Units (ACCUs) equivalent to the liability arising from those increased emissions.

The implementation of the Safeguard Mechanism and the consequent liability imposed on ATCO gives rise to a cost pass-through event under clause 2.1(a)(iv) of Annexure B of the Revised access arrangement. Clause 2.1(a)(iv) is noted below:

2.1 Cost Pass-Through Events

For the purpose of this clause 2, each of the following is a "Cost Pass-Through Event"...

...(d) ATCO Gas Australia incurs Conforming Capital Expenditure or Conforming Operating Expenditure as a direct result of any Law that imposes a fee or Tax on greenhouse gas emissions or concentrations; and for avoidance of doubt; this expenditure includes only direct capital or direct operating expenditure associated with preparation for, compliance with the Laws which implement, and the participation in, the Emissions Trading Scheme; and liability only for direct capital or direct operating expenditure transferred to ATCO Gas Australia from another entity as a direct result of acting in accordance with the Emissions Trading Scheme.

In addition to costs incurred subsequent to 1 January 2020, costs for the period 1 October 2018 to 31 December 2019 have been included as a cost pass through event in accordance with clause 2.1(b) of Annexure B of the Revised Access Arrangement.

The ACCU liability related to the Mid-West and South-West Gas Distribution Systems and the Kalgoorlie distribution network for the year ended 30 June 2018 was 592 ACCU's. The ACCU liability is shown at Appendix A.2, being the difference between the calculated "Baseline Emissions Number" and the "Covered Emissions", in a screen shot of the Clean Energy Regulator's Client Portal. The ACCU liability was met on 28 February 2019 by the surrendering of 592 ACCU's.

The 592 ACCU's were purchased from [REDACTED]. The purchase of the 592 ACCU's cost \$10,064 as shown in the [REDACTED] invoice copy in Appendix A.2. After deduction of the amount related to the Kalgoorlie distribution network (0.76%) the cost pass through amount related to the Mid-West and South-West Gas Distribution Systems is \$9,988 to which is added the time value of money for one year, \$415. The total cost through amount is \$10,403.

The ACCU liability related to the Mid-West and South-West Gas Distribution Systems and the Kalgoorlie distribution network for the year ended 30 June 2019 was 7,432 ACCU's. The ACCU liability is shown at Appendix A.2, being the difference between the calculated "Baseline Emissions Number" and the "Covered Emissions", in a screen shot of the Clean Energy Regulator's Client Portal. The ACCU liability was met in February 2020 by the surrendering of 7,432⁶ ACCU's.

⁶ ATCO actually purchased 7,434 ACCU's based on its estimated liability although the final determined liability was 7,432 ACCU's reducing the invoice amount by \$42 from \$156,114 to \$156,072 for the actual liability cost.

The 7,432 ACCU's were purchased from [REDACTED]. The purchase of the 7,432 ACCU's cost \$156,072. A copy of the [REDACTED] invoice copy in Appendix A.2. After deduction of the amount related to the Kalgoorlie distribution network (0.76%) the cost pass through amount related to the Mid-West and South-West Gas Distribution Systems is \$154,888. After adjusting for \$4 included in the 2018 base year costs used in the Revised Access Arrangement cost forecast the net cost pass through amount is \$154,884.

4.3 Treasury Laws Amendment (Enhancing Whistleblower Protections) Act 2019

The *Treasury Laws Amendment (Enhancing Whistleblower Protections) Act 2019* was assented to on 12 March 2019. The major provisions of the Act commenced operation on 1 July 2019. The requirement for a Whistleblower policy was effective 1 Jan 2020. Regulatory guide 270 relating to implementing the Act was released by ASIC in November 2019.

In November 2019 ATCO took steps to review (including obtaining external independent professional advice) and approve its policy documents relevant to new legislative requirements in Schedule 1, clause 9 of the Act. [REDACTED]

[REDACTED] The total cost was \$3,500 paid by ATCO Australia of which 75% was allocated to ATCO Gas Australia using the Massachusetts method, the same basis used in ATCO's operating cost forecast for the fifth Access Arrangement period. Two percent, \$53, of the amount has been deducted as relating to the Albany and Kalgoorlie networks. The time value of money for one year, \$109, was added to the cost pass thorough amount as it was incurred in 2019. The net cost pass through amount is \$2,681. A copy of the invoice is in Appendix A.3.

5. PROPOSED HAULAGE TARIFFS AND VARIED TARIFF COMPONENTS

The varied reference tariffs, excluding GST, are listed below and will be applicable from 1 January 2021. Details of the individual calculations are provided in the attached spreadsheet.

5.1 Varied reference tariff A1

The following charges will apply from 1 January 2021:

1. the Standing Charge is \$34,323.06 divided by 365;
2. the Demand Charge Rate is:
 - a) \$144.66 for the first 10 kilometres of the Interconnection Distance; and
 - b) \$76.14 for any part of the Interconnection Distance in excess of 10 kilometres;
3. the Usage Charge Rate is:
 - a) \$0.03060 per Gigajoule per kilometre for the first 10 kilometres of the Interconnection Distance; and
 - b) \$0.01543 per Gigajoule per kilometre for any part of the Interconnection Distance in excess of 10 kilometres.

5.2 Varied reference tariff A2

The following charges will apply from 1 January 2021:

1. The Standing Charge is \$18,991.23 divided by 365;
2. the Usage Charge Rate is:
 - a) \$1.85 per Gigajoule for the first 10 Terajoules of gas delivered to the User at a Delivery point per year; and
 - b) \$0.98 per Gigajoule for usage in excess of the first 10 Terajoules of gas delivered to the User at a Delivery point per year.

5.3 Varied reference tariff B1

The following charges will apply from 1 January 2021:

1. the Standing Charge is \$960.08 divided by 365;
2. the Usage Charge Rate is:
 - a) \$3.65 per Gigajoule for the first 5 Terajoules of gas delivered to the User at a Delivery point per year; and
 - b) \$3.14 per Gigajoule for any usage in excess of the first 5 Terajoules of gas delivered to the User at a Delivery Point per year.

5.4 Varied reference tariff B2

The following charges will apply from 1 January 2021:

1. the Standing Charge is \$239.46 divided by 365;
2. the Usage Charge Rate is:

-
- a) \$6.11 per Gigajoule for the first 274 Megajoules per day of gas delivered to the User at a Delivery point; and
 - b) \$3.64 per Gigajoule for any usage in excess of the first 274 Megajoules of gas delivered to the User at a Delivery Point.

5.5 Varied reference tariff B3

The following charges will apply from 1 January 2021:

1. the Standing Charge is \$120.21 divided by 365;
2. the Usage Charge Rate is:
 - a) \$0.00 per Gigajoule for the first 5 Megajoules per day of gas delivered to the User at a Delivery Point;
 - b) \$5.62 per Gigajoule for the next 22 Megajoules per day of gas delivered to the User at a Delivery Point; and
 - c) \$3.75 per Gigajoule for any usage in excess of the first 27 Megajoules per day of gas delivered to the User at a Delivery Point.

APPENDIX B. INFLATION MEASURE – TRIMMED MEAN

B.1 Overview

The ABS has published a detailed note explaining the changes that have been made in the June and September quarters CPI as a result of the response to COVID-19.⁷ As a result of the changes highlighted by the ABS the All Groups Weighted Average of Eight Capital Cities CPI in the September 2020 quarter is on a materially different basis (including due to a change in its nature, composition, data or reference base) to its basis at the time of the last revisions to the Access Arrangement.

It is the underlying inflation to which ATCO is exposed, not the headline inflation CPI which is affected in the short term by Government decisions.

Effectively the data or reference base used to measure the CPI has been altered by Government decisions beyond ATCO's control. These price falls as measured by the CPI do not reflect general price movements in the economy. In particular, they do not reflect movements in the prices experienced by ATCO in the provision of services.

In the June quarter, the ABS noted the following measurement approaches:

1. **Government policy** - The implementation of free childcare and the changes in rental agreements that reduced the prices paid by tenants, have flowed through to measured CPI.
2. **Unavailable goods and services** - For unavailable goods and services, the quarterly price movements will be imputed from the headline CPI quarterly movement. This applies to: urban transport fares; domestic holiday travel and accommodation; international holiday travel and accommodation; sports participation; and other recreational, sporting and cultural services.
3. **Seasonal forward factors** - Seasonal forward factors will be used for three CPI series: child care; medical and hospital services; and pre-school and primary education, while the remaining seasonally adjusted series will maintain their (usual) concurrent seasonal adjustment approach.
4. **Re-weighting the CPI** - CPI expenditure weights have not been updated for changes in household expenditure patterns as a result of COVID-19. Expenditure weights will be updated in the December 2020 quarter, consistent with current practice.

In the September quarter, the ABS noted that the impact of COVID-19 continues to be reflected in the statistics produced by the ABS. The ABS notes that the following approaches continue:

1. **Data collection** - The suspension of CPI in-store collection remained in place for the September 2020 quarter. As in the June quarter, the small amount of data collection previously undertaken in-store continued to be conducted by ABS office-based staff either online or over the phone.
2. **Child care** - Applying a similar treatment as the June quarter, the number of business days where child care was not free was used to derive a movement for the child care series. In the September quarter, families paid child care fees for 58 out of 66 business days. With the Australian Government's announcement of further support for child care centres in Victoria, Melbourne's movement for the child care series differs from the other seven capital cities. Nationally, Melbourne contributes 24% to the child care series.

⁷ ABS, Methods changes during the COVID-19 period, 17 June 2020, Available from: <https://www.abs.gov.au/articles/methods-changes-during-covid-19-period#edit-group-image--6>

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3. **Unavailable goods and services** - With a number of the social distancing requirements and restrictions easing in recent months, it is again possible to measure price change for many of the CPI series in the September quarter. Exceptions to this are:
 - a) Domestic holiday travel and accommodation - State and Territory border closures were in place for all or part of the quarter, restricting interstate holiday travel.
 - b) International holiday travel and accommodation - international travel restrictions remained in place.
 - c) Melbourne - many retailers were closed due to Stage 3 and 4 restrictions that were in place in Melbourne for the majority of the September quarter.
 4. **Re-weighting the CPI** - With COVID-19 seeing social distancing and restrictions in place, there has been a significant shift in the pattern of goods and services purchased by Australian households. Consistent with the June quarter, the CPI weights will not be updated in the September quarter in response to temporary changes in spending patterns.

B.2 Government policy

Child care

On 2 April, the Australian Government announced that child care services would be free for families from 6 April to 28 June. Following the 2 April announcement, free child care was extended until 12 July. There was extended support in Victoria beyond 12 July.

The ABS note:

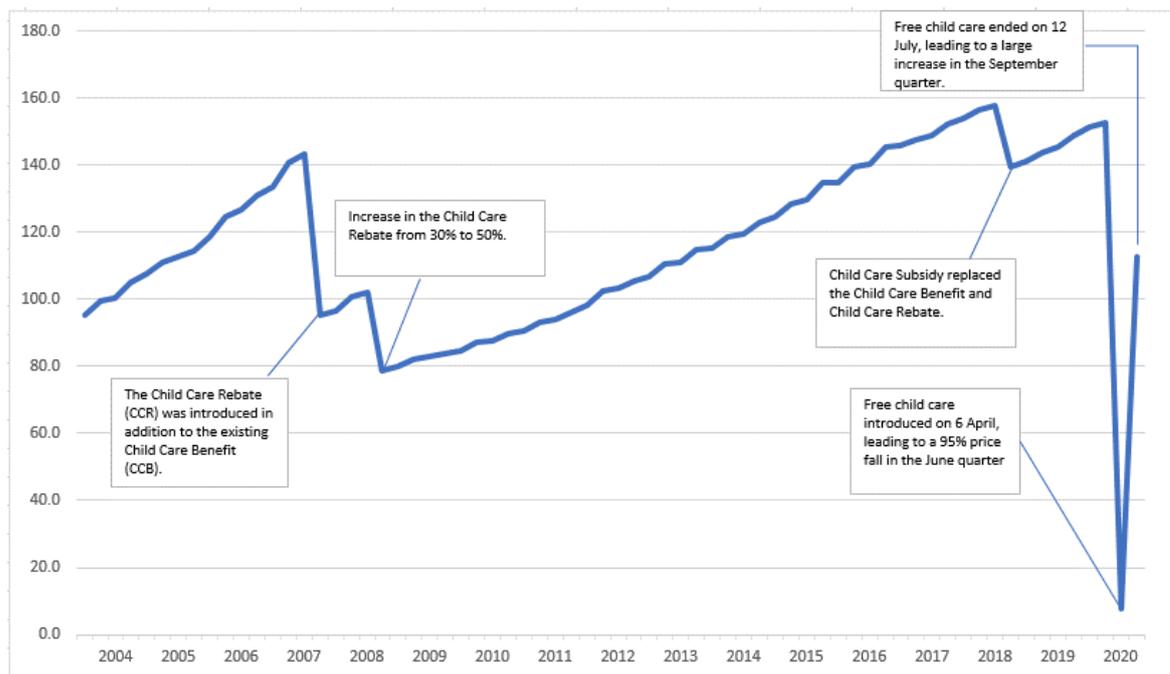
On 6 April the Australian Government introduced the 'Early Childhood Education and Care Relief Package'. Free child care was provided for families from 6 April to 12 July, which resulted in a 95 per cent fall in the child care series in the June quarter. With the removal of free child care on 13 July, families were again required to pay fees similar to pre-6 April.

Applying a similar treatment as the June quarter, the number of business days where child care was not free was used to derive a movement for the child care series. In the September quarter, families paid child care fees for 58 out of 66 business days. With the Australian Government's announcement of further support for child care centres in Victoria, Melbourne's movement for the child care series differs from the other seven capital cities. Nationally, Melbourne contributes 24 per cent to the child care series.

The September quarter index for the CPI child care series will increase from 7.6 to around 112.6. The rise in child care will add approximately 0.9 percentage points to the headline CPI movement in the September quarter.

As shown in the figure below, government policy is continuing to have a deflation effect on the child care series. It is still 26% below the pre-COVID-19.

Figure 1: Child care index in the CPI (2011-12 = 100.0)



Source: ABS

The ABS have published a range of CPI exclusion-based measures. These demonstrate that the deflation impact of child care policies on the headline CPI measure. If child care was excluded the annual movement on the headline CPI would be 0.9% (0.2% higher than the 0.7% headline CPI for the September quarter).

Rental

COVID-19 resulted in significant changes in the rental property market with State and Territory Governments announcing a range of rental support packages. Rents contribute 6.8% of household expenditure in the CPI, with privately owned dwelling rents contributing 92% of total rents expenditure.

Permanent or temporary re-negotiations of rent between landlords and tenants are treated as a price fall in the CPI. Rent reductions due to support packages, such as land tax or rental relief grants, will also result in a price fall in the CPI.

Conclusion

Effectively the data or reference base used to measure the CPI has been altered by Government decisions beyond ATCO's control. These policies have had a deflationary effect on the headline CPI and do not reflect general price movements in the economy. In particular, they do not reflect movements in the prices experienced by ATCO in the provision of reference services.

B.3 Missing prices; changes in composition, data and the reference base of CPI

For the June 2020 quarter, the proportion of missing prices was 13%⁸, this reduced to 7% in the September quarter reflecting unavailable goods and services due to COVID-19 restrictions. The ABS had to find a way of imputing the missing prices in the following two situations.

⁸ ABS, Measuring the Consumer Price Index during a time of COVID-19, 17 June 2020.

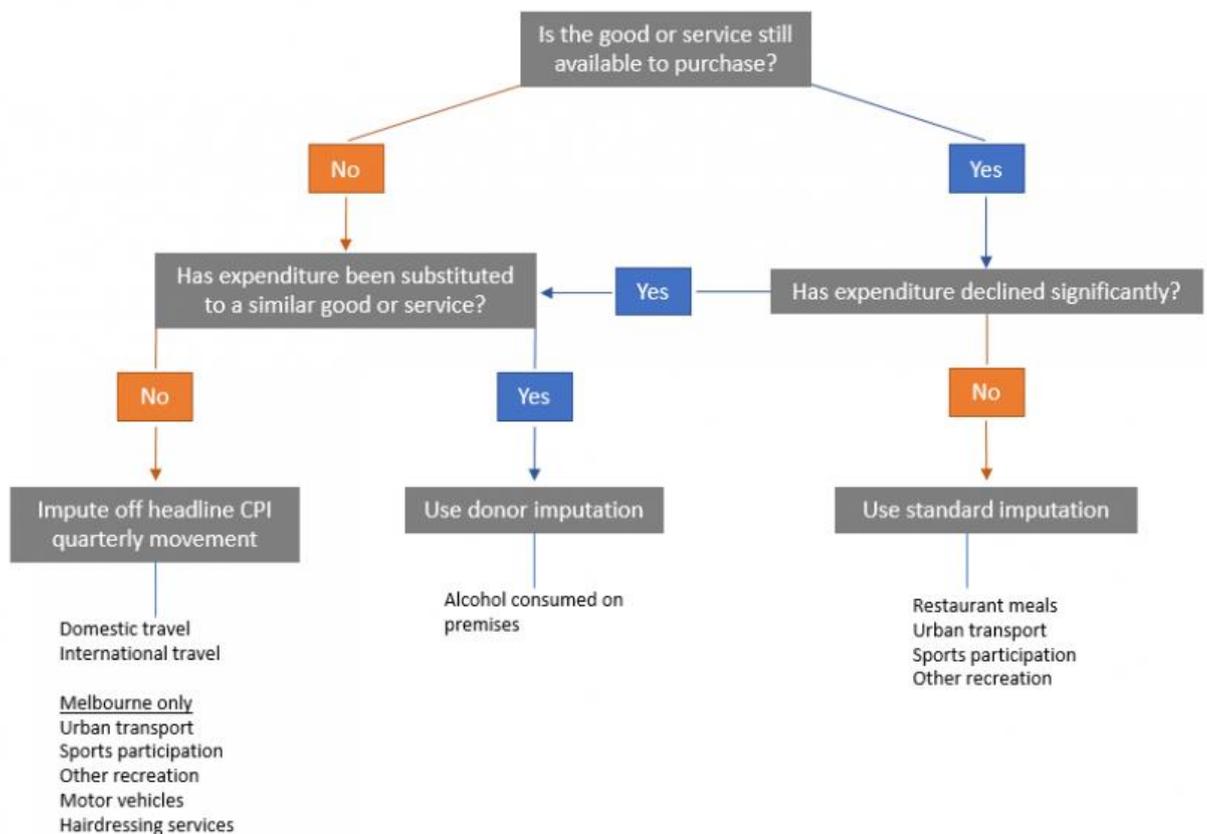
- Available goods and services to purchase, but with some prices temporarily missing.
- Unavailable goods and services, meaning there are no prices to collect for the quarter

The ABS’s response to missing prices was as follows:

- For goods and services unavailable or deemed unavailable due to the decline in consumption, the quarterly price movements were imputed from the headline CPI quarterly movement. This applies to: urban transport fares; domestic holiday travel and accommodation; international holiday travel and accommodation; sports participation; and other recreational, sporting and cultural services.
- Where consumption has been substituted by alternative goods, for example takeaway meals for restaurant meals, prices are imputed from those substitute goods.
- Stage 4 restrictions in Melbourne meant prices were unable to be collected from some retailers, in particular for hairdressing services and motor vehicles. In these cases a price movement has been imputed from Melbourne's CPI quarterly movement

The ABS has published the following diagram showing how it chooses to impute prices for goods where prices are unavailable.

Figure 2: ABS – CPI Imputation decision framework (September quarter application)⁹



Regardless of the imputation method used, the result is to change the weights of the different classes of expenditure that should be used in the absence for the need for imputation. Where the price of one good is imputed to another, the weight of the “donor” good is increased and the weight of the recipient good has declined.

⁹ ABS, Measuring the Consumer Price Index: September quarter update, 17 June 2020.

Where price increases are imputed using headline CPI, effectively those goods have no weight in determining the headline CPI, which is then imputed to those goods for which prices are missing. Effectively the basis of calculating the CPI has changed.

Use of imputation in the June and September quarters CPI has changed the composition, data or reference base of the CPI.

The ABS has published a table, reproduced below, showing the imputation method used in the June and September quarters CPI calculation where prices were unavailable.¹⁰

Figure 3: CPI imputation approach used in the June quarter CPI

CPI series	CPI Weight (%)	June quarter imputation approach	September quarter imputation approach	
			Seven capital cities	Melbourne
Restaurant meals	3.3	If available, takeaway prices used or standard imputation if not available	Measure normally using collected prices	If available, takeaway prices used or standard imputation if not available
Alcohol consumed on premises	1.5	Donor imputation off takeaway alcohol	Measure normally using collected prices	Donor imputation off takeaway alcohol
Urban transport fares	0.7	Imputed off each city's All groups CPI	Measure normally using collected prices	Impute off Melbourne's All groups CPI
Domestic holiday travel and accommodation	3	Imputed off each city's All groups CPI	Impute off each city's All groups CPI	Impute off Melbourne's All groups CPI
International holiday travel and accommodation	3.4	Imputed off each city's All groups CPI	Impute off each city's All groups CPI	Impute off Melbourne's All groups CPI
Sports participation	0.9	Imputed off each city's All groups CPI	Measure normally using collected prices	Impute off Melbourne's All groups CPI
Other recreational, sporting and cultural services	1.1	Imputed off each city's All groups CPI	Measure normally using collected prices	Impute off Melbourne's All groups CPI
Hairdressing and personal grooming services	0.9	Measured normally using collected prices	Measure normally using collected prices	Impute off Melbourne's All groups CPI
Motor vehicles	2.5	Measured normally using collected prices	Measure normally using collected prices	Impute off Melbourne's All groups CPI

ATCO considers that the above information demonstrates that the level of imputed prices and missing data in the September quarter CPI is a material change in the composition, data and reference base of the headline CPI.

B.4 Change in expenditure composition

As the RBA has pointed out¹¹, the basket of goods used to calculate the CPI has not been amended to take into account changing consumption patterns. Therefore, the weights applied to

¹⁰ Ibid.

¹¹ RBA, Statement on Monetary Policy, August 2020, Section 5, Inflation

elements of the CPI basket of goods do not reflect current expenditure patterns. Consequently, the CPI as measured does not reflect actual CPI inflation.

The COVID-19 containment measures also led to large changes in consumption expenditure shares. For example, travel restrictions and social distancing requirements resulted in consumers spending more on home entertainment and groceries instead of going on international holidays and dining out (see 'Domestic Economic Conditions' chapter for more detail). However, the CPI measures price changes for a fixed basket of goods and services (representing the things that households typically buy).¹²

Regardless of whether the basket of goods included in CPI measurement is amended, it does not reflect the composition, data or reference base of the CPI at the time of the last Access Arrangement revision.

B.5 Alternative CPI measure

Outlined in sections B.2 to B.4 above are reasons why the September quarter CPI, All Groups Weighted Average of Eight Capital Cities as a measure of inflation is:

- not suitable as a measure of inflation to which ATCO is exposed and anticipated to be compensated for via the tariff variation mechanism
- inconsistent with the composition, data or reference base as envisaged in clause 2(b) of Annexure C of the Revised Access Arrangement

Given that the CPI, All Groups Weighted Average of Eight Capital Cities is not a reliable measure of inflation in current circumstances, ATCO considers the trimmed mean CPI as the best substitute index.

The Trimmed Mean is derived from the Consumer Price Index (CPI) by removing atypical movements from the CPI. It is an important measure of underlying inflation and the health of the Australian economy.

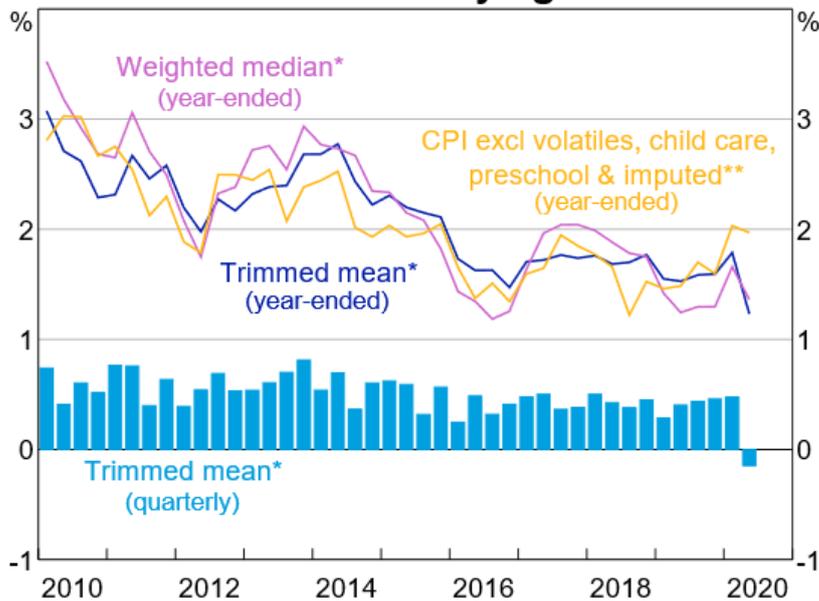
The RBA in its August 2020 Statement on Monetary policy produced the following graph of alternative measures of underlying inflation.¹³

¹² Ibid.

¹³ Ibid.

Graph 5.2

Measures of Underlying Inflation



* Seasonally adjusted

** Not seasonally adjusted; excludes fruit, vegetables & automotive fuel, child care, preschool & primary education and imputed items

Sources: ABS; RBA

The graph shows the trimmed mean to be relatively stable compared to the other measures graphed, as it has the outliers in inflation movements removed¹⁴. The trimmed mean is a better measure of underlying inflation in current circumstances, removing the distortions of extreme price movements caused by Government decisions and current economic circumstances such as the decline in transport utilisation. Using a measure such as the trimmed mean promotes stability in prices while ensuring the measure used better reflects the cost changes actually experienced by the service provider. It is also likely the trimmed mean is a better measure of the decline in the purchasing power of consumers, excluding the support measures provided by Government.

The AER in its final decision in June 2020 for Power Networks, Energex, Ergon Energy, Directlink states the rationale for using the trimmed mean rather than headline CPI as a measure of inflation.¹⁵

We use the RBA's trimmed mean inflation (TMI) forecasts for the first two regulatory years (year-to-June 2021, and year-to-June 2022).²⁷ Our usual implementation is to use the (headline) consumer price index (CPI) forecasts for these periods.²⁸ In the current circumstances of COVID-19, we consider that the TMI series better reflects expectations of core inflation as set out in the RBA's SMP. Further, the TMI smooths the transient volatility in the CPI forecasts in the RBA's May SMP

Although the AER is referring to the RBA's next two year's inflation forecast used in the PTRM inflation forecast, the adoption of the Trimmed Mean inflation measure is still relevant. The point is that while abnormal environments create volatile and temporary movements in headline inflation, when addressing the issue of which inflation measure to apply to a service provider's costs to best reflect the impact of inflation on the service provider, a more stable measure, such as the trimmed mean is a better option. Using a more stable measure such as the Trimmed Mean

¹⁴ ABS, Underlying Inflation Measures: Explaining the Trimmed Mean and Weighted Median, undated post 2018

¹⁵ AER, Overview | Final decision – Directlink transmission determination 2020–25, June 2020, page 21

means that tariffs are more likely to reflect the cost of providing services and therefore provide better economic signals regarding network utilisation.

B.6 Access arrangement requirements

When considering the measure of inflation to use in the tariff variation, both the measure of CPI inflation defined in the Dictionary at clause 13.1 and clause 2(b) of the Revised Access Arrangement are relevant.

The Dictionary defines the CPI for All Groups, Weighted Average of Eight Capital Cities and refers to Annexure C clause 2(b) for the circumstances where an alternate measure may be required.

Table 3: Revised Access Arrangement Clause 13.1 Dictionary, inflation definition

Term	Definition
CPI All Groups, Weighted Average of Eight Capital Cities	means the Consumer Price Index All Groups Index Number for All Groups, Weighted Average of Eight Capital Cities published by the Australian Bureau of Statistics or, if applicable, an alternative index determined under clause 2(b) of Annexure C of the Access Arrangement.

Clause 2(b) of annexure C then outlines the circumstances when an alternate CPI measure is required in ATCO's its reasonable opinion. The clause is reproduced below.

b) If the Consumer Price Index referred to in clause 2(a) of this Annexure C ceases to be published quarterly by the ABS or in the reasonable opinion of ATCO Gas Australia is published on a materially different basis (including due to a change in its nature, composition, data or reference base) to its basis at the time of the last revisions to the Access Arrangement, then (subject to the ERA's approval):

i) if the ABS publishes a substitute index, ATCO Gas Australia may use the substitute index if it believes the use of that substitute index (with, if necessary, any arithmetical correction factor) will maintain a reasonable level of continuity between a Reference Tariff calculated using the Consumer Price Index and a Reference Tariff calculated using the substitute index; or

ii) if ATCO Gas Australia does not adopt a substitute index under clause 2(b)(i) of this Annexure C, ATCO Gas Australia will nominate a substitute index in its discretion, exercised reasonably.

Outlined above are reasons why the September quarter CPI, All Groups Weighted Average of Eight Capital Cities is not a measure of inflation consistent with the composition, data or reference base as envisaged in clause 2(b) of Annexure C of the Revised Access Arrangement. These flaws and the relevance to clause 2(b) of annexure C are summarised in Table 4.

Table 4: Flaws in CPI - All Groups Weighted Average of Eight Capital Cities

Flaw	Annexure C Clause 2(b) relevance
Government decisions, mainly free childcare, influence data or reference base of CPI calculation	By effectively setting the price for child care at nil while not adjusting the expenditure component in the CPI for childcare, the expenditure on child care is either outweighed, a change in the nature of the index or there is a material uncontrolled change in the data or reference base used

Flaw	Annexure C Clause 2(b) relevance
ABS use of imputation where price unavailable	Changes composition, data or reference base of CPI as price for one good are used for another or prices are imputed from the CPI excluding some goods.
Changes in expenditure composition	The weighting of actual expenditure has changed meaning the data or reference base has changed or if the weighting given to goods is adjusted then the nature and or the composition of the CPI has changed.

Current circumstances changing the nature, composition, data and reference base require an alternative CPI measure be considered.

B.7 Conclusion

ATCO has examined actions taken and statements made by relevant authorities to determine an appropriate temporary replacement inflation series. In particular ATCO has noted:

- Information presented by the RBA on the stability of the Trimmed Mean measure
- The precedent of the AER assessing the trimmed mean as a better measure of inflation to remove the volatility in the CPI measure in these uncertain times.

A change in the measure of the CPI used in the 2021 tariff variation is required due to a change in the nature of the composition, data and reference base of the CPI, All Groups, Weighted Average of Eight Capital Cities.

ATCO submits that the Trimmed Mean is the appropriate measure of inflation to be used in the January 2021 tariff variation as a better measure of the cost increases experienced by ATCO and consumers, excluding volatility caused by Government decisions, and therefore will lead to more efficient tariff price signals for network utilisation.

To calculate the tariffs to be implemented on 1 January 2021, ATCO has used the Trimmed Mean measure of CPI for the twelve months to September 2021 in place of the CPI All Groups Weighted Average of Eight Capital Cities for that period.

The use of the Trimmed Mean is a temporary measure and is not to be taken as a precedent for use in future tariff variations.