Economic Regulation Authority

Draft decision on revisions to the access arrangement for the Mid-West and South-West Gas Distribution Systems

Overview

24 April 2024

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Invitation to make submissions

Submissions are due by Tuesday, 9 July 2024

The ERA invites submissions on this draft decision. Interested parties are encouraged to comment on the matters raised in this decision overview and its separate attachments.

Submissions should be lodged online using the ERA's submission portal:

https://www.erawa.com.au/consultation

Alternatively, submissions can be made via:

Email: publicsubmissions@erawa.com.au
Post: Level 4, Albert Facey House, 469 Wellington Street, Perth WA 6000

Please note that submissions provided electronically do not need to be provided separately in hard copy.

All submissions will be made available on our website unless arrangements are made in advance between the author and the ERA. This is because it is preferable that all submissions be publicly available to facilitate an informed and transparent consultative process. Parties wishing to submit confidential information are requested to contact us at info@erawa.com.au.

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1. Overview

This draft determination is the ERA's response to ATCO Gas Australia's proposed five year plan for its gas network (referred to as an access arrangement). It covers the period from 1 January 2025 to 31 December 2029 (AA6).

The tariffs ATCO charges its customers, which are informed by its access arrangement, make up approximately 30 per cent of the average residential gas bill. ATCO has proposed a one-off tariff increase of 42 per cent in 2025, with an annual increase for inflation for each of the remaining years of AA6. In this draft decision, the ERA has assessed ATCO's proposal to determine whether it complies with the regulatory framework, which seeks to ensure that ATCO is only incurring the efficient costs of providing natural gas services for the long term interests of consumers.

ATCO's proposal includes forecast expenditure, such as for pipeline and meter replacement programs, at levels similar to the previous (AA5) access arrangement, and network growth of around 68,000 new customers over the next five years.

Although ATCO has proposed similar programs and levels of activity in AA6 as in AA5, these activities are taking place in a higher cost environment. Actual inflation in AA5 was materially higher than forecast, current inflation expectations for AA6 are 1.5 percentage points higher compared to AA5 and base interest rates are approximately 3.1 percentage points higher than those in the ERA's AA5 final decision released in November 2019. These higher interest rates and inflation drive over 56 per cent of ATCO's proposed tariff increase for AA6.

The ERA's analysis and stakeholder feedback shows customer support for the continued use of gas over the short to medium term. However, the ERA recognises that pipeline operators like ATCO are operating in an environment of increased uncertainty over the long term future of natural gas, with an escalating community and government focus on reducing carbon emissions. ATCO's proposal anticipates this uncertainty and includes options to manage it by including:

- Plans to extend the life of the pipeline by injecting renewable gases and purchasing carbon credits.
- A proposal to recover its investment sooner through accelerated depreciation if the pipeline life is to be shorter than originally assumed.

To make its draft decision, the ERA has taken account of the revised national gas objective. This now includes an objective to help achieve a reduction of greenhouse gas emissions in line with government targets, in addition to the price, quality, safety, reliability and security of supply of natural gas, consistent with the long term interests of consumers.

To reach its draft decision the ERA has considered expert opinions and analysis from external independent consultants, stakeholder submissions and other customer consultation.

Draft decision

The ERA has approved total revenue of $1,217.6 million in this draft decision, $234.1 million lower than ATCO's proposal. The forecast increase in network tariffs for 1 January 2025 is about 15.3 per cent for non-residential customers, with increases for each remaining year of AA6 at the rate of inflation. The forecast increase in the gas network bill for the average residential customer is 12.5 per cent on 1 January 2025, with increases for inflation for the remaining years of AA6.

The Western Australian Government sets the maximum retail gas price for small use customers. If these network tariffs remain similar in the ERA's final decision, it will be up to gas retailers to decide if or when they pass on these network tariff increases to those customers on competitive contracts. There could be significant difference in tariffs between the draft and final decision if ATCO can demonstrate that some reductions made by the ERA should be reinstated either in full or partially or there are other material cost pressures which have arisen subsequently.

The major changes between ATCO's proposal and the ERA's draft decision are:

- $118.6 million lower operating expenditure.
- $22.8 million lower forecast capital expenditure for AA6 and $15.6 million lower approved capital expenditure for AA5.
- 14,383 customers added to average customer base at the end of AA6 and an extra 9,648 TJ of gas transported during the AA6 period (including an increase in associated capital and operating expenditures).
- Removal of the full amount of ATCO's proposed $80 million for accelerated depreciation.

The ERA's draft decision will still provide sufficient revenue for ATCO to connect additional customers and operate and maintain the distribution network over AA6.

Reduction in capital expenditure compared to ATCO's proposal is due to the removal of project contingencies and reduction in overheads. Both operating and capital expenditure estimates are lower due to forecast lower increases in real wages and the removal of renewable gas injection, which is not currently feasible under the economic regulatory framework.

Most of the reduction in operating expenditure is due to the removal of expenditure which the ERA considers would not be efficiently incurred and to remove operating expenditure relating to capital expenditure programs which the ERA has disallowed.

Emissions reductions

The ERA recognises the importance of carbon emissions reduction strategies across the economy to reduce Australia's carbon emissions and meet legislated government targets.

ATCO is responsible for the carbon emissions that leak from its pipelines in the transportation of gas to its customers.

The Australian Government has recently revised legislation requiring businesses with high carbon emissions to reduce emissions each year. Businesses captured by the scheme are set targets to reduce their emissions, consistent with the Australian Government's emissions reduction targets. ATCO is no longer captured by this scheme as its carbon emissions are currently below the threshold. However, ATCO has set itself corporate targets to reduce its own carbon emissions to 30 per cent below 2020 emissions by 2030.

ATCO proposed to spend $26.4 million to voluntarily reduce either its own or customers' carbon emissions. ATCO's proposals are not feasible under the current economic regulatory framework and ATCO has not sufficiently demonstrated that these proposals (if they were permitted under the legislative framework) are the most cost-efficient solutions to reduce carbon emissions that would be undertaken by a prudent gas service provider. As a result, the ERA has not accepted ATCO's proposal.

Accelerated depreciation

Accelerated depreciation enables the recovery of more depreciation in the earlier years of an asset's life and less depreciation in the later years of the asset's life (compared to a constant depreciation method).

ATCO proposed $80 million of accelerated depreciation in addition to the standard depreciation of $348.7 million during AA6. ATCO contends that this provides it with a reasonable opportunity to recover its previously approved efficient investments, while maximising consumers' use of the network and minimising possible adverse future price effects on consumers if demand for gas declines.

The provision of accelerated depreciation is a reasonable regulatory tool to manage the potential for declining levels of future customer demand. However, the ERA does not consider that ATCO's AA6 proposal is robust nor is it supported by a strong modelling methodology.

As a result, the ERA has not approved the accelerated depreciation proposed by ATCO.

Reflecting the draft decision and incorporating ATCO's proposed $80 million accelerated depreciation in this draft decision would have increased the network bill for the average B3 (residential and small business) customer in 2025 by 21.4 per cent from $204 in 2024 to $248 in 2025 (8.9 percentage points attributable to accelerated depreciation).

Any future consideration of accelerated depreciation will have to consider the current market environment and the effect of any accelerated depreciation on consumers (both current and future).

Further explanations of the matters informing the draft decision can be found in this overview document and the attachments comprising the draft decision.

ATCO may now revise its proposal to address the matters identified in this draft decision and the ERA seeks the views of stakeholders on its draft decision.

2. Draft decision

The ERA's draft decision is to not approve ATCO's proposed access arrangement revisions for its gas distribution network.

A summary of the ERA's draft decision is provided in section 3 this document. The process the ERA followed to make its draft decision is set out in section 4.

The detailed reasons for the decision are set out in the following (separate) attachments, which together with this overview form the ERA's draft decision.[1]

Attachment 1:	Access arrangement and services
Attachment 2:	Demand
Attachment 3:	Revenue and tariffs
Attachment 4:	Regulatory capital base
Attachment 5:	Operating expenditure
Attachment 6:	Depreciation
Attachment 7:	Return on capital, taxation, incentives
Attachment 8:	Other access arrangement provisions
Attachment 9:	Service terms and conditions

The amendments the ERA requires ATCO to make are included in the attachments where each respective element of the proposed access arrangement is considered.

ATCO may now submit a revised access arrangement proposal that addresses the ERA's required amendments by 10 June 2024.

The ERA invites submissions on its draft decision. The closing date for submissions is 9 July 2024, which allows interested parties to comment on the draft decision and ATCO's response to it.

Before making its final decision, the ERA must consider ATCO's revised access arrangement proposal (if submitted), any submissions received on the draft decision and/or ATCO's revised proposal, and any additional access arrangement information submitted by ATCO.

The ERA expects to publish its final decision by November 2024.

[1] This decision document and its attachments are available from the ERA website.

3. Summary of draft decision

A summary of the key matters addressed in, and reasons for, the ERA's draft decision is provided here. This summary is not intended to be a comprehensive statement of the ERA's considerations. The ERA's detailed considerations (reasons) are set out in the attachments to this overview, which together comprise the ERA's draft decision.

3.1 Regulatory framework in Western Australia

The National Gas Law (NGL) and National Gas Rules (NGR), as enacted by the *National Gas (South Australia) Act 2008*, establish the legislative framework for the independent regulation of certain gas pipelines in Australia.[2] The *National Gas Access (WA) Act 2009* implements a modified version of the NGL and NGR in Western Australia.

ATCO's access arrangement proposal assumed that various amendments to the regulatory framework would be implemented in Western Australia before the ERA's review process was completed. One such amendment that became effective in Western Australia (in January 2024) is the incorporation of an emissions reduction objective into the national gas objective.[3] The amended national gas objective now includes explicit consideration of the achievement of targets for reducing, or contributing to reducing, Australia's greenhouse gas emissions. At the time of writing this draft decision, the other legislative amendments assumed by ATCO have not been implemented in Western Australia.[4]

In its issues paper, the ERA stated that it would apply the relevant regulatory framework at the time of making each of its decisions (draft and final) and would not speculate on whether the legislative amendments would occur, or the timing for such amendments. The ERA did confirm that it intended to assess ATCO's proposal and separately set out considerations directly related to the possible legislative amendments to allow stakeholders an opportunity to provide comments in response to the draft decision, which would then assist the ERA should the legislative amendments take effect between the publication of the draft and final decisions. The ERA maintains this position for its draft decision.

3.2 Stakeholder engagement

The ERA received submissions from twelve stakeholders in response to ATCO's proposal and/or the ERA's issues paper and has sought to address this feedback in this draft decision. The ERA has also provided a summary of the issues raised in submissions and how the ERA has addressed this feedback.[5]

The ERA has also reviewed ATCO's customer engagement activities and conducted its own engagement to understand the views of residential gas customers.

2 Extracts of the NGR that are referenced in this document are provided in Appendix 6 for information.

3 *Western Australian Government Gazette 24 January 2024 No.8* (online) (accessed April 2024).

4 Amendments to deliver a simpler regulatory framework and amendments to extend the national gas regulatory framework to hydrogen blends and renewable gases.

5 ERA, *Draft decision on revisions to the access arrangement for the Mid-West and South-West Gas Distribution Systems: Supplementary information – Stakeholder submissions summary*, 24 April 2024 (online) (accessed April 2024).

Reviewing ATCO's customer engagement activities

ATCO provided its survey results noting that there was an overwhelming support for safe and reliable access to gas, along with strong support for ATCO's proposed investment programs. To validate the accuracy and robustness of ATCO's engagement processes, including the interpretation and use of the consultation in support of its proposal, the ERA engaged an independent consultant (Patterson Research Group) to undertake an independent review. The consultant was given two key questions to review ATCO's customer engagement activities:

1. What level of confidence could the ERA have in the findings from ATCO's customer engagement that these meaningfully reflected the views of customers?

2. Given the level of information and the timing of ATCO's specific engagements (qualitative and quantitative) with various stakeholders (for example, on ATCO's operating and capital investment program scale and the effects on pricing), how valid is any stakeholder sentiment on qualitative and quantitative analysis used in support of its expenditure and investment programs?

The ERA's consultant found that ATCO's customer engagement process represented a comprehensive attempt to gauge the sentiment of key stakeholder groups. ATCO's customer survey was conducted at industry standards, however, there are some concerns with the interpretation of the survey results.

Patterson Research Group considered that the ERA should be able to have a high-level of confidence that ATCO's consumer engagement has reliably shown that residential consumers want to have gas connections into the immediate future, and support the steps required to ensure the gas network continues to function safely and reliably. The following shortfalls in ATCO's consumer engagement of residential gas customers were identified:[6]

- **Uninformed respondent**: There was a lack of clarity in presenting emission reduction options to consumers, which may have hindered their understanding and responses. There was limited research on customer sentiment towards alternative technologies, indicating a potential disconnect between consumer preferences and the proposed solutions.
- **Willingness to Pay (WTP) shortfalls:** The strength of consumer investment priority was not reflective of actual WTP for ATCO's proposals; percentage of customers WTP for each specific investment was not presented; and lower price estimates were presented during the customer engagement compared to ATCO's final proposal.
- **Scale interpretation:** The survey rating scale provided to respondents lacked detailed labelling beyond the two extremes (e.g. "not important" and "extremely important"), which may have potentially caused confusion and misinterpretation of responses. The introduction of bias in the ranking system undermines the reliability of the methodology and hampers the accurate assessment of consumer preferences and priorities.

ERA's customer engagement

To assist decision making, the ERA commissioned Patterson Research Group to undertake a 1,000-respondent survey with residential gas customers within the service area of ATCO's

6 Patterson Research Group, *Review of ATCO AA6 submission documentation – Undertaken for the Economic Regulation Authority*, March 2024 (online) (accessed April 2024).

distribution network.[7] The survey did not replicate ATCO's customer engagement, rather it focused on select topics where the ERA needed consumer insight to inform its decision making. These topics included:

- Sustainability expenditure: should ATCO be undertaking emissions reduction initiatives or should other stakeholders, such as retailers, be doing this?
- Price, including price paths, size of price changes, willingness to pay for key investment proposals.
- Future of gas use and demand over time, particularly for new connections, existing connections and whether current technology installations such as rooftop solar or battery storage affect customers' decisions (i.e. what are the factors affecting new or existing connections to switch to electric only households).

Sustainability expenditure

To gauge customer sentiment towards sustainability expenditure, respondents were first asked to rate the importance of reducing their household's carbon footprint:

- 7 per cent of respondents rated this as "not important at all"
- 13 per cent of respondents rated this as "low importance"
- 38 per cent of respondents rated this as "quite important"
- 39 per cent of respondents rated this as "high importance"

The ERA further canvased the importance of reducing their household's carbon footprint specifically from <u>gas appliances</u>. Respondents' responses shifted overall to lower levels of importance:

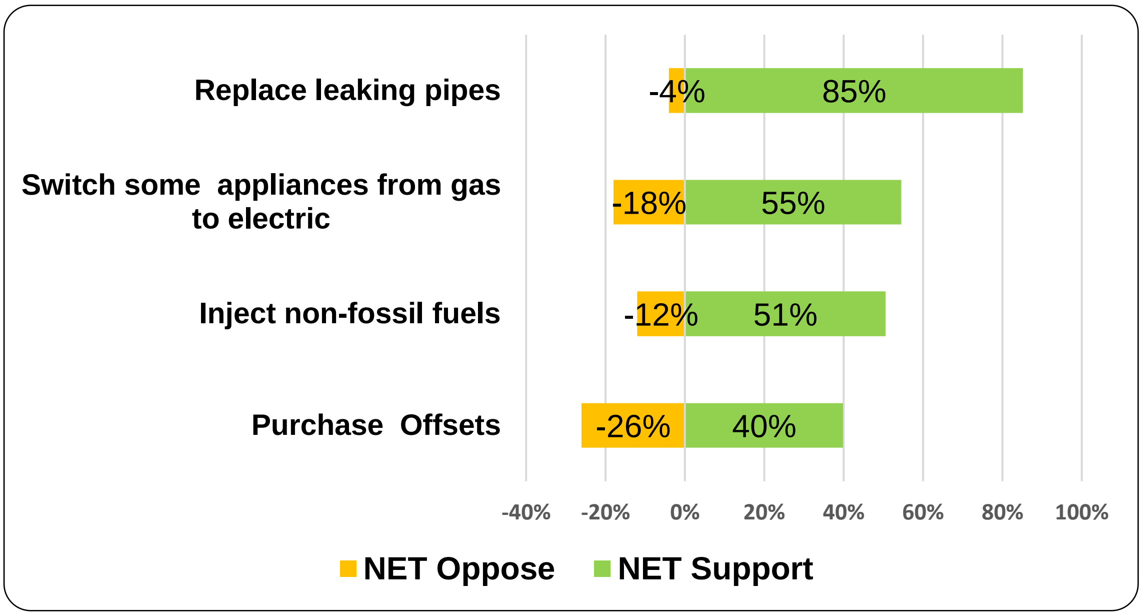
- 9 per cent of respondents rated this as "not important at all"
- 18 per cent of respondents rated this as "low importance"
- 36 per cent of respondents rated this as "quite important"
- 31 per cent of respondents rated this as "high importance"

Of the greenhouse gas reduction strategies presented to residential gas customers (Figure 1), most respondents supported the replacement of leaking gas mains (85 per cent). Just over half, or 51 per cent, of respondents supported renewable gas injection into the gas network. Injection had the highest response rate of "neither" oppose nor support (38 per cent) of all options presented. This could indicate that respondents do not fully understand the strategy of renewable gas injection. The strategy of purchasing carbon offsets was least popular with respondents, having the lowest net support of 40 per cent.

The level of support for the presented greenhouse gas reduction strategies overall was quite strong. However, when residential gas customers are asked about the amount they would be willing to financially contribute to support these strategies, the support for greenhouse reduction strategies fell materially.

[7] Patterson Research Group, *Survey of ATCO gas connected clients undertaken for the Economic Regulation Authority*, March 2024 (online) (accessed April 2024).

Figure 1: Support for carbon reduction strategies



Source: Patterson Research Group, Survey of ATCO Residential Customers - Undertaken for the Economic Regulation Authority

Price

The ERA surveyed respondents' willingness-to-pay for the three greenhouse gas reduction strategies that would lead to higher prices: pipe replacements, renewable gas injection and purchasing offsets. The willingness-to-pay was measured by asking the amount they were prepared to pay additionally per month in increments of $2.50. At least 62 per cent of respondents would be prepared to pay up to $2.50 per month for gas mains replacement. However, this willingness to pay at least $2.50 per month falls significantly for the other gas reduction strategies with only 37 per cent of respondents willing to pay for injecting non-fossil fuels into the network and only 32 per cent for purchasing carbon offsets.

Respondents were given a brief explanation that ATCO's costs are forecast to increase predominately due to higher interest rates and the cost of capital, before being asked their preference of how this cost should be passed onto the consumer. Most respondents supported a one-off increase with prices remaining constant for the remaining years (41 per cent). A constant percentage increase each year was the second most supported option (28 per cent). The remaining responses supported "some combination of the previous options" (20 per cent) or "did not know" what their preference was (11 per cent).

Future gas use and demand

Future gas demand of residential customers is dependent on both the rate of expansion of the network into (primarily) new housing developments, and the rate at which existing gas customers consider switching from gas to electric appliances. Several metrics were used to identify customer sentiment towards their future gas usage and demand. The survey captured current gas network customers' appliance energy mix, future appliance preferences when it comes time to replace gas appliances, and the sentiment of new home buyers/builders towards having a gas mains connection. Table 1 shows the appliance energy mix of survey respondents.

Table 1: Current residential gas customers appliance energy mix

	Cook top	Hot water system	Space heater
Natural gas	73%	63%	27%
Electricity	17%	21%	42%
Both (natural gas and electricity)	8%	10%	11%
Not applicable	2%	6%	20%
Total	**100%**	**100%**	**100%**

Source: Patterson Research Group, Survey of ATCO Residential Customers undertaken for the Economic Regulation Authority.

Respondents with gas appliances were asked when it comes time to replace these appliances what energy source would be their preference. Gas cooktop owners were identified as having the highest resistance to changing energy source with 68 per cent preferring to continue using a gas cooktop and would simply opt for replacement with a similar gas appliance (Table 2). Gas space heater owners were most likely to consider replacing gas with an alternative energy source.

Table 2: Existing residential gas customer preferences for energy source when required to replace current gas appliances

	Gas cook top	Gas hot water system	Gas space heater
Gas	68%	56%	39%
Electric	17%	19%	27%
Whichever is cheaper	10%	19%	22%
No preference	5%	6%	12%
Total	**100%**	**100%**	**100%**

Source: Patterson Research Group, Survey of ATCO Residential Customers undertaken for the Economic Regulation Authority.

After presenting both the inevitability of the cost of gas increasing through inflationary and cost of capital pressures; and availability of alternative technology such as heat pump hot water system, respondents were asked the same question again of preferred energy source for hot water system replacements. Preparedness to switch from gas surges materially. The number of respondents who would replace their gas hot water system with a like-for-like gas unit decreased by 17 percentage points. One-in-five gas hot water system owners reported that they are still unlikely to change from gas, 40 per cent of respondents reported that they were more likely to change from gas, and overall almost two thirds (64 per cent) reported that they would “at least look into it”.

Of the residential gas customers surveyed, 40 per cent indicated that it was “at least possible” that they would be having a new home built or purchasing new home within the next five years. These respondents were asked to rate the importance of a gas mains connection when considering their new home. Only 18 per cent considered having a gas mains connection of “low importance”, with the overwhelming majority considering it “at least quite important” (76 per cent) and of those 40 per cent considering it of “high importance”. This suggests that any new home development that does not have reticulated gas connections would be at a significant marketing disadvantage. Developers are only likely to offer properties without gas connections at scale if there is legislative requirement to do so.

Patterson Research Group has also been requested to consult with WA home builders on their views of installing gas appliances in new homes during the AA6 period. This report is expected imminently but has not been available to take into account in this draft decision. The ERA will publish this report on its website when available.

The ERA has considered the findings presented by Patterson Research Group in making its draft decision, particularly in the capital expenditure and operating expenditure reviews, consideration of accelerated depreciation and in setting reference tariffs. The reports prepared by Patterson Research Group for the ERA are published on the ERA's website.

3.3 Access arrangement and services

An access arrangement must, among other things:

- Identify the pipeline to which the access arrangement relates and include a reference to a website that provides a description of the pipeline.
- Describe all the pipeline services that the service provider can reasonably provide and specify the reference services to be offered, and for this description and specification of services to be consistent with the service provider's approved reference service proposal.
- State the review submission and revision commencement dates for the access arrangement.

Pipeline description and key dates

ATCO identified the pipeline to which the access arrangement relates as the "Mid-West and South-West Gas Distribution Systems" (or Mid-West and South-West GDS), with a detailed description of the pipeline available on ATCO's website. ATCO further specified the access arrangement review submission date and revision commencement date as 1 September 2028 and 1 January 2030, respectively.

ATCO has satisfied the requirements of the NGR to identify the pipeline and to provide a reference to a website where a description can be found and state the review submission and revision commencement dates.

Pipeline and reference services

ATCO specified a total of 12 reference services to be offered under the access arrangement (Table 3). The services, as set out in Part 4 of ATCO's proposed access arrangement for AA6, are materially consistent with ATCO's approved reference service proposal. ATCO further specified the other pipeline services that can be offered (as non-reference services) in Part 4.14 of the access arrangement. There has been no material change in circumstances since the ERA's approval of ATCO's reference service proposal in November 2022.

Table 3: ATCO reference services for AA6

Reference service	Summary of service
Haulage reference services	
A1	Service to deliver gas to major industrial customers using 35 TJ or more of gas per year, at high or medium pressures.
A2	Service to deliver gas to large customers using between 10 TJ or more but less than 35 TJ of gas per year, at high or medium pressures.
B1	Service to deliver gas to medium sized customers using less than 10 TJ of gas per year, at high or medium pressures.
B2	Service to deliver gas to small-use customers with a standard meter with capacity from 12m^3/h to less than 18 m^3/h, typically commercial or large residential, supplied at medium or low pressures.
B3	Service to deliver gas to small-use customers with a standard meter capacity less than 12m^3/h, typically residential or small business customers, supplied at medium or low pressures.
Ancillary reference services	
Disconnection services for retailer credit control	
Applying a Meter Lock	Service to attach a lock to the valve that comprises part of the standard delivery facilities to prevent gas from being received at the delivery point. Available at delivery points receiving the B2 or B3 haulage service.
Disconnecting a Delivery Point[8]	Service to physically disconnect a delivery point to prevent gas from being delivered to the delivery point. Available at delivery points receiving the B2 or B3 haulage service.
Reconnection services for retailer credit control	
Removing a Meter Lock	Service to remove the lock that was applied to a valve comprising part of the standard delivery facilities to prevent gas from being received at the delivery point. Available at delivery points receiving the B2 or B3 haulage service.
Reconnecting a Delivery Point[9]	Service to reconnect a delivery point to allow gas to be delivered to the delivery point. Available at delivery points receiving the B2 or B3 haulage service.
Disconnection services	
Deregistering a Delivery Point (or “Deregistration”)	Service to permanently deregister a delivery point by: i) removing the delivery point (as per the Retail Market Procedures); ii) removing the delivery point from the Delivery Point Register; and

[8] Previously called the “Remove Regulator” service in ATCO’s reference service proposal.

[9] Previously called the “Re-install Regulator” service in ATCO’s reference service proposal.

Reference service	Summary of service
	iii) for delivery points receiving the B2 or B3 haulage service, removing the meter (where considered necessary). For delivery points receiving the A1, A2 or B1 haulage service, removal of the meter set is a separate non-reference service ("Remove meter set and make safe service").
Permanent Disconnection[10]	Service for end users and property owners (including authorised representatives), to permanently disconnect a property from the gas network, by cutting and capping the service pipe at the main, under standard site conditions. Service only available where there is no meter at the property, or for delivery points that previously received the B2 or B3 haulage service and have also sought the "Deregistering a delivery point" service.
Meter reading services	
Special Read	Service to request a special read on a basic gas meter. Available at delivery points receiving the B1, B2 or B3 haulage service.

Source: ATCO, 2025-29 Plan, 1 September 2023, pp. 76-82.

3.4 Demand

Demand forecasts are important in determining the necessary levels of capital and operating expenditure, as well as setting the reference tariffs for AA6. Demand forecasts encompass projections for haulage references services and ancillary reference services for ATCO's five year access arrangement period from 2025 to 2029.

ATCO proposed a haulage reference services demand forecast of 147,053 TJ for AA6 based on average customer numbers and gas consumption per customer. ATCO projected an average customer base of 839,460 in 2029, at the end of AA6, compared to a forecast of 794,637 in 2024, at the end of AA5. ATCO anticipates slow growth in new customer connections and a fast decline in gas consumption during AA6. The forecast is shown in Table 4.

ATCO's forecast of ancillary reference services demand was based on the forecast of the average number of residential and small business connections (tariff class B3). The forecast is shown in Table 5.

The ERA has tested ATCO's demand forecasts.

The ERA engaged National Institute of Economics and Industry Research (NIEIR) to review ATCO's proposed demand forecast and to provide an independent demand forecast. NIEIR applied econometric analysis to the haulage reference services demand forecast, in addition to the historical trend analysis. NIEIR's demand forecast for haulage reference services is higher than ATCO's forecast. NIEIR applied historical trend analysis for the ancillary reference services demand forecast, which is lower than ATCO's forecast in most service classes.[11]

[10] Previously called the "Cut and Cap Service Pipe at the Main" service in ATCO's reference service proposal.

[11] NIEIR Demand and Customer Number Forecasts – ATCO Network Final Report.

As mentioned, the ERA engaged Patterson Research Group to conduct a customer survey targeting residential gas customers in the B3 tariff class. The survey results indicated that residential customers are most likely to connect to and remain connected to ATCO's distribution network, with a slow gas consumption decline rate, during AA6.[12]

The ERA considers that ATCO's demand forecast for haulage reference services relies heavily on the analysis of historical demand trends. ATCO also made some other qualitative observations to project demand growth for commercial and residential customer groups.[13] ATCO relies on survey data as well as historical demand trends for large industrial and commercial customers.[14] ATCO's proposed demand forecast for ancillary reference services was based on its forecast of haulage reference services for the B3 tariff class customers.

In this draft decision, in addition to reviewing ATCO's proposal the ERA considered feedback from stakeholders, NIEIR's econometric analysis and the results from the customer survey conducted by Patterson Research Group. The ERA considers that natural gas is still widely perceived as a cost-effective energy source, with the maximum residential gas pricing set by the Western Australian State Government. Additionally, there are no government policies in place prohibiting natural gas connections in new residential areas or those requested by a customer in an existing residential area. There has also been no announcement that the State Government will change its policies on emission reduction during AA6.

In summary, the ERA anticipates an increase in gas consumptions for industrial and commercial customers driven by economic growth, while projecting a decline in consumption among residential customers. This decline is attributed to factors such as new customer connections without gas heating appliances and the gradual replacement of existing gas appliances with more efficient appliances among legacy customers.

Table 4 compares the ERA's and ATCO's demand forecast for haulage reference services. The ERA's average 2029 customer base and demand forecast are 14,383 (1.71 per cent) and 9,648 (6.56 per cent) higher than ATCO's proposal. The ERA's haulage reference services demand forecast is relatively in line with AEMO's gas demand forecast for its distribution category in the December 2023 Western Australia Gas Statement of Opportunities (2023 GSOO).[15]

The ERA's ancillary reference services demand forecast is based on the ERA's customer forecast for haulage reference services for the B3 tariff class. Table 5 compares the ERA's and ATCO's forecast for ancillary reference services. The ERA's forecast is higher than ATCO's forecast, which is due to the ERA's higher average customer forecast for the B3 tariff class compared to ATCO's average customer forecast.

[12] Survey of ATCO gas connected clients – Undertaken for the Economic Regulation Authority (ERA).

[13] Tariff classes B1, B2 and B3.

[14] Tariff classes A1 and A2.

[15] Australian Energy Market Operator, *2023 Western Australia Gas Statement of Opportunities*, December 2023.

Note: AEMO's demand forecast for distribution has been adjusted to include industrial customers in the ATCO's distribution network classified to the industrial category in the 2023 GSOO. AEMO noted that the gas demand for the distribution sector would decline at 1.5 per cent per year between 2023 and 2033 if electrification is included. However, AEMO did not provide information on the electrification effects on gas demand for the distribution sector between 2025 and 2029.

Table 4: Haulage reference services demand forecast comparison between ATCO proposal and ERA draft decision

Tariff Class	ATCO proposal	ERA draft decision	Variance	Variance (%)
A1				
Average customer base (2029)	76	77	1	1.32
Demand (AA6 total TJ)	74,868	76,331	1,463	1.95
A2				
Average customer base (2029)	105	107	2	1.90
Demand (AA6 total TJ)	9,586	10,492	906	9.45
B1				
Average customer base (2029)	2,370	2,082	(288)	(12.15)
Demand (AA6 total TJ)	10,051	11,396	1,345	13.38
B2				
Average customer base (2029)	14,173	13,702	(471)	(3.32)
Demand (AA6 total TJ)	6,327	6,800	473	7.48
B3				
Average customer base (2029)	822,736	837,875	15,139	1.84
Demand (AA6 total TJ)	46,221	51,682	5,461	11.81
Total				
Average customer base (2029)	839,460	853,843	14,383	1.71
Demand (AA6 total TJ)	147,053	156,701	9,648	6.56

Table 5: Ancillary reference services forecast (B3 tariff class) comparison between ATCO proposal and ERA daft decision

Ancillary reference service	ATCO proposal	ERA draft decision	Variance	Variance (%)
Applying a Meter Lock	44,215	50,620	6,405	14.49
Removing a Meter Lock	43,249	43,525	276	0.64
Deregistering a delivery point	17,927	18,177	250	1.39
Disconnecting a delivery point	18,892	19,641	749	3.96
Reconnection a delivery point	15,676	15,684	8	0.05
Permanent disconnection	10,235	10,152	(83)	(0.81)
Special meter reads	522,539	555,455	32,916	6.30

3.5 Revenue and tariffs

The regulatory framework provides for an amount of revenue to be determined for each year of the access arrangement period to provide ATCO with its efficient costs to operate the distribution system for the long term interest of customers. ATCO's revenue includes:[16]

- A return on the projected capital base (section 3.9)
- Depreciation on the projected capital base (section 3.8)
- The estimated cost of corporate income tax (section 3.9)
- A forecast of operating expenditure (section 3.7)

Reference tariffs for the distribution network are then calculated by allocating an amount of the costs/revenue relevant to those reference tariffs and dividing by the forecast demand for those services.

Total revenue

ATCO proposed a total revenue requirement for AA6 of $1,451.7 million (nominal), compared to $840 million (nominal) for AA5. ATCO attributed the main reasons for the 73 per cent increase in required revenue due to rising inflation, the increased rate of return and accelerated depreciation.

The ERA has set a total revenue requirement for AA6 of $1,217.6 million based on its decisions for the components of revenue (Table 6).

Table 7 provides a comparison of ATCO's proposed revenue by component and the ERA's draft decision which shows the main divergence of views.

[16] Revenue can also include increments or decrements that result from the operation of an incentive mechanism. This does not apply for ATCO as there is no incentive mechanism in its access arrangement.

Table 6: ERA total revenue requirement for AA6 ($ million nominal)

Building block	2025	2026	2027	2028	2029	Total
Forecast operating expenditure	66.5	69.9	74.8	79.4	82.6	**373.3**
Return of the projected capital base	63.7	75.4	79.1	82.5	84.0	**384.5**
Less inflationary gain in return on assets	(40.9)	(42.6)	(44.2)	(46.0)	(47.5)	**(221.1)**
Accelerated depreciation	-	-	-	-	-	**-**
Return on the projected capital base	119.5	124.3	129.2	134.3	138.8	**646.0**
Return on working capital	1.7	2.2	2.4	2.6	2.7	**11.6**
Tax payable	6.1	9.4	9.9	10.3	10.9	**46.6**
Less value of imputation credits	(3.1)	(4.7)	(4.9)	(5.2)	(5.4)	**(23.3)**
Total Revenue (unsmoothed)	**213.5**	**234.0**	**246.2**	**257.9**	**266.0**	**1,217.6**

Source: ERA, Draft Decision Tariff Revenue Model, 24 April 2024.

Table 7: ERA total revenue requirement for AA6 compared to ATCO's proposal ($ million nominal)

Building block	ATCO proposal	ERA draft decision	Difference
Forecast operating expenditure	509.8	373.3	(136.5)
Return of the projected capital base	390.4	384.5	(5.9)
Less inflationary gain in return on assets	(235.9)	(221.1)	14.8
Accelerated depreciation	89.4	-	(89.4)
Return on the projected capital base	649.1	646.0	(3.1)
Return on working capital	13.5	11.6	(1.9)
Tax payable	70.7	46.6	(24.1)
Less value of imputation credits	(35.4)	(23.3)	12.1
Total Revenue (unsmoothed)	**1,451.7**	**1,217.6**	**(234.1)**

Source: ATCO, 2025-29 Plan, 1 September 2023, Table 15.2; ERA, Draft Decision Tariff Revenue Model, 24 April 2024.

Allocation of total revenue

ATCO's total revenue is allocated between haulage reference services and ancillary reference services. The ancillary reference services revenue reflects all operating expenditure to provide these services and the forecast operating expenditure of $21.6 million for ancillary services is removed from total revenue with the remaining (majority of revenue) to be recovered from users of haulage reference services.

Reference tariffs

The ERA's decisions on the revenue and demand forecasts have led to more moderated tariff increases, which are now largely driven by rising inflation and increased cost of capital.

The ERA has amended the tariff structure of the B3 tariff class (residential customers). The fixed charge has been adjusted to recover the fixed costs associated with this service. Adjustments have been made to reduce the variable charges imposed on the B3 tariff class and to change the tariff structure to a flat tariff structure, as opposed to ATCO's proposed declining block structure, to better reflect the cost drivers of ATCO. This change may have the benefit of also sending price signals to customers to conserve their gas use (or not increase), which would reduce carbon emissions and be consistent with the amended national gas objective to reduce emissions to help achieve Australia's emissions reduction targets.

The ERA has maintained, for this draft decision, a one-off increase in tariffs in the first year of the access arrangement period followed by no real price increase for the remaining years (inflation only). This is based on the price increases for this draft decision being more modest than ATCO's proposal but if this was to change in the final decision (for example, by allowing some accelerated depreciation of the pipeline), then the ERA would consider using other price smoothing approaches.

A comparison of the ERA's draft decision haulage reference service tariff increases compared to ATCO's proposal is shown in Table 8, with the price changes in years following 1 January 2025 representing differences due to forecast inflation.

Table 8: ERA draft decision tariff path compared to ATCO's proposal – nominal annual percentage change in tariffs (%)

	Price change on 1 January 2025		Subsequent annual price changes	
	ATCO proposal	ERA draft decision	ATCO proposal	ERA draft decision
A1, A2, B1 and B2	42.3	15.3	2.7	2.5
B3 standing charge	28.0	25.0	2.7	2.5
B3 volume up to 9.855 GJ	73.8	(19.1)	2.7	2.5
B3 volume above 9.855GJ	66.6	(6.7)	2.7	2.5

The ancillary reference service tariffs were calculated to recover the operating cost to provide these services. The ERA has determined that ATCO's proposed unit rates for these services (excluding the permanent disconnection service) were between 16 per cent and 60 per cent higher than recent unit rates incurred in 2022 for these services and has reduced the costs for these services. This has reduced the tariffs for these services compared to ATCO's proposed tariffs.

The permanent disconnection service is a new ancillary reference service for AA6. The ERA has assessed ATCO's actual disconnection costs and has determined a lower unit rate (tariff) for the permanent disconnection service. The ERA considers that the best possible forecast of a unit rate for the permanent disconnection service is a two-year average of the 2020 and 2021 years where the volumes undertaken are consistent with the forecast volumes to be undertaken in AA6.

A comparison of the ERA's draft decision ancillary reference tariffs for 1 January 2025 compared to ATCO's proposal is shown in Table 9. Ancillary reference tariffs will increase annually thereafter by inflation.

Table 9: ERA draft decision ancillary reference tariffs compared to ATCO's proposal on 1 January 2025 – ($ nominal, ex-GST) – indicative only

Ancillary service	ATCO proposal	ERA draft decision
Applying a meter lock	51.87	28.73
Removing a meter lock	21.38	15.80
Deregistering a delivery point	138.32	115.23
Disconnecting a delivery point	130.52	71.00
Reconnecting a delivery point	180.44	71.58
Permanent disconnection	1,184.80	1,003.41
Special meter reading	10.66	6.52

Tariff variation mechanism

Reference service tariffs are varied during the access arrangement period in accordance with the tariff variation mechanism. For ancillary reference services, tariffs are updated for actual inflation. For haulage reference services, tariffs are updated for inflation, the debt risk premium (which varies annually) and cost pass through events (which are predefined prescribed events beyond the control of ATCO).

For AA6, ATCO has proposed a new cost pass through event to address the uncertainties surrounding the adoption of legislative changes to the regulatory framework in Western Australia to include gases other than natural gas. The ERA has not approved this additional cost pass through event. The proposed changes to the regulatory framework to include other gases is not a change in law that obligates ATCO to include other gases, rather it will allow ATCO to transport other gases through the distribution system. If there was a requirement that ATCO *must* include other gases, the existing cost pass through event for a change in law or tax would be applicable.

In circumstances where other gases are permitted and ATCO elects to incur operating and/or capital expenditure for inclusion of those gases, the ERA would need to undertake a detailed assessment of such expenditure to ensure only conforming expenditure was included in total revenue and recovered through reference tariffs. This type of extensive assessment is not practical under the tariff variation mechanism given the limited timeframe to undertake an annual tariff variation approval. The process would also not facilitate engagement with stakeholders on this discretionary expenditure.

3.6 Regulatory capital base

The setting of the capital base is an important step in determining two elements of the revenue required by ATCO to operate and maintain the gas distribution system: the return on the capital base; and the return of the capital base (depreciation), which are covered in sections 3.9 and 3.8 of this overview, respectively.

The regulated asset base represents the capital investment in regulated assets and is calculated by adding capital expenditure to and deducting depreciation from the opening capital asset base.

The regulatory framework requires the roll forward of the capital base from the current access arrangement period (AA5) to the new access arrangement period (AA6). The actual capital expenditure incurred during AA5 is reviewed by the ERA and once approved is locked in to the capital base going forward and is used in setting the opening capital base for AA6. As the actual capital expenditure for the last year of AA5 (2024) will not be known before the publication of the ERA's final decision an adjustment is needed for any under or over forecast of expenditure when the next access arrangement review (for AA7) is carried out. The projected capital base for AA6 will be reviewed in AA7 based on actual expenditure. The projected capital base for AA6 is important for setting the tariffs during AA6 and must therefore reflect the best possible forecast of prudent and efficient investment, and allow an appropriate amount of depreciation.

The ERA considered information provided by ATCO, public submissions and findings from the ERA's technical consultant (EMCa) to determine the amount of capital expenditure which meets the requirements of the NGR. The ERA has published EMCa's review of ATCO's capital and operating expenditure forecasts.[17]

The ERA assessed ATCO's proposed actual and forecast capital expenditure for AA5 and AA6 to:

- Consider whether the expenditure is justifiable under the various grounds (economic, incremental revenue, safety, integrity, economic value of changes to Australia's greenhouse gas emissions) for inclusion into the capital base.[18]
- Evaluate whether the expenditure would be undertaken by a prudent service provider acting efficiently, in accordance with accepted good industry practice to achieve the lowest sustainable cost of providing services consistent with the national gas objective.[19]
- Assess whether forecasts or estimates have been arrived at on a reasonable basis and represent the best forecast or estimate possible in the circumstances.[20]

Opening capital base

The opening capital base for AA6 (1 January 2025) is $1,589.8 million. This opening value reflects the ERA's draft decision on the amount of conforming forecast capital expenditure and depreciation for AA5.

Actual AA5 capital expenditure

ATCO's proposed capital expenditure is $413.7 million for the current period (AA5), which is $68.8 million lower than the ERA's AA5 final decision ($482.5 million). ATCO's explanation

17 Energy Market Consulting associates, Review of technical aspects of ATCO's revised access arrangement 2025-29, April 2024.

18 NGR, rule 79(1)(b) and 79(2).

19 NGR, rule 79(1)(a).

20 NGR, rule 74(2).

for the lower level of expenditure is “largely due to the COVID-19 pandemic and industry resource constraints.”[21]

The ERA has determined that $15.6 million of ATCO’s AA5 capital expenditure is not conforming capital expenditure, reducing it to $398.1 million. The majority of the reduction in expenditure ($14.8 million) is for the forecast years (2023 and 2024). Only $0.7 million relates to a reduction in actual expenditure (undertaken during the period 2020 to 2022) for ATCO’s Clean Energy Innovation Hub and hydrogen blending project.

The ERA’s proposed reductions in capital expenditure are:

- $8.9 million to network sustaining expenditure (network reinforcement, pipeline inspection, environmental, social and governance projects and blending projects).
- $1.3 million to network growth expenditure (customer initiated connections).
- $1.8 million to structures and equipment (depots works, clean energy innovation hub and hydrogen blending).
- $3.6 million to Information Technology (IT) expenditure (application renewal and digitisation project).

While the ERA notes that inclusion of contingency is an acceptable practice for project budgeting, it has not approved ATCO’s proposed project contingency costs as part of this draft decision. ATCO included between 10 and 30 per cent project contingency for most AA5 projects that extend over 2023 and 2024 for the network sustaining and IT cost categories. Because ATCO manages projects as a portfolio, and it is likely that some projects will come in over budget and some under budget, it is unnecessary to add project contingency to every project. In addition, most of the projects attracting project contingency are the continuation of an existing AA5 project or repeat work or tendered work, where ATCO, as a prudent provider of services, can produce robust project cost estimates and manage its costs within the overall capital expenditure amount approved by the ERA.

The ERA has also not approved forecast capital expenditure for activities that ATCO itself has identified will not proceed (such as the remaining depot works at Jandakot), and where projects are at a very early stage and may not proceed (such as the network reinforcement projects at Atwell and Secret Harbour).

ATCO has indicated that it may provide, in response to this draft decision, updated forecasts of capital expenditure to be incurred in the last two years of AA5 (2023 and 2024). The ERA will consider these updated forecasts in its final decision.

ATCO has forecast AA5 capital expenditure for projects that introduce renewable gases into the network with most of this expenditure ($1.4 million) occurring in 2023 and 2024, and $0.7 million excluded from actual expenditure incurred for its hydrogen blending project and Clean Energy Innovation Hub. These project expenditures are for the introduction of gases that are not yet feasible under the economic regulatory framework. As a result, the ERA has not included this expenditure, nor has it included expenditure for projects that have been approved prior to a change in the regulatory framework.

[21] ATCO (2023), ‘ATCO Gas 2025 – 29 Plan, ATCO Mid-West and South-West Gas Distribution System’, p. 54 (online)

Projected capital base

The projected capital base for the end of AA6 (31 December 2029) is $1,685.5 million. This reflects the ERA's draft decision on the amount of conforming forecast capital expenditure and depreciation for AA6.

Forecast AA6 capital expenditure

The ERA's draft decision is to approve forecast capital expenditure of $443.1 million for AA6. This is 4.9 per cent lower than ATCO's proposal of $465.8 million. The main changes from ATCO's proposal include:

- **Contingency expenditure**: For routine expenditure programs within the asset replacement category, while the underlying cost estimate based on historical unit costs seemed a reasonable estimate for the future, the addition of individual project contingencies results in an over estimation and are considered non-conforming with the NGR.
- **Renewable gases expenditure**: ATCO proposed to spend $26.4 million to voluntarily reduce either its own or customers' carbon emissions. ATCO's proposals are not feasible under the current economic regulatory framework and ATCO has not sufficiently demonstrated that these proposals (if they were permitted under the legislative framework) are the most cost-efficient solutions that would be undertaken by a prudent gas service provider.
- **Information technology (IT) expenditure**: IT expenditure was reduced for the Enterprise Resource Planning (ERP) replacement as the option chosen was 30 per cent more expensive than the upgrade of the existing ERP. ATCO's consultant had considered the upgrade of the existing ERP as a better choice. A further change, adopted by the ERA, is to move the ERP related expenditure from operating expenditure to capital expenditure. ATCO's rationale for moving the capital expenditure to operating expenditure was noted, however, the uncertainty associated with this expenditure, given the project is in its early stages, moving the expenditure to capital expenditure allows for the adjustment of the expenditure should the outcome be lower than the draft decision approved expenditure. Under the regulatory scheme such an adjustment is not permitted for operating expenditure. If ATCO can demonstrate that a prudent service provider would in fact incur more expenditure for this item, then it could be added to the capital base in the next access arrangement review.
- **Network growth expenditure**: Given the ERA's draft decision demand forecast is higher than ATCO's proposal, the ERA has increased the amount ATCO forecast for growth capital expenditure. The ERA expects that ATCO will update its demand forecast in response to this draft decision and will amend the growth capital expenditure to be consistent with that forecast. The ERA has used the average connection costs for mains, meters and feeders to estimate the additional growth capital expenditure.

The ERA's draft decision on capital expenditure is summarised in Table 10. Further details of ATCO's proposed capital expenditure, views from stakeholders and the ERA's decision are discussed in detail in Draft Decision Attachment 4.

Table 10: ERA draft decision AA6 forecast capital expenditure by regulatory asset category ($ million real at 31 December 2023)

Category	ATCO proposal	ERA draft decision	Difference (%)
Network sustaining	**271.6**	218.1	(19.7)
Asset Replacement	214	196.0	(8.4)
Asset Performance and Safety	57.6	22.1	(61.6)
Network growth	**157.4**	177.9	13.1
Customer Initiated	157.4	177.9	13.1
Demand Related	0	0	
Information technology	**13**	23.3	79.8
Structures and equipment	**23.9**	23.7	(0.9)
Total	**465.8**	**443.1**	**(4.9)**

Source: ATCO, 2025-29 Plan, 1 September 2023, Table 10.3; ERA draft decision analysis, Attachment 4.

3.7 Operating expenditure

ATCO has proposed $455.9 million of total operating expenditure for AA6 (Table 11).[22] The estimated total operating expenditure for AA5 was $355.9 million.[23]

ATCO determined its proposed operating expenditure for AA6 using the base-step-trend method combined with specific forecasts for unaccounted for gas (UAFG) and ancillary services. ATCO has used its actual operating expenditure from the most recent complete calendar year of 2022 as the base to forecast its AA6 operating expenditure levels.

22 $ million real as at 31 December 2023. ATCO, *2025-29 Plan,* 1 September 2023, p. 109, Table 9.1.

23 $ million real as at 31 December 2023. The estimated operating expenditure for AA5 reflects actual operating expenditure for January 2020 to December 2022 inclusive and estimates for 2023 and 2024. ATCO, *2025-29 Plan,* 1 September 2023, p. 51, Table 5.4.

Table 11: ATCO proposed forecast operating expenditure for AA6 ($ million real at 31 December 2024)

	2025	2026	2027	2028	2029	Total
Base year	62.5	62.5	62.5	62.5	62.5	**312.6**
Recurrent step changes	4.0	4.9	4.7	4.4	4.5	**22.5**
Non-recurrent step changes	5.0	13.3	13.3	5.2	3.4	**40.1**
Output growth escalation	1.2	1.6	2.1	2.5	3.0	**10.4**
Input cost escalation	1.4	2.1	2.7	2.9	3.3	**12.4**
Sub-total network, corporate and IT	**74.1**	**84.4**	**85.3**	**77.5**	**76.7**	**398.0**
UAFG	5.8	5.8	6.1	6.2	6.8	**30.8**
Ancillary services	4.9	5.4	5.5	5.6	5.7	**27.1**
Total forecast operating expenditure	**84.8**	**95.6**	**96.9**	**89.3**	**89.3**	**455.9**

Source: *ATCO, 2025-29 Plan (Access Arrangement Information)*, 1 September 2023, p. 111 (Table 9.2), p. 113 (Table 9.3), p. 125 (Table 9.15).

The ERA considered information provided by ATCO, public submissions, and findings from the ERA's technical consultant EMCa to determine the amount of operating expenditure which meets the requirements of the NGR.

Base year

ATCO's base year operating costs in 2022 were $74.7 million. ATCO then proposed to remove $8.0 million in non-recurrent expenditure (including legal costs, AA6 submission costs and corporate restructuring) and the two cost categories for which it will undertake specific forecasts in AA6, being UAFG ($3.3 million) and ancillary services ($0.9 million) resulting in a base year of recurrent operating costs of $62.5 million per year.

The ERA has determined that an additional $11.8 million in expenditure, including costs relating to corporate costs, renewable gas programs, staff bonuses and incentive payments, should be removed from the base year. The ERA has determined an efficient base year cost of $50.7 million for ATCO's AA6 operating expenditure.

Step changes

Step changes are additional operating costs not incurred in the base year. Costs can be ongoing from a particular time, one-off expenditure, or have a non-annual ongoing frequency that fall outside the base year.

ATCO has proposed 11 step changes as part of its operating expenses in AA6 totalling $62.6 million. Seven of the step changes are recurrent, totalling $22.5 million while four step changes are non-recurrent, totalling $40.3 million.

The ERA has determined that $14.4 million can be included for step changes from ATCO's AA6 proposal (Table 12).

Table 12 ATCO proposed and ERA draft decision AA6 operating expenditure forecast step changes ($ million at 31 December 2023)

	ATCO proposal	ERA draft decision	Difference	Difference (%)
Recurrent step changes				
Enabling renewable gases	7.3	0.0	(7.3)	(100)
Superannuation Guarantee rate increase	2.6	2.6	0.0	0
Cyber security	4.5	0.0	(4.5)	(100)
Gas inspection – safety changes	1.0	1.0	0.0	0
Property Plant and Equipment operating expenditure threshold increase	0.9	0.9	0.0	0
Enterprise Resource Planning replacement	4.1	0.6	(3.5)	(85.4)
Economic regulatory changes	2.0	0.0	(2.0)	(100)
Total	**22.5**	**5.1**	**(17.3)**	**(77.3)**
Non-recurrent step changes				
Pipeline inline inspections	6.3	4.2	(2.0)	(32.3)
AA7 regulatory preparation and rate of return instrument review	6.2	5.2	(0.9)	(16.1)
Software as a Service arrangements	27.3	0	(27.3)	(100)
IT managed services	0.5	0.0	(0.5)	(100)
Total	**40.3**	**9.3**	**(30.7)**	**(76.9)**

For the recurring step changes the ERA has accepted in full the superannuation guarantee rate increase, the property, plant and equipment operating expenditure threshold increase, and the gas inspection safety changes totalling $4.5 million. The ERA has accepted $0.6 million of the enterprise resource planning replacement program and has not accepted in full the expenditure relating to economic regulatory changes, enabling renewable gases and cyber security.

For the non-recurring step changes the ERA has partially accepted $4.2 million for pipeline inline inspections and $5.2 million for the AA7 regulatory preparation and the rate of return instrument review. The ERA has not accepted in full the expenditure for IT managed services.

For the “software as a service” arrangements, the ERA has determined that $17.6 million of the proposed $27.3 million is expenditure that meets the requirements of the NGR. However, the ERA has determined that this expenditure should be classified as capital expenditure in AA6 and not operating expenditure as proposed by ATCO. As a result, the $17.6 million has been added to the AA6 conforming capital expenditure.

Trends

Operating expenditure costs that are outside of the “base” or “step cost” categories and relate to forecast growth of the network and forecast increases in prices, are classified as “trends”. ATCO incurs additional expenditure as the number of customers connected to the network and the size of the network increases. ATCO has determined a total increase of $10.4 million in operating expenditure over AA6 for the increase in customers and size of the network.

The ERA has accepted ATCO’s proposed method for determining forecast network growth expenditure. The ERA has determined an expenditure value of $14.0 million for forecast growth over AA6. This value is higher than ATCO’s proposed AA6 expenditure because the ERA has determined an increase in the forecast customers connecting to the network over AA6.

Forecast price growth typically accounts for price increases in labour and non-labour costs. ATCO has not applied any real cost escalation for non-labour costs. The ERA has accepted ATCO’s proposal to not include a real price escalation for non-labour costs.

ATCO proposed forecast price growth to labour costs based on the wage price index for Western Australia and included a premium for added wage costs based on the electricity, gas, water and waste services industry sector data from the Australian Bureau of Statistics Wage Price Index. ATCO included $12.4 million in operating expenditure in its AA6 forecast based on its labour cost escalation method.

The ERA has not accepted ATCO’s proposal for real labour cost escalation. The ERA considers it reasonable to include a forecast price growth to labour costs for AA6, however, the ERA does not accept the requirement of a premium on top for staff working in the industry. The ERA has determined in other access arrangement proposals, that a real labour cost escalation premium would only be considered when a productivity factor reduction was also included, as productivity improvements would be expected for paying a premium to attract labour into an organisation.

Applying the ERA’s cost escalation method and reductions in the base and step expenditures, the ERA has determined that real labour escalation to be included in AA6 operating expenditure should be $4.1 million.

Unaccounted for gas (UAFG)

UAFG is the difference between the measured quantity of gas delivered into the gas distribution system for a given period and the quantity of gas delivered from the gas distribution system during that period. ATCO incurs costs to purchase gas to replace the calculated UAFG. ATCO’s UAFG costs have reduced over AA5 due to targeted projects, such as mains replacement and enhancements to find and eliminate leaks. This has resulted in ATCO proposing to include $30.8 million in UAFG expenditure in operating expenditure for AA6.

The ERA has determined that $31.8 million of UAFG be included in AA6 operating expenditure. The ERA’s value differs from ATCO’s proposal due to the ERA’s revised demand forecast of gas consumption and the price of the UAFG.

ATCO proposed to include the partial injection of renewable gases into the network to account for some UAFG. The cost of these renewable gases is higher than the cost of the natural gas that is currently used for UAFG.

As set out in the considerations on AA6 capital expenditure, the ERA has determined that the capital expenditure required to inject renewable gases into the network is not conforming capital expenditure. At present, under the current economic regulatory framework, ATCO is unable to use renewable gases as part of its forecast UAFG. The availability and cost of other gases is also problematic, meaning that ATCO should continue to source and use natural gas for UAFG.

Ancillary reference services

ATCO has included operating expenditure for ancillary reference services of $27.1 million. ATCO's forecast ancillary service volumes are based on historical growth and current retailer demands. ATCO stated that ancillary service costs have been forecast based on the current costs of providing those services.

For AA6, ATCO has included the re-classified permanent disconnection reference service which accounts for $11.4 million of the $27.1 million total (this service was previously classified as a non-reference service).

The ERA considered information provided by ATCO, public submissions and findings from the ERA's technical consultant (EMCa) to determine the amount of operating expenditure for ancillary reference services that meets the requirements of the NGR.

The ERA has determined that $19.6 million for ancillary reference services be included in AA6 operating expenditure. The ERA's value differs from ATCO's proposal due to the ERA's revised demand forecast for ancillary reference services and for the unit cost of undertaking these services.

The ERA has reviewed the unit costs for ancillary services in AA5 and considers the increase in unit costs proposed for AA6 is not adequately justified. The ERA has determined unit costs lower than those proposed by ATCO, which results in lower tariffs for each ancillary reference service.

ERA forecast operating expenditure

Table 13 sets out the ERA's forecast operating expenditure as determined by this draft decision, which is 26 per cent lower than ATCO's proposal (in real terms).

Table 13: ERA draft decision AA6 forecast operating expenditure using base step trend method and specific forecasts ($ million real at 31 December 2023)

Category	ATCO proposal	ERA draft decision	Difference (%)
Base year	**312.5**	**253.5**	**(18.9)**
Recurrent step changes	22.5	5.1	(7.3)
Non-recurrent step changes	40.2	9.3	(76.9)
Output growth escalation	10.4	14.0	34.6
Input cost escalation	12.4	4.1	(67.0)
Sub-total network, corporate and IT	**398.0**	**286.0**	**(28.1)**
UAFG	30.8	31.8	3.2
Ancillary services	27.1	19.6	(27.7)
Total forecast operating expenditure	**455.9**	**337.4**	**(26.0)**

Source: ATCO, 2025-29 Plan, 1 September 2023, and ERA analysis

3.8 Depreciation

Depreciation of the capital base is one component of the total revenue which allows for the recovery of approved capital expenditure over time.

ATCO's AA6 proposed approach for depreciation includes the provision for both base depreciation and accelerated depreciation. The base depreciation method maintains the existing approach from AA5 and utilises the straight-line methodology that amounts to $348.7 million (real 2023) for AA6. The ERA accepts ATCO's approach for its base level of depreciation and has adjusted the amount for the updated capital base and expenditure for AA6 as noted above.

The ERA has considered the additional accelerated depreciation allowance proposed by ATCO. This represents 23 per cent of the increase in proposed AA6 revenue.

The ERA engaged Frontier Economics to assist the ERA in reviewing ATCO's consultant (ACIL Allen) modelling of accelerated depreciation. The ERA has published Frontier Economics' review of ATCO's modelling.[24]

The ERA considers that accelerated depreciation is a reasonable regulatory tool to manage the potential for reducing levels of customer demand. It can support the recovery of efficient costs, support network usage and reduce potential price shocks for future customers.

The ERA does not consider that ATCO's AA6 proposal is robust nor is it supported by a strong modelling methodology. Some issues with the modelling methodology include the effect on demand and utilisation for the accelerated depreciation amounts proposed, how accelerated depreciation provides for a reasonable opportunity compared to the straight-line method and the transparency and materiality of utilised parameters.

[24] Frontier Economics, *ATCO MWSW GDS Accelerated Depreciation Modelling Review*, February 2024 (online) (accessed April 2024).

As a result, the ERA has not approved the accelerated depreciation proposed by ATCO.

To provide stakeholders with an indication of the impact that accelerated depreciation might have on revenues and tariffs, the ERA presents figures with both zero and ATCO's initial proposal of $80 million (real 2023) in this overview and Draft Decision Attachment 3.

Any future consideration of accelerated depreciation will have to consider the current market environment and the effect of any accelerated depreciation on consumers (both current and future).

Further details of ATCO's proposed depreciation, views from stakeholders and the considerations of the ERA are discussed further in Draft Decision Attachment 6.

3.9 Return on capital, taxation and incentives

Return on the regulatory capital base

The rate of return provides service providers with the funding to pay interest on loans and give a return on equity to investors. The rate of return is expressed as a weighted average cost of capital (WACC).

A gas rate of return instrument is required under the NGL.[25] The gas instrument sets out the methods the ERA and service providers must use to estimate the allowed rate of return and the value of imputation credits for gas transmission and distribution service providers. ATCO's rate of return used in its access arrangement proposal is consistent with the gas rate of return instrument.

Changing economic and financial conditions are outside the control of both ATCO and the ERA, and yet are important factors in determining ATCO's cost of capital and inflation of the capital base and drive a large change in the proposed revenue.

Higher levels of inflation have increased the value of the AA5 asset base, which has led to a total revenue requirement that is 18 per cent above the approved AA5 requirement. Updated rates of return account for 38 per cent of the change in the AA6 revenue. The nominal after-tax WACC has increased from 4.16 per cent in AA5 to a proposed value of 7.33 per cent for AA6.

The rate of return in this draft decision was updated for current market conditions, with a 20-day averaging period to 14 February 2024. However, the nominal after-tax WACC remains the same as ATCO proposed of 7.33 per cent. ATCO is required to nominate the averaging period following this draft decision which will be used for the rate of return for the final decision.

Taxation

A tax building block is included in the annual revenue requirement estimate for each year. The taxation cost is calculated by multiplying the estimated taxable income by the statutory income tax rate of 30 per cent. The estimated taxation payable is calculated by deducting the value of imputation credits.

ATCO's proposed method to calculate AA6 taxation is consistent with the approach approved in AA5. ATCO proposed an estimated cost of net corporate income tax for AA6 of $35.4 million. The ERA has approved a lower amount of capital expenditure for AA5 and AA6

[25] NGL, section 30D, 30E.

(as noted above), resulting in a reduction in the net corporate income tax required for AA6 of $23.3 million.

Incentive mechanisms

The NGR provides that a full access arrangement may include incentive mechanisms to encourage efficiency in the provision of services by the service provider. The current AA5 access arrangement does not contain any incentive mechanisms, and ATCO has not proposed any incentive mechanisms for AA6.

3.10 Other access arrangement provisions

The regulatory framework provides for the inclusion of other access arrangement provisions, which are either mandatory or optional. Provisions that ATCO must include in the access arrangement include extension and expansion requirements, capacity trading requirements, and principles for changing delivery and receipt points. ATCO has also elected to include fixed principles, application procedures and key performance indicators in the access arrangement.

Mandatory access arrangement provisions

ATCO's extension and expansion requirements, capacity trading requirements, and principles for changing delivery and receipt points remain materially unchanged from the current (AA5) access arrangement.

As there were no submissions from interested parties that raised any concerns about these access arrangement provisions, the ERA has approved them.

Fixed principles

Fixed principles provide certainty that specific elements of an access arrangement will remain unchanged for a set period, which may extend across more than one access arrangement period. For AA6, ATCO has proposed to let some existing fixed principles expire, amend other fixed principles related to the operation of the tariff variation mechanism, and add a new fixed principle for emissions reductions and renewable gases.

The ERA has suggested that ATCO remove the fixed principles that are no longer needed (noting that a fixed principle can only be revoked by the ERA subject to ATCO's consent). Removal of these redundant fixed principles will help to streamline the access arrangement.

The ERA has not approved ATCO's new fixed principle for emissions reductions and renewable gases on the basis that expenditure related to these matters is likely to be discretionary and require comprehensive assessment, including stakeholder engagement, to ensure only conforming expenditure is included in total revenue and recovered through reference tariffs. In circumstances where such expenditure was required due to law, ATCO would be able to recover the expenditure as a cost pass through event as there is a cost pass through event for a change in law or tax would be applicable.

Application procedures

ATCO has included application procedures for prospective users seeking access to its pipeline services. The application procedures remain materially unchanged from the current (AA5) access arrangement. As there were no submissions from interested parties that raised any concerns about the application procedures, the ERA has approved them.

Key performance indicators

ATCO included several key performance indicators in its access arrangement information. As there is no requirement to include such indicators in an access arrangement proposal, the performance indicators serve as a general reporting tool and are used by ATCO to support elements of its proposal. The ERA has noted ATCO's key performance indicators and targets for AA6. Consistent with the ERA's other draft decision considerations (for example, demand and expenditure considerations), ATCO will need to recalculate some of its targets.

3.11 Service terms and conditions

The regulatory framework requires the access arrangement to specify, for each reference service, a reference tariff and the other terms and conditions on which the service will be provided. The terms and conditions approved under an access arrangement establish standard terms and conditions that users can either accept or use as a point of reference to negotiate their own terms and conditions to meet specific operational needs. In the event the parties are unable to agree on terms and conditions, the access arrangement can also be used to guide an arbitrator in an access dispute.

ATCO set out its terms and conditions for its haulage reference services in a single service agreement: the *Template Service Agreement* (TSA). This agreement is also applicable to all ancillary reference services, except the permanent disconnection service. The terms and conditions for the permanent disconnection service are set out in a separate service agreement: the *Permanent Disconnection Contract*. Both agreements form part of the access arrangement.

The ERA has accepted most of ATCO's proposed amendments to the TSA on the basis that the amendments were necessary to reflect legislative requirements and/or operational needs, to correct errors, and/or to improve drafting. The amendments that were not approved cover provisions that deal with the definition of an Interconnection Arrangement, new delivery points and new receipt points, and default by a party.

While stakeholders raised no concerns with the Template Service Agreement, a number raised concerns about ATCO's new Permanent Disconnection Contract, including:

- The circumstances where a permanent disconnection service would be required.
- The split administrative process for obtaining the permanent disconnection service.
- The ability for ATCO to contract directly with the end-use customer (property owner) to provide the permanent disconnection service.

Given these concerns, the ERA has decided that further work on the Permanent Disconnection Contract is required before it can be approved. As a minimum, ATCO must clarify the service options for disconnection and clearly set out the circumstances where the permanent disconnection service is required; and clarify the extent to which property will be repaired or reinstated when there are disturbances to a property crossover/verge when undertaking a permanent disconnection.

4. Review process

4.1 Regulatory framework

The National Gas Law (NGL) and National Gas Rules (NGR), as enacted by the *National Gas (South Australia) Act 2008*, establish the legislative framework for the independent regulation of certain gas pipelines in Australia.[26] The *National Gas Access (WA) Act 2009* implements a modified version of the NGL and NGR in Western Australia.[27]

The legislative framework for the regulation of gas pipelines includes a central objective, being the national gas objective, which is:

> … to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to—
>
> (a) price, quality, safety, reliability and security of supply of natural gas; and
>
> (b) the achievement of targets set by a participating jurisdiction—
>
> (i) for reducing Australia's greenhouse gas emissions; or
>
> (ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.
>
> **Note—**
>
> The AEMC must publish targets in a targets statement: see section 72A.[28]

Under the legislative framework, the ERA is responsible for regulating third-party access to gas pipelines in Western Australia. ATCO's gas distribution pipeline is one of three regulated pipelines that require an access arrangement to be approved by the ERA under the legislative framework.[29]

An access arrangement provides details of the terms and conditions, including prices, for the provision of pipeline services to a third party to transport and/or receive gas. Once approved, the access arrangement may serve as a benchmark for negotiating access to pipeline services that are offered by means of the regulated pipeline.

As the service provider, ATCO is responsible for developing and proposing a relevant access arrangement for its distribution pipeline. As the regulator, the ERA is responsible for assessing the proposed access arrangement against the legislative requirements set out in the NGL and NGR and approving a compliant access arrangement.

In addition to the NGL and NGR, the ERA must also consider the legislative requirements set out in the *National Gas Access (WA) (Local Provisions) Regulations 2009* that apply to distribution pipelines in Western Australia. Under these Regulations the ERA must consider

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26 Extracts of the NGR that are referenced in this document are provided in Appendix 6 for information.

27 The NGL as implemented in Western Australia is set out as a note in the *National Gas Access (WA) Act 2009*. This note does not form part of the Act but shows the text that applies as the *National Gas Access (Western Australia) Law*. In this paper, references to the "NGL" are references to the Western Australian National Gas Access Law text, unless otherwise specified.

28 NGL, section 23.

The national gas objective has changed since the last review of ATCO's access arrangement. The amended objective came into effect in Western Australia on 25 January 2024. See: *Western Australian Government Gazette 24 January 2024 No.8* (online) (accessed April 2024).

29 The other pipelines which require an approved access arrangement in Western Australia are the Dampier to Bunbury Natural Gas Pipeline and the Goldfields Gas Pipeline, which are both transmission pipelines.

the impact of tariffs on small use customers and retailers when assessing ATCO's proposed access arrangement.[30]

4.2 Access arrangement requirements

Rule 48 of the NGR sets out the required content of an access arrangement. These requirements are summarised in Table 14. In addition, rules 90 and 92 set out further requirements relating to the calculation of depreciation and revenue equalisation.

Table 14: Required content of an access arrangement proposal

Legislative requirement	Legislative reference
Proposal identifies the pipeline to which the access arrangement relates and includes a reference to a website where a description of the pipeline can be inspected.	NGR 48(1)(a)
Proposal describes all the pipeline services that the service provider can reasonably provide (and is consistent with the ERA's reference service proposal decision, unless there has been a material change in circumstances).	NGR 48(1)(b)
Proposal specifies the reference services (and is consistent with the ERA's reference service proposal decision, unless there has been a material change in circumstances).	NGR 48(1)(c)
If the pipeline services and reference services information is different to the ERA's reference service proposal decision, proposal describes the material change in circumstances that necessitated the change having regard to the reference service factors.	NGR 48(1)(c1)
For each reference service, proposal specifies the reference tariff and the other terms and conditions on which each reference service will be provided.	NGR 48(1)(d)
If the access arrangement is to contain queuing requirements, proposal sets out the queuing requirements.	NGR 48(1)(e)
Proposal sets out the capacity trading requirements.	NGR 48(1)(f)
Proposal sets out the extension and expansion requirements.	NGR 48(1)(g)
Proposal states the terms and conditions for changing receipt and delivery points	NGR 48(1)(h)
If there is to be a review submission date, proposal states the review submission date and the revision commencement date.	NGR 48(1)(i)
If there is to be an expiry date, proposal states the expiry date.	NGR 48(1)(j)

In addition to its access arrangement proposal, the service provider must submit Access Arrangement Information (AAI).[31] AAI is information that is reasonably necessary for users (including prospective users) to understand the background to the access arrangement; and the basis and derivation of the various elements of the access arrangement.[32] AAI must

30 *National Gas Access (WA) (Local Provisions) Regulations 2009*, regulation 7.

31 NGR, rule 43.

32 NGR, rule 42.

include any information that is specifically required by the NGL and NGR. Specifically, rule 72 sets out requirements for AAI relevant to price and revenue regulation. These requirements are summarised in Table 15.

The NGR also provide for the following general requirements for all financial information:

- All financial information must be provided on a nominal or real basis, or some other recognised basis for dealing with the effects of inflation (rule 73).
- All information in the nature of a forecast or estimate must be supported with a statement explaining it. A forecast or estimate must be arrived at on a reasonable basis and must represent the best forecast or estimate possible (rule 74).
- Information that is of the nature of an extrapolation or inference must be supported by the primary information on which the extrapolation or inference is based (rule 75).

Table 15: Requirements for Access Arrangement Information relevant to price and revenue regulation

Legislative requirement	Legislative reference
If the access arrangement period commences at the end of an earlier access arrangement period, AAI includes: • Capital expenditure (by asset class) over the earlier access arrangement period. • Operating expenditure (by category) over the earlier access arrangement period. • Pipeline use over the earlier access arrangement period showing: – for a distribution pipeline: minimum, maximum and average demand; and for a transmission pipeline: minimum, maximum and average demand for each receipt or delivery point. – for a distribution pipeline: customer numbers in total and by tariff class; and for a transmission pipeline: user numbers for each receipt or delivery point.	NGR 72(1)(a)
AAI includes information on how the capital base is arrived at and, if the access arrangement period commences at the end of an earlier access arrangement period, a demonstration of how the capital base increased or diminished over the previous access arrangement period.	NGR 72(1)(b)
AAI includes the projected capital base over the access arrangement period, including: • A forecast of conforming capital expenditure for the period and the basis for the forecast. • A forecast of depreciation for the period including a demonstration of how the forecast is derived on the basis of the proposed depreciation method.	NGR 72(1)(c)
AAI includes, to the extent it is practicable to forecast pipeline capacity and utilisation of pipeline capacity over the access arrangement period, a forecast of pipeline capacity and utilisation of pipeline capacity over that period and the basis on which the forecast has been derived.	NGR 72(1)(d)
AAI includes a forecast of operating expenditure over the access arrangement period and the basis on which the forecast has been derived.	NGR 72(1)(e)

Legislative requirement	Legislative reference
AAI includes the allowed rate of return for each regulatory year of the access arrangement period.	NGR 72(1)(g)
AAI includes the estimated cost of corporate income tax calculated in accordance with rule 87A, including the allowed imputation credits referred to in that rule.	NGR 72(1)(h)
If an incentive mechanism operated for the previous access arrangement period, AAI includes the proposed carry-over of increments for efficiency gains, or decrements for efficiency losses, in the previous access arrangement period and a demonstration of how allowance is to be made for any such increment or decrements.	NGR 72(1)(i)
AAI includes the proposed approach to the setting of tariffs, including the suggested basis of reference tariffs including the method used to allocate costs and a description of any pricing principles employed.	NGR 72(1)(j)
AAI includes the service provider's rationale for any proposed reference tariff variation mechanism.	NGR 72(1)(k)
AAI includes the service provider's rationale for any proposed incentive mechanism.	NGR 72(1)(l)
AAI includes the total revenue to be derived from pipeline services for each regulatory year of the access arrangement period	NGR 72(1)(m)

4.3 Processes and timeframes

The process for gas access arrangement reviews has changed since the ERA's last review of ATCO's access arrangement for its distribution network in 2019. There are now two key stages involved in the assessment process for an access arrangement:

- Stage A: Reference service proposal submission and assessment.
- Stage B: Access arrangement proposal submission and assessment.

Reference service proposal

The reference service proposal is focused on identifying the full range of pipeline services that can be offered by means of the pipeline and determining which of these services should be specified as a reference service under the access arrangement.[33] The proposal must be submitted 12 months prior to the access arrangement proposal.

ATCO submitted its reference service proposal on 1 September 2022. After a period of consultation, the ERA made a decision to approve the reference services set out in ATCO's reference service proposal on 14 November 2022.[34] The decision and all related documents are published on the ERA website.

33 A "reference service" is a pipeline service that has a reference tariff that is set (approved) by the regulator under the access arrangement framework, with the reference tariff being the price that a pipeline operator can charge its customers.

34 ERA, *Reference service proposal decision – Proposed reference services for the Mid-West and South-West Gas Distribution Systems submitted by ATCO Gas Australia*, 14 November 2022 (online) (accessed April 2024).

The approved reference service proposal determined which pipeline services are to be specified as reference services in the access arrangement for ATCO's distribution network.[35] ATCO must set out its proposed terms, conditions and prices for the approved reference services, along with proposed revisions to other access arrangement provisions, in its access arrangement proposal.

Access arrangement proposal

Scheduled revisions to ATCO's access arrangement for its distribution network were last approved in November 2019 for the period 1 January 2020 to 31 December 2024, being the fifth access arrangement period (AA5).[36] The review submission date in the AA5 access arrangement is 1 September 2023.

ATCO submitted its access arrangement proposal for the next (AA6) access arrangement period, 1 January 2025 to 31 December 2029, on 1 September 2023. The ERA will assess the proposal in accordance with the provisions of the regulatory framework. The procedure for dealing with an access arrangement proposal is set out in rules 58 to 62 of the NGR.

Timeframes

In most cases, individual review processes are subject to legislated timeframes. These timeframes may change over the course of the review, to extent the legislation allows, depending on the circumstances at the time.[37] A timeframe for the review of ATCO's access arrangement proposal is set out in Table 16.

35 Rules 48(1)(c) and (c1) of the NGR allow ATCO to specify different reference services in its access arrangement proposal if there has been a material change in circumstances since the ERA's reference service proposal decision.

36 ERA, *Final decision on proposed revisions to the Mid-West and South-West Gas Distribution Systems access arrangement for 2020 to 2024*, 15 November 2019 (online) (accessed April 2024).

37 Further to setting timeframes for specific processes, the NGR allows certain time periods ('stop-the-clock' periods) to be disregarded when calculating the time elapsed for a process. For example, under rule 11(1)(c), any period allowed for public submissions on an access arrangement proposal or on the ERA's draft decision can be disregarded when calculating the time elapsed for the publication of the ERA's final decision.

Table 16: Timeframe for the review of ATCO's access arrangement proposal

Review process stage	Legislated timeframe	Actual date (Indicative date)
Stage A: Reference service proposal (completed)		
ATCO reference service proposal submitted to ERA	12 months prior to the review submission date for the access arrangement	1 September 2022
Public consultation on ATCO's proposal	A period of at least 15 business days	15 September to 10 October 2022
ERA reference service proposal decision published	No later than 6 months prior to the review submission date for the access arrangement	14 November 2022
Stage B: Access arrangement proposal (in progress)		
ATCO access arrangement proposal submitted to ERA	By the review submission date in the current access arrangement	1 September 2023
Initiating notice published by ERA to notify of ATCO's proposal	As soon as practicable after receipt of proposal (a delay of up to 30 business days is allowed if the ERA finds the proposal to be deficient and requires ATCO to correct the deficiency)	18 September 2023
Public consultation (1st round) on ATCO's proposal	A period of least 20 business days after publication of initiating notice	18 September 2023 to 27 November 2023
ERA issues paper published	[not applicable]	24 October 2023
ERA draft decision published	No legislated timeframe	24 April 2024
Hearing about the ERA draft decision (if, requested by a person and/or provided by ERA)	If a hearing is to be requested by a person, the request must be made within 10 business days after the publication of the draft decision	n/a
Revision period for ATCO to submit a revised proposal in response to the ERA draft decision	A period of at least 30 business days after publication of the draft decision	24 April 2024 to 10 June 2024
Public consultation (2nd round) on ERA draft decision and ATCO's revised proposal	A period of at least 20 business days from the end of ATCO's revision period	11 June 2024 to 9 July 2024
ERA final decision published	Within 8 months from the receipt of ATCO's access arrangement proposal, with an extension of up to an additional 2 months (i.e. 10 months in total)	November 2024
Access arrangement start date	Date specified in the final decision (or otherwise 10 business days after the date of the final decision)	1 January 2025

Appendix 1 List of Tables

Appendix 2 List of Figures

Appendix 3 List of Required Amendments

In making its draft decision, the ERA has identified various required amendments for ATCO to address. These required amendments appear in the attachments to the draft decision which set out the ERA's considerations and reasoning for its decision. A summary of these required amendments is provided here.

Attachment 1: Access arrangement and services

No required amendments.

Attachment 2: Demand

2.1 ATCO must amend its forecast haulage reference service demand to reflect the ERA's forecast demand in Table 2.20.

2.2 ATCO must amend its forecast ancillary reference service demand to reflect the ERA's forecast demand in Table 2.21.

Attachment 3: Revenue and tariffs

3.1 The values for total revenue (nominal) must reflect the values as set out in Table 3.7 of this draft decision attachment.

3.2 Annexure A of the proposed revised access arrangement, which details the haulage reference service tariffs, should be amended to reflect the tariffs set out in Table 3.12 of this draft decision attachment.

3.3 ATCO must demonstrate why usage tariffs for reference services, other than the B3 reference service, should remaining as declining block tariffs instead of moving to a flat tariff structure.

3.4 Annexure C of the proposed revised access arrangement, which details the ancillary reference service tariffs, should be amended to reflect the tariffs set out in Table 3.14 of this draft decision attachment.

3.5 Cost pass through event, as set out in Annexure B (clause 2.1(a)(iv)) of the proposed revised access arrangement, must be deleted.

3.6 The proposed cost pass through event, as set out in Annexure B (clause 2.1(a)(v)) of the proposed revised access arrangement, must be deleted.

Attachment 4: Regulatory capital base

4.1 ATCO must amend its access arrangement information to revise its AA5 forecast capital expenditure to $398.1 million ($ real as at 31 December 2023).

4.2 ATCO must amend its access arrangement information to revise its AA6 forecast capital expenditure to $443.1 million ($ real as at 31 December 2023).

Attachment 5: Operating expenditure

5.1 ATCO must amend its access arrangement information to revise its AA6 2022 base year operating expenditure to $50.7 million ($ real as at 31 December 2023).

5.2 ATCO must amend its access arrangement information to revise its AA6 recurrent step change operating expenditure to $5.1 million ($ real as at 31 December 2023).

5.3 ATCO must amend its access arrangement information to revise its AA6 non-recurrent step change operating expenditure to $9.3 million ($ real as at 31 December 2023).

5.4 ATCO must amend its access arrangement information to revise its AA6 output growth escalation operating expenditure to $14.0 million ($ real as at 31 December 2023).

5.5 ATCO must amend its access arrangement information to revise its AA6 input cost escalation operating expenditure to $4.1 million ($ real as at 31 December 2023).

5.6 ATCO must amend its access arrangement information to revise its AA6 unaccounted for gas operating expenditure to $31.8 million ($ real as at 31 December 2023).

5.7 ATCO must amend its access arrangement information to revise its AA6 ancillary services operating expenditure to $19.6 million ($ real as at 31 December 2023).

5.8 ATCO must amend its access arrangement information to revise its AA6 return on working capital to $8.7 million ($ real as at 31 December 2023).

Attachment 6: Depreciation

6.1 ATCO must amend the forecast depreciation of the capital base for AA6 to $347.3 million (real as at 31 December 2023). The yearly values for each year of the access arrangement period are set out in Table 6.5 of this draft decision attachment.

6.2 ATCO to remove its proposed accelerated depreciation.

Attachment 7: Return on capital, taxation and incentives

7.1 Subject to the nomination of a final averaging period, ATCO must update its rate of return to be 7.33 per cent (vanilla nominal after-tax).

7.2 ATCO must amend the estimated cost of corporate income tax in accordance with Table 7.10 of this draft decision attachment.

Attachment 8: Other access arrangement provision

8.1 ATCO must delete fixed principle 11.5 (relating to emissions reduction and renewables) from the proposed access arrangement.

8.2 ATCO should review its affordability key performance indicator targets in accordance with the targets calculated by the ERA and set out in Table 8.3 of this draft decision attachment.

8.3 ATCO should review its carbon emissions key performance indicator targets in accordance with the revised investment levels approved by the ERA in its draft decision.

Attachment 9: Service terms and conditions

9.1 ATCO must retain the words “arrangement or understanding” in the definition for the term Interconnection Arrangement in the Template Service Agreement. That is, the definition must mean: *“a written or unwritten contract, **arrangement or understanding** in respect of an interconnection at a Physical Gate Point between the ATCO GDS and* *an Interconnected Pipeline (and includes a written or unwritten contract,* ***arrangement or understanding*** *for the provision of an Interconnection Service)". [emphasis added]*

9.2 ATCO must amend proposed new clauses 5.5(d) and 5.9 of the Template Service Agreement to require the service provider to act reasonably in imposing conditions precedent and charges. The amended drafting is set out at paragraph 50 of this draft decision attachment.

9.3 ATCO must retain existing clause 15.1(g) (which relates to default provisions) in the Template Service Agreement.

9.4 As confirmed by ATCO the words "during a month" in clause 8 of Schedule 2 in the Template Service Agreement were inserted in error. These words should therefore be deleted.

9.5 ATCO must review the terms and conditions set out in the Permanent Disconnection Contract to identify any improvements that can clarify and/or resolve the matters raised in submissions to the ERA with respect to the permanent disconnection service. As a minimum, the terms and conditions for the permanent disconnection service must:

a. clarify the service options for disconnection (whether temporary or permanent) and clearly set out the circumstances where the permanent disconnection service is required; and

b. clarify the extent to which property will be repaired or reinstated with respect to disturbances to paving, concrete, bitumen and other things that form part of a property crossover/verge.

Appendix 4 Abbreviations

AA5	Fifth Access Arrangement Period (1 January 2020 to 31 December 2024)
AA6	Sixth Access Arrangement Period (1 January 2025 to 31 December 2029)
AAI	Access Arrangement Information
EMCa	Energy Market Consulting associates
GDS	Mid-West and South-West Gas Distribution Systems
NGL	National Gas Law
NGR	National Gas Rules
NIEIR	National Institute of Economics and Industry Research
TSA	Template Service Agreement
WTP	Willingness to Pay

Appendix 5 Submissions

Submissions from interested parties are listed below.

Submissions on ATCO proposal and/or ERA issues paper
AGL Energy
Alinta Energy (Alinta)
Chamber of Minerals and Energy
Department of Energy, Mines, Industry Regulation and Safety (DEMIRS) – Building and Energy WA
Housing Industry Association (HIA)
Kleenheat
Origin Energy
Stewart Lee (individual)[38]
Synergy
Urban Development Institute of Australia
WA Council of Social Service (WACOSS)
WA Expert Consumer Panel

Note: The ERA has prepared a summary of stakeholder submissions that identify the matters raised and the ERA's response to these matters. This summary is available on the ERA website, along with all other relevant documents related to this draft decision.

38 Mr Stewart Lee is a current employee of the ERA. The submission made in response to ATCO's proposal and the ERA's issues paper was received prior to Mr Lee applying to work at the ERA. Mr Lee has not been involved in the draft decision review process. The ERA has deemed that there are no conflicts of interest arising from Mr Lee's submission.

Appendix 6 National Gas Rules

The *National Gas Law* (NGL) and *National Gas Rules* (NGR) establish the framework for the economic regulation of gas pipelines. In Western Australia, the NGL and NGR are implemented by the *National Gas Access (WA) Act 2009*.

The following extracts of the NGR, as they apply in Western Australia, are provided for information to assist readers.

11 Calculation of time

(1) If the Law fixes a time limit within which a decision maker must make a decision on a proposal, then for the purpose of calculating elapsed time, and of the following periods is, if the decision-maker so decides, to be disregarded:

(a) any period allowed the proponent for correction or revision of the proposal;

(b) any period taken by the proponent or any other person to provide information, relevant to the decision maker's decision on the proposal, in response to a notice or requirement issued or made by the decision maker under the Law;

(c) any period allowed for public submissions on the proposal or on a draft decision on the proposal;

(d) any period allowed for submissions on a proposal by the [ERA] to disclose confidential information, any period then taken by the [ERA] to consider the submissions and decide whether to disclose the information, and any period occupied by a review of the decision;

(e) the period between commencement and conclusion of court proceedings to determine questions arising from the proposal or the decision maker's handling of the proposal.

(2) The decision-maker must:

(a) give notice of a decision under this rule to the proponent; and

(b) publish notice of the decision on its website.

…

42 General requirements for access arrangement information

(1) Access arrangement information for an access arrangement or an access arrangement proposal is information that is reasonably necessary for users and prospective users:

(a) to understand the background to the access arrangement or the access arrangement proposal; and

(b) to understand the basis and derivation of the various elements of the access arrangement or the access arrangement proposal.

(2) Access arrangement information must include the information specifically required by the Law.

43 Requirement to provide access arrangement information

(1) A service provider, when submitting an access arrangement proposal for the [ERA's] approval, must submit, together with the proposal, access arrangement information for the access arrangement proposal.

Note:

This subrule is classified as a civil penalty provision under the National Gas (South Australian) Regulations. See clause 6 and Schedule 3 of the National Gas (South Australian) Regulations.

(2) If particular information (sensitive information) is confidential, and its public disclosure could cause undue harm to the legitimate business interests of the service provider, a user or prospective user, the AER may permit the service provider to submit access arrangement information in a form, approved by the [ERA], in which the sensitive information:

(a) is aggregated or generalised so as to avoid disclosure of the elements that make it sensitive; or

(b) if that is not possible – is entirely suppressed.

(3) If information submitted as access arrangement information is, in the [ERA's] opinion, deficient in its comprehensiveness or in any other respect, the [ERA] may require the proponent:

(a) to make the revisions necessary to correct the deficiency and to re-submit the access arrangement information; or

(b) to submit further access arrangement information as an addendum to the information already submitted.

…

47A Reference services

(1) A service provider in respect of a full regulation pipeline must, whenever required to do so under subrule (3), submit to the [ERA] a reference service proposal in respect of a forthcoming full access arrangement proposal that:

(a) identifies the pipeline and includes a reference to a website at which a description of the pipeline can be inspected;

(b) sets out a list of all the pipeline services that the service provider can reasonably provide on the pipeline and a description of those pipeline services having regard to the characteristics in subrule (2);

(c) from the list referred to in subrule (1)(b), identifies at least one of those pipeline services that the service provider proposes to specify as reference services having regard to the reference service factors including any supporting information required by the [ERA]; and

(d) if the service provider has engaged with pipeline users and end users in developing its reference service proposal, describes any feedback received from those users about which pipeline services should be specified as reference services.

(2) A pipeline service is to be treated as distinct from another pipeline service having regard to the characteristics of different pipeline services, including:

(a) the service type (for example, forward haul, backhaul, connection, park and loan);

(b) the priority of the service relative to other pipeline services of the same type; and

(c) the receipt and delivery points.

(3) A service provider in respect of a full regulation pipeline must submit a reference service proposal to the [ERA]:

(a) no later than 12 months prior to the review submission date for the access arrangement; or

(b) if no access arrangement applies, in accordance with rule 46.

(4) If the [ERA] considers that the reference service proposal does not comply, in any respect, with a requirement of the Rules, the [ERA] may notify the service provider that it requires resubmission of the reference service proposal, and in doing so, must:

(a) state why, and in what respects, the [ERA] considers the reference service proposal to be non-compliant; and

(b) state a date by which the service provider is required to resubmit the amended reference service proposal.

(5) If a service provider fails to submit a reference service proposal where required to do so under these Rules by the date that is 11 months prior to the review submission date, the [ERA] must itself propose a reference service proposal for the relevant pipeline.

(6) As soon as practicable after:

(a) receiving a reference service proposal from the service provider under subrule (3) that the [ERA] does not consider needs resubmission under subrule (4);

(b) receiving the resubmitted reference service proposal under subrule (4); or

(c) proposing a reference service proposal under subrule (5), the [ERA] must publish:

(d) the reference service proposal; and

(e) an invitation for written submissions on the reference service proposal (which must be for a period of at least 15 business days after the publication of the reference service proposal).

(7) Any person may make written submissions to the [ERA] on the reference service proposal, or the issues within the proposal including, without limitation, whether the reference service proposal should specify other services as reference services.

(8) Following receipt of submissions under subrule (7), the [ERA] may, at its discretion, undertake further consultation on the reference service proposal.

(9) No later than 6 months prior to the review submission date for the access arrangement, the [ERA] must make a reference service proposal decision and give a copy of the decision to the service provider and publish its decision, together with its reasons for the decision, on its website.

(10) A reference service proposal decision is a decision to approve, or to refuse to approve, a reference service proposal.

(11) If, in a reference service proposal decision, the [ERA] refuses to approve a reference service proposal the [ERA] must revise the reference service proposal having regard to:

(a) the matters that these rules require a reference service proposal to include; and

(b) the service provider's reference service proposal; and

(c) the [ERA's] reasons for refusing to approve that proposal, and give a copy of the revised reference service proposal to the service provider and publish the revised reference service proposal on its website.

(12) If the [ERA] publishes a revised reference service proposal under subrule (11) it must as soon as practicable after publishing the revised proposal make a reference service proposal decision to give effect to the revised reference service proposal.

(13) In making its reference service proposal decision, the [ERA] must have regard to:

(a) the reference service factors;

(b) submissions made in response to its invitation under subrule (7) (within the time allowed in the invitation);

(c) where applicable, any feedback the service provider has received from pipeline users and end users, as described in accordance with subrule (1)(d); and

(d) any other matters the [ERA] considers relevant.

(14) In deciding whether or not a pipeline service should be specified as a reference service, the [ERA] must have regard to the reference service factors.

(15) The reference service factors are:

(a) actual and forecast demand for the pipeline service and the number of prospective users of the service;

(b) the extent to which the pipeline service is substitutable with another pipeline service to be specified as a reference service;

(c) the feasibility of allocating costs to the pipeline service;

(d) the usefulness of specifying the pipeline service as a reference service in supporting access negotiations and dispute resolution for other pipeline services, such that:

(i) reference services serve as a point of reference from which pipeline services that are not reference services can be assessed by a user or prospective user for the purpose of negotiating access to those other pipeline services;

(ii) a reference tariff serves as a benchmark for the price of pipeline services that are not reference services; and

(iii) reference service terms and conditions serve as a benchmark for the terms and conditions of pipeline services that are not reference services;

(e) the likely regulatory cost for all parties (including the [ERA], users, prospective users and the service provider) in specifying the pipeline service as a reference service.

48 Requirements for full access arrangement (and full access arrangement proposal)

(1) A full access arrangement must:

(a) identify the pipeline to which the access arrangement relates and include a reference to a website at which a description of the pipeline can be inspected; and

(b) describe all of the pipeline services that the service provider can reasonably provide on the pipeline, which must be consistent with the [ERA's] reference service proposal decision under rule 47A, unless there has been a material change in circumstances; and

(c) specify the reference services, which must be consistent with the [ERA's] reference service proposal decision under rule 47A, unless there has been a material change in circumstances; and

(c1) if the information provided under subrules (1)(b) or (1)(c) is different to the [ERA's] reference service proposal decision under rule 47A, describe the material change in circumstances that necessitated the change having regard to the reference service factors; and

(d) specify for each reference service:

(i) the reference tariff; and

(ii) the other terms and conditions on which each reference service will be provided; and

(e) if the access arrangement is to contain queuing requirements – set out the queuing requirements; and

Note:

Queuing requirements are necessary if the access arrangement is for a transmission pipeline but, if the pipeline is a distribution pipeline, queuing requirements are not necessary unless the [ERA] has given prior notification of the need to include queuing requirements (See rule 103).

(f) set out the capacity trading requirements; and

(g) set out the extension and expansion requirements; and

(h) state the terms and conditions for changing receipt and delivery points; and

(i) if there is to be a review submission date – state the review submission date and the revision commencement date; and

Note:

A full access arrangement must contain a review submission date and a revision commencement date unless it is a voluntary access arrangement – See rule 49.

(j) if there is to be an expiry date – state the expiry date.

Note:

A full access arrangement may contain an expiry date if it is a voluntary access arrangement (but not otherwise) – See rule 49.

(2) This rule extends to an access arrangement proposal consisting of a proposed full access arrangement.

…

58 Notification of submission of full access arrangement proposal for approval

(1) As soon as practicable after receiving a full access arrangement proposal, or referring it (in the case of an access arrangement variation proposal) to be dealt with under this Division, the [ERA] must publish a notice (an initiating notice) on its website:

(a) notifying receipt of the proposal; and

(b) describing the proposal and giving the address of a website at which the proposal can be inspected; and

(c) inviting written submissions on the proposal by a date specified in the notice (which must fall at least 20 business days after the first publication of the notice).

(2) The [ERA] may, however, defer publication of an initiating notice for up to 30 business days after the submission of the access arrangement proposal if, on a preliminary examination of the proposal, the [ERA] considers the proposal or the related access arrangement information deficient in some respect, and allows the service provider an opportunity to correct the deficiency.

(3) A service provider may, with the [ERA's] consent, revise a full access arrangement proposal even though an initiating notice has been published.

59 Access arrangement draft decision

(1) After considering the submissions made within the time allowed in the initiating notice, and any other matters the [ERA] considers relevant, the [ERA] must make an access arrangement draft decision.

(2) An access arrangement draft decision indicates whether the [ERA] is prepared to approve the access arrangement proposal as submitted and, if not, the nature of the amendments that are required in order to make the proposal acceptable to the [ERA].

Examples:

1. If the [ERA] is not satisfied that the access arrangement proposal adequately describes the pipeline services offered, or to be offered, by the service provider, the decision might indicate the amendment or the nature of the amendment required to correct the deficiency.

2. If the [ERA] is not satisfied that the access arrangement proposal designates as reference services all pipeline services that it considers should be specified as reference services under rule 47A, the decision might indicate that further or other pipeline services should be designated as reference services.

3. The decision might indicate that specified changes, or changes of a specified nature, should be made to a reference tariff.

4. The decision might indicate changes to queuing requirements, capacity trading requirements, or extension and expansion requirements needed to make the access arrangement acceptable to the [ERA].

(3) If an access arrangement draft decision indicates that revision of the access arrangement proposal is necessary to make the proposal acceptable to the [ERA], the decision must fix a period (at least 30 business days) for revision of the proposal (the revision period).

(4) An access arrangement draft decision must include a statement of the reasons for the decision.

(5) When the [ERA] makes an access arrangement draft decision, it must:

(a) give a copy of the decision to the service provider; and

(b) publish the decision on the [ERA's] website; and

(c) publish on its website a notice:

(i) stating that an access arrangement draft decision has been made and giving a reference to a website at which the relevant access arrangement proposal and the relevant draft decision may be inspected; and

(ii) if a period has been allowed for revision of the proposal – specifying the revision period; and

(iii) inviting written submissions within the time allowed in the notice (which must be at least 20 business days from the end of the revision period).

60 Revision of access arrangement proposal in response to draft decision

(1) The service provider may, within the revision period, submit additions or other amendments to the access arrangement proposal to address matters raised in the access arrangement draft decision.

(2) The amendments must be limited to those necessary to address matters raised in the access arrangement draft decision unless the [ERA] approves further amendments.

Example:

The [ERA] might approve amendments to the access arrangement proposal to deal with a change in circumstances of the service provider's business since submission of the access arrangement proposal.

(3) If the service provider submits amendments to the access arrangement proposal, the service provider must also provide the [ERA] (together with the amendments) with a revised proposal incorporating the amendments.

(4) As soon as practicable after receiving the revised access arrangement proposal, the [ERA] must publish it on its website.

61 Hearing relating to access arrangement draft decision

(1) The [ERA] may, on its own initiative or on request by any person, hold a hearing about an access arrangement draft decision.

(2) A request for a hearing must:

(a) be made in writing within 10 business days after publication of the draft decision; and

(b) state the applicant's name and contact details; and

(c) state the applicant's reasons for requesting a hearing.

(3) If the [ERA] refuses a request for a hearing, it must give the applicant written reasons for the refusal.

Example:

The [ERA] might refuse the request on the ground that the applicant failed to make written submissions in response to the initiating notice or that the applicant's request does not disclose a sufficient reason for a hearing.

(4) If the [ERA] decides to hold a hearing (on request or on its own initiative), it must appoint a time and place for the hearing and give notice of the appointed time and place on its website.

62 Access arrangement final decision

(1) After considering the submissions made in response to the access arrangement draft decision within the time allowed in the notice, and any other matters the [ERA] considers relevant, the [ERA] must make an access arrangement final decision.

(2) An access arrangement final decision is a decision to approve, or to refuse to approve, an access arrangement proposal.

(3) If the access arrangement proposal has been revised since its original submission, the access arrangement final decision relates to the proposal as revised.

(4) An access arrangement final decision must include a statement of the reasons for the decision.

(5) When the [ERA] makes an access arrangement final decision, it must:

(a) give a copy of the decision to the service provider; and

(b) publish the decision on the [ERA's] website.

(6) If an access arrangement final decision approves an access arrangement proposal, the access arrangement, or the revision or variation, to which the decision relates, takes effect on a date fixed in the final decision or, if no date is so fixed, 10 business days after the date of the final decision.

Note:

In the case of an access arrangement revision proposal, this date may, but will not necessarily, be the revision commencement date fixed in the access arrangement.

(7) An access arrangement final decision must be made within 8 months of the date of receipt of the access arrangement proposal.

(8) The time limit fixed by subrule (7) cannot be extended by more than a further 2 months.

…

64 [ERA's] power to make or revise access arrangement on refusing to approve an access arrangement proposal

(1) If, in an access arrangement final decision, the [ERA] refuses to approve an access arrangement proposal (other than a variation proposal), the [ERA] must itself propose an access arrangement or revisions to the access arrangement (as the case requires) for the relevant pipeline.

Exception:

If the access arrangement proposal is for a limited access arrangement for an international pipeline to which a price regulation exemption applies, the [ERA] may (but need not) exercise its powers under this rule. (See section 167(2) of the NGL)

(2) The [ERA's] proposal for an access arrangement or revisions is to be formulated with regard to:

(a) the matters that the Law requires an access arrangement to include; and

(b) the service provider's access arrangement proposal; and

(c) the [ERA's] reasons for refusing to approve that proposal.

(3) The [ERA] may (but is not obliged to) consult on its proposal.

(4) The [ERA] must, within 2 months after the access arrangement final decision, make a decision giving effect to its proposal.

(5) When the [ERA] makes a decision under this rule, it must:

(a) give a copy of the decision to the service provider; and

(b) publish the decision on the [ERA's] website.

(6) The access arrangement or the revisions to which the decision relates takes effect on a date fixed in the determination or, if no date is so fixed, 10 business days after the date of the decision.

…

72 Specific requirements for access arrangement information relevant to price and revenue regulation

(1) The access arrangement information for a full access arrangement proposal (other than an access arrangement variation proposal) must include the following:

(a) if the access arrangement period commences at the end of an earlier access arrangement period:

(i) capital expenditure (by asset class) over the earlier access arrangement period; and

(ii) operating expenditure (by category) over the earlier access arrangement period; and

(iii) usage of the pipeline over the earlier access arrangement period showing:

(A) for a distribution pipeline, minimum, maximum and average demand and, for a transmission pipeline, minimum, maximum and average demand for each receipt or delivery point; and

(B) for a distribution pipeline, customer numbers in total and by tariff class and, for a transmission pipeline, user numbers for each receipt or delivery point;

(b) how the capital base is arrived at and, if the access arrangement period commences at the end of an earlier access arrangement period, a demonstration of how the capital base increased or diminished over the previous access arrangement period;

(c) the projected capital base over the access arrangement period, including:

(i) a forecast of conforming capital expenditure for the period and the basis for the forecast; and

(ii) a forecast of depreciation for the period including a demonstration of how the forecast is derived on the basis of the proposed depreciation method;

(d) to the extent it is practicable to forecast pipeline capacity and utilisation of pipeline capacity over the access arrangement period, a forecast of pipeline capacity and utilisation of pipeline capacity over that period and the basis on which the forecast has been derived;

(e) a forecast of operating expenditure over the access arrangement period and the basis on which the forecast has been derived;

(f) [Deleted];

(g) the allowed rate of return for each regulatory year of the access arrangement period;

(h) the estimated cost of corporate income tax calculated in accordance with rule 87A, including the allowed imputation credits referred to in that rule;

(i) if an incentive mechanism operated for the previous access arrangement period—the proposed carry-over of increments for efficiency gains or decrements for efficiency losses in the previous access arrangement period and a demonstration of how allowance is to be made for any such increments or decrements;

(j) the proposed approach to the setting of tariffs including:

(i) the suggested basis of reference tariffs, including the method used to allocate costs and a demonstration of the relationship between costs and tariffs; and

(ii) a description of any pricing principles employed but not otherwise disclosed under this rule;

(k) the service provider's rationale for any proposed reference tariff variation mechanism;

(l) the service provider's rationale for any proposed incentive mechanism;

(m) the total revenue to be derived from pipeline services for each regulatory year of the access arrangement period.

(2) The access arrangement information for an access arrangement variation proposal related to a full access arrangement must include so much of the above information as is relevant to the proposal.

(3) Where the [ERA] has published financial models under rule 75A, the access arrangement information for a full access arrangement proposal must be provided using the financial models.

73 Basis on which financial information is to be provided

(1) Financial information must be provided on:

(a) a nominal basis; or

(b) a real basis; or

(c) some other recognised basis for dealing with the effects of inflation.

(2) The basis on which financial information is provided must be stated in the access arrangement information.

(3) All financial information must be provided, and all calculations made, on the same basis and using any applicable financial models published by the [ERA] under these Rules.

74 Forecasts and estimates

(1) Information in the nature of a forecast or estimate must be supported by a statement of the basis of the forecast or estimate.

(2) A forecast or estimate:

(a) must be arrived at on a reasonable basis; and

(b) must represent the best forecast or estimate possible in the circumstances.

75 Inferred or derivative information

Information in the nature of an extrapolation or inference must be supported by the primary information on which the extrapolation or inference is based.

…

87A Estimated cost of corporate income tax

(1) The estimated cost of corporate income tax of a service provider for each regulatory year of an access arrangement period (ETCt) is to be estimated in accordance with the following formula:

$ETCt = (ETIt \times rt)(1 - \gamma)$

Where

ETIt is an estimate of the taxable income for that regulatory year that would be earned by a benchmark efficient entity as a result of the provision of reference services if such an entity, rather than the service provider, operated the business of the service provider;

rt is the expected statutory income tax rate for that regulatory year as determined by the [ERA]; and

γ is the allowed imputation credits for the regulatory year

…

90 Calculation of depreciation for rolling forward capital base from one access arrangement period to the next

(1) A full access arrangement must contain provisions governing the calculation of depreciation for establishing the opening capital base for the next access arrangement period after the one to which the access arrangement currently relates.

(2) The provisions must resolve whether depreciation of the capital base is to be based on forecast or actual capital expenditure.

…

92 Revenue equalisation

(1) A full access arrangement must include a mechanism (a reference tariff variation mechanism) for variation of a reference tariff over the course of an access arrangement period.

(2) Except to the extent that subrule (3) applies, the reference tariff variation mechanism must be designed to equalise (in terms of present values):

(a) forecast revenue from reference services for the access arrangement period; and

(b) the portion of total revenue allocated to reference services for the access arrangement period.

(3) If there is an interval between a revision commencement date stated in a full access arrangement and the date on which revisions to the access arrangement actually commence (the interval of delay):

(a) reference tariffs, as in force at the end of the previous access arrangement period, must continue without variation for the interval of delay; but

(b) the operation of this subrule must be taken into account in fixing reference tariffs for the new access arrangement period, such that there may be an adjustment for any under-recovery or over-recovery by the service provider as a result of the continuation of reference tariffs from the previous access arrangement period during the interval of delay.

(4) For the avoidance of doubt, once the revisions to an access arrangement actually commence the access arrangement period to which the revised access arrangement applies includes the interval of delay.