Economic Regulation Authority

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

Attachment 3: Revenue and tariffs

24 April 2024

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Note

This attachment forms part of the ERA's draft decision on proposed revisions to the access arrangement for the Mid-West South-West Gas Distribution Systems. It should be read in conjunction with all other parts of the draft decision, which is comprised of the following document and attachments:

Draft decision on revisions to the access arrangement for the Mid-West and South-West Gas Distribution Systems – Overview, 24 April 2024

- Attachment 1: Access arrangement and services
- Attachment 2: Demand
- Attachment 3: Revenue and tariffs (this document)
- Attachment 4: Regulatory capital base
- Attachment 5: Operating expenditure
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Attachment 3. Summary

ATCO has proposed a 73 per cent increase in its total revenue requirement for AA6, up from $840 million (nominal) in AA5 to $1,451.7 million (nominal). ATCO attributed the increase to rising inflation, the higher rate of return and accelerated depreciation.

The ERA has made decisions elsewhere in this draft decision to reduce this proposed increase in revenue, including removing ATCO's proposed accelerated depreciation and reductions to the proposed operating and capital expenditure.[1] The ERA has also increased the level of demand forecast for AA6. These factors 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.

Summary of required amendments

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 remain 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.

[1] See Draft Decision Attachments 2, 4, 5, 6 and 7.

Regulatory requirements

1. Section 24 of the National Gas Law (NGL) sets out the following revenue and pricing principles. These principles set out a framework for the construction of reference tariffs, which involves determining the total revenue amount that is needed by the service provider to recover the efficient costs incurred in operating the pipeline. Once total revenue for the pipeline is determined, reference tariffs can be determined to recover this revenue (that is, the reference tariffs are set to recover the service provider's efficient costs).

Revenue and pricing principles

(1) The revenue and pricing principles are the principles set out in subsections (2) to (7).

(2) A service provider should be provided with a reasonable opportunity to recover at least the efficient costs the service provider incurs in—

(a) providing reference services; and

(b) complying with a regulatory obligation or requirement or making a regulatory payment.

(3) A service provider should be provided with effective incentives in order to promote economic efficiency with respect to reference services the service provider provides. The economic efficiency that should be promoted includes—

(a) efficient investment in, or in connection with, a pipeline with which the service provider provides reference services; and

(b) the efficient provision of pipeline services; and

(c) the efficient use of the pipeline.

(4) Regard should be had to the capital base with respect to a pipeline adopted—

(a) in any previous—

(i) full access arrangement decision; or

(ii) decision of a relevant Regulator under section 2 of the Gas Code;

(b) in the Rules.

(5) A reference tariff should allow for a return commensurate with the regulatory and commercial risks involved in providing the reference service to which that tariff relates.

(6) Regard should be had to the economic costs and risks of the potential for under and over investment by a service provider in a pipeline with which the service provider provides pipeline services.

(7) Regard should be had to the economic costs and risks of the potential for under and over utilisation of a pipeline with which a service provider provides pipeline services.[2]

2. Under the NGR, total revenue is to be determined for each year of the access arrangement period using the "building block" approach, with the building blocks being:

- A return on the projected capital base for the year.

[2] NGL, section 24.

- Depreciation on the projected capital base for the year.
- The estimated cost of corporate income tax for the year.
- Increments or decrements for the year that result from the operation of an incentive mechanism.
- A forecast of operating expenditure for the year.[3]

3. The NGR set out specific provisions relating to the determination of each of the respective building blocks.[4] In addition to these provisions, rule 93 requires total revenue to be allocated between reference services and other pipeline services in the ratio in which costs are allocated between these services:

- Costs that are directly attributed to reference services must be allocated to those services.
- Costs that are directly attributed to other pipeline services (that are not reference services) must be allocated to those services.
- Other costs (that are not directly attributed to a reference or other pipeline service) must be allocated between reference and other pipeline services on a basis determined or approved by the regulator. The basis on which this occurs must be consistent with the revenue and pricing principles.
- Costs for the provision of rebateable services may be allocated to reference services if there is a rebate mechanism to apply an appropriate portion of the revenue from the sale of rebateable services to reduce the reference tariff.[5]

4. Each reference service must have a reference tariff. There must also be a mechanism to vary the reference tariff over the course of an access arrangement period. The NGR set out the following provisions for the calculation of reference tariffs and the development of a tariff variation mechanism:

- Provisions for revenue equalisation (rule 92):
  - The reference tariff variation mechanism must be designed to equalise (in terms of present values) forecast revenue from reference services for the access arrangement period and the portion of total revenue allocated to reference services for the access arrangement period.
  - Where there is an interval of delay between the revision commence date for an access arrangement and the date on which revisions to the access arrangement actually commence, reference tariffs in force at the end of the previous access arrangement period must continue without variation for the interval of delay. When fixing the reference tariff for the new access arrangement period there may be an adjustment for any under/over recovery that resulted from the continuation of reference tariffs from the previous access arrangement period during the interval of delay.

[3] NGR, rule 76.

[4] The specific provisions relating to each of the building block components are discussed in the relevant attachments to the ERA's decision.

[5] A rebateable service is a service that is not a reference service and substantial uncertainty exists concerning the extent of the demand for the service or of the revenue to be generated from the service.

- Provisions for distribution pipeline tariffs (rule 94):
  - Customers for reference services provided by means of a distribution pipeline must be divided into tariff classes. The need to group customers together on an economically efficient basis and the need to avoid unnecessary transaction costs must be considered when establishing a tariff class.
  - For each tariff class, the revenue expected to be recovered should lie on or between an upper bound representing the stand-alone costs of providing the reference service to customers in that tariff class and a lower bound representing the avoidable cost of not providing the reference service to those customers.
  - The tariff for a tariff class must consider the long run marginal cost for providing the reference service. Where the tariff consists of two or more charging parameters, each parameter must consider the long run marginal cost for the service element to which the charging parameter relates.
  - The tariff for a tariff class must also consider the transaction costs associated with the tariff (or charging parameter) and whether customers belonging to the tariff class are able, or likely to, respond to price signals.
- Provisions for prudent discounts (rule 96):
  - Despite other tariff provisions, the regulator may approve a discount for a particular user or prospective user, or a particular class of users or prospective users.
  - To approve a discount, the regulator must be satisfied that the discount is necessary to respond to competition from other pipeline service providers or other sources of energy, or to maintain efficient use of the pipeline. It must also be satisfied that the provision of a discount is likely to result in tariffs that are lower than they would have otherwise been.
  - Where a discount is approved, the regulator may also approve the allocation of the cost (or part of the cost) of providing the discount to the costs of providing a service in one or more future access arrangement periods.
- Provisions for reference tariff variation (rule 97):
  - The reference tariff variation mechanism may provide for variation of a reference tariff in a variety of forms, including one or more of the following: a schedule of fixed tariffs, a formula in the access arrangement, a cost pass through for a defined event, or the sale of rebateable services (as contemplated under rule 93).
  - When deciding whether the reference service tariff variation mechanism is appropriate, the regulator must consider the need for efficient tariff structures, the possible effects of the mechanism on administrative costs, any existing regulatory arrangements in place before operation of the mechanism, the desirability of consistency between regulatory arrangements within and beyond the relevant jurisdiction, the risk-sharing arrangements in the access arrangement, and any other factor considered to be relevant.
  - The reference tariff variation mechanism must give the regulator adequate oversight or powers of approval over the variation of the reference tariff.
  - Except as provided by the reference tariff variation mechanism, a reference tariff cannot vary during an access arrangement period.

5. Further to the framework established by 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.[6] Under these Regulations the ERA must:

   - Ensure that the access arrangement delivers uniforms tariffs for small use customers so that the reference tariff does not vary based on the geographical location of the delivery point to which the gas is delivered.
   - Consider the possible impact of the proposed reference tariffs, the method of determining the tariffs and the reference tariff variation mechanism on small use customers and retailers when assessing the access arrangement.

6. The NGR require the following revenue and tariff information to be included in the service provider's Access Arrangement Information (AAI):[7] [8]

   - Information on the proposed approach to set the reference tariffs, including the suggested basis for the reference tariffs (including the method used to allocate costs and a demonstration of the relationship between costs and tariffs), and a description of any pricing principles employed (rule 72(1)(j)).
   - The service provider's rationale for any proposed reference tariff variation mechanism (rule 72(1)(k)).
   - The total revenue to be derived from pipeline services for each year of the access arrangement period (rule 72(1)(m)).

7. In addition, AAI must state the basis on which financial information is provided. Under the NGR, 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).

[6] *National Gas Access (WA) (Local Provisions) Regulations 2009*, Part 2, regulations 4 to 7.

[7] NGR, rule 72.

[8] 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.

ATCO proposal

Total revenue

8. ATCO's proposed total revenue requirement for AA6 is $1,451.7 million (nominal), compared to $840 million (nominal) approved by the ERA for AA5. ATCO attributed the required 73 per cent revenue increase to rising inflation, the increased rate of return and accelerated depreciation.

9. To calculate the total revenue requirement, ATCO applied the building block approach on a post tax basis. The building block components and associated values are shown in Table 3.1.

Table 3.1: ATCO proposed total revenue requirement for AA6 ($ million nominal)

Building block	2025	2026	2027	2028	2029	Total
Forecast operating expenditure	89.90	104.00	108.30	102.40	105.10	**509.80**
Return of the projected capital base	65.40	77.80	80.50	82.70	84.00	**390.40**
Less inflationary gain in return on assets	44.20	45.80	47.20	48.60	50.10	**235.90**
Accelerated depreciation	17.00	17.40	17.90	18.40	18.80	**89.40**
Return on the projected capital base	121.50	126.10	130.00	133.80	137.70	**649.10**
Return on working capital	1.70	2.60	3.00	3.10	3.10	**13.50**
Tax payable	10.80	14.30	14.70	15.20	15.70	**70.70**
Less value of imputation credits	5.40	7.10	7.40	7.60	7.80	**35.40**
Total revenue (unsmoothed)	**256.70**	**289.30**	**299.70**	**299.40**	**306.60**	**1,451.70**

Source: ATCO, 2025-29 Plan, 1 September 2023, p. 224, Table 15.2.

Reference tariffs

10. ATCO has proposed to retain the current (AA5) gas haulage tariff classes for AA6, as well as the current tariff structures for the A1, A2, B1 and B2 tariffs. The B3 tariff structure will be changed to remove the first tariff band that provides the first 1.825 GJ of gas haulage at no charge. In support of this amendment, ATCO submitted:

> The benefits of this proposed change include:
>
> - Adopting two, rather than three, bands will make the B3 tariff structure more consistent with retail gas tariff structures.
> - Simplifying the tariff structure will reduce the likelihood of forecasting error.
> - Removing this tariff band reduces the level of other B3 tariff usage bands because our approach has been to ensure that the revenue recovered from B3 tariff charges does not change as a result of adopting two usage bands.
> - At the average AA6 consumption level of 11.5 gigajoules, there is approximately a $5 reduction in the consumer's bill by removing the no charge for the first 1.825 gigajoules.

> After conducting a reasonableness check of the fixed costs of providing the B3 service, the B3 standing charge was reduced by $19 ($real 2023) compared to what it would have been had a flat percentage increase similar to other tariff increases been applied. This reduction offsets the additional charges for the first 1.825 GJ.[9]

11. The tariff structures for haulage reference services are comprised of a fixed (standing) charge and usage charge component. ATCO has claimed that "this tariff structure design provides efficient price signals to customers regarding their network usage." It submitted:

> - Usage charges in the second usage band reflect costs placed on the network by additional usage. The lower charges in the second usage band help reduce charges in the peak winter period when daily gas consumption increases. We propose to continue a two-band usage tariff structure that is understood by customers and supported by regulatory precedent in gas distribution networks.
> - Fixed charges are set to recover the cost of service not recovered via the usage charges. Using fixed charges recovers this 'residual revenue' and minimises the distortion to price signals.[10]

12. Additionally, ATCO submitted that:

> The A1 tariff structure (typically industrial customers) also includes demand charges. These demand charges reflect the direct effects that these customers can have on network requirements. The A1 tariffs are based on the 'maximum usage of that customer at any point in time', measured as gigajoules per hour (GJ/h) (capacity-based prices). Demand-based prices encourage a smoother usage profile rather than a 'peaky' profile. Smoother profiles lead to lower network costs and higher network utilisation, as network capacity does not have to meet short-term usage peaks.[11]

13. For ancillary reference services, ATCO has retained a fixed price structure, with the rates to be charged reflecting the forecast cost of providing the applicable service. ATCO submitted:

> Ancillary services are charged at the same rate to all customers within the relevant tariff classes. Rates charged reflect the costs of providing the service. It is anticipated that the contract with a third-party service provider for special meter read, apply meter lock, and remove meter lock will be re-negotiated before the ERA's Draft Decision. We will use the outcomes of this market process to update our forecast costs and prices for ancillary services in response to the ERA's Draft Decision.[12]

14. ATCO has detailed the process and considerations to establish the AA6 charging parameters in a separate report titled Tariff Setting Method.[13] The outcome of ATCO's tariff setting process and considerations results in a step-change in prices on 1 January 2025, followed by annual increases consistent with inflation.

15. ATCO's indicative prices for its haulage and ancillary reference services over the access arrangement period (2025 to 2029) are shown in Table 3.2 and Table 3.3 (on pages 8 and 9), respectively.

16. Actual prices charged in each year will most likely be different to these indicative prices due to the operation of the tariff variation mechanism, which allows prices to change

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9 ATCO, *2025-29 Plan*, 1 September 2023, p. 230.

10 ATCO, *2025-29 Plan*, 1 September 2023, p. 230.

11 ATCO, *2025-29 Plan*, 1 September 2023, p. 230.

12 ATCO, *2025-29 Plan*, 1 September 2023, p. 231.

13 ATCO, *2025-29 Plan – Attachment 16.002: Tariff Setting Method*, 1 September 2023 (online) (accessed April 2024).

due to differences between forecast and actual inflation, an annual update for the cost of debt and cost pass through events.

Tariff variation mechanism

17. ATCO will use a weighted average price cap tariff variation mechanism for AA6, which constrains the overall average movement in haulage reference services from one year to the next (as contemplated by rule 97(2)(b) of the NGR). This form of tariff variation mechanism applies to the current (AA5) access arrangement for all tariff classes, except for the B3 standing charge. For AA6, ATCO proposes that the mechanism will apply to all tariff classes and all tariff components, including the B3 standing charge, "which now reflects the fixed cost of the service."[14]

18. ATCO's price cap tariff variation mechanism allows for the recovery of costs for "cost pass through events", which are defined events that incur costs that cannot be (and have not been) reasonably forecast; are beyond the control of ATCO; and relate to the provision of reference services. ATCO has proposed to include a new cost pass through event to address the uncertainties surrounding the adoption of legislative changes to the gas regulatory framework in Western Australia. ATCO has summarised the proposed cost pass through events that will apply for AA6 as follows:

    - [Higher heating value] and gate point costs related to new gas inflows to the network.
    - Any costs relating to a change in law or tax change.
    - Any costs associated with a tax or fee imposed under a law related to [greenhouse gas] emissions.
    - Any costs incurred as a result of, or in anticipation of, a change in law or the NGR related to [greenhouse gas] emissions or extending the regulatory environment to the transport of gases not currently covered by the NGL.[15]

19. For ancillary reference services, ATCO will use an annual Consumer Price Index (CPI) (weighted average of eight capital cities) adjustment to vary the tariff.

20. Table 3.2 and Table 3.3 set out the indicative tariffs ATCO has proposed for haulage and ancillary reference tariffs for AA6, subject to the tariff variation mechanism.

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[14] ATCO, *2025-29 Plan*, 1 September 2023, p. 242.

[15] ATCO, *2025-29 Plan*, 1 September 2023, p. 243.

Table 3.2: ATCO proposed haulage reference service tariffs for AA6 ($ nominal, ex-GST)

Charging parameter	2025	2026	2027	2028	2029
Reference tariff A1					
Standing charge	56,750.79	58,262.41	59,814.29	61,407.50	63,043.15
Demand charge					
First 10 km	239.19	245.56	252.10	258.82	265.71
Distance > 10 km	125.90	129.25	132.69	136.23	139.86
Usage charge					
First 10 km	0.05059	0.05194	0.05333	0.05475	0.05620
Distance > 10 km	0.02549	0.02617	0.02687	0.02758	0.02832
Reference tariff A2					
Standing charge	31,399.15	32,235.50	33,094.12	33,975.62	34,880.59
First 10 TJ	3.05	3.13	3.22	3.30	3.39
Volume > 10 TJ	1.61	1.65	1.70	1.74	1.79
Reference tariff B1					
Standing charge	1,587.55	1,629.84	1,673.25	1,717.82	1,763.58
First 5 TJ	6.03	6.19	6.36	6.53	6.70
Volume > 5 TJ	5.18	5.32	5.46	5.61	5.76
Reference tariff B2					
Standing charge	427.35	438.73	450.42	462.42	474.73
First 100 GJ	9.51	9.76	10.02	10.29	10.56
Volume > 100 GJ	7.08	7.27	7.46	7.66	7.87
Reference tariff B3					
Standing charge	178.04	182.78	187.65	192.65	197.78
First 9.855 GJ	8.78	9.01	9.25	9.50	9.75
Volume > 9.855 GJ	7.26	7.45	7.65	7.86	8.07

Source: ATCO, 2025-29 Plan, 1 September 2023, p. 239, Table 16.5.

Table 3.3: ATCO proposed ancillary reference service tariffs for AA6 ($ nominal, ex-GST)

Ancillary service	2025	2026	2027	2028	2029
Applying a meter lock	51.87	53.25	54.67	56.13	57.62
Removing a meter lock	21.38	21.95	22.54	23.14	23.75
Deregistering a delivery point	138.32	142.01	145.79	149.67	153.66
Disconnecting a delivery point	130.52	133.99	137.56	141.23	144.99
Reconnecting a delivery point	180.44	185.24	190.18	195.24	200.44
Permanent disconnection	1,184.80	1,216.36	1,248.76	1,282.02	1,316.17
Special meter reading	10.66	10.94	11.23	11.53	11.84

Source: ATCO, 2025-29 Plan, 1 September 2023, p. 241, Table 16.7.

21. ATCO states that its proposed tariffs for AA6 confirmed that the expected tariff revenue:

- In net present value terms, equated to total revenue.
- For each tariff class, approximated the forecast total revenue for the tariff class.
- For each tariff class, lay between the lower bound of avoidable cost and upper bound of stand-alone costs (Table 3.4).

Table 3.4: ATCO AA6 proposed haulage and ancillary reference service compliance with rule 94(3) of the NGR ($ million real at 31 December 2023)

Tariff class	Total costs allocated	Stand-alone costs	Expected revenue	Avoidable costs
A1	72.4	205.2	48.2	5.6
A2	35.3	322.8	31.4	4.1
B1	74.5	544.7	64.1	11.0
B2	57.9	546.8	66.3	10.7
B3	872.2	935.6	903.0	127.8
Ancillary services	24.5	24.5	23.7	21.3
Total (present value)	**1,136.7**		**1,136.7**	

Source: ATCO, 2025-29 Plan, 1 September 2023, p. 240, Table 16.6.

Submissions

22. Several submissions addressed revenue and tariffs.[16] Submissions raised concerns about ATCO's proposed tariff path for haulage reference services, and considerable concern about the tariff impact on residential and small business (B3) customers.

- AGL Energy expressed concern over ATCO's proposed price path but acknowledged that without a step-change prices at the end of the access arrangement period "will be much higher"; and "making trade-offs at this time is necessary and consideration needs to be given to the access arrangement which will follow."[17]
- Alinta Energy supported ATCO's proposal to remove the first tariff band for B3 customers, subject to the supply charge being reduced and the ERA being satisfied of the proposed price reduction. On network tariff structures, Alinta submitted that any change from the current declining block tariff structure to a flat or inclining structure would not serve any purpose given that retail gas tariffs are separately set by the Western Australian State Government.[18] Alinta further submitted:

  > Whilst Alinta Energy supports ATCO's proposal to retain the existing tariff classes and, for the most part, its tariff structures, we have concerns regarding the magnitude of the proposed step increase of $78 at the commencement of AA6 for an average residential (B3) customer.
  >
  > Alinta Energy considers long-term price stability to be in the long-term interest of consumers and considers this can be achieved by applying a smaller step increase in 2025, followed by a smoother year-on-year increase over the remainder of AA6.[19]

- The Housing Industry Association (HIA) considers that ATCO's investment in renewable gases should forego the need to use flat or inclining block tariffs to not encourage gas demand and reduce emissions. It submitted that "energy prices must be maintained at a level where Australian building product manufacturers are internationally competitive."[20]
- Kleenheat indicated support for a smoothed price increase over AA6, in contrast to ATCO's proposed step increase in 2025 followed by constant real prices for 2026 to 2029. It raised concern over the proposed price increase for the average residential (B3) customer and acknowledged that retailers may look to moderate customer discounts to accommodate the price increase.[21]
- Origin Energy raised concerns over ATCO's proposed price increase for 2025 and the effect this may have on the contestable retail market and prices paid by market customers. It submitted:

  > Origin is concerned with the proposed increase in haulage tariffs for 2025. Although there may be no significant increase in gazetted retail tariffs, there will be a significant impact on the contestable retail gas market and on the actual prices paid by market customers. We consider a lesser step increase followed by smaller annual increases in

16 Submissions from: AGL Energy; Alinta Energy; Housing Industry Association; Kleenheat; Origin Energy; Synergy; WA Council of Social Service; and WA Expert Consumer Panel.

17 AGL Energy, *Submission on ATCO proposal and ERA issues paper*, 27 November 2023, p. 7.

18 Alinta Energy, *Submission on ATCO proposal and ERA issues paper*, 30 November 2023, p. 9.

19 Alinta Energy, *Submission on ATCO proposal and ERA issues paper*, 30 November 2023, p. 19.

20 Housing Industry Association, *Submission on ATCO proposal and ERA issues paper*, 27 November 2023, p.1.

21 Kleenheat, *Submission on ATCO proposal and ERA issues paper*, 24 November 2023, p. 4.

the remaining years of the period would reduce the impact on retailers and customers while allowing ATCO to recover its approved revenue.[22]

- Synergy considered that the proposed step change is inconsistent with the national gas objective of being in the long-term interest of consumers. Synergy considered that the ERA should determine a moderate step change consistent with the national gas objective that also balances the long-term interests of the network operator, retailers, and consumers.[23]
- The Western Australian Council of Social Service (WACOSS) recommended that "any consideration regarding changing network tariff structure must be based on thorough examination of the impacts that this would have on consumers living on low incomes or who are experiencing other forms of vulnerability."[24]
- The WA Expert Consumer Panel expressed concerns over ATCO's proposed reference tariffs in terms of being consistent with the amended national gas objective (to incorporate an emissions reduction objective) and the revenue and pricing principles. It submitted:
  - The increase in tariffs from 2024 to 2025 ($78, or a 12% increase, on an annual retail gas bill at the gazetted retail price) will not promote efficient use of the network – other tariff paths could promote efficient use, whilst at the same time not compromising meeting the other pricing principles and objectives of the national gas law.
  - In encouraging higher volumes of consumption of gas (and in turn more greenhouse gas emissions), the proposed declining block tariff structure is inconsistent with the new limb of the national gas objective to achieve targets for reducing Australia's emissions.
  - There is a lack of clarity over the extent to which disconnection charges reflect the efficient costs of providing the services, and in turn whether those charges promote efficient use of the services.[25]
- The Panel also expressed concern over ATCO's lack of consultation with consumers and customers on the proposed tariff increase in 2025, which if passed on, could accelerate customers' decisions to leave the network. The Panel further noted that residential gas tariffs are separately regulated by the State Government and if regulated retail prices are not changed to reflect ATCO's proposed tariffs, gas retail margins may be compromised.

23. Most of the above submissions also questioned ATCO's proposed tariffs for ancillary reference services and specifically made note of the high tariff for the new permanent disconnection service.[26] Submissions highlighted the need for a thorough assessment of ATCO's proposed ancillary reference tariffs to ensure the tariffs are cost reflective of the ancillary services being provided. While submissions supported a user-pays tariff for the permanent disconnection service, the tariff was thought to be high and may affect customers' decisions to use the service.

22 Origin Energy, *Submission on ATCO proposal and ERA issues paper*, 27 November 2023, p. 1.

23 Synergy, *Submission on ATCO proposal and ERA issues paper*, 27 November 2023, pp. 3-4.

24 WA Council of Social Service, *Submission on ATCO proposal and ERA issues paper*, 27 November 2023, p. 2.

25 WA Expert Consumer Panel, *Submission on ATCO proposal and ERA issues paper*, November 2023, p. 25.

26 Submissions from AGL Energy, Alinta Energy, Housing Industry Association, Origin Energy, Synergy, WA Council of Social Service and WA Expert Consumer Panel.

Draft decision

24. The ERA's consideration of elements related to ATCO's proposed revenue and tariffs for AA6 is set out below, and cover:

- ATCO's total revenue allowance and the allocation of this allowance between reference and non-reference services.
- The reference tariffs to be charged by ATCO to recover its allowed revenue, including the structure of the tariffs and tariff path.
- ATCO's tariff variation mechanism that will be used to vary reference tariffs during the access arrangement period.

25. ATCO's basis of financial information is set out in section 1.2 of the AAI (ATCO's 2025-29 Plan).[27] Financial information in ATCO's proposal is provided in both nominal and real terms, with all real financial information expressed in constant real prices as at 31 December 2023. ATCO stated:

> Where necessary, to express financial values in dollar values of 31 December 2023, financial values prior to December 2022 were escalated at the rate of inflation as measured by the Consumer Price Index (All Groups, Weighted Average of Eight Capital Cities) as published by the Australian Bureau of Statistics.
>
> Financial values after 31 December 2022 up to 31 December 2024 are de-escalated at the rate of inflation based on the Reserve Bank of Australia's May 2023 Statement on Monetary Policy.
>
> Financial values after 31 December 2024 are de-escalated using the forecast rate of inflation from the weighted average cost of capital (WACC) parameter estimates used in [ATCO's Draft] Plan (which are also calculated as prescribed by the [ERA's] 2022 Rate of Return Instrument).[28]

26. Table 3.5 shows the CPI and inflation values used by ATCO to provide the financial information in its proposal.

Table 3.5: ATCO actual and forecast CPI and inflation rates

	2019 actual	2020 actual	2021 actual	2022 actual	2023 f/cast	2024 f/cast	2025 f/cast	2026 f/cast	2027 f/cast	2028 f/cast	2029 f/cast
December CPI	116.2	117.2	121.3	130.8							
Inflation (%)	1.84	0.86	3.50	7.83	4.50	3.25	2.66	2.66	2.66	2.66	2.66

Source: ATCO, 2025-29 Plan, 1 September 2023, Table 1.1, p. 3.

27. The ERA has provided its financial information using the CPI and inflation values below, which has revised forecast inflation from 2024 onwards consistent with its estimate used to calculate the rate of return for this draft decision.

[27] ATCO, *2025-29 Plan*, 1 September 2023, pp. 2-3.

[28] ATCO, *2025-29 Plan*, 1 September 2023, pp. 2-3.

Table 3.6: ERA actual and forecast CPI and inflation rates

	2019 actual	2020 actual	2021 actual	2022 actual	2023 f/cast	2024 f/cast	2025 f/cast	2026 f/cast	2027 f/cast	2028 f/cast	2029 f/cast
December CPI	116.2	117.2	121.3	130.8	136.7	140.1	143.6	147.2	150.9	154.7	158.6
Inflation (%)	1.84	0.86	3.50	7.83	4.50	2.51	2.51	2.51	2.51	2.51	2.51

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

Total revenue

28. Table 3.7 sets out the ERA's draft decision total revenue on the building block components determined elsewhere in the draft decision. As there was no incentive scheme that operated in AA5, no increment or decrements have affected AA6 revenue.

Table 3.7: ERA's draft decision total revenue building blocks for AA6 ($ million nominal)

Building block	2025	2026	2027	2028	2029	Total
Regulatory operating expenditure	68.21	72.10	77.25	81.94	85.34	**384.83**
Operating expenditure	66.52	69.88	74.82	79.38	82.65	**373.25**
Return on working capital	1.69	2.21	2.43	2.56	2.69	**11.58**
Return on capital base	119.51	124.34	129.16	134.26	138.78	**646.05**
Regulatory depreciation	22.76	32.79	34.86	36.50	36.47	**163.38**
Depreciation	63.66	75.35	79.07	82.45	83.97	**384.51**
Accelerated depreciation	-	-	-	-	-	**-**
Inflationary gain	(40.91)	(42.56)	(44.21)	(45.96)	(47.50)	**(221.13)**
Regulatory corporate income tax	3.06	4.72	4.95	5.16	5.43	**23.32**
Corporate income tax	6.12	9.45	9.90	10.33	10.85	**46.65**
Imputation credits	(3.06)	(4.72)	(4.95)	(5.16)	(5.43)	**(23.32)**
Total revenue (unsmoothed)	**213.54**	**233.96**	**246.22**	**257.86**	**266.01**	**1,217.58**

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

Required Amendment

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

Allocation of total revenue

29. The forecast revenues from reference tariffs for haulage and ancillary services discussed below are derived to equalise (in terms of present value) the portion of total revenue allocated to these services. The portion of total revenue allocated to these services is provided in present value terms in Table 3.8. The total revenue (unsmoothed) amount of $915.07 million reflects the present value of the total shown in Table 3.7 above. Ancillary reference services revenue is equal to the direct costs that are incurred as operating expenditure and is easily identifiable and can be subtracted from total revenue (unsmoothed) to determine the amount of total revenue to be allocated to haulage reference tariffs.

Table 3.8: ERA draft decision total revenue allocated to reference services for AA6

	Nominal $ millions (present value)
Total revenue (unsmoothed)	915.07
Allocation to haulage reference services	898.74
Allocation to ancillary reference services	16.29

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

Reference tariffs

Haulage reference services

Form of price control

30. ATCO's proposal retains the form of price control from the last access arrangement period, which places a constraint on the overall average movement in haulage reference service prices from one year to the next (referred to as a weighted average price cap, or tariff basket. This mechanism allows average prices to increase by the annual change in CPI (weighted average across eight capital cities), plus or minus an X-factor that is varied for debt risk premium updates and cost pass-through items (discussed below).

31. In its issues paper, the ERA raised the form of price control as an issue given the amendment to the national gas objective to include an emission reduction objective and whether ATCO's form of price control gives it an incentive to increase demand (which it earns a financial benefit on above forecast demand levels) and whether this is inconsistent with reducing carbon emissions.

32. The ERA did not receive any submissions that outlined an alternative preferable price control, and the ERA has decided not to amend the form of price control. While ATCO does have an incentive to increase demand under this price control, it also takes on the risk that demand might not eventuate as forecast and this protects consumers from this uncertainty during the access arrangement period.

Tariff structure

33. ATCO's tariffs are composed of a fixed component and multiple variable components based on gas usage. The A1 reference tariff also has two variable components based on gas demand.

Flat vs block variable charges

34. There are two common tariff structures that a service provider could consider for variable charges:

- Flat tariffs: under a flat tariff structure, customers pay a steady, or flat, rate per unit of gas consumed.
- Block tariffs: under a block tariff structure, customers pay different rates for defined quantities of gas consumed, with the rates being declining or inclining rates. A declining block tariff would price the first consumption block the highest with subsequent blocks priced progressively lower; an inclining block tariff would price the first consumption block the lowest with subsequent blocks priced progressively higher.

35. ATCO's current (AA5) and proposed (AA6) tariffs for haulage reference services comprise a fixed charge and declining block usage charge component for each tariff class of customer (A1, A2, B1, B2, B3).

36. ATCO has proposed only one change to its tariff structures for AA6: the removal of the first tariff band for the B3 usage charge component, which provided the first 1.825GJ of gas haulage at no charge. ATCO has reviewed its fixed charge for B3 customers and lowered this by $19 (real 2023), to help offset the additional charges that result from the removal of the first (free) tariff band.[29]

37. In its issues paper, the ERA asked about the amended national gas objective, which incorporates a specific emissions reduction objective, and whether ATCO's current and proposed declining block tariff structure is consistent with the new objective, or whether an alternative tariff structure should be considered to better meet the new objective.[30] The issues paper also raised the matter of whether an alternative tariff variation mechanism to the weighted average price cap should be considered with the amended national gas objective.

38. The WA Expert Consumer Panel, HIA and Alinta all commented on the tariff structure:[31]

- The WA Expert Consumer Panel considered that the declining block tariff structure is inconsistent, in so much as it encourages higher volumes of gas consumption (and in turn more greenhouse gas emissions), with the new limb of the national gas objective to achieve targets for reducing Australia's emissions.
- HIA considered that the ERA could forego moving ATCO's tariffs to flat or inclining block tariffs due to ATCO's planned investment in renewable gases. However, the ERA has not included in its draft decision expenditure forecasts amounts for the introduction of renewable gases.
- Alinta considered that any move away from declining block tariffs would not serve any purpose given that retail gas tariffs are separately set by the Western Australian State Government.

29 ATCO, *2025-29 Plan*, 1 September 2023, pp. 229-230.

30 At the time of publication of the ERA's issues paper, the amended national gas objective was not in effect in Western Australia.

31 WA Expert Consumer Panel, *Submission on ATCO proposal and ERA issues paper*, November 2023, p. 25.
Housing Industry Association, *Submission on ATCO proposal and ERA issues paper*, November 2023, p. 1.
Alinta Energy, *Submission on ATCO proposal and ERA issues paper*, 30 November 2023, p. 9.

39. Over the recent few access arrangement periods, the declining block tariff seems to have been ineffectual at increasing use as the average B3 customer use continues to decline. ATCO expects that gas use in the second variable tariff band for B3 customers (greater than 9.855GJ per year) will continue to decline from a 44 per cent share in 2025 to a 41 per cent share of B3 gas use even with a lower tariff for that usage band. ATCO does not expect gas usage overall to increase for B3 customers. It is unclear what decrease is required to the second variable tariff band to incentivise greater gas usage and therefore utilisation of the network. In any event, the ERA considers that ATCO's tariff structure should reflect the cost drivers it faces. As Alinta noted in its submission, without retailers adjusting competitive offers or the maximum retail tariff for small use customers changing, then the price signals will not get through to the end customer. However, this should not mean that ATCO and ERA disregard tariff structures as the price signals are felt by retailers who can pass on these signals to contestable customers to ensure efficient use of energy.

40. ATCO's costs are largely fixed in nature and for those costs that do vary with gas use, such as unaccounted for gas, it is unclear how offering lower tariffs to higher consuming customers reflects the level of cost incurred by ATCO. By maintaining a declining block tariff structure for B3 customers there is a level of inefficiency and inequity within the tariff class as lower usage B3 customers are paying more per unit of gas consumed compared to higher usage B3 customers. The ERA considers that a move to a flat tariff structure for volume charges for B3 customers is more appropriate as it reduces the inefficiency and inequity from declining block tariffs. If higher costs are passed on by retailers, this may reduce the incentive for additional gas use and support the reduction of greenhouse gas emissions, consistent with the amended national gas objective, at no additional cost to ATCO.

41. The ERA supports ATCO's proposal to remove the current (AA5) first tariff band for the B3 usage charge component, which provided the first 1.825GJ of gas haulage at no charge. ATCO had proposed an increase in the fixed charge, albeit a decline on what the increase would have been had it not added a specific adjustment. The fixed charge is discussed below.

42. Similar concerns may be relevant for other reference services. However, the ERA has not adjusted the declining block reference tariffs for other reference services in this draft decision as other reference service customers are not as homogenous as the B3 customers and hence there may be other factors that need to be considered before making any adjustment. Also, the use-based tariffs for the other (non-B3) reference services represent most of the total gas network bill for these customers, and changes to these tariffs may have a greater demand response to changes in the usage tariffs. The ERA requires ATCO to demonstrate why a declining tariff structure remains appropriate, rather than a flat tariff structure for these other (non-B3) reference services.

B3 fixed charge

43. In its access arrangement proposal for AA4, ATCO proposed to increase the B3 fixed charge and at the same time introduce a free variable tariff component for the first 1.825GJ of gas for the year. ATCO proposed this change in AA4 to ensure that the avoidable costs of connecting every B3 customer was recovered and provided efficient price signals to new customers. ATCO calculated the avoidable costs of connecting B3

customers as the net present value of the costs of a standard meter, standard regulator and the average length of service pipe.[32]

44. In its AA4 final decision, the ERA accepted this change to the B3 fixed charge but phased in the increase to the fixed charge over the access arrangement period (AA4) and adjusted the inflation and rate of return used for the net present value calculation (to match the ERA's final decision values) which resulted in adjustments to the tariff.[33]

45. In response to an information request on this current proposal for AA6, ATCO provided calculations for the avoidable costs of connecting B3 customers.[34] The ERA has reviewed these calculations and updated the real after tax WACC used to discount the revenue and used a 25-year period for the assessment consistent with the AA4 final decision, which required that the revenue over the 25-year period would equate to the total avoidable cost over this period (that is, the fixed charge would recover the avoidable cost over a 25-year period). However, ATCO assumed gas mains would be paid back over a 60-year asset life. The ERA considers that the 25-year horizon is reasonable for the AA6 period, albeit there may be scenarios for the future of gas which suggest that not all new gas connections during AA6 period will still be connected in 25 years. These customers will still be paying variable charges while they remain connected as well.

46. The ERA considers that the fixed B3 tariffs should be $165.69 per year (real 2023) for 2025 and can be adjusted, along with all other tariffs, by the tariff variation mechanism during the access arrangement period consistent with the weighted average price cap approach proposed by ATCO.

Tariff path

47. The ERA has considered various tariff path options to allow ATCO the opportunity to recover the required revenue during AA6. The options included:

- A one-off real price increase in 2025 and no real dollar price increase in the remaining years of AA6 (ATCO's proposal).
- A smoothed real price increase for each year of the AA6 period (i.e. the same percentage increase in tariffs each year).
- Combinations of the above options.

48. The ERA considered the following factors in the assessment of these options:

- Providing ATCO with a reasonable opportunity to recover its efficient costs.
- Promoting economic efficiency and minimising distortions to efficient pricing signals which will comply with the revenue and pricing principles set out in the NGL.[35]

32 ERA, *Amended Final decision on proposed revisions to the access arrangement for the mid-west and south-west gas distribution systems,* 10 September 2015, p. 474.

33 ERA, *Amended Final decision on proposed revisions to the access arrangement for the mid-west and south-west gas distribution systems,* 10 September 2015, p. 485.

34 ERA Information Request, 25 March 2024.

35 Section 24 of the NGL sets out the revenue and pricing principles.

- The effect of reference tariff increases on customers, particularly small use customers.[36]

49. All tariff path options would provide ATCO with a reasonable opportunity to recover its efficient costs and would not be inconsistent with promoting economic efficiency and minimising distortions to efficient pricing signals. Given this, the ERA has considered the various tariff options and how these options would impact on ATCO's customers over the long term.

50. The revenue recovered through tariffs would be greater in nominal terms for a price path that smoothed tariffs compared to a one-off increase, but the same present value of costs would be recovered. The nominal revenue recovered through a smoothed price increase would be higher as the service provider is not provided the increase up front, but this still neglects that customers would have kept the difference and would have received a benefit from not spending a higher amount on gas prices now and could have spent money elsewhere or saved this money.

51. The main advantages of the one-off real price increase (ATCO's proposal) may be that, apart from the one-off increase in 2025, it results in lower stable nominal increases over the remaining years of the AA6 period and may avoid a step change in prices in the next access arrangement period (AA7). The one-off price increase option would have a tariff in 2029 that is closer to the tariff that would have been charged if there was an annual cost-reflective tariff in 2029. If the cost-reflective tariff in 2030 more closely resembles the 2029 cost-reflective tariff, then this would lead to the least movement in tariffs between access arrangement periods.

52. This situation may not occur because as shown in this review, with significant increases in tariffs between AA5 and AA6, a lot of the price change depends on the rate of return and inflation, which are heavily influenced by market parameters that are outside the control of the ERA. This is despite the ERA targeting a tariff in 2024 that was close to cost-reflectivity.

53. The ERA engaged Patterson Research Group to help conduct engagement with residential gas customers. A survey of 1,000 small use gas customers was conducted in March 2024. One of the questions asked in the survey tested the views of gas users to tariff path options.

54. When provided with options for passing through higher network prices, which were inevitable with higher levels of inflation and rate of return compared to the previous access arrangement period, the preferred option was a one-off increase in the first year of the access arrangement period followed by constant tariffs for the remaining years (with inflation only increases).[37] The survey results indicated that an increase of up to 11 per cent may be reasonable (that is, the survey results may not hold for increases much greater than 11 per cent).

[36] There are local regulations (*National Gas Access (WA) (Local Provisions) Regulations 2009*) that contain provisions under Part 2, regulation 7, which require the ERA when exercising discretion to consider the effect of the proposed reference tariffs, the method of determining the tariffs and the reference tariff variation mechanism on small use customers. Irrespective of these local regulations, the ERA would always balance the views of customers, and not just small use customers, on the effects of proposed tariffs where there is discretion to do so.

[37] Patterson Research Group, *Survey of ATCO Gas Residential Customers – Undertaken for the ERA*, March 2024.

55. The ERA has decided to maintain ATCO's proposed one-off step increase for 2025 given that the increase for the draft decision is significantly more modest than ATCO's proposal. However, if the required one-off step increase for the final decision was going to be materially higher than set in this draft decision, the ERA will select a smoothed real price option for the final decision. The ERA is aware that gas retailers, WACOSS and the WA Expert Consumer Panel all expressed concern over the magnitude of ATCO's proposed step increase of 38.6 per cent. Although, AGL acknowledged that without a step change, prices at the end of the access arrangement period "will be much higher"; and "making trade-offs at this time is necessary and consideration needs to be given to the access arrangement which will follow".

56. Table 3.9 shows the tariff increases (in real terms) on 1 January 2025 based on the ERA's decisions above. Tariffs will still increase due to inflation and the operation of the tariff variation mechanism (discussed at paragraph 63).

Table 3.9: ERA draft decision tariff path compared to ATCO's proposal – real annual percentage change in tariffs (%)

	Price change on 1 January 2025		Subsequent annual price changes	
	ATCO proposal	Draft decision	ATCO proposal	Draft decision
A1, A2, B1 and B2	38.6	12.5	0.0	0.0
B3 standing charge	24.7	21.9	0.0	0.0
B3 volume up to 9.855 GJ	69.3	(21.1)	0.0	0.0
B3 volume above 9.855GJ	62.3	(9.0)	0.0	0.0

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

57. The overall effect of the B3 charges results in the average B3 customer facing a 9.1 per cent increase (in real terms) in its network component of its bill.

58. WACOSS highlighted the need to consider the effect that price changes would have on consumers living on low incomes or experiencing other forms of vulnerability. The ERA seeks to ensure that price rises are limited to only those that are necessary so that all customers are not paying more than required and ATCO can cover its costs. It does this by scrutinising the expenditure ATCO requires to efficiently operate and maintain its network as a prudent service provider. The ERA further notes that the State Government has responsibility for setting the maximum gas retail price for small use customers which provides some additional protection for small use customers by limiting the price rises that can be passed on.

Standalone and incremental tariff considerations

59. The expected revenue from each tariff class should be between the higher bound of stand-alone costs of providing the reference services to customers that belong to that class only and the lower bound of avoidable costs of not providing the reference service. The ERA's draft decision tariffs and demand forecasts provide for the expected revenue to lie between the standalone costs and the avoidable costs.

Table 3.10: ERA draft decision haulage reference service compliance with rule 94(3) of the NGR for AA6 ($ million real as at 31 December 2023)

Tariff class	Stand-alone costs	Expected revenue	Avoidable costs
A1	205.2	45.7	5.6
A2	322.8	31.3	4.1
B1	544.7	65.1	11.0
B2	546.8	60.9	10.7
B3	935.6	876.0	127.8
Total		1,078.9	

Source: ATCO, 2025-29 Plan, *1 September 2023, Table 16.6, p. 240.*

Draft decision

60. Table 3.11 and Table 3.12 show the nominal and real haulage reference tariffs calculated by the ERA for AA6. These tariffs are based on the ERA's calculation of total revenue and the allocation of that revenue to haulage reference services (refer above). These tariffs are indicative and will vary based on the tariff variation mechanism described below. The operation of the tariff variation mechanism changes the prices due to actual inflation, the annual updated of the debt risk premium and cost pass-through events.

Table 3.11: ERA's draft decision haulage reference service tariffs for AA6 ($ nominal, ex-GST) – indicative only

Charging parameter	2025	2026	2027	2028	2029
Reference tariff A1					
Standing charge	46,236.05	47,396.57	48,586.23	49,805.74	51,055.86
Demand charge					
First 10 km	194.88	199.77	204.78	209.92	215.19
Distance > 10 km	102.58	105.16	107.80	110.50	113.28
Usage charge					
First 10 km	0.04121	0.04225	0.04331	0.04440	0.04551
Distance > 10 km	0.02076	0.02129	0.02182	0.02237	0.02293
Reference tariff A2					
Standing charge	25,570.25	26,212.06	26,869.98	27,544.42	28,235.78
First 10 TJ	2.49	2.55	2.62	2.68	2.75
Volume > 10 TJ	1.31	1.35	1.38	1.41	1.45
Reference tariff B1					
Standing charge	1,293.46	1,325.92	1,359.20	1,393.32	1,428.29
First 5 TJ	4.92	5.04	5.17	5.30	5.43
Volume > 5 TJ	4.22	4.33	4.44	4.55	4.66
Reference tariff B2					
Standing charge	324.60	332.75	341.10	349.66	358.44
First 100 GJ	8.23	8.43	8.65	8.86	9.09
Volume > 100 GJ	4.91	5.03	5.16	5.29	5.42
Reference tariff B3					
Standing charge	174.11	178.48	182.96	187.55	192.26
First 9.855 GJ	4.09	4.19	4.30	4.40	4.51
Volume > 9.855 GJ	4.09	4.19	4.30	4.40	4.51

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

Table 3.12: ERA's draft decision haulage reference service tariffs for AA6 ($ real as at 31 December 2023, ex-GST) – indicative only

Charging parameter	2025	2026	2027	2028	2029
Reference tariff A1					
Standing charge	43,999.55	43,999.55	43,999.55	43,999.55	43,999.55
Demand charge					
First 10 km	185.45	185.45	185.45	185.45	185.45
Distance > 10 km	97.62	97.62	97.62	97.62	97.62
Usage charge					
First 10 km	0.03922	0.03922	0.03922	0.03922	0.03922
Distance > 10 km	0.01976	0.01976	0.01976	0.01976	0.01976
Reference tariff A2					
Standing charge	24,333.38	24,333.38	24,333.38	24,333.38	24,333.38
First 10 TJ	2.37	2.37	2.37	2.37	2.37
Volume > 10 TJ	1.25	1.25	1.25	1.25	1.25
Reference tariff B1					
Standing charge	1,230.89	1,230.89	1,230.89	1,230.89	1,230.89
First 5 TJ	4.68	4.68	4.68	4.68	4.68
Volume > 5 TJ	4.02	4.02	4.02	4.02	4.02
Reference tariff B2					
Standing charge	308.90	308.90	308.90	308.90	308.90
First 100 GJ	7.83	7.83	7.83	7.83	7.83
Volume > 100 GJ	4.67	4.67	4.67	4.67	4.67
Reference tariff B3					
Standing charge	165.69	165.69	165.69	165.69	165.69
First 9.855 GJ	3.89	3.89	3.89	3.89	3.89
Volume > 9.855 GJ	3.89	3.89	3.89	3.89	3.89

Source: ERA, Draft Decision GDS Tariff Model, April 2024.

Required Amendment

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 remain as declining block tariffs instead of moving to a flat tariff structure.

Ancillary references services

61. The ancillary reference service tariffs were calculated to recover the operating cost to provide these services. These operating costs are discussed in Draft Decision Attachment 5.[38] 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 tariffs shown in Table 3.13 are indicative as these include forecast inflation and will vary based on the tariff variation mechanism which changes the prices due to actual inflation.

62. Several submissions to the ERA specifically commented on the permanent disconnection service and, while supportive of a user pays tariff, noted that ATCO's proposed tariff for the service appeared "high".[39] Most submissions considered that the high tariff may influence a customer's choice to obtain the service and sought evidence that ATCO's proposed tariff was reflective of the costs actually incurred by ATCO to provide the service. The ERA has assessed ATCO's actual disconnection costs in Draft Decision Attachment 5 and has determined a lower unit rate (tariff) for the permanent disconnection service that will apply on 1 January 2025 ($1,003.41 compared to ATCO's proposed $1,184.80).[40]

[38] ERA, *Draft decision on revisions to the access arrangement for the Mid-West and South-West Gas Distribution Systems – Attachment 5: Operating expenditure*, 24 April 2024, paragraphs 156 to 169.

[39] Submissions from AGL Energy, WA Expert Consumer Panel, Origin Energy, Stewart Lee, Building and Energy WA, WA Council of Social Service.

[40] ERA, *Draft decision on revisions to the access arrangement for the Mid-West and South-West Gas Distribution Systems – Attachment 5: Operating expenditure*, 24 April 2024, paragraphs 156 to 169.

Table 3.13: ERA draft decision ancillary reference service tariffs for AA6 ($ nominal, ex-GST) – indicative only

Ancillary service	2025	2026	2027	2028	2029
Applying a meter lock	28.73	29.45	30.19	30.95	31.73
Removing a meter lock	15.80	16.20	16.60	17.02	17.45
Deregistering a delivery point	115.23	118.12	121.08	124.12	127.24
Disconnecting a delivery point	71.00	72.78	74.61	76.48	78.40
Reconnecting a delivery point	71.58	73.38	75.22	77.11	79.05
Permanent disconnection	1,003.41	1,028.59	1,054.41	1,080.87	1,108.00
Special meter reading	6.52	6.68	6.85	7.02	7.20

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

Table 3.14: ERA draft decision ancillary reference service tariffs for AA6 ($ real at 31 December 2023, ex-GST)

Ancillary service	2025	2026	2027	2028	2029
Applying a meter lock	27.34	27.34	27.34	27.34	27.34
Removing a meter lock	15.03	15.03	15.03	15.03	15.03
Deregistering a delivery point	109.65	109.65	109.65	109.65	109.65
Disconnecting a delivery point	67.57	67.57	67.57	67.57	67.57
Reconnecting a delivery point	68.12	68.12	68.12	68.12	68.12
Permanent disconnection	954.87	954.87	954.87	954.87	954.87
Special meter reading	6.20	6.20	6.20	6.20	6.20

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

Required Amendment

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.

Tariff variation mechanism

63. The NGR requires ATCO to include a reference tariff variation mechanism to vary reference tariffs over the course of the access arrangement period. The mechanism must be designed to equalise (in terms of present values):

- The forecast revenue from reference services over the access arrangement period.
- The portion of total revenue allocated to reference services for the access arrangement period.

64. ATCO's proposed reference tariff variation mechanism for haulage and ancillary reference services is set out in Annexure B and C of the access arrangement, respectively.

- For haulage reference services:
  - The tariff variation mechanism will constrain the overall average movement in haulage reference tariffs from one year to the next (that is, the form of mechanism to apply will be a 'weighted average price cap' or 'tariff basket'). For AA6, the mechanism will apply to all tariff classes and all tariff components, including the B3 standing charge.[41]
- For ancillary reference services:
  - The tariff variation mechanism will adjust ancillary reference tariffs annually by the movement in the CPI (all groups, weighted average of eight capital cities).

65. As noted by ATCO, the tariff variation mechanism to apply in AA6 for haulage reference services is like the mechanism that currently applies in AA5. The mechanism allows average prices to increase by the annual change in the CPI (all groups, weighted average of eight capital cities), plus or minus an X-factor that is varied for debt risk premium updates and cost pass through events. For AA5 the B3 standing charge was excluded from the mechanism, but for AA6 the B3 standing charge will now be included.

66. The ERA considers that there is no reason to exclude the B3 standing charge from the tariff variation mechanism – both fixed and variable costs should be subject to variation during an access arrangement period to calculate a tariff that reflects the cost of providing the reference service. The formal scheduled review of an access arrangement in between access arrangement periods (such as this current review) further provides a separate opportunity to thoroughly review a service provider's costs and reset the reference tariffs that it can charge.

67. As noted by ATCO, the tariff variation mechanism to apply in AA6 for ancillary reference services is unchanged from AA5.[42]

41 Under the current (AA5) tariff variation mechanism, the B3 standing charge is excluded.

42 The ERA does note that ATCO has made some drafting changes to the tariff variation mechanism provisions in Annexure C to delete clause 2(b), which allowed ATCO to use a substitute index in place of the consumer price index (CPI all groups, weighted average of eight capital cities) during AA5.

See: ATCO, *Reference Tariff Variation for period beginning 1 January 2021*, 4 December 2020 (online) (accessed April 2024).

Cost pass through events

68. ATCO's price cap tariff variation mechanism allows for the recovery of costs for 'cost pass through events', which are defined events that incur costs that cannot be (and have not been) reasonably forecast; are beyond the control of ATCO; and relate to the provision of reference services. For AA6, ATCO has included a new cost pass through event to address the uncertainties surrounding the adoption of legislative changes to the gas regulatory framework in Western Australia. ATCO has retained the other cost pass through events from the current (AA5) access arrangement, with some proposed drafting amendments as indicated in Table 3.15.

Table 3.15: ATCO cost pass through events for AA6

AA6 cost pass through event (as specified in clause 2.1 of the access arrangement)	Proposed amendment
(i) ATCO incurs [Higher Heating Value] Costs that constitute Conforming Capital Expenditure or Conforming Operating Expenditure	No change from AA5
(ii) ATCO incurs Physical Gate Point Costs that constitute Conforming Capital Expenditure or Conforming Operating Expenditure	No change from AA5
(iii) ATCO incurs Conforming Capital Expenditure or Conforming Operating Expenditure as a result of a Change in Law or Tax Change	No change from AA5
(iv) ATCO incurs Conforming Capital Expenditure or Conforming Operating Expenditure which consists of, or is undertaken to avoid or mitigate the amount of, a fee or Tax imposed under an Emissions Control Law (including originally imposed upon another entity but then transferred to ATCO pursuant to Law or a contract) or incurs Conforming Capital Expenditure or Conforming Operating Expenditure to comply with the requirements of an Emissions Control Law	Drafting changes to wording of cost pass through event (for example, reference to Emissions Control Law instead of Emissions Trading Scheme)
(v) ATCO incurs Conforming Capital Expenditure or Conforming Operating Expenditure due to, or in anticipation of, amendments to the National Gas Law or National Gas Rules to incorporate emissions reduction objectives or to extend the regulatory environment in that Law or Rules to some or all Other Gases or Gas Blends	New for AA6

Source: *ATCO, Access Arrangement for the Mid-West and South-West Gas Distribution Systems, 1 September 2023, p. 54, clause 2.1.*

Cost pass through event four (iv)

69. The ERA notes ATCO's proposed drafting changes to the current (AA5) cost pass through event that covers conforming capital or operating expenditure that is a direct result of any law that imposes a fee or tax on greenhouse gas emissions or concentrations. While ATCO's drafting changes do not change the intent of the cost pass through event (the event is still focused on greenhouse gases); the introduction of the term "Emissions Control Law" is somewhat broader than the term "Emissions Trading Scheme", which will be replaced as part of the proposed drafting changes. The respective definitions are as follows:

> **Emissions Control Law** means any Law (including a Law imposing a Tax) which has as one of its purposes the reduction, or limitation, of greenhouse gases, reporting greenhouse gas emissions or any related information, trading in greenhouse gas emissions, offsets or other types of greenhouse gas emissions related permits, addressing the effects of climate change, encouraging the production or use of Other Gases or the minimisation of the impact on the environment of the gas industry generally.[43]
>
> **Emissions Trading Scheme** means any law or regulation of the Commonwealth of Australia or of a State or Territory of Australia, with respect to the production or emission of, or to reduce, limit, cease, prevent, offset, remove or sequester greenhouse gas emissions.[44]

70. The ERA considers ATCO's proposed drafting changes to cost pass through event four (iv) adds complexity to the access arrangement that is not necessary. The intent of the cost pass through is for ATCO to be able to recover any conforming capital or operating expenditure related to laws covering greenhouse gas emissions that was not (or could not have been) reasonably forecast; was beyond the control of ATCO; and was related to the provision of reference services. Cost pass through event three (iii) would cover this expenditure, given the following defined terms:

> ***Change in Law*** means:
>
> a) the introduction of a new Law;
>
> b) an amendment to, or repeal of, an existing Law; or
>
> c) a new or changed interpretation of an existing Law resulting from a decision of:
>
> i) a court;
>
> ii) a tribunal;
>
> iii) an arbitrator;
>
> iv) a government or regulatory department, body, instrumentality, minister, commissioner, officer, agency or other authority; or
>
> v) a person or body which is the successor to the administrative responsibilities of any person or body described in paragraph (iv) of this definition.
>
> …
>
> ***Law*** or ***Laws*** means all:
>
> (a) written and unwritten laws (including, without limitation, laws set out in statutes and subordinate legislation, the common law and equity) of the Commonwealth, of Western Australia, of local government authorities, and of any other State, Territory or foreign country having jurisdiction over the subject matter of a Service Agreement, the GDS or the Access Arrangement; and
>
> (b) judgments, determinations, decisions, rulings, directions, notices, regulations, by-laws, statutory instruments, Codes of Practice, Australian Standards or orders given or made under any of those laws or by any government agency or authority.

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43 As set out in the proposed AA6 access arrangement dictionary (clause 13.1).

44 As set out in the current AA5 access arrangement dictionary (clause 13.1).

71. Given the inclusion of cost pass through event three (iii), the ERA considers that ATCO can remove cost pass through event (iv) in its entirety (instead of making amendments to it).

Required Amendment

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.

Cost pass through event five (v)

72. ATCO's proposed new cost pass through event for AA6 aims to address uncertainties surrounding legislative changes to the national gas objective and extending the regulatory framework to include other gases. ATCO submitted:

> A new cost pass through item is proposed due to the uncertain timing of proposed legislation changes relating to the National Gas Objective and extending the regulatory framework to include renewable gases. These proposed changes are expected to clarify and increase the scope of conforming expenditure as defined in the NGR. These changes are also expected to be consistent with other legislative changes imposing obligations to reduce greenhouse gas emissions.[45]

73. The ERA considers that there is no need for this additional cost pass through event, given the inclusion of cost pass through event three (iii), which covers conforming capital or operating expenditure incurred because of a change in law or tax. Expenditure that does not meet the criteria for the change in law or tax cost pass through event would signal a need to carefully scrutinise the incurred expenditure before any adjustments to tariffs are made. This type of assessment should not occur as part of the tariff variation mechanism (cost pass through event) process. That is, the tariff variation mechanism (cost pass through event) is not designed for complex cost assessments that include discretionary expenditure, and/or require engagement with and submissions from stakeholders, before a determination can be made by the ERA on whether to allow a change in reference tariffs to recover costs that were not reasonably forecast and/or beyond the control of ATCO.

Required Amendment

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.

[45] ATCO, *2025-29 Plan*, 1 September 2023, p. 243.

Appendix 1 List of Tables

Appendix 2 National Gas Rules

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. The *National Gas Access (WA) Act 2009* implements a modified version of the NGL and NGR in Western Australia.

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.[46]

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

> **51 Acceleration of review submission date**
>
> (1) The review submission date fixed in an access arrangement advances to an earlier date if:
>
> (a) the access arrangement provides for acceleration of the review submission date on the occurrence of a trigger event; and
>
> (b) the trigger event occurs; and
>
> (c) the review submission date determined, in accordance with the access arrangement, by reference to the trigger event, is earlier than the fixed date.
>
> (2) A trigger event may consist of any significant circumstance or conjunction of circumstances.
>
> Examples:
>
> 1 A re-direction of the flow of natural gas through the pipeline.
>
> 2 A competing source of natural gas becomes available to customers served by the pipeline.
>
> 3 A significant extension, expansion or interconnection occurs.
>
> (3) The [ERA] may require the inclusion in an access arrangement of trigger events and may specify the nature of the trigger events to be included.
>
> …

[46] 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).

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.

…

76 Total revenue

Total revenue is to be determined for each regulatory year of the access arrangement period using the building block approach in which the building blocks are:

(a) a return on the projected capital base for the year (See Divisions 4 and 5); and

(b) depreciation on the projected capital base for the year (See Division 6); and

(c) the estimated cost of corporate income tax for the year (See Division 5A); and

(d) increments or decrements for the year resulting from the operation of an incentive mechanism to encourage gains in efficiency (See Division 9); and

(e) a forecast of operating expenditure for the year (See Division 7).

…

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.

93 Allocation of total revenue and costs

(1) Total revenue is to be allocated between reference and other services in the ratio in which costs are allocated between reference and other services.

(2) Costs are to be allocated between reference and other services as follows:

(a) costs directly attributable to reference services are to be allocated to those services; and

(b) costs directly attributable to pipeline services that are not reference services are to be allocated to those services; and

(c) other costs are to be allocated between reference and other services on a basis (which must be consistent with the revenue and pricing principles) determined or approved by the [ERA].

(3) The [ERA] may, however, permit the allocation of the costs of rebateable services, in whole or part, to reference services if:

(a) the [ERA] is satisfied that the service provider will apply an appropriate portion of the revenue generated from the sale of rebateable services to reduce the reference tariff in accordance with rule 97; and

(b) any other conditions determined by the [ERA] are satisfied.

(4) A pipeline service is a rebateable service if:

(a) the service is not a reference service; and

(b) substantial uncertainty exists concerning the extent of the demand for the service or of the revenue to be generated from the service.

94 Tariffs – distribution pipelines

(1) For the purpose of determining reference tariffs, customers for reference services provided by means of a distribution pipeline must be divided into tariff classes.

(2) A tariff class must be constituted with regard to:

(a) the need to group customers for reference services together on an economically efficient basis; and

(b) the need to avoid unnecessary transaction costs.

(3) For each tariff class, the revenue expected to be recovered should lie on or between:

(a) an upper bound representing the stand alone cost of providing the reference service to customers who belong to that class; and

(b) a lower bound representing the avoidable cost of not providing the reference service to those customers.

(4) A tariff, and if it consists of 2 or more charging parameters, each charging parameter for a tariff class:

(a) must take into account the long run marginal cost for the reference service or, in the case of a charging parameter, for the element of the service to which the charging parameter relates;

(b) must be determined having regard to:

(i) transaction costs associated with the tariff or each charging parameter; and

(ii) whether customers belonging to the relevant tariff class are able or likely to respond to price signals.

(5) If, however, as a result of the operation of subrule (4), the service provider may not recover the expected revenue, the tariffs must be adjusted to ensure recovery of expected revenue with minimum distortion to efficient patterns of consumption.

…

96 Prudent discounts

(1) Despite the other provisions of this Division, the [ERA] may, on application by a service provider, approve a discount for a particular user or prospective user or a particular class of users or prospective users.

(2) The [ERA] may only approve a discount under this rule if satisfied that:

(a) the discount is necessary to:

(i) respond to competition from other providers of pipeline services or other sources of energy; or

(ii) maintain efficient use of the pipeline; and

(b) the provision of the discount is likely to lead to reference or equivalent tariffs lower than they would otherwise have been.

Note:

Even though a user's incremental load is retained at a discounted price, overall tariffs may be lower because of the user's contribution to fixed costs.

(3) If the [ERA] approves a discount under this rule, the [ERA] may also approve allocation of the cost, or part of the cost, of providing the discount to the costs of providing a reference or other service in one or more future access arrangement periods.

(4) In this rule:

equivalent tariff means the tariff that is likely to have been set for a service that is not a reference service if the service had been a reference service.

97 Mechanics of reference tariff variation

(1) A reference tariff variation mechanism may provide for variation of a reference tariff:

(a) in accordance with a schedule of fixed tariffs; or

(b) in accordance with a formula set out in the access arrangement; or

(c) as a result of a cost pass through for a defined event (such as a cost pass through for a particular tax); or

(c1) as a result of the application of a portion of the revenue generated from the sale of rebateable services to reduce the reference tariff as contemplated under rule 93(3); or

(d) by the combined operation of 2 or more or the above.

(2) A formula for variation of a reference tariff may (for example) provide for:

(a) variable caps on the revenue to be derived from a particular combination of reference services; or

(b) tariff basket price control; or

(c) revenue yield control; or

(d) a combination of all or any of the above.

(3) In deciding whether a particular reference tariff variation mechanism is appropriate to a particular access arrangement, the [ERA] must have regard to:

(a) the need for efficient tariff structures; and

(b) the possible effects of the reference tariff variation mechanism on administrative costs of the [ERA], the service provider, and users or potential users; and

(c) the regulatory arrangements (if any) applicable to the relevant reference services before the commencement of the proposed reference tariff variation mechanism; and

(d) the desirability of consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction); and

(d1) the risk sharing arrangements implicit in the access arrangement; and

(e) any other relevant factor.

(4) A reference tariff variation mechanism must give the [ERA] adequate oversight or powers of approval over variation of the reference tariff.

(5) Except as provided by a reference tariff variation mechanism, a reference tariff is not to vary during the course of an access arrangement period.