Economic Regulation Authority

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

Attachment 8: Other access arrangement provisions

24 April 2024

D273606

Economic Regulation Authority

Level 4, Albert Facey House

469 Wellington Street, Perth WA 6000

Telephone 08 6557 7900

Email info@erawa.com.au

Website www.erawa.com.au

This document can also be made available in alternative formats on request.

National Relay Service TTY: 13 36 77

Contents

List of appendices

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
- 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 (this document)
- Attachment 9: Service terms and conditions

Attachment 8. Summary

This document sets out the ERA's consideration of ATCO's other access arrangement provisions, which includes optional fixed principles that ATCO has elected to include. 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 at their expiry date, 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 some fixed principles that are no longer needed (noting that a fixed principle can only be revoked by the ERA subject to ATCO's consent, otherwise it would need to remain until its expiration date).
- Not approved ATCO's new fixed principle for emissions reductions and renewable gases on the basis that it would be unnecessary once the amendments to the regulatory framework to include other gases came into effect. In any event, the inclusion of fixed principles for discretionary expenditure is problematic. Discretionary expenditure should be suitably assessed against applicable criteria (and involve stakeholder engagement) with no predetermination that such expenditure will be recoverable under any fixed principle.

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. In lieu of queuing requirements, which are required for a transmission pipeline access arrangement to establish a process and/or mechanism to determine an order of priority between prospective users for pipeline capacity, ATCO has included application procedures for prospective users seeking access to pipeline services.

ATCO's extension and expansion requirements, capacity trading requirements, principles for changing delivery and receipt points, and application procedures 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, and no other compelling reason to make amendments to these provisions, the ERA has approved them.

ATCO also 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 included by ATCO serve as a general reporting tool and have been used by ATCO to support elements of its proposal. The ERA has noted ATCO's key performance indicators and corporate targets for AA6. Consistent with the ERA's other draft decision considerations (for example, demand and expenditure considerations), ATCO should review and update some of its corporate targets.

Summary of required amendments

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.

Regulatory requirements

1. The National Gas Rules (NGR) provides that an access arrangement may include optional fixed principles to provide certainty that specific elements of an access arrangement will remain unchanged for a set period, which may extend over two or more access arrangement periods.[1] Once fixed, the principle is binding on the regulator and service provider for the stated period, however:

   - The regulator may vary or revoke a fixed principle at any time with the service provider's consent.
   - If a rule is found to be inconsistent with a fixed principle, the rule operates to the exclusion of the fixed principle.

2. Rules 104 to 106 of the NGR set out the following specific provisions for the required content of ATCO's access arrangement:[2]

   - Extension and expansion requirements (rule 104):
     - The access arrangement must set out the pipeline extension and expansion requirements that will apply and meet the following criteria:
       - The requirements may state whether the access arrangement will apply to incremental services to be provided as a result of a particular extension to the pipeline made during the access arrangement period or may allow for a later resolution of that question on a basis stated in the requirements.
       - If the service provider agrees, the requirements may state that the access arrangement will apply to incremental services to be provided as a result of a particular extension to the pipeline made before the revision commencement date for the access arrangement.
       - The requirements must state that the access arrangement will apply to incremental services to be provided as a result of any expansion to the capacity of the pipeline during the access arrangement period and deal with the effect of the expansion on tariffs.
       - The requirements cannot require the service provider to provide funds for work involved in making an extension or expansion unless the service provider agrees.
   - Capacity trading requirements (rule 105):
     - The access arrangement must set out the capacity trading requirements that will apply. Where the service provider is a registered participant in a gas market, the transfer of contracted capacity must be in accordance with the rules and procedures governing that gas market. If not a registered participant, or the market rules/procedures do not cover capacity trading, the capacity trading requirements must meet the criteria set out in the NGR.
     - Under the NGR, capacity trading requirements must allow a user to transfer all or any of the user's contracted capacity to a third party, with or without the

[1] NGR, rule 99.

[2] Rule 103 of the NGR details provisions for queuing requirements, which must be included if the access arrangement is for a transmission pipeline. Otherwise, the regulator may require an access arrangement for a distribution pipeline to contain queuing requirements by giving notice to the service provider. The ERA has not given notice to ATCO to include queuing requirements in its access arrangement.

user seeking the service provider's consent for the transfer. Where consent to transfer capacity is sought, the service provider must not withhold its consent unless it has reasonable grounds, based on technical or commercial considerations.

- Principles for changing receipt or delivery points (rule 106):
  - The access arrangement must set out the terms and conditions for changing receipt and delivery points in accordance with the following principles:
    - A user may change its receipt or delivery point with the service provider's consent, and the service provider must not withhold its consent unless it has reasonable technical or commercial grounds to do so.
    - Conditions under which consent will or will not be given, and the conditions to be complied with if consent is given, may be specified in advance in the access arrangement.

3. Previously, the regulatory framework required the service provider to provide key performance indicator (KPI) information in its Access Arrangement Information (AAI).[3] The requirement to include KPIs has been removed from the regulatory framework, however, the service provider may still use and report this information to support elements of its access arrangement proposal.

[3] NGR, old rule 72(1)(f) that required AAI to include the key performance indicators to be used by the service provider to support expenditure to be incurred over the access arrangement period.

Access Arrangement Information (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

Fixed principles

4. Fixed principles provide assurance that certain access arrangement principles will remain the same for a set period. For AA6, ATCO has proposed to:

- Amend the fixed principles that support the cost pass through mechanism.
- Add a new fixed principle to ensure costs incurred during AA6 to implement emissions reduction strategies and prepare the network for the introduction of other gases (in anticipation of future legislative amendments) will be recoverable.

5. The proposed fixed principles are set out in Part 11 of the access arrangement. ATCO's reasoning for the fixed principles is detailed in Chapter 19 of its 2025-29 Plan.[4]

Policies and non-tariff provisions

6. ATCO has proposed amendments to some policies and non-tariff components of the access arrangement. Details of the proposed amendments are set out in Chapter 21 of ATCO's 2025-29 Plan.[5] A summary of the amendments is set out as follows.

- Application procedures:
  - The application procedure detailed in Part 5 the proposed access arrangement sets out the process to be followed when a prospective user seeks access to a pipeline service and submits an application to ATCO. While ATCO submitted that the application procedure is unchanged from AA5, it has made various drafting amendments to improve readability.
- Capacity trading requirements:
  - The capacity trading requirements detailed in Part 6 of the proposed access arrangement provide for the transfer of capacity to a third party, with the terms and conditions for the transfer of contracted capacity for a reference service set out in clause 14 of the Template Service Agreement (TSA). While Part 6 of the access arrangement is unchanged from AA5, there are some proposed changes to clause 14 of the TSA.
- Extension and expansion requirements:
  - The extension and expansion requirements are detailed in Part 7 of the proposed access arrangement. The requirements confirm whether the access arrangement will apply to incremental services to be provided as a result of an extension to, or expansion of the capacity of, the GDS, and deal with the effect on tariffs.
  - The current (AA5) extension and expansion requirements include an annual reporting obligation whereby ATCO must notify the ERA of all pipeline extensions/expansions. ATCO has proposed to remove this reporting obligation from the access arrangement as it expects to include this

4 ATCO, *2025-29 Plan*, 1 September 2023, pp. 247-249.

5 ATCO, *2025-29 Plan*, 1 September 2023, pp. 255-257.

information as part of the separate annual reporting obligations established under a Regulatory Information Notice.

- Changing receipt and delivery points:
  - Provisions for changing receipt and delivery points are set out in Part 8 of the proposed access arrangement, with associated terms and conditions set out in clause 5 of the TSA. While ATCO submitted that it has not made any changes to the current (AA5) provisions in the access arrangement, it has sought to clarify that new receipt points, or physical gate points, may only be added to the network if there is a legally enforceable interconnection agreement in place between ATCO and the party operating the facilities directly upstream of the receipt or physical gate point.
  - ATCO has also sought to clarify (with new clauses in the TSA) that the process for constructing new delivery points and associated costs will be priced in accordance with applicable laws.

Key performance indicators

7. ATCO has included key performance indicator (KPI) information in Chapter 8 of its 2025-29 Plan.[6] ATCO has selected 11 KPIs that align with its four strategic pillars (safety, reliability, affordability and sustainability) to report against. These indicators are the same indicators reported on in AA5, with the addition of a new sustainability indicator to report on carbon emissions.[7]

[6] ATCO, *2025-29 Plan*, 1 September 2023, pp. 95-107.

[7] ATCO, *2025-29 Plan*, 1 September 2023, Table 8.2, pp. 97-98.

Submissions

8. The ERA received two submissions that addressed other access arrangement provisions.

9. The WA Expert Consumer Panel indicated that it did not support ATCO's proposed fixed principle for emissions reductions and renewable gases. The Panel's position is consistent with its views concerning ATCO's proposed expenditure on renewable gases as being conforming expenditure. The Panel submitted:

> We do not support the inclusion of ATCO's proposed fixed principle about emissions reduction and renewable gases.
>
> As raised earlier in our submission, we do not consider ATCO's proposed expenditure on renewable gas readiness to be conforming expenditure. Our view on this matter is consistent under both the currently regulatory framework, and the amended regulatory framework. As suggested earlier in this submission, ATCO could include the proposed capital expenditure in its speculative capital expenditure account; if the expenditure comes to meet the conforming capital criteria, the relevant portion of the expenditure can be rolled into the capital base at that time.[8]

10. Alinta Energy addressed ATCO's KPIs in the context of the disconnection services that are available. Alinta submitted:

> Of greater concern is the absence of any key performance indicators and accountability related to disconnections, noting the $27.1m contributed by ancillary reference services – including applying a meter lock and disconnecting a delivery point – to the proposed AA6 operating expenditure.
>
> When a retailer requests ATCO to disconnect a delivery point under the Retail Market Procedures, then ATCO is obliged to complete that service order request. However, we have found all too frequently that, if ATCO is unable to perform a disconnection at the first attempt then the service order, having been paid for by the retailer, is simply closed out and no further action is taken.
>
> When a retailer requests and pays for a disconnection, there is a reasonable expectation and a regulatory obligation that ATCO will complete that disconnection, even if it means finding an alternative solution. If disconnection is not practicable then, as a last resort, any on-going consumption costs incurred at the delivery point should be borne by ATCO or shared, as agreed, with the retailer.[9]

11. These matters are addressed as part of the ERA's considerations below.

[8] WA Expert Consumer Panel, *Submission on ATCO proposal and ERA issues paper*, November 2023, p. 30.

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

Draft decision

Fixed principles

12. 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 (as per the set expiry date); amend the other fixed principles related to the operation of the tariff variation mechanism; and add a new fixed principle for emissions reductions and renewable gases.[10]

13. The proposed fixed principles that will apply for AA6 are set out in Part 11 of the proposed access arrangement and are summarised below:

- Fixed principle 11.1:
  - The two fixed principles in 11.1 cover the straight-line method of depreciation and inclusion of higher heating value costs. The expiry date for fixed principle 11.1 is 25 August 2025.
  - ATCO has proposed to let this fixed principle expire because it considers that "NGR 77(2)(d), together with [Part 9 of] the access arrangement, describe the calculation of depreciation for the purpose of establishing the opening capital base at the start of the next access arrangement period [and] the fixed principles that facilitate the operation of the tariff variation mechanism across access arrangement periods adequately cater for these [higher heating value] costs".[11]
- Fixed principle 11.2:
  - The fixed principle in 11.2 covers the inclusion of physical gate point costs. The expiry date for fixed principle 11.2 is 1 January 2031 (unless amended as part of the next (AA7) access arrangement review).
  - Like fixed principle 11.1, ATCO plans to let this fixed principle expire part way through AA7 because it considers that "the fixed principles that facilitate the operation of the tariff variation mechanism across access arrangement periods adequately cater for these [physical gate point] costs".[12]
- Fixed principle 11.3:
  - The fixed principle in 11.3 supports the cost pass through mechanism to ensure costs, which are cost pass through events incurred after the lodgement of ATCO's access arrangement proposal for AA6, are recovered.
  - ATCO amended the drafting of fixed principle 11.3 to reflect the AA6 proposal lodgement date (and associated review period) of 1 September 2023 to 31 December 2024, and AA6 access arrangement period of 1 January 2025 to 31 December 2029.
- Fixed principle 11.4:
  - The fixed principle in 11.4 supports the cost pass through mechanism to ensure costs, which are cost pass through events incurred after the

[10] ATCO, *2025-29 Plan*, 1 September 2023, pp. 248-249.

[11] ATCO, *2025-29 Plan*, 1 September 2023, p. 248.

[12] ATCO, *2025-29 Plan*, 1 September 2023, p. 248.

lodgement of ATCO's next access arrangement proposal for AA7, are recovered.

  - ATCO amended the drafting of fixed principle 11.4 to reflect the AA7 proposal lodgement date (and associated review period) of 1 September 2028 to 31 December 2029, and AA7 access arrangement period of 1 January 2030 to the following revision commencement date as determined under the NGR.

- Fixed principle 11.5 (new):
  - The new fixed principle in 11.5 is for AA6 to provide for the recovery of capital and operating expenditures undertaken on or after 1 January 2025 to implement emissions reduction strategies and to prepare the network for the introduction of other gases.
  - ATCO has included new fixed principle 11.5 in response to amendments to the national gas regulatory framework that are expected to be adopted in Western Australia. ATCO submitted "the intent of this new fixed principle is that additional capex and opex incurred prior to the legislative amendments taking effect will be eligible to be treated as conforming expenditure if it meets the requirements of the NGL and NGR after they have been amended".[13]

14. The WA Expert Consumer Panel indicated that it did not support ATCO's proposed fixed principle for emissions reductions and renewable gases (new fixed principle 11.5) on the basis that it did not consider ATCO's proposed expenditure on "renewable gas readiness" to be conforming expenditure.[14] No other submissions to the ERA commented on this, or any other, fixed principle.

15. Proposed fixed principle 11.5 provides for the recovery of capital and operating expenditure related to investment to reduce emissions and to allow ATCO to introduce other gases into the gas network after 1 January 2025. This fixed principle anticipates amendments to the NGL and NGR to facilitate emissions reduction objectives and which would also expand the regulatory framework to other gases.

16. Since ATCO's access arrangement proposal submission, the NGL as applied in Western Australia has been amended to include an emissions reduction objective in the national gas objective. The ERA has applied this amended national gas objective in its draft decision for capital and operating expenditure (discussed in Draft Decision Attachments 4 and 5, respectively). The ERA notes that when the regulatory framework is amended to allow other gases to be incorporated, fixed principle 11.5 will be unnecessary. In any event, the inclusion of a fixed principle for this type of expenditure, which is discretionary, in that neither the changes to the regulatory framework for the national gas objective or the inclusion of other gases require ATCO to invest, is problematic. If this expenditure was to occur during the annual cost pass through event, as is an option for ATCO under this fixed principle, then this would require the ERA to undertake a comprehensive assessment. This type of assessment is not contemplated under the processes for considering cost pass throughs. The ERA has considered ATCO's proposed addition of a cost pass through event for emissions reduction and

13 ATCO, *2025-29 Plan*, 1 September 2023, pp. 248-249.

14 WA Expert Consumer Panel, *Submission on ATCO proposal and ERA issues paper*, November 2023, p. 30.

renewable gases in Draft Decision Attachment 3.[15] In summary, the ERA has not accepted ATCO's proposal for the following reasons:

- There is an existing cost pass through event that 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 signals a need to carefully scrutinise the incurred expenditure before any adjustments to tariffs are made. Such assessment should not occur as part of the tariff variation mechanism (cost pass through event) process – 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.

17. There is also considerable uncertainty whether other gases would be available to be injected into the gas distribution system during AA6 and there are indications the timeframes for injection are moving towards the end of the AA6 period. If ATCO elects to incur expenditure to inject renewable gases, it is likely to be predominantly capital expenditure and ATCO will be able to include this investment into the capital base in the next access arrangement period (AA7) if it can demonstrate to the ERA that it conforms to the prevailing rules at the time of investment.

Required Amendment

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

18. The ERA notes ATCO's position on allowing fixed principles 11.1 and 11.2 to expire on 25 August 2025 and 1 January 2031, respectively. The reason cited by ATCO for taking this position is that the elements of the access arrangement that are covered by these fixed principles (that is, the deprecation method, higher heating value costs, and physical gate point costs) are adequately covered by provisions of the NGR and/or access arrangement, including other fixed principles. Given this, the ERA considers that ATCO could simplify the access arrangement for AA6 by revoking these fixed principles now. Rule 99 of the NGR allows the ERA to revoke a fixed principle, subject to the service provider's consent.

19. The ERA further considers that some administrative amendments to better identify each of the fixed principles, by including a heading type structure in Part 11 of the access arrangement, would assist readers. For example, ATCO may wish to consider amending Part 11 of the access arrangement to insert the following headings:[16]

11. FIXED PRINCIPLES

11.1 Depreciation method and inclusion of HHV Costs

The following principles that were approved by the ERA as fixed principles for …

[15] ERA, *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, paragraph 69.

[16] The example headings are shown against ATCO's proposed access arrangement (that is, the examples do not take into account the ERA's draft decision considerations on the fixed principles).

11.2 Inclusion of Physical Gate Point Costs

The following principle was approved by the ERA as a fixed principle for …

11.3 Additional Cost Pass-Through Event expenditure for 1 September 2023 to 31 December 2024

The following principle expires at the end of this …

11.4 Additional Cost Pass-Through Event expenditure for 1 September 2028 to 31 December 2029

The following principle expires at the end of the …

11.5 Recovery of Capital Expenditure and Operating Expenditure to implement emissions reductions and Other Gases

The following principle expires at the end of the …

Application procedures

20. Part 5 of the access arrangement sets out ATCO's application procedures for prospective users seeking access to pipeline services. ATCO has submitted that these procedures remain unchanged from the current (AA5) access arrangement.[17]

21. The ERA notes that while ATCO has stated that its application procedures remain unchanged, ATCO has made several drafting amendments to Part 5 of the proposed access arrangement, including the addition of new paragraph 5.5(b), which reads:[18]

> The introduction into the GDS of Gases other than Natural Gas must be undertaken in a manner which does not adversely affect the specifications, pressure, safety or operational integrity of the GDS. Consequently the introduction of such other Gases (including Gas Blends) is conditional upon a binding Interconnection Arrangement being entered into between ATCO and the party operating the facilities by which Other Gases will be supplied into the GDS regulating the terms of that supply.

22. ATCO has made several amendments to the Transport Service Agreement (TSA), which sets out the terms and conditions for reference services, to facilitate the introduction of hydrogen and other gases into the future. The addition of new paragraph 5.5(b) in the access arrangement is consistent with these proposed amendments to the TSA, which the ERA has allowed.[19] ATCO's other amendments to Part 5 of the proposed access arrangement are administrative in nature to improve readability and do not materially alter the application procedures to obtain a pipeline service.

23. The ERA received no submissions from interested parties that raised any concerns with ATCO's application procedures.

17 ATCO, *2025-29 Plan*, 1 September 2023, p. 255.

18 The ERA notes that "interconnection arrangement" is a defined term in the access arrangement and should therefore be capitalised in paragraph 5.5(b) as shown (in mark-up).

19 See, for example: ERA, *Draft decision on revisions to the access arrangement for the Mid-West and South-West Gas Distribution Systems – Attachment 9: Service terms and conditions*, 24 April 2024, paragraph 35.

24. The ERA accepts ATCO's decision to largely retain the AA5 application procedures, set out in Part 5 of the access arrangement, for AA6.

Extension and expansion requirements

25. ATCO has proposed to retain the current (AA5) extension and expansion requirements for AA6, apart from the annual reporting requirement to the ERA. ATCO stated:

> Our current extension and expansion requirements provide for the following:
>
> - ATCO to apply to the ERA if a [high pressure] pipeline extension is to be undertaken to determine how it will be treated under the access arrangement.
> - All pipeline extensions designed to operate at 1,900kPa or less to be treated as covered under the access arrangement.
> - All expansions to the capacity of the GDS to be treated as covered under the access arrangement.
>
> The current extensions and expansions requirements in the access arrangement include annual reporting of extensions and expansions. We expect that this reporting will be included in the annual Regulatory Information Notice provided to the ERA in the future and so this reporting requirement has been deleted from the access arrangement.[20]

26. The extension and expansion requirements are set out in Part 7 of the access arrangement. As indicated by ATCO, the requirements for ATCO to notify the ERA of all pipeline extensions and expansions have been deleted.[21] Further to this, ATCO has:

- Made minor drafting amendments to update references to some terms (for example, 'ATCO Gas Australia' is now referenced as 'ATCO', and 'Covered Pipeline' is now 'GDS').
- Added a new paragraph 7.3(b) to confirm that the access arrangement will apply to any incremental services provided as a result of any expansion to the capacity of the GDS during the access arrangement period.

27. As signalled by ATCO, the ERA has established an annual reporting requirement covering elements of the access arrangement, including extensions and expansions, under a Regulatory Information Notice.[22] For this reason, the annual reporting requirements for extensions and expansions under Part 7 of the access arrangement is no longer needed.

28. ATCO's addition of new paragraph 7.3(b) in the proposed access arrangement makes explicit the effect of an expansion to the capacity of the GDS and is consistent with the provisions set out in the NGR.[23]

29. The ERA received no submissions from interested parties that raised any concerns with ATCO's extension and expansion requirements.

20 ATCO, *2025-29 Plan*, 1 September 2023, pp. 255-256.

21 Existing paragraphs 7.2(b) and (c); and paragraphs 7.3(b) and (c) have been deleted from the access arrangement.

22 See: ERA, 'Regulatory Information Notices' (online) (accessed April 2024).

23 NGR, rule 104(3).

30. The ERA accepts ATCO's decision to largely retain the AA5 extension and expansion requirements, set out in Part 7 of the access arrangement, for AA6.

Capacity trading requirements

31. Capacity trading requirements provide for the transfer of capacity to a third party. The requirements are set out in Part 6 of the access arrangement, with specific terms and conditions for the transfer of contracted capacity set out in clause 14 of the TSA.[24]

32. ATCO submitted that the capacity trading requirements for AA6 will remain the same as the current (AA5) requirements because it has not identified any necessary changes.[25]

33. The ERA received no submissions from interested parties that raised any concerns with ATCO's capacity trading requirements.

34. The ERA accepts ATCO's decision to retain the AA5 capacity trading requirements, set out in Part 6 of the access arrangement, for AA6.

Principles for changing delivery and receipt points

35. The principles for changing delivery and receipt points are set out in Part 8 of the access arrangement, with specific terms and conditions set out in clause 5 of the TSA.[26]

36. ATCO submitted that it did not identify any reasons to change the current (AA5) principles for AA6, other than to make clear that new receipt points can only be added to the GDS if there is an interconnection agreement in force (ATCO has done this by adding a new paragraph 8.1(c) to the proposed access arrangement).

37. In support of its position on the principle for changing delivery and receipt points, ATCO submitted:

> We have not identified any requirement for any changes to the current changing receipt and delivery points provisions for AA6. However, we have made clear that new Receipt Points (or Physical Gate Points) may only be added to the GDS if there is a legally enforceable Interconnection Arrangement in force between ATCO and the party operating the facilities immediately upstream of that Receipt Point or Physical Gate Point. Such an agreement will be of particular importance in the case of renewable gases, as controls may be required to ensure the introduction of those gases at a receipt point occurs in a way that does not adversely affect the ATCO GDS.
>
> We have also clarified the process around constructing new delivery points and that this cost will be priced in accordance with applicable law. A separate agreement may be required to regulate the construction process depending on the scale of construction required. For example, a simple domestic connection to an existing main would not require an agreement around construction, but a major upgrade to supply a new or expanding industrial customer would.[27]

---

[24] The ERA has considered the Template Service Agreement in a separate document (see: Draft Decision Attachment 9: Service terms and conditions).

[25] ATCO, *2025-29 Plan*, 1 September 2023, p. 255.

[26] The ERA has considered the Template Service Agreement in a separate document (see: Draft Decision Attachment 9: Service terms and conditions).

[27] ATCO, *2025-29 Plan*, 1 September 2023, p. 256.

38. ATCO has clarified the process around the construction of new delivery points and the cost involved by making amendments to clause 5 of the TSA. The ERA has considered ATCO's proposed amendments to the TSA in a separate document (Draft Decision Attachment 9).

39. The ERA received no submissions from interested parties that raised any concerns with ATCO's principles for changing delivery and receipt points.

40. The ERA accepts ATCO's decision to largely retain the AA5 principles, set out in Part 8 of the access arrangement, for AA6.

Key performance indicators

41. While there is no requirement to include KPIs in its access arrangement proposal, ATCO has included KPIs so stakeholders can understand the metrics ATCO uses to judge its performance and to "be clear on ATCO's priorities and how capex and opex are influenced and driven by [ATCO's] various service levels".[28]

42. ATCO's KPIs are summarised in Table 8.1. ATCO stated that it used the following method to set the KPI targets for AA6:

> We have set our AA6 KPI targets by:
>
> - Aligning our new set of KPIs to the AA6 strategic pillars. This included updating our existing KPIs to reflect the changing energy landscape and introducing new KPIs (including [Total Recordable Injury Frequency Rate], [System Average Interruption Frequency Index] and carbon emissions).
> - Using an average of our service performance over the past five years for those KPIs retained from AA5. This provides a basis for analysis and moderates external environmental effects that may have influenced results in any year.
> - Aligning with AA6 forecast expenditure, customer numbers, and length of mains.
> - Setting [unaccounted for gas] targets based on volume demand forecasts and historical information overlayed with our commitment to greenhouse gas reduction.[29]

[28] ATCO, *2025-29 Plan*, 1 September 2023, p. 96.

[29] ATCO, *2025-29 Plan*, 1 September 2023, p. 99.

Table 8.1: ATCO AA6 key performance indicators and targets

KPI	Description	AA5 Target	AA6 Target
Safety			
Total public reported gas leaks per 100 kilometres of main	Total number of confirmed gas leaks reported by the public (excluding third party damage) per 100 kilometres of main per year.	<0.65	<0.62
Attendance to broken mains and services within one hour	The percentage of attendance to broken mains and services within one hour of the service request being received (%).	>99.9	>99.9
Attendance to loss of supply within three hours	The percentage of attendance to loss of gas supply within three hours of the service request being received (%).	>99.9	>99.9
Total Recordable Injury Frequency Rate (TRIFR)	The number of incidents that result in an employee receiving medical treatment, restricted work or losing time.	<1.2	<1.0
Reliability			
Asset Health Index (AHI)	Based on unplanned SAIDI & SAIFI, and mains, service and meter leaks.	100	100
System Average Interruption Frequency Index (SAIFI)	The **number** of supply interruptions experienced by the average customer as a result of sustained unplanned interruptions, calculated as: “(sum of the number of customers interrupted) / (number of customers served)”.	<0.0041	<0.0035
System Average Interruption Duration Index (SAIDI)	The **duration** of supply interruptions experienced by the average customer as a result of sustained unplanned interruptions, calculated as: “(sum of the duration of customer outages) / (number of customers served)”.	<2.00	<1.60
Affordability		**(AA5 2024)***	**(AA6 2025)***
Opex per km of main	The total opex per year divided by the total km of main ($). *This indicator is based on ATCO’s opex forecast and demand forecast.*	5,226	5,853
Opex per customer connection	The total opex per year divided by the total number of customer connections ($). *This indicator is based on ATCO’s opex forecast and demand forecast.*	98	106

KPI	Description	AA5 Target	AA6 Target
Sustainability		**(AA5 2024)***	**(AA6 2025)***
Unaccounted for Gas (UAFG) Rate	UAFG is the difference between the measurement of the quantity of gas delivered into the gas distribution system in each period, and the measurement of the quantity of gas delivered from the gas distribution system during that period (%).	2.37	1.67
Carbon emissions	Net emissions (scope 1) due to ATCO operations measured in tonnes of CO_2-e (carbon dioxide equivalent).	76,991	68,987

Source: ATCO, 2025-29 Plan, 1 September 2023, Table 8.2, pp. 97-98.

** Shown as: AA5 target for 2024 (last year of AA5) and AA6 target for 2025 (first year of AA6).*

43. The ERA's technical consultant, Energy Markets Consulting associates (EMCa), considered ATCO's KPIs as part of its independent assessment of ATCO's capital and operating expenditures.[30] Overall, EMCa considered ATCO's approach to setting KPIs and associated targets to be reasonable, noting that in the absence of an incentive scheme, in which performance is measured against agreed KPI targets so rewards or penalties are applied accordingly, ATCO's KPIs are a reporting tool only.[31] The ERA notes EMCa's position and considers that ATCO's KPIs provide useful information to substantiate elements of ATCO's proposal, for example levels of operating expenditure. As there is no requirement for ATCO to include KPIs in its access arrangement documents and for the ERA to assess and approve such indicators, the ERA will use ATCO's KPIs as information to inform its considerations when making its draft and final decisions on ATCO access arrangement proposal.

Safety KPIs

44. Safety indicators are fundamental to ATCO's operations and are included in other key documents, including ATCO's Safety Case, Sustainability Strategy and Strategic Asset Management Plan.[32] ATCO's proposed AA6 targets for all indicators are either the same as or better than the AA5 targets.

45. EMCa noted that for the 'total reportable gas leaks per km of main' indicator, ATCO is progressively improving its performance over time by lowering the target from 0.70 in AA4 to 0.62 in AA6.[33] To date, ATCO has either met or exceeded the AA4 and AA5 targets for this KPI. EMCa considered that "whilst the AA6 target may be outperformed again given ATCO's investment in replacing leaky mains, other mains are ageing and may leak more than they are currently."[34] EMCa concluded that ATCO's safety targets for AA6 were reasonable.

30 ATCO uses its KPIs to support its actual and proposed levels of capital and operating expenditures.

31 EMCa, *ATCO GDS: Review of technical aspects of revised access arrangement 2025-29*, April 2024, p. 19.

32 ATCO provided each of these documents as supporting information for its access arrangement proposal (see ATCO Attachments 02.002, 03.003 and 10.012).

33 For this KPI, a lowering target represents an increase in performance over time.

34 EMCa, *ATCO GDS: Review of technical aspects of revised access arrangement 2025-29*, April 2024, p. 19.

Reliability KPIs

46. ATCO's Asset Health Index (AHI) was introduced in AA5 to measure the overall health of ATCO's assets and is based on the weighted average of index scores for the unplanned System Average Interruption Duration Index (SAIDI), the unplanned System Average Interruption Frequency Index (SAIFI), mains leaks, service leaks and meter leaks. The AA5 AHI target of 100 has been retained for AA6.[35]

47. The reliability indicators of SAIFI and SAIDI are industry accepted measures for reliability and ATCO's proposed AA6 targets for these indicators are an improvement on the AA5 target.

48. ATCO stated that the AHI measure "assists in prioritising maintenance activities, helping to improve reliability and reduce costs and risks".[36] However, EMCa noted that ATCO advised during an on-site meeting that it does not use the AHI measure in practice for this purpose. EMCa concluded that:

> Based on our experience, the use of an AHI measure can provide some indication of the overall health of assets and show trends indicating improvement or degradation that may be broadly related to the level of investment. We question how the AHI, as implemented by ATCO, is assisting with its asset management decisions. However, its targets indicate that ATCO is seeking to outperform the component targets [of SAIFI and SAIDI] to achieve a value lower than 100.[37]

49. EMCa concluded that ATCO's reliability targets for AA6 were reasonable.

Affordability KPIs

50. ATCO's affordability KPIs are based on its operating expenditure and demand forecasts. The yearly targets for AA6 are shown in Table 8.2. ATCO stated that the AA6 targets include "the impact of the changes to the accounting treatment for software as a service, which is not included in the historical data".[38]

Table 8.2: ATCO AA6 affordability key performance indicators and yearly targets ($ real 31 December 2023)

KPI	2025	2026	2027	2028	2029
Opex per km of main ($)	5,853	6,554	6,597	6,033	5,983
Opex per customer connection ($)	106	118	118	108	106

Source: ATCO, 2025-29 Plan, 1 September 2023, Table 8.2, pp. 97-98.

51. EMCa assessed ATCO's expenditure forecast as part of its report to the ERA. EMCa has advised that ATCO has likely overstated the operating expenditure required to maintain the safety and reliability of the network for AA6. EMCa has further noted that if the ERA sets a lower operating allowance for AA6, "this would lead to improved

[35] ATCO state that "the AHI is represented as a ratio, with a ratio higher than 100 indicating a higher level of asset health" (ATCO, *2025-29 Plan*, 1 September 2023, p. 102).

[36] ATCO, *2025-29 Plan*, 1 September 2023, p. 102.

[37] EMCa, *ATCO GDS: Review of technical aspects of revised access arrangement 2025-29*, April 2024, p. 20.

[38] ATCO, *2025-29 Plan*, 1 September 2023, pp. 104-105.

affordability performance against these KPIs, and the targets should be adjusted accordingly".[39]

52. Given the way the affordability KPIs are based on ATCO's forecast of operating expenditure for AA6, the KPIs provide a direct means to measure and benchmark the effect of this expenditure. The ERA has considered ATCO's operating expenditure and demand forecasts in separate documents (Draft Decision Attachment 5 and Attachment 2, respectively). Consistent with the required amendments in those documents, ATCO's AA6 targets for its affordability KPIs will need be recalculated. The ERA's recalculated targets are shown in Table 8.3.

Table 8.3: ERA draft decision affordability key performance indicators and yearly targets for AA6 ($ real 31 December 2023)

KPI	2025	2026	2027	2028	2029
Opex per km of main ($)	4,304	4,356	4,487	4,577	4,582
Opex per customer connection ($)	78	79	82	83	83

Source: ERA analysis (Draft Decision Opex Model, 24 April 2024).

Required Amendment

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.

Sustainability KPIs

53. For AA6, ATCO will have two sustainability KPIs: the Unaccounted for Gas (UAFG) rate and carbon emissions. The yearly targets for AA6 are shown in Table 8.4.

54. ATCO's UAFG Rate is an existing AA5 KPI. ATCO stated that it "needs to monitor and reduce UAFG as it represents a cost to both customers and the environment".[40] Carbon emissions are a new KPI for AA6. ATCO currently reports its scope 1 emissions to the Clean Energy Regulator as part of the National Greenhouse and Energy Reporting Scheme, and to maintain consistency with this reporting scheme, the carbon emissions KPI is measured on a financial year basis (rather than a calendar year basis).[41]

[39] EMCa, *ATCO GDS: Review of technical aspects of revised access arrangement 2025-29*, April 2024, pp. 20-21.

[40] ATCO, *2025-29 Plan*, 1 September 2023, p. 106.

[41] ATCO, *2025-29 Plan*, 1 September 2023, pp. 106-107.

Table 8.4: ATCO AA6 sustainability key performance indicators and yearly targets

KPI	2025	2026	2027	2028	2029
Unaccounted for Gas (UAFG) rate (%)	1.67	1.67	1.65	1.65	1.64
Carbon emissions (scope 1 net emissions measured in tonnes of carbon dioxide equivalent (CO_2-e))	68,987	60,342	59,504	55,156	54,482

Source: ATCO, 2025-29 Plan, 1 September 2023, Table 8.2, pp. 97-98.

55. EMCa noted the following observations regarding ATCO's sustainability KPIs and concluded that the targets were reasonable:

> ATCO introduced a KPI for reduction of net emissions in 2022 to be consistent with its Sustainability Strategy. ATCO describes the calculation of its net emissions (scope 1) to the National Greenhouse and Energy Reporting (NGER) Scheme and Safeguard Mechanism in its AAI. It has set its 2029 target to match its 2020 emissions level less 30%, although we note that ATCO appears to have inconsistent targets, with one appearing to be an error. We assume based on the explanation of its calculation method, that its 2029 target is 51,901 tonnes.
>
> The AA4 and AA5 (performance to date) has outperformed the UAFG targets and accordingly it has reduced its AA6 target to align with the trend more closely.[42]

56. The ERA has considered ATCO's forecast of UAFG and the associated operating expenditure to cover this gas in Draft Decision Attachment 5.[43] The ERA has not amended the UAFG rate used by ATCO for its key performance indicators.

57. ATCO's AA6 targets for the reduction of carbon emissions, as shown in Table 8.4, will be affected by the level of investment that ATCO makes during AA6 to reduce carbon emissions. The ERA notes that its draft decision has allowed investment to replace leaking pipes, but not included investment to inject renewable gases.[44] As a result, ATCO's carbon emission KPI targets for AA6 may need to be amended to ensure consistency between investment to reduce emissions and the targets.

Required Amendment

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.

[42] EMCa, *ATCO GDS: Review of technical aspects of revised access arrangement 2025-29*, April 2024, p. 21.

[43] 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, paragraph 144.

[44] ERA, *Draft decision on revisions to the access arrangement for the Mid-West and South-West Gas Distribution Systems – Attachment 4: Regulatory capital base*, 24 April 2024.

Other KPIs

58. Alinta Energy raised concerns over the absence of KPIs for disconnection services.[45] Alinta noted that when a retailer requests ATCO to disconnect a delivery point under the Retail Market Procedures, ATCO is obliged to complete that service order request. Alinta submitted that ATCO does not always complete the service order despite it being paid for by the retailer.

59. Under clause 105(2) of the Retail Market Procedures (WA), a user (retailer) may at any time lodge a disconnection notice with the network operator. Once a disconnection notice is deemed to be valid (by meeting specified requirements), clause 107 sets out the procedures to follow. Under clause 107(2), the network operator must, within two business days after receiving a valid disconnection notice, disconnect and undertake a meter reading of, and obtain the meter reading data for, the delivery point.[46]

60. Alinta's concerns are reasonable. When a retailer requests and pays for a disconnection, there is a reasonable expectation and obligation (under the Retail Market Procedures) for ATCO to complete the disconnection. In circumstances where the disconnection has not, or cannot, be completed it would be reasonable for the retailer to be advised and/or compensated for any loss that has occurred. However, given there is no requirement for ATCO to include and report on KPIs in its access arrangement, the ERA cannot require ATCO to include additional service KPIs in response to Alinta's submission.

61. The ERA does note that the Retail Market Procedures have established processes for dealing with alleged procedure breeches and that these processes could be used to investigate and address Alinta's concerns.[47] In any case, it could be beneficial for ATCO, as a prudent service provider, to include service KPIs in the access arrangement to monitor whether its pipeline services (such as, for example, special meter reads and disconnections) are being provided within required and/or agreed timeframes.

---

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

[46] Australian Energy Market Operator, *Retail Market Procedures (WA) v.8.0*, 3 August 2020 (online) (accessed April 2024).

[47] See: Chapter 6 of the Retail Market Procedures (WA) and AEMO, *WA Gas Retail Market Compliance Guidelines (v3.0)*, 27 July 2020 (online) (accessed April 2024).

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.[48]

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

> **84 Speculative capital expenditure account**
>
> (1) A full access arrangement may provide that the amount of non-conforming capital expenditure, to the extent that it is not to be recovered through a surcharge on users or a capital contribution, is to be added to a notional fund (*the speculative capital expenditure account*).
>
> (2) The balance of the speculative capital expenditure account must be adjusted annually by applying to the balance a rate that is the same as the allowed rate of return for the regulatory year in which the adjustment is made.
>
> (3) If at any time the type or volume of services changes so that capital expenditure that did not, when made, comply with the new capital expenditure criteria becomes compliant, the relevant portion of the speculative capital expenditure account (including the return referable to that portion of the account) is to be withdrawn from the account and rolled into the capital base as at the commencement of the next access arrangement period.
>
> …
>
> **99 Fixed principles**
>
> (1) A full access arrangement may include a principle declared in the access arrangement to be fixed for a stated period.
>
> (2) A principle may be fixed for a period extending over 2 or more access arrangement periods.

48 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).

(3) A fixed principle approved before the commencement of these rules, or approved by the [ERA] under these rules, is binding on the [ERA] and the service provider for the period for which the principle is fixed.

(4) However:

(a) the [ERA] may vary or revoke a fixed principle at any time with the service provider's consent; and

(b) if a rule is inconsistent with a fixed principle, the rule operates to the exclusion of the fixed principle.

…

103 Queuing requirements

(1) An access arrangement must contain queuing requirements if:

(a) the access arrangement is for a transmission pipeline; or

(b) the access arrangement is for a distribution pipeline and the [ERA] notifies the service provider that the access arrangement must contain queuing requirements.

(2) If the [ERA] gives a notification under subrule (1), the access arrangement must contain queuing requirements as from the commencement of the first access arrangement period to commence after the date of the notification (but this requirement lapses if the [ERA], by notice to the service provider, withdraws the notification).

(3) Queuing requirements must establish a process or mechanism (or both) for establishing an order of priority between prospective users of spare or developable capacity (or both) in which all prospective users (whether associates of, or unrelated to, the service provider) are treated on a fair and equal basis.

(4) Queuing requirements might (for example) provide that the order of priority is to be determined:

(a) on a first-come-first-served basis; or

(b) on the basis of a publicly notified auction in which all prospective users of the relevant spare capacity or developable capacity are able to participate.

(5) Queuing requirements must be sufficiently detailed to enable prospective users:

(a) to understand the basis on which an order of priority between them has been, or will be, determined; and

(b) if an order of priority has been determined – to determine the prospective user's position in the queue.

104 Extension and expansion requirements

(1) Extension and expansion requirements may state whether the applicable access arrangement will apply to incremental services to be provided as a result of a particular extension to the pipeline made during the access arrangement period or may allow for later resolution of that question on a basis stated in the requirements.

(2) Extension and expansion requirements may, if the service provider agrees, state that the applicable access arrangement will apply to incremental services to be provided as a result of a particular extension to the pipeline made before the revision commencement date for the applicable access arrangement.

(3) Extension and expansion requirements must state that the applicable access arrangement will apply to incremental services to be provided as a result of any expansion to the capacity of the pipeline during the access arrangement period and deal with the effect of the expansion on tariffs.

(4) Extension and expansion requirements included in a full access arrangement must, if they provide that an applicable access arrangement is to apply to incremental services provided as a result of an extension to the pipeline:

(a) in the case of extensions made before the revision commencement date for the applicable access arrangement deal with:

(i) the effect of the extension on the opening capital base under rule 77(2)(c1); and

(ii) the effect of the extension on the description of reference services specified in the access arrangement proposal; and

(b) in all cases, deal with the effect of the extension on tariffs.

(5) The extension and expansion requirements cannot require the service provider to provide funds for work involved in making an extension or expansion unless the service provider agrees.

105 Capacity trading requirements

(1) Capacity trading requirements must provide for transfer of capacity:

(a) if the service provider is registered as a participant in a particular gas market – in accordance with rules or Procedures governing the relevant gas market; or

(b) if the service provider is not so registered, or the relevant rules or Procedures do not deal with capacity trading – in accordance with this rule.

(2) A user may, without the service provider's consent, transfer, by way of subcontract, all or any of the user's contracted capacity to another (the third party) with the following consequences:

(a) the transferor's rights against, and obligations to, the service provider are (subject to paragraph (b)) unaffected by the transfer; but

(b) the transferor must immediately give notice to the service provider of:

(i) the subcontract and its likely duration; and

(ii) the identity of the third party; and

(iii) the amount of the contracted capacity transferred.

(3) A user may, with the service provider's consent, transfer all or any of the user's contracted capacity to another (the third party) with the following consequences:

(a) the transferor's rights against, and obligations to, the service provider are terminated or modified in accordance with the capacity trading requirements; and

(b) a contract arises between the service provider and the third party on terms and conditions determined by or in accordance with the capacity trading requirements.

(4) The service provider must not withhold its consent under subrule (3) unless it has reasonable grounds, based on technical or commercial considerations, for doing so.

(5) An adjustment of rights and liabilities under subrule (3) does not affect rights or liabilities that had accrued under, or in relation to, the contract before the transfer took effect.

(6) The capacity trading requirements may specify in advance conditions under which consent will or will not be given, and conditions to be complied with if consent is given.

106 Change of receipt or delivery point by user

(1) An access arrangement must provide for the change of a receipt or delivery point in accordance with the following principles:

(a) a user may, with the service provider's consent, change the user's receipt or delivery point;

(b) the service provider must not withhold its consent unless it has reasonable grounds, based on technical or commercial considerations, for doing so.

(2) The access arrangement may specify in advance conditions under which consent will or will not be given, and conditions to be complied with if consent is given.