Economic Regulation Authority

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

Supplementary information: Stakeholder submissions summary

24 April 2024

D275635

Economic Regulation Authority

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Note

This document summarises the matters raised by stakeholders as part of the ERA's review of the access arrangement for the Mid-West South-West Gas Distribution Systems, and how the ERA has responded to those issues.

This document has been prepared for the convenience of stakeholders and does not form part of the ERA's draft decision.

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
- Attachment 9: Service terms and conditions

Summary of submissions

The following table sets out the major issues raised by stakeholders in their submissions following publication of ATCO's access arrangement proposal and the ERA's draft decision.

The table then details how the ERA has responded to, or been informed by, this submission, as well as the relevant section of the draft decision where interested parties can find more information.

Where possible, stakeholder submissions have been directly quoted, however, for brevity some have been paraphrased.

AGL Energy

AGL's submission

Issue raised	ERA response	More information
Accelerated depreciation		
AGL notes that ATCO is taking some steps to prepare for a policy change in relation to gas usage, and considers this a prudent course of action, for a distribution network at this time. Some accelerated depreciation is understood and a prudent and sensible approach considering that an Access Arrangement is a 5-year proposal. Some accelerated depreciation at this time has been accepted by the AER for other gas networks as being appropriate given the broad and significant changes sweeping through the energy industry at this time.	The ERA has not approved ATCO's proposal for $80 million of accelerated depreciation. The provision of accelerated depreciation is a reasonable regulatory tool to manage the potential for reducing levels of future customer demand. However, the ERA does not consider that ATCO's AA6 proposal is robust nor is it supported by a strong modelling methodology.	Attachment 6
Cost recovery of disconnection service		
AGL is not in agreement with ATCO splitting the service into two components and having some costs passed on to Retailers to attempt to recover those from parties who are no longer retailer customers (i.e. the Meter Deregister Service).	The ERA has considered the permanent disconnection service in the context of the Western Australian gas safety framework, which due to local factors (such as differing building standards), does not require gas abolishment and the removal of unused gas infrastructure.	Attachment 9 Attachment 3

Issue raised	ERA response	More information
AGL has experienced a small number of these and because of the split costs the consumer is frustrated that they have requested and paid for a service from ATCO but get invoices from the retailer for an associated service at a different time. AGL considers that if ATCO is to offer the service directly, then it should be a complete service. AGL has been in discussions with many Gas Networks around the high costs of such services, which often lead to illegal removal of meters or abandonment of the gas usage, with no customer, but ongoing charges levied against the retailer, who is unable to recover those charges. To this end, the AER has approved the Victorian Distribution Networks splitting the Permanent Disconnection (or Abolishment) charges so that the relevant user has a fee capped at a $220 charge and the remainder of the costs are recovered through network fees.	ATCO must review the terms and conditions set out in the Permanent Disconnection Contract to identify any improvements that can clarify and/or resolve the matters raised in submissions to the ERA with respect to the permanent disconnection service. As a minimum, the terms and conditions for the permanent disconnection service must: • Clarify the service options for disconnection (whether temporary or permanent) and clearly set out the circumstances where the permanent disconnection service is required. • Clarify the extent to which property will be repaired or reinstated with respect to disturbances to paving, concrete, bitumen and other things that form part of a property crossover/verge. The ERA has approved a lower tariff for the permanent disconnection service, having considered the various costs incurred by ATCO.	
Demand forecast		
The 2023 AEMO Gas Statement of Opportunities Consumption Forecasts (16 Nov 2023) is still showing a range from broadly consistent consumption through to a growth in consumption through to 2032. The ATCO consumption forecasts are consistent with the AEMO forecasts. Experience in other Jurisdictions (except Victoria) presently show a strong preference for gas by consumers. Without a policy decision (such as Victoria's) impacting gas usage, AGL would expect gas connections and consumption to continue to grow.	The ERA has critically reviewed ATCO's approach to preparing its demand forecasts using internal resources and external technical consultants. Through this process the ERA has some concerns about the veracity of those forecasts. The ERA considers that natural gas is still widely perceived by its customers as a cost-effective energy source, with maximum residential gas pricing still set by the Western Australian Government. Additionally, there are no government policies in place prohibiting natural gas connections in new residential areas or those requested by a customer in an existing residential area. There is no indication that the State Government will change its policies on emission reduction during the AA6 period. The ERA has forecast a total average customer base of 853,843 in 2029, at the end of the AA6 period, which is 1.71 per cent higher than ATCO's forecast.	Attachment 2

Issue raised	ERA response	More information
	The ERA's haulage reference services demand forecast is 156,701TJ for the AA6 period, 6.56 per cent higher than ATCO's forecast. The ERA's ancillary reference services forecast is based on the ERA's customer connection forecast tariff class B3, which is higher than ATCO's forecast in all service classes. The ERA requires ATCO to revise its haulage reference services demand and ancillary reference services demand forecast.	
Renewable gas		
Given the rapid movement across the energy sector at this time, and the key drivers for Net Zero by 2030 in many areas, AGL is supportive of ATCO starting the processes to allow renewable gases to be included as part of the service offering. AGL has participated in two different discussions with WA government on the future of renewable gases and sees this as part of the near future. The question of uptake and usage for renewable gases is still in the infant stage in Australia, with many businesses and governments developing products and services for this source of energy. However, there are trial projects with Hydrogen appliances, which are available in other countries such as Japan, and newly developed appliances being tested for renewable gas usage.	The ERA has determined that the capital expenditure required to inject renewable gases into the network is not conforming capital expenditure as the legislation allowing it to occur has not yet been enacted. As a result, ATCO is unable to inject renewable gases into the network as part of its UAFG and is required to source natural gas which is at present cheaper than the combination of natural gas, biomethane and hydrogen that was proposed by ATCO. The expenditure associated with the renewable gas injection points for unaccounted for gas (gas that leaks or is lost due to metering errors) was not accepted as the alternative of natural gas injection was considered more cost effective. For the four other renewable injection points, the capital was considered non-conforming as no rationale had been provided as to why ATCO would incur this expenditure rather than the suppliers of the renewable gases.	Attachment 4
Stakeholder engagement		
ATCO provided an opportunity for AGL to engage on the Access Arrangement but do consider that the engagement could have been enhanced with some additional retailer feedback sessions to deal with areas of concern… including areas such as accelerated depreciation and disconnections. AGL considers that ATCO's engagement was commensurate with some other network businesses engagement, but… the	The ERA has commissioned independent research on the veracity and quality of ATCO's stakeholder consultation. This research has found that the ERA can be confident that the sampling and statistical analysis of the survey has been conducted at industry standard. However, the ERA has significant reservations over the extent to which the finding would be repeated in an environment in which customers were adequately informed about the issues they were asked to evaluate.	Overview

Issue raised	ERA response	More information
Victorian Gas Distribution Businesses have had the greatest engagement during 2021 – 2023 period.		
Tariff path		
AGL is concerned with the proposed step change arising from ATCO's pricing path and has frequently argued for a more consistent glide path. In saying this, AGL notes that without the step change, the prices at the end of AA6 will be much higher. Noting that this is a time of unprecedented change, and every decision will have consequences, AGL is aware that all energy businesses must make decisions at this time to prepare for a challenging future. In the current economic environment, any price increase and the impact on end users (residential and business) is of concern to a retailer. However, in saying this, the opposing outcome would be an even higher network charge in the future. Making trade-offs at this time is necessary and consideration needs to be given to the access arrangements which will follow this one.	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). The ERA engaged Patterson Research Group to help conduct a survey of 1,000 small use gas customers in March 2024. One of the questions asked in the survey tested the views of gas users to tariff path options. Those consumers' 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). The indicative one-off increase presented in the survey was for 11 per cent in 2025. If the price was to increase beyond this percentage, then the preferences of consumers may not be the same.	Attachment 3
Tariff variation mechanism		
AGL does not see compelling reasons for any move at this time from a weighted average price cap (the price cap) to an alternative mechanism.	The ERA did not receive any submissions that outlined an alternative preferable price control and the ERA has decided not to move away from the weighted average price cap.	Attachment 3

Alinta Energy

Alinta's submission

<table>
<tr><th>Issue raised</th><th>ERA response</th><th>More information</th></tr>
<tr><td colspan="3">Accelerated depreciation</td></tr>
<tr><td>Alinta Energy is opposed to the introduction of accelerated depreciation of ATCO’s gas network assets for AA6.
Alinta Energy considers that consumers should not be required to hedge ATCO from all and competing risks, including that of both increasing and decreasing demand.
There has been no consultation with stakeholders on this issue.
Alinta Energy also submits:
• Customer impact does not appear to have been well considered.
• Implementing accelerated depreciation is not a logical outcome based on forecasts of increasing new connections.
• ATCO has not met the high evidentiary benchmark set in comparable regulatory decisions.
• Comparisons with the east coast gas market may not be relevant.
• ATCO has not proposed to change its capex investment strategy to reduce the life of installed assets.</td><td>The ERA has not approved ATCO’s proposal for $80 million of accelerated depreciation.
The provision of accelerated depreciation is a reasonable regulatory tool to manage the potential for reducing levels of future customer demand.
However, the ERA does not consider that ATCO’s AA6 proposal is robust nor is it supported by a strong modelling methodology.</td><td>Attachment 6</td></tr>
<tr><td colspan="3">Capital expenditure (Capex)</td></tr>
<tr><td>Our most significant concern related to ATCO’s proposed capex is the consistency of the composition of its capex spend with ATCO’s proposal to apply accelerated depreciation.
ATCO’s reasoning for applying accelerated depreciation is the risk of asset stranding of ATCO’s network due to uncertainty of the future of gas and use of its network.
This reasoning seems inconsistent with the magnitude of ATCO’s proposed ‘network growth’ capex for AA6 of</td><td>The ERA considers that there will be additional gas connections (above ATCO’s forecasts) during AA6 which will necessitate further ‘network growth’ capex.
The ERA’s consideration of current demand for AA6 is discussed in Attachment 2. Customer numbers and gas volumes are expected to be at least stable for the next five years.
The ERA has not approved ATCO’s proposal for $80 million of accelerated depreciation.</td><td>Attachment 2
Attachment 4
Attachment 6</td></tr>
</table>

Issue raised	ERA response	More information
$157.4m, equivalent to approximately 34 per cent of ATCO's total proposed AA6 capex of $465.8m, and the proposed network growth capex for AA5, equivalent to approximately 35 per cent of ATCO's total AA5 capex.	The provision of accelerated depreciation is a reasonable regulatory tool to manage the potential for reducing levels of future customer demand. However, the ERA does not consider that ATCO's AA6 proposal is robust nor is it supported by a strong modelling methodology.	
Cost recovery of disconnection service		
Alinta Energy supports ATCO's proposal to require up-front payment directly from customers requesting the permanent disconnection ancillary reference service. 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… to the proposed AA6 operating expenditure.	The ERA has approved a lower tariff for the permanent disconnection service, having considered the various costs incurred by ATCO. Alinta's concerns regarding KPIs are reasonable. When a retailer requests and pays for a disconnection, there is a reasonable expectation and obligation (under the Gas Retail Market Procedures) for ATCO to complete the disconnection. 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. The Gas Retail Market Procedures have established processes for dealing with alleged procedure breaches and that these processes could be used to investigate and address Alinta's concerns. 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.	Attachment 3 Attachment 8 Attachment 9
Demand forecast		
Alinta Energy considers ATCO's B3 demand forecasts to be significantly underestimated. ATCO has used a range of historical data in its demand forecast… Whilst historical data is crucial for demand	The ERA has critically reviewed ATCO's approach to preparing its demand forecasts using internal resources and external technical consultants. Through this process the ERA has some concerns about the veracity of those forecasts.	Attachment 2

Issue raised	ERA response	More information
forecasting, some further considerations should be taken into account regarding upcoming uncertainties in the market. (Alinta makes reference to developing multiple scenarios, or using Monte Carlo simulations.)	The ERA considers that natural gas is still widely perceived by its customers as a cost-effective energy source, with maximum residential gas pricing still set by the Western Australian Government. Additionally, there are no government policies in place prohibiting natural gas connections in new residential areas or those requested by a customer in an existing residential area. There is no indication that the State Government will change its policies on emission reduction during the AA6 period. For the B3 tariff class, the ERA has forecast an average customer base of 837,875 in 2029, at the end of the AA6 period, which is 1.84 per cent higher than ATCO's forecast. The ERA's haulage reference services demand forecast is 51,682 for the AA6 period, which is 11.81 per cent higher than ATCO's forecast. The ERA requires ATCO to revise its haulage reference services demand and ancillary reference services demand forecast.	
Legislative changes		
Alinta Energy supports the ERA's position of applying the relevant regulatory framework from a 'point in time' perspective, whereby it does not seek to apply amended regulations and legislation in advance of those amendments being adopted.	The ERA has applied this approach in the draft decision.	Overview
Operating expenditure (Opex)		
ATCO has used 2022 as its base year because it is "the most recent year of actual expenditure". This is not what the NGR require, nor what the method logically requires. Rather, the most efficient year should be selected as the base year, balanced also against consideration of selecting a year that is likely to be reflective of future costs. In Alinta Energy's view, this is the lowest cost year selected at a granular cost level where compliant operations occurred. ATCO's cited reasons for its network opex underspend during AA5 include a tight labour market, increased efficiency of	The ERA has accepted ATCO's proposal to use 2022 as its base year. While selecting the most recent year of actual expenditure is not specified in the NGR, the ERA considered that the most recent year of actual expenditure (being 2022) was likely to be reflective of future years costs after the removal of non-recurrent costs. In addition, the 2022 expenditure is more likely to be reflective of future costs as previous years expenditure was impacted by the COVID-19 pandemic and the unusual business operation practices that had to be adopted during that period.	Attachment 5

Issue raised	ERA response	More information
pipeline surveys and internalisation of reinstatement activities for some network activities. Alinta asks the ERA to consider whether these efficiencies may persist into AA6 and whether ATCO's BST forecast has been adjusted appropriately for these efficiencies.	The ERA has further reduced ATCO's base year costs to exclude additional expenditure that is not efficient expenditure from ATCO's proposed value of $62.5 million down to $50.7 million. This value includes efficiencies achieved by ATCO in the AA5 period into the AA6 forecast expenditure.	
Rate of return		
ATCO has proposed an average nominal post-tax WACC of 7.33 per cent for the AA6 period. This is a very steep increase from the 4.16 per cent WACC approved for the AA5 period. The impact of the proposed increase in the rate of return (RoR) on ATCO's tariffs is substantial, accounting for 38 per cent of the change in revenue between AA5 and AA6. Alinta asks that the ERA consider evidence that the regulatory RoR overstates the efficient RoR for networks. The evidence Alinta refers to is the AER's Energy Infrastructure Credit Spread Index, an index of actual network debt costs based on data collected from privately-owned regulated networks on their debt instruments	The ERA notes Alinta Energy's comment on the Australian Energy Regulator's review of actual debt costs. The ERA considered this matter when it reviewed its gas rate of return instrument. Detail on this matter is provided in the ERA's explanatory statement for the gas rate of return instrument. This draft decision applies the return on debt approach as set out in the binding gas rate of return instrument.	Attachment 7
Renewable gas		
Irrespective of changes to the legislative and regulatory frameworks, Alinta considers that ATCO's investments in renewable gases: • Are not consistent with the NGO and will not be consistent with the revised NGO when this takes effect in WA. • Do not satisfy the current criteria applying to capital and operating expenditure under the NGR.	The ERA recognises the importance of carbon emissions reduction strategies across the economy to reduce Australia's carbon emissions and meet legislated government targets. ATCO proposed to spend $26.4 million to voluntarily reduce either its own or customers' carbon emissions. ATCO's proposals are not feasible under the current economic regulatory framework and ATCO has not sufficiently demonstrated that these proposals (if they were permitted under the legislative framework) are the most cost-efficient solutions to reduce carbon emissions that would be undertaken by a prudent gas service provider. As a result, the ERA has not accepted ATCO's proposal.	Attachment 4

Issue raised	ERA response	More information
Additionally, Alinta does not consider that ATCO's proposed investments in renewable gases are in the long-term interests of consumers.	The ERA's customer engagement indicated that the level of support for ATCO's proposed greenhouse gas reduction strategies overall was quite strong. However, when residential gas customers are asked about the amount they would be willing to financially contribute to support these strategies, the support for greenhouse reduction strategies fell materially.	
Stakeholder engagement		
Alinta Energy is concerned that the findings of ATCO's customer research do not support its proposed additional expenditure over AA6 as claimed.	The ERA has commissioned independent research on the veracity and quality of ATCO's stakeholder consultation. This research has found that the ERA can be confident that the sampling and statistical analysis of the survey has been conducted at industry standard. However, the ERA has significant reservations over the extent to which the finding would be repeated in an environment in which customers were adequately informed about the issues they were asked to evaluate.	Overview
Tariff path		
Alinta has 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.	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). The ERA engaged Patterson Research Group to help conduct a survey of 1,000 small use gas customers in March 2024. One of the questions asked in the survey tested the views of gas users to tariff path options. Those consumers' 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). The indicative one-off increase presented in the survey was for 11 per cent in 2025. If the price was to increase beyond this percentage, then the preferences of consumers may not be the same.	Attachment 3

Issue raised	ERA response	More information
Tariff structures		
Alinta Energy supports the removal of the first tariff band for residential (B3) customers, which currently provides 1.825 GJ of gas at no charge, but on the proviso that the supply charge for these customers is equivalently reduced. The ERA will need to be satisfied that ATCO's proposed $19 reduction in the standing charge for each customer is sufficient. Any changes to network tariff structures aimed at achieving specific emissions reductions objectives under the NGO, as it applies in WA, would be best served by the removal of retail price regulation. In the absence of this reform, any movement from ATCO's current declining block tariff structure to a flat or inclining structure would not serve any purpose at this time and could further exacerbate the misalignment between the network and retail tariffs.	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. The ERA has also made adjustments 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 ATCO's cost drivers. 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.	Attachment 3

Chamber of Minerals and Energy (CME)

CME's submission

Issue raised	ERA response	More information
Demand forecast		
There is increased uncertainty about the future use of natural gas and utilisation of pipelines in the long term. Any forecast of expected customer demand and renewable gas production that underpins network investment and its subsequent cost recovery should be appropriate and robust.	The ERA has critically reviewed ATCO's approach to preparing its demand forecasts using internal resources and external technical consultants. Through this process the ERA has some concerns about the veracity of those forecasts.	Attachment 2

Issue raised	ERA response	More information
CME supports consistency in demand modelling between that used in AA6 and the Australian Energy Market Operator's multi-sector modelling.	The ERA considers that natural gas is still widely perceived by its customers as a cost-effective energy source, with maximum residential gas pricing still set by the Western Australian Government. Additionally, there are no government policies in place prohibiting natural gas connections in new residential areas or those requested by a customer in an existing residential area. There is no indication that the State Government will change its policies on emission reduction during the AA6 period. The ERA has forecast a total average customer base of 853,843 in 2029, at the end of the AA6 period, which is 1.71 per cent higher than ATCO's forecast. The ERA's haulage reference services demand forecast is 156,701TJ for the AA6 period, 6.56 per cent higher than ATCO's forecast. The ERA's ancillary reference services forecast is based on the ERA's customer connection forecast tariff class B3, which is higher than ATCO's forecast in all service classes. The ERA requires ATCO to revise its haulage reference services demand and ancillary reference services demand forecast.	
Renewable gas		
CME provides in-principle support to ATCO's proposed investment of $26.4 million to facilitate the introduction of renewable gases into the distribution network over the period to 31 December 2028. While CME supports the recovery of capital and operating costs related to renewable gas distribution, CME considers that recovery of investment costs related to renewable gas production is outside the scope of AA6.	The ERA recognises the importance of carbon emissions reduction strategies across the economy to reduce Australia's carbon emissions and meet legislated government targets. ATCO proposed to spend $26.4 million to voluntarily reduce either its own or customers' carbon emissions. ATCO's proposals are not feasible under the current economic regulatory framework and ATCO has not sufficiently demonstrated that these proposals (if they were permitted under the legislative framework) are the most cost-efficient solutions to reduce carbon emissions that would be undertaken by a prudent gas service provider. As a result, the ERA has not accepted ATCO's proposal.	Attachment 4

Issue raised	ERA response	More information
	The ERA's customer engagement indicated that the level of support for ATCO's proposed greenhouse gas reduction strategies overall was quite strong. However, when residential gas customers are asked about the amount they would be willing to financially contribute to support these strategies, the support for greenhouse reduction strategies fell materially.	

Department of Energy, Mines, Industry Regulation and Safety (DMIRS) – Building and Energy division

DMIRS' submission

Issue raised	ERA response	More information
Capital expenditure		
Building and Energy supports ATCO's initiative to incorporate the use of a vehicle mounted Picarro leak survey detection technology into their operations, which is aimed at enhancing the effectiveness of the leak survey program. The proposed new technology provides the capability and precision to detect leaks not only on gas mains but also at gas services and meter positions, providing analytical insight that can be leveraged to enhance leak detection, operational efficiency, and replacement processes. Replacement of GDS components at the end of their operational lifespans is a crucial control measure used for maintaining the safety of a GDS as aged components pose an increased risks of leakage and/or failure. The timely replacement of these components ensures a GDS's reliability and integrity are maintained.	ATCO proposes expenditure of $1.8 million in the AA6 period to acquire Picarro gas leak detection equipment following a successful trial in 2022. ATCO did not provide either the results of the trial nor a business case for review by the ERA's consultant EMCa. The cost estimate is based on a quote from the vendor in April 2023. While the initiative may have merit, EMCa considers that ATCO has provided insufficient information to demonstrate that the proposed expenditure is likely to satisfy the capital expenditure criteria in the NGR. The ERA in its draft decision has considered that capital expenditure associated with sustaining the network as conforming with the NGR, other than the added contingency amounts. In	Attachment 4

Issue raised	ERA response	More information
It also reduces the risk of potential incidents and improves the overall safety for the general public and network operator personnel and for improved protection for private property, the environment and the GDS. Building and Energy supports ATCO's CAPEX submission as it relates to the replacement of GDS components reaching the end of their operational lifespans.	general, while the underlying cost basis seemed reasonable, the addition of contingencies at a project level was not considered reasonable as at the portfolio level there would be both overspends and underspends that would likely balance out.	
Cost recovery of disconnection service		
The proposed permanent disconnection service appears broadly workable in that it is consistent with the decommissioning requirements in the *Gas Standards (Gas Supply and System Safety) Regulations 2000* (the Regulations). The fact that ATCO has historically offered this service, albeit as a non-reference 'demolition' service (which has been noted in the issues paper), further supports the notion that the proposed service is workable. Building and Energy's assessment is that this permanent disconnection service will predominantly be used in relation to demolition and property redevelopment activities. Consumers converting from gas to electric appliances might seek this service. However, it is more likely that many consumers will elect to leave their gas service in place as this provides them with cost free flexibility going forward and allows them to avoid the immediate burden of the permanent disconnection fee.	The ERA has considered the permanent disconnection service in the context of the Western Australian gas safety framework, which due to local factors (such as differing building standards), does not require gas abolishment and the removal of unused gas infrastructure. ATCO must review the terms and conditions set out in the Permanent Disconnection Contract to identify any improvements that can clarify and/or resolve the matters raised in submissions to the ERA with respect to the permanent disconnection service. As a minimum, the terms and conditions for the permanent disconnection service must: • Clarify the service options for disconnection (whether temporary or permanent) and clearly set out the circumstances where the permanent disconnection service is required. • Clarify the extent to which property will be repaired or reinstated with respect to disturbances to paving, concrete, bitumen and other things that form part of a property crossover/verge. The ERA has approved a lower tariff for the permanent disconnection service, having considered the various costs incurred by ATCO.	Attachment 9 Attachment 3

Issue raised	ERA response	More information
Renewable gas		
Blending low concentrations of renewable gases in Gas Distribution Systems (GDS) is one of the four areas of focus outlined in the 'WA Renewable Hydrogen Roadmap' to partially decarbonise the State's gas sector. In the transition to increase the use of renewable gases, consideration of safety implications is crucial. This requires that network operators identify the risks associated with supplying alternative gases and gas mixes through their GDS and to develop and implement controls to mitigate these risks to an acceptable level (ALARP1) to ensure adequate protection of the general public, network operator personnel, private property and the GDS. Building and Energy supports in principle the safety aspects outlined in ATCO's proposed work program, encompassing the integration of safety control measures at injection gas plants and subsequent GDS. It is important to note that any alterations to gas quality supplied through a GDS, commissioning of new facilities or adjustments to GDS operating parameters will require amendments to ATCO's safety case, which will need to be assessed by Building and Energy before implementation.	The ERA recognises the importance of carbon emissions reduction strategies across the economy to reduce Australia's carbon emissions and meet legislated government targets. ATCO proposed to spend $26.4 million to voluntarily reduce either its own or customers' carbon emissions. ATCO's proposals are not feasible under the current economic regulatory framework and ATCO has not sufficiently demonstrated that these proposals (if they were permitted under the legislative framework) are the most cost-efficient solutions to reduce carbon emissions that would be undertaken by a prudent gas service provider. As a result, the ERA has not accepted ATCO's proposal. The ERA's customer engagement indicated that the level of support for ATCO's proposed greenhouse gas reduction strategies overall was quite strong. However, when residential gas customers are asked about the amount they would be willing to financially contribute to support these strategies, the support for greenhouse reduction strategies fell materially.	Attachment 4

Expert Consumer Panel

The Panel's submission

Issue raised	ERA response	More information
Accelerated depreciation		
The Panel considers that accelerating depreciation shifts too much of the risk of asset stranding onto consumers and away from ATCO and its shareholders. If the ERA was to accept accelerated depreciation of existing assets in concept, the Panel recommends that less of ATCO's proposed depreciation be brought forward into the earlier years of the access arrangement and more of it be recovered in the latter years, to facilitate a smoother transition in tariffs from 2024 to 2025. The Panel is concerned that ATCO's proposed schedule of depreciation exacerbates the price shock consumers will face from 2024 to 2025 ($78, or a 12 per cent increase, on an annual retail gas bill at the gazetted retail price). The Panel does not support accelerated depreciation being applied to assets that ATCO voluntarily chooses to invest in from now. In particular, if ATCO voluntarily chooses to expand new customer connections by expanding the network, it should not be allowed to accelerate the depreciation of those assets. The Panel is especially concerned that allowing ATCO to accelerate recovering the costs of expanding the network would in fact encourage it to overinvest in expanding the network (compared to a standard straight line depreciation schedule), to capitalise on the prospect of earning higher regulated revenues, sooner.	The ERA has not approved ATCO's proposal for $80 million of accelerated depreciation. The provision of accelerated depreciation is a reasonable regulatory tool to manage the potential for reducing levels of future customer demand. However, the ERA does not consider that ATCO's AA6 proposal is robust nor is it supported by a strong modelling methodology.	Attachment 6

Issue raised	ERA response	More information
Cost recovery of disconnection service		
While the Panel supports 'Permanent disconnection' inclusion as a reference service, the tariff for this ancillary service does seem very high relative to the 'Disconnect' ancillary service, at nine times the price. ATCO has described in general, qualitative terms the costs that are recovered through ancillary services tariffs and set out the forecast operating expenditure on the different types of disconnection services, but it has not provided enough information to enable the Panel to understand why the cost of providing each disconnection service varies so much. Further, the Panel questions why if a set fee is charged by ATCO, a retailer is then able to also charge their customer a fee for the removal of metering equipment. Consideration should be given to removing this from ATCO's proposed permanent disconnection contract if reasonable reasons for allowing it cannot be provided.	The ERA has considered the permanent disconnection service in the context of the Western Australian gas safety framework, which due to local factors (such as differing building standards), does not require gas abolishment and the removal of unused gas infrastructure. ATCO must review the terms and conditions set out in the Permanent Disconnection Contract to identify any improvements that can clarify and/or resolve the matters raised in submissions to the ERA with respect to the permanent disconnection service. As a minimum, the terms and conditions for the permanent disconnection service must: • Clarify the service options for disconnection (whether temporary or permanent) and clearly set out the circumstances where the permanent disconnection service is required. • Clarify the extent to which property will be repaired or reinstated with respect to disturbances to paving, concrete, bitumen and other things that form part of a property crossover/verge. The ERA has approved a lower tariff for the permanent disconnection service, having considered the various costs incurred by ATCO.	Attachment 9 Attachment 3
Demand forecast		
ATCO's forecast for small use (B3) customers is the product of forecast connection numbers and demand per connection. Whilst ATCO expects demand per connection to decline over the period of the access arrangement, it expects its customer base to grow at 1.1 per cent p.a. The growth in its customer base accounts for both disconnections and new connections, meaning ATCO expects more customers to connect to its network than to disconnect from it.	The ERA has critically reviewed ATCO's approach to preparing its demand forecasts using internal resources and external technical consultants. Through this process the ERA has some concerns about the veracity of those forecasts. The ERA considers that natural gas is still widely perceived by its customers as a cost-effective energy source, with maximum residential gas pricing still set by the Western Australian Government. Additionally, there are no government policies in place prohibiting natural gas connections in new residential areas or	Attachment 2

Issue raised	ERA response	More information
The Panel thinks the forecast network penetration rate ATCO has applied is overly optimistic. ATCO's consultants, Core Energy, find that the network penetration rate declined each year from 2013 until the COVID-19 pandemic, despite gas being a cheaper alternative to electricity for Western Australians over the period. The Panel's view is that the forecast trend in the network penetration rate should instead follow a declining trend. Core Energy forecasts a flat rate of disconnections as a proportion of opening connections for the period of the access agreement. The Panel's view is that the forecast trend in disconnections should follow an increasing trend, rather than flatten as forecast by Core Energy.	those requested by a customer in an existing residential area. There is no indication that the State Government will change its policies on emission reduction during the AA6 period. For the B3 tariff class, the ERA found that the historical penetration rate displayed a declining trend from 2014, thus the ERA used a declining penetration rate to forecast new connections during the AA6 period. The ERA found that the historical disconnection rate has increased since 2014 compared to pre-2014 periods, the trend, however, is unclear due to a wide range of disconnection rates between 2014 and 2020. Thus, the ERA adopted an average disconnection rate of 0.49 per cent between 2014 and 2020 for the forecast. The ERA requires ATCO to revise its haulage reference services demand and ancillary reference services demand forecast.	
Fixed principles		
The Panel does not support the inclusion of ATCO's proposed fixed principle about emissions reduction and renewable gases. The Panel does not consider ATCO's proposed expenditure on renewable gas readiness to be conforming expenditure. The Panel's view on this matter is consistent under both the currently regulatory framework, and the amended regulatory framework.	The ERA's draft decision is to not allow ATCO's proposed fixed principle for emissions reductions. Fixed principle 11.5 anticipates amendments to the National Gas Law and National Gas Rules to facilitate emissions reduction objectives and which would also expand the regulatory framework to other gases. The National Gas Law as applied in Western Australia has been amended subsequent to ATCO's proposal to include an emissions reduction objective in the national gas objective. The ERA has applied this amended national gas objective in this draft decision for capital and operating expenditure (discussed in Attachments 4 and 5 of the draft decision). The ERA expects that the regulatory framework will also be amended prior to the ERA's final decision to allow other gases to be incorporated. This would result in the fixed principle being unnecessary.	Attachment 8

Issue raised	ERA response	More information
	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.	
Operating expenditure		
ATCO proposes to roll into its capital base $0.4 million spent on the first stage of its hydrogen blending initiative. ATCO has not demonstrated how the expenditure conforms with Rule 79. For example, it has not shown that the overall economic value of the $0.4 million expenditure is positive; or that the present value of the expected incremental revenue to be generated because of the expenditure exceeds the present value of the capital expenditure.	The ERA has not approved the capital expenditure relating to ATCO's renewable gas injection stations, as this injection is not currently feasible under the economic regulatory framework in Western Australia. Accordingly, the ERA has also not approved the operating expenditure associated with this project.	Attachment 5
Renewable gas		
The Panel considers that the proposed capital expenditure is not conforming capital expenditure: • It is not yet sufficiently certain that expenditure on renewable gas blending technology will be incurred by prudent service providers acting efficiently, or that its adoption will become accepted good industry practice. • The expenditure is not justifiable under any of the grounds listed in rule 79(2). We acknowledge that ATCO wishes to contribute to the global exploration of the role renewable gas blending can play in reducing emissions and commend its commitment to reduce emissions and assist its customers to do so as well. However, these are not sufficient justifications for this expenditure to be considered conforming under the rules. Including it in the capital base would mean that the costs and risks of the investment are borne entirely by consumers —	The ERA recognises the importance of carbon emissions reduction strategies across the economy to reduce Australia's carbon emissions and meet legislated government targets. ATCO proposed to spend $26.4 million to voluntarily reduce either its own or customers' carbon emissions. ATCO's proposals are not feasible under the current economic regulatory framework and ATCO has not sufficiently demonstrated that these proposals (if they were permitted under the legislative framework) are the most cost-efficient solutions to reduce carbon emissions that would be undertaken by a prudent gas service provider. As a result, the ERA has not accepted ATCO's proposal. The ERA's customer engagement indicated that the level of support for ATCO's proposed greenhouse gas reduction strategies overall was quite strong. However, when residential gas customers are asked about the amount they would be willing to financially contribute to support these strategies, the support for greenhouse reduction strategies fell materially.	Attachment 4 Attachment 5

Issue raised	ERA response	More information
irrespective of whether the project delivers the uncertain benefits it is hoped to deliver, consumers bear all the costs.		
Stakeholder engagement		
The Panel has concerns over the veracity of the evidence gathered via the process and in turn the weight it should be given in the ERA's assessment of various aspects of ATCO's proposed access arrangement. The Panel's view is that ATCO and its consultants have not presented consumers with the full set of information required for them to be able to make fully informed judgements. For example, consumers were not presented with different options for reducing emissions (e.g. investing more in reducing unaccounted for gas, encouraging higher energy efficiency, purchasing Australian Carbon Credit Units), and the associated costs and benefits. Instead, they were just presented with ATCO's preferred option of renewable gas blending. We do not believe that consumers were given full information about renewable gas blending either – for example, about the costs and risks of investing in different levels of blending and network coverage and the associated impacts on tariffs; about the impacts of green hydrogen leakage on global warming; or about the need to replace home appliances at green hydrogen blends above 10-20 per cent.	The ERA has commissioned independent research on the veracity and quality of ATCO's stakeholder consultation. This research has found that the ERA can be confident that the sampling and statistical analysis of the survey has been conducted at industry standard. However, the ERA has significant reservations over the extent to which the finding would be repeated in an environment in which customers were adequately informed about the issues they were asked to evaluate.	Overview
Tariff path		
ATCO proposes a relatively large increase in tariffs from 2024 to 2025, and then no further real tariff increase throughout AA6. ATCO did not consult with customers or consumers on preferences between and impacts of this and alternative tariff	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). The ERA engaged Patterson Research Group to help conduct a survey of 1,000 small use gas customers in March 2024. One of	Attachment 3

Issue raised	ERA response	More information
paths through its Voice of the Customer engagement program, which seems a missed opportunity. The increase in tariffs from 2024 to 2025, if passed on to consumers, has the potential to drive them off the network sooner and in higher numbers than if a smoother transition was adopted. The risk is heightened given that current abnormally high levels of inflation and 26 interest rates are expected to affect consumers until late 2025. A tariff path which smoothly increases tariffs from 2024 to 2029 would lessen the risk of this occurring.	the questions asked in the survey tested the views of gas users to tariff path options. Those consumers' 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). The indicative one-off increase presented in the survey was for 11 per cent in 2025. If the price was to increase beyond this percentage, then the preferences of consumers may not be the same.	
Tariff structures		
Declining block tariff structures have historically been used to encourage gas distributors to grow the volume of gas carried by their networks and customers to consume larger volumes of gas. This has benefited gas customers because fixed transport costs have been recovered by distribution networks from a larger volume of throughput, meaning customer pay lower per unit transport costs. However, as noted, the national gas objective is going to be amended to incorporate an emissions reduction objective. Assuming this is also adopted in WA, the ERA must balance achieving emissions reduction with the other elements of the national gas objective. The Panel's view is that tariff structures that encourage more use of gas are inconsistent with the new national gas objective, as well as the priority areas ATCO has set out in its Sustainability Strategy, in particular, to reduce net emissions. Instead, a flat tariff structure, whereby customers pay a steady, or flat, rate per unit of gas consumed, would be consistent with the new national gas objective.	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. The ERA has also made adjustments 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 ATCO's cost drivers. 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.	Attachment 3

Housing Industry Association (HIA)

HIA's submission

Issue raised	ERA response	More information
Cost recovery of disconnection service		
The HIA does not object to a user-pays model for those that choose to permanently disconnect from the network	The ERA has approved a lower tariff for the permanent disconnection service, having considered the various costs incurred by ATCO, but requires ATCO to review the terms and conditions to address concerns raised by other stakeholders.	Attachment 3 Attachment 9
Demand forecast		
The international pricing pressures for gas in WA is somewhat shielded with the Domestic Gas Policy. WA's forward demand for gas in manufacturing is therefore more favourable to use than coal-fired or diesel plant power generation; and with gas evolving as a genuine transitional option for WA's energy policy, means its future use and need is more certain than not.	The ERA has critically reviewed ATCO's approach to preparing its demand forecasts using internal resources and external technical consultants. Through this process the ERA has some concerns about the veracity of those forecasts. The ERA considers that natural gas is still widely perceived by its customers as a cost-effective energy source, with maximum residential gas pricing still set by the Western Australian Government. Additionally, there are no government policies in place prohibiting natural gas connections in new residential areas or those requested by a customer in an existing residential area. There is no indication that the State Government will change its policies on emission reduction during the AA6 period. The ERA has forecast a total average customer base of 853,843 in 2029, at the end of the AA6 period, which is 1.71 per cent higher than ATCO's forecast. The ERA's haulage reference services demand forecast is 156,701TJ for the AA6 period, 6.56 per cent higher than ATCO's forecast. The ERA's ancillary reference services forecast is based on the ERA's customer connection forecast for tariff class B3, which is	Attachment 2

Issue raised	ERA response	More information
	higher than ATCO's forecast in all service classes. The ERA requires ATCO to revise its haulage reference services demand and ancillary reference services demand forecast.	
Renewable gas		
Investment in renewable gases is indeed timely and appropriate, which if implemented should forego the need for flat or inclining block tariffs to discourage use. User demand is unlikely to abate or 'switch off' simply because renewable energy sources are being used, even if there is some additional (albeit unfavourable) expense for generation and supply.	The ERA recognises the importance of carbon emissions reduction strategies across the economy to reduce Australia's carbon emissions and meet legislated government targets. ATCO proposed to spend $26.4 million to voluntarily reduce either its own or customers' carbon emissions. ATCO's proposals are not feasible under the current economic regulatory framework and ATCO has not sufficiently demonstrated that these proposals (if they were permitted under the legislative framework) are the most cost-efficient solutions to reduce carbon emissions that would be undertaken by a prudent gas service provider. As a result, the ERA has not accepted ATCO's proposal. The ERA's customer engagement indicated that the level of support for ATCO's proposed greenhouse gas reduction strategies overall was quite strong. However, when residential gas customers are asked about the amount they would be willing to financially contribute to support these strategies, the support for greenhouse reduction strategies fell materially.	Attachment 4
Tariff structures		
Energy prices must be maintained at a level where Australian building product manufacturers are internationally competitive. HIA does not support a flat or inclining block tariffs as WA seeks to on-shore additional manufacturing capacity. Outlook demand is likely to increase as a result which would have upward pressures on manufacturing costs, with a direct line of sight to decreasing housing affordability as witnessed recently.	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. The ERA has also made adjustments 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 ATCO's cost drivers. This change may have the benefit of also sending price signals to customers to conserve their gas use (or not increase), which would	Attachment 3

Issue raised	ERA response	More information
Any cost increases for the generation and supply of gas to the residential housing market will remain a political issue. It may also not do the gas industry any favours by attempting such bold price increases for B3 customers, given the opportunities for domestic gas to augmented with solar and battery use for energy supply. ATCO should consider revising the declining block tariff to compensate for this increase in amended price structures rather than levy those manufacturing businesses and home-owners that can least afford the price increase.	reduce carbon emissions and be consistent with the amended national gas objective to reduce emissions to help achieve Australia's emissions reduction targets.	
Tariff variation mechanism		
The suggested changes to the variation mechanism to a weighted average price cap, in the absence of other reliable energy sources particularly in manufacturing, would increase uncertainty for costs across the board with no viable alternative to appropriate and reliable energy supply.	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.	Attachment 3

Kleenheat

Kleenheat's submission

Issue raised	ERA response	More information
Accelerated depreciation		
Accelerating depreciation increases the burden on current customers. Customers that have greater means will be more	The ERA has not approved ATCO's proposal for $80 million of accelerated depreciation.	Attachment 6

Issue raised	ERA response	More information
likely to transition early and as such, this exacerbates the problem that accelerated depreciation is trying to solve. Furthermore, ATCO proposes spending $15.5 million on the 'enabling renewable gas' program to ensure the GDS can accept and distribute renewable gases. Investment in enabling the GDS for renewable gas would prolong the use of the GDS, which is inconsistent with the proposal to accelerate depreciation. Kleenheat disagrees with the accelerated depreciation proposal and believes pre-empting the outcome of the energy transition risks consumers paying more than necessary ahead of time. Kleenheat believes that continuing straight line depreciation of the GDS in AA6 would not result in the asset being unrecoverable or reduce the incentives for efficient operation of the GDS.	The provision of accelerated depreciation is a reasonable regulatory tool to manage the potential for reducing levels of future customer demand. However, the ERA does not consider that ATCO's AA6 proposal is robust nor is it supported by a strong modelling methodology.	
Capital expenditure/ Operating expenditure		
The proposed capital expenditure (Capex) of $466 million is $17 million lower than the AA5 Final Decision, however, it is $52 million higher than the actual spend in AA5. Kleenheat notes that $19 million of Capex is carried over from AA5 and encourages the ERA to review the proposed Capex and ensure that ATCO can undertake the level of work proposed. Kleenheat is concerned that the history of over-estimation of Opex and Capex has resulted in ATCO receiving excessive returns over the previous Access Arrangement as outlined below, which is at the detriment of the customers of the GDS. The National Gas Rules, Rule 77(2) appears to have some mechanism to remove any benefit associated with any difference between estimated and actual expenditure.	The ERA has carefully reviewed ATCO's proposal and considered information provided by ATCO, public submissions, and findings from the ERA's technical consultant (EMCa) to determine the amount of capital expenditure which meets the requirements of the NGR. The above has been considered in the draft decision approved AA6 expenditure, which is $23 million lower than the proposal. This reflects a reduction in the AA6 capex for the removal of contingency and renewable gases expenditure. There is also a reduction in the Information technology project expenditure. Rule 77(2) of the NGR has a mechanism to deal with the difference between forecast and actual expenditure for the prior period, in this case the AA4 period, not AA5 period, and only to the extent that the approved AA5 opening capital base had forecast expenditure and not actual expenditure included. ATCO did provide an adjustment for the difference in the 2019 forecast capital	

Issue raised	ERA response	More information
Kleenheat strongly urges the ERA to ensure any benefit from prior year over estimation is removed, including benefits from timing.	expenditure (last year of AA4 which was the only forecast value) compared to the actual capital expenditure for 2019.	
Demand forecast		
ATCO has flagged a significant decrease in the demand for B3 customers in AA6. On a 'weather normalised' basis, average demand per connection is forecast to decline from 12.19 GJ per customer in 2025 to 10.86 GJ per customer in 2029 at a rate of 2.8 per cent per annum. This is not consistent with the current trend of Kleenheat active customers' average usage which is declining at around half the rate of that proposed by ATCO. Kleenheat notes that the total actual volumes have historically been higher than both the Initial Proposal and Final Decision of AA4 and AA5.	The ERA has critically reviewed ATCO's approach to preparing its demand forecasts using internal resources and external technical consultants. Through this process the ERA has some concerns about the veracity of those forecasts. The ERA considers that natural gas is still widely perceived by its customers as a cost-effective energy source, with maximum residential gas pricing still set by the Western Australian Government. Additionally, there are no government policies in place prohibiting natural gas connections in new residential areas or those requested by a customer in an existing residential area. There is no indication that the State Government will change its policies on emission reduction during the AA6 period. The ERA's analysis is consistent with Kleenheat's view that ATCO's declining average demand per connection forecast is high for the B3 tariff class. The ERA has forecast an average decline rate of 1.53 per cent per year for demand per connection during the AA6 period. The ERA's forecast for demand per connection in 2029 is 12.34GJ. The ERA requires ATCO to revise its haulage reference services demand and ancillary reference services demand forecast.	Attachment 2
Operating expenditure		
ATCO is proposing a $78 million increase (over 20 per cent) in the operating expenditure (Opex) in AA6, when compared to the current Access Arrangement. Kleenheat also notes that ATCO's actual Opex has historically been significantly lower than previous proposed Access Arrangements.	ATCO proposed AA6 operating expenditure that was $78 million over the ERA approved AA5 operating expenditure and $100 million over ATCO's forecast actual AA5 operating expenditure. $27.3 million of this increase related to ATCO's proposed movement of Software as a Service (SaaS) from capital to operating expenditure in AA6. The ERA has not accepted the	Attachment 5

Issue raised	ERA response	More information
ATCO has underspent on average 17 per cent in AA4 and AA5 relative to its proposed amount.	moving of costs from capital to operating expenditure and has approved a reduced amount of SaaS as part of the AA6 capital expenditure. The ERA has further reduced ATCO's AA6 operating expenditure by removing additional non-recurrent expenditure from the base year and has rejected significant amounts of expenditure, in particular for areas relating to the injection of renewable gases into the network, as a result of rejecting the associated required capital expenditure in AA6. As a result of the proposed amendments to ATCO's operating expenditure proposal, the AA6 operating expenditure is determined to be $337.4 million which is $118.5 million less than ATCO's proposal, $40.5 million less than the ERA approved for AA5 and $18.5 million less than ATCO's forecast actual AA5 expenditure.	
Rate of return		
Kleenheat acknowledges that ATCO's proposed rate of return is in line with the methods of the gas rate of return instrument. However, Kleenheat is concerned that the risk-free rate at the time of this decision is set at the high point in the interest rate cycle and is then fixed for the AA6 period. The rate of return is a key driver of the tariff increase, and setting the rate of return of the GDS at the potential peak would result in ATCO achieving significant excess returns, at the cost of consumers.	The ERA's gas rate of return instrument is binding for gas networks. The ERA is unable to change its approach to determining the rate of return. As a binding instrument, the gas rate of return instrument uses market information to estimate the prevailing returns that compensate investors for holding assets with a similar risk of return as the regulated asset.	Attachment 7
Tariff path		
Kleenheat challenges the proposed price step increase in 2025 followed by constant real prices from 2026 to 2029. ATCO's proposed $78 increase to the annual average distribution network bill for the average residential (B3) customer is a concern given the cost of living pressures in the community.	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). The ERA engaged Patterson Research Group to help conduct a survey of 1,000 small use gas customers in March 2024. One of	Attachment 3

Issue raised	ERA response	More information
The proposed initial tariff increase is significant (12 per cent of the average annual natural gas bill) and will ultimately impact customers as retailers may moderate discounts to accommodate the increase. Kleenheat supports a smoothed price increase over the AA6 period, which is consistent with ERA's decision during AA510. This would result in a more modest increase in 2025 and reduce the price shock to customers in the transition between AA5 and AA6.	the questions asked in the survey tested the views of gas users to tariff path options. Those consumers' 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). The indicative one-off increase presented in the survey was for 11 per cent in 2025. If the price was to increase beyond this percentage, then the preferences of consumers may not be the same.	

Origin Energy

Origin's submission

Issue raised	ERA response	More information
Accelerated depreciation		
In principle, Origin supports the use of accelerated depreciation as a means of addressing network asset stranding risk. Origin notes also that the ERA (Dampier to Bunbury Natural Gas Pipeline) and AER (Victorian gas networks) have previously identified the use of accelerated depreciation as an appropriate means of addressing potential asset stranding risk. However, it is important that any accelerated depreciation proposal is consistent with other aspects of the regulatory proposal. ATCO's proposal to commit expenditure to grow the network and introduce renewable gas appears inconsistent with its proposal to accelerate the end of the useful life of certain elements for its network.	The ERA has not approved ATCO's proposal for $80 million of accelerated depreciation. The provision of accelerated depreciation is a reasonable regulatory tool to manage the potential for reducing levels of future customer demand. However, the ERA does not consider that ATCO's AA6 proposal is robust nor is it supported by a strong modelling methodology.	Attachment 6

Issue raised	ERA response	More information
While Origin appreciates that ATCO is seeking to limit its financial exposure and that of its' customers in the face of uncertainty, Origin considers it unreasonable for customers to bear the additional costs associated with accelerated depreciation while simultaneously paying for network growth. Excessive price increases in the short-term could exacerbate disconnections from the gas networks, leaving remaining customers to carry a higher cost burden to maintain the networks. Under the circumstances, Origin does not support ATCO's proposed accelerated depreciation. As the policy environment and the path to decarbonisation becomes clearer, it may be that the approach to depreciation needs to be revisited or that other measures are required.		
Cost recovery of disconnection service		
In principle, Origin supports the application of a user-pays approach for directly attributable services. However, it is not clear if a permanent disconnection is required for customers who decide to electrify their properties or if a simple deregistration is sufficient. Where permanent disconnection is required, the proposed charge may act as a de facto exit fee and may discourage customers from exiting the gas market to electrification. Exit fees represent a barrier to switching and customers should be informed of cheaper options to electrify and avoid paying fixed service charges, for example by opting to simply deregister rather than have services permanently removed.	The ERA has considered the permanent disconnection service in the context of the Western Australian gas safety framework, which due to local factors (such as differing building standards), does not require gas abolishment and the removal of unused gas infrastructure. ATCO must review the terms and conditions set out in the Permanent Disconnection Contract to identify any improvements that can clarify and/or resolve the matters raised in submissions to the ERA with respect to the permanent disconnection service. As a minimum, the terms and conditions for the permanent disconnection service must: • Clarify the service options for disconnection (whether temporary or permanent) and clearly set out the circumstances where the permanent disconnection service is required. • Clarify the extent to which property will be repaired or reinstated with respect to disturbances to paving, concrete,	Attachment 9 Attachment 3

Issue raised	ERA response	More information
	bitumen and other things that form part of a property crossover/verge. The ERA has approved a lower tariff for the permanent disconnection service, having considered the various costs incurred by ATCO.	

Issue raised	ERA response	More information
Demand forecast		
In the absence of information to the contrary, Origin considers it reasonable to rely on historic trends to develop forecasts of gas customer consumption and connections for the forthcoming regulatory period. Origin notes the potential for ongoing policy developments, including… introducing renewable gases to the network. It is vital that the ERA and ATCO ensure that demand forecasts are updated progressively as more information comes to hand and the implications for expenditure and prices as the policy environment becomes clearer. Where there are significant within period variations in demand, the access arrangement may need to be amended to reduce the prospect of price shocks in the following regulatory period.	The ERA has critically reviewed ATCO's approach to preparing its demand forecasts using internal resources and external technical consultants. Through this process the ERA has some concerns about the veracity of those forecasts. The ERA considers that natural gas is still widely perceived by its customers as a cost-effective energy source, with maximum residential gas pricing still set by the Western Australian Government. Additionally, there are no government policies in place prohibiting natural gas connections in new residential areas or those requested by a customer in an existing residential area. There is no indication that the State Government will change its policies on emission reduction during the AA6 period. In addition to relying on the historical trends, the ERA has incorporated econometric analysis in its demand forecast. The ERA has forecast a total average customer base of 853,843 in 2029, at the end of the AA6 period, which is 1.71 per cent higher than ATCO's forecast. The ERA's haulage reference services demand forecast is 156,701TJ for the AA6 period, 6.56 per cent higher than ATCO's forecast. The ERA's ancillary reference services forecast is based on the ERA's customer connection forecast tariff class B3, which is higher than ATCO's forecast in all service classes. The ERA requires ATCO to revise its haulage reference services demand and ancillary reference services demand forecast.	Attachment 2
Legislative changes		
Recent reforms to the national gas regulatory framework, including extending the framework to hydrogen blends and renewable gases and incorporating an explicit emissions	The ERA has applied this approach in the draft decision and disallowed the investment in renewable gas injection assets proposed by ATCO.	Overview

Issue raised	ERA response	More information
reduction objective have not been implemented in Western Australia. While ATCO's proposal assumes these reforms will be implemented, Origin considers the ERA's proposal to adopt current legislative settings is prudent. Origin agrees that the developing policy environment means that forecasts and assumptions may need to be revisited prior to the release of the ERA's Draft and Final Decision and potentially into the next access arrangement period to best manage this risk.		
Renewable gas		
Origin appreciates that ATCO is seeking to prepare the network in the event renewable gases prove viable, while also targeting emissions reductions. However, Origin considers there are considerable uncertainties associated with the policy framework and Origin has concerns regarding the supply availability and cost of renewable gases at this time. Specifically, recent amendments to the NGL and NGR allowing for hydrogen and other renewables and the adoption of emissions targets have not been implemented in Western Australia. It is also not clear if the West Australian Government will promote the use of gas (or renewables) or move towards electrification. Further, the supply availability of alternative gas fuels such as biomethane and hydrogen, and the technical requirements and cost effectiveness remains uncertain. For these reasons, Origin considers that expenditure to facilitate hydrogen/renewable gas readiness should only be included in the event that the relevant legislation is passed, and the viability and customer benefits have been demonstrated. In the absence of legislation coming into effect at the start of the access period, ATCO should seek a cost pass-through.	The ERA recognises the importance of carbon emissions reduction strategies across the economy to reduce Australia's carbon emissions and meet legislated government targets. ATCO proposed to spend $26.4 million to voluntarily reduce either its own or customers' carbon emissions. ATCO's proposals are not feasible under the current economic regulatory framework and ATCO has not sufficiently demonstrated that these proposals (if they were permitted under the legislative framework) are the most cost-efficient solutions to reduce carbon emissions that would be undertaken by a prudent gas service provider. As a result, the ERA has not accepted ATCO's proposal. The ERA's customer engagement indicated that the level of support for ATCO's proposed greenhouse gas reduction strategies overall was quite strong. However, when residential gas customers are asked about the amount they would be willing to financially contribute to support these strategies, the support for greenhouse reduction strategies fell materially.	Attachment 4

Issue raised	ERA response	More information
Tariff path		
While Origin appreciates that the increase is primarily due to circumstances outside of ATCO's control, Origin has concerns regarding the magnitude of the proposed step increase for an average customer. While gazetted retail tariffs will not increase by the same margin, there will be a significant impact on the contestable retail gas market and on the actual prices paid by consumers. Because there is no commensurate increase in gazetted tariffs, the increase in network charges in 2025 will increase market offers to customers, with a reduction in competitive discounts to the most active market customers and less retail competition in general. Origin considers that a reduction in the step increase in 2025 followed by smaller annual increases in the remaining years of the period would provide less of a shock to customers and help to maintain retail competition whilst allowing ATCO to achieve full cost recovery over the regulatory period	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). The ERA engaged Patterson Research Group to help conduct a survey of 1,000 small use gas customers in March 2024. One of the questions asked in the survey tested the views of gas users to tariff path options. Those consumers' 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). The indicative one-off increase presented in the survey was for 11 per cent in 2025. If the price was to increase beyond this percentage, then the preferences of consumers may not be the same.	Attachment 3
Tariff structures		
While Origin agrees that the current tariff structure (declining block) and associated tariff variation mechanism (price cap) may be inconsistent with an emissions reduction objective, there is no clear alternative at this time. Any move from the status quo has potential implications for consumer prices and the potential to transfer risk from networks to consumers. Given the fluid policy environment and uncertainty over the future role for gas and gas distribution networks, Origin considers it is not appropriate to change these settings at this time.	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. The ERA has also made adjustments 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 ATCO's cost drivers. 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.	Attachment 3

Stewart Lee (individual)

Mr Lee's submission

Issue raised	ERA response	More information
Cost recovery for disconnection		
Establishing a pipeline of disconnections whereby a user is required to separately request different parts of a disconnection is confusing and unnecessary. There are serious safety concerns that will arise from such a high fee for permanent disconnections. This high barrier is unaffordable to all but the most determined residents, who will likely pay the fee regardless of how much it is. This will create widespread removal of meters with active gas infrastructure remaining within property boundaries. This unused gas infrastructure will fall into disrepair with little oversight. The cost should be spread across the whole network with a capped fee for permanent disconnection, similar to the regime in place in Victoria. This will ensure that permanently removed gas infrastructure does not continue to pose a safety risk long after disconnection. The ERA should consider implementing a point at which this is revisited so that once disconnection rate ramps up, remaining network owners are protected and costs are incurred by ATCO	The ERA has considered the permanent disconnection service in the context of the Western Australian gas safety framework, which due to local factors (such as differing building standards), does not require gas abolishment and the removal of unused gas infrastructure. ATCO must review the terms and conditions set out in the Permanent Disconnection Contract to identify any improvements that can clarify and/or resolve the matters raised in submissions to the ERA with respect to the permanent disconnection service. As a minimum, the terms and conditions for the permanent disconnection service must: • Clarify the service options for disconnection (whether temporary or permanent) and clearly set out the circumstances where the permanent disconnection service is required. • Clarify the extent to which property will be repaired or reinstated with respect to disturbances to paving, concrete, bitumen and other things that form part of a property crossover/verge. The ERA has approved a lower tariff for the permanent disconnection service, having considered the various costs incurred by ATCO.	Attachment 9 Attachment 3
Demand forecast		
It is reasonable to expect that demand for natural gas will decline in Western Australia. Whilst the policy environment surrounding gas connections is less strict than in other jurisdictions, the State's relatively small population and clear	The ERA has critically reviewed ATCO's approach to preparing its demand forecasts using internal resources and external technical consultants. Through this process the ERA has some concerns about the veracity of those forecasts.	Attachment 2

Issue raised	ERA response	More information
signals in other states will lead to a rise in electric-only buildings as a default. Whilst individual replacement of appliances means that electrification in WA is usually more expensive than retaining gas, this is not the case where electric-only is in place during building construction. The different scenarios envisaged are reasonable, but it is not actually clear what underlying assumptions have been made to support the analysis of the scenarios. The analysis that has been presented is not robust and a sensitivity analysis should have been conducted by ATCO prior to making the proposals. Scenario 3 is the most likely. The qualitative and quantitative data available globally demonstrates that increased efficiency combined with electrification represents the best outcome for residents and industry. Gas supply shortages forecast by the Australian Energy Market Operator in the short to medium term will add to this pressure, as households are encouraged to move away from gas to ease supply shortages for hard to electrify industrial energy users.	The ERA considers that natural gas is still widely perceived by its customers as a cost-effective energy source, with maximum residential gas pricing still set by the Western Australian Government. Additionally, there are no government policies in place prohibiting natural gas connections in new residential areas or those requested by a customer in an existing residential area. There is no indication that the State Government will change its policies on emission reduction during the AA6 period. The ERA has forecast a total average customer base of 853,843 in 2029, at the end of the AA6 period, which is 1.71 per cent higher than ATCO's forecast. The ERA's haulage reference services demand forecast is 156,701TJ for the AA6 period, 6.56 per cent higher than ATCO's forecast. The ERA's ancillary reference services forecast is based on the ERA's customer connection forecast tariff class B3, which is higher than ATCO's forecast in all service classes. The ERA requires ATCO to revise its haulage reference services demand and ancillary reference services demand forecast.	
Renewable gas		
Hydrogen strategies established by Commonwealth, State, and Territory governments have rightly focussed on large-scale hydrogen production for industrial purposes. ATCO's proposal to use hydrogen in the reticulated gas network is not backed by any credible scientific evidence and will make it harder for Western Australia and Australia to reach legislated emissions reduction targets. As in the rest of the world, electricity will meet most consumer energy needs and renewable hydrogen will meet the needs of sectors that require high heat, or which are otherwise hard to electrify. An over-reliance on hydrogen presents serious economic risks to Western Australia through structurally high energy costs that will drive investment overseas or interstate.	The ERA recognises the importance of carbon emissions reduction strategies across the economy to reduce Australia's carbon emissions and meet legislated government targets. ATCO proposed to spend $26.4 million to voluntarily reduce either its own or customers' carbon emissions. ATCO's proposals are not feasible under the current economic regulatory framework and ATCO has not sufficiently demonstrated that these proposals (if they were permitted under the legislative framework) are the most cost-efficient solutions to reduce carbon emissions that would be undertaken by a prudent gas service provider. As a result, the ERA has not accepted ATCO's proposal. The ERA's customer engagement indicated that the level of support for ATCO's proposed greenhouse gas reduction strategies	Attachment 4

Issue raised	ERA response	More information
The ERA needs to consider the whole-of-life cost and scalability of the proposals. It is relatively straightforward to inject 5 or 10 per cent renewable gas into existing reticulated gas infrastructure, but these proposals should not be entertained when, for the most part, this is the extent of what can be achieved without significant and costly upgrades for consumers and taxpayers. The ERA should instead focus on protecting consumers from the inevitable obsolescence of the reticulated gas network and send a clear signal that funding to reduce household emissions is best spent supporting electrification efforts.	overall was quite strong. However, when residential gas customers are asked about the amount they would be willing to financially contribute to support these strategies, the support for greenhouse reduction strategies fell materially.	

Synergy

[Synergy's submission]

Issue raised	ERA response	More information
Accelerated depreciation		
Synergy considers it is important that there is minimal or no speculation in relation to forecasting asset lives and depreciations because of the direct impact it has on tariffs and the potential to create price distortions. In addition, Synergy considers the NGR provides adequate mechanisms for network operators to recover costs for redundant assets. The proposal to use accelerated depreciation has a direct impact on price shock and the step increase in tariffs for AA6 that consumers must pay.	The ERA has not approved ATCO's proposal for $80 million of accelerated depreciation. The provision of accelerated depreciation is a reasonable regulatory tool to manage the potential for reducing levels of future customer demand. However, the ERA does not consider that ATCO's AA6 proposal is robust nor is it supported by a strong modelling methodology.	Attachment 6

Issue raised	ERA response	More information
Synergy also considers that there does not seem to be sufficient evidence to indicate that ATCO's network is at risk of becoming redundant within the AA6 period. In addition, Synergy considers any industry risk or systemic risk network operators may be exposed to, due to potential emission reduction regulations, should be addressed through the market risk premium and the WACC. Synergy further notes that the accelerated depreciation strategy contributes to 23 per cent of the revenue proposal impacting the initial step change in the proposed price path.		
Cost recovery of disconnection service		
The Gas Retail Market Procedure contains a regulated process for market participants to deregister and permanently remove a delivery point. Synergy considers it is not clear how the reference service and proposed contracting arrangements align with or is consistent with the Gas Retail Market Procedures. ATCO appears to be contemplating that parties other than a market participant or a pipeline user may permanently remove a delivery point. Such customer action will affect a pipeline user's access rights. Synergy considers the proposal lacks regulatory clarity or certainty. In addition, Synergy considers the NGR requires an access contract to be the contract that applies to the pipeline services (reference services) approved by the ERA in accordance with NGR 47A and 48(1)(d)(ii). In addition, the NGR requires the ERA to review and approve the distribution reference tariffs in accordance with NGR 72(j) and 94.	The ERA has considered the permanent disconnection service in the context of the Western Australian gas safety framework, which due to local factors (such as differing building standards), does not require gas abolishment and the removal of unused gas infrastructure. ATCO must review the terms and conditions set out in the Permanent Disconnection Contract to identify any improvements that can clarify and/or resolve the matters raised in submissions to the ERA with respect to the permanent disconnection service. As a minimum, the terms and conditions for the permanent disconnection service must: • Clarify the service options for disconnection (whether temporary or permanent) and clearly set out the circumstances where the permanent disconnection service is required. • Clarify the extent to which property will be repaired or reinstated with respect to disturbances to paving, concrete, bitumen and other things that form part of a property crossover/verge.	Attachment 9 Attachment 3

Issue raised	ERA response	More information
	The ERA has approved a lower tariff for the permanent disconnection service, having considered the various costs incurred by ATCO.	
Demand forecast		
ATCO has forecast in their access proposal that the number of gas customers will grow at 1.1 per cent per annum. However, consumption per customer during the access arrangement period is forecast to decline resulting in an overall demand forecast decrease of 0.8 per cent per annum. Demand forecasts directly affect the allocation of costs, step changes in tariffs and tariff price paths. If customer numbers are increasing and demand is decreasing it would be reasonable to expect that the average cost a customer would pay would decrease, assuming network investment is kept at a fixed level. Synergy, in principle, supports the ERA's view, in the issues paper, in relation to the expected long term market decline for natural gas.	The ERA has critically reviewed ATCO's approach to preparing its demand forecasts using internal resources and external technical consultants. Through this process the ERA has some concerns about the veracity of those forecasts. The ERA considers that natural gas is still widely perceived by its customers as a cost-effective energy source, with maximum residential gas pricing still set by the Western Australian Government. Additionally, there are no government policies in place prohibiting natural gas connections in new residential areas or those requested by a customer in an existing residential area. There is no indication that the State Government will change its policies on emission reduction during the AA6 period. The ERA has forecast a total average customer base of 853,843 in 2029, at the end of the AA6 period, which is 1.71 per cent higher than ATCO's forecast. The ERA's haulage reference services demand forecast is 156,701TJ for the AA6 period, 6.56 per cent higher than ATCO's forecast. The ERA's ancillary reference services forecast is based on the ERA's customer connection forecast tariff class B3, which is higher than ATCO's forecast in all service classes. The ERA requires ATCO to revise its haulage reference services demand and ancillary reference services demand forecast.	Attachment 2
Legislative changes		
Synergy notes, ATCO's AA6 proposal does not fully reflect the current regulatory framework in Western Australia and has, to	The ERA has applied this approach in the draft decision.	Overview

Issue raised	ERA response	More information
some extent, speculated the regulatory framework that may apply during the AA6 consultation and review process. The ERA has proposed it will apply the existing applicable regulatory framework at the time of making each of its AA6 determinations. In addition, the ERA also intends to assess the AA6 proposal and separately set out the ERA's considerations directly related to the possible amendments to the regulatory framework in its draft decision. Synergy supports the ERA's approach to review the AA6 proposal.		
Tariff path		
Synergy's analysis shows that ATCO's proposal creates a proposed step change in 2025 in the region of a 38-52 per cent increase across reference tariffs. Synergy considers that this level of step change is inconsistent with the NGO, in particular the long term interest of consumers, and could see an increase in small use customers experiencing hardship when the transport charges flow through to retail tariffs.	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). The ERA engaged Patterson Research Group to help conduct a survey of 1,000 small use gas customers in March 2024. One of the questions asked in the survey tested the views of gas users to tariff path options. Those consumers' 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). The indicative one-off increase presented in the survey was for 11 per cent in 2025. If the price was to increase beyond this percentage, then the preferences of consumers may not be the same.	Attachment 3

Urban Development Institute of Australia (UDIA)

UDIA's submission

Issue raised	ERA response	More information
Demand forecast		
UDIA agrees with the overall view that as at right now, natural gas in the Perth Metropolitan region is still viewed as a cost-effective energy source in homes. Whilst UDIA anticipates that gas reticulation, overall, will continue to be installed in new land developments this may not necessarily equate to ongoing demand from residential customers in the same way as would have been the case during earlier years of the WA Domestic Gas Policy due to an increasing movement towards electrification of households. Whilst it is unlikely that Western Australia will follow the policy settings of Victoria regarding gas connections being phased out of new developments, at least within the forecasted timeframe, it is important to note that national developers with operations in Western Australia are increasingly considering not including gas reticulation within developments across all of Australia. Consumer demands and attitudes towards gas appliances and gas more broadly, are shifting, however for cost sensitive buyers on the urban fringe in new land developments, it is likely that gas and appliances that use gas will continue to be in demand whilst the price remains comparatively cheaper than the alternative.	The ERA has critically reviewed ATCO's approach to preparing its demand forecasts using internal resources and external technical consultants. Through this process the ERA has some concerns about the veracity of those forecasts. The ERA considers that natural gas is still widely perceived by its customers as a cost-effective energy source, with maximum residential gas pricing still set by the Western Australian Government. Additionally, there are no government policies in place prohibiting natural gas connections in new residential areas or those requested by a customer in an existing residential area. There is no indication that the State Government will change its policies on emission reduction during the AA6 period. For the B3 tariff class, the ERA found that historical penetration rate displayed a declining trend from 2014, thus the ERA used a declining penetration rate to forecast new connections during the AA6 period. The ERA found that the historical disconnection rate has increased since 2014 compared to pre-2014 periods, the trend, however, is unclear due to a wide range of disconnection rates between 2014 and 2020. Thus, the ERA adopted an average disconnection rate of 0.49 per cent between 2014 and 2020 for the forecast. The ERA has forecast an average decline rate of 1.53 per cent per year for demand per connection during the AA6 period. The ERA's forecast for demand per connection in 2029 is 12.34GJ. The ERA requires ATCO to revise its haulage reference services demand and ancillary reference services demand forecast.	Attachment 2

Issue raised	ERA response	More information
Renewable gas		
UDIA is supportive of moves by ATCO to create a cleaner source of energy to provide residential consumers with a range of options and choice when considering the sources of energy and associated appliances they will opt to use in their homes. There is a shifting sentiment in consumers towards wanting cleaner sources of energy, as evidenced in ATCO's survey data. ATCO's proposal to increase their capabilities in injecting renewables into the system is a positive step for sustainability and choice for consumers in the development industry	The ERA recognises the importance of carbon emissions reduction strategies across the economy to reduce Australia's carbon emissions and meet legislated government targets. ATCO proposed to spend $26.4 million to voluntarily reduce either its own or customers' carbon emissions. ATCO's proposals are not feasible under the current economic regulatory framework and ATCO has not sufficiently demonstrated that these proposals (if they were permitted under the legislative framework) are the most cost-efficient solutions to reduce carbon emissions that would be undertaken by a prudent gas service provider. As a result, the ERA has not accepted ATCO's proposal. The ERA's customer engagement indicated that the level of support for ATCO's proposed greenhouse gas reduction strategies overall was quite strong. However, when residential gas customers are asked about the amount they would be willing to financially contribute to support these strategies, the support for greenhouse reduction strategies fell materially.	Attachment 4

WA Council of Social Service (WACOSS)

WACOSS' submission

Issue raised	ERA response	More information
Accelerated depreciation		
WACOSS does not support the proposal from ATCO to accelerate depreciation. WACOSS considers that this proposal inappropriately transfers to customers the risk and	The ERA has not approved ATCO's proposal for $80 million of accelerated depreciation.	Attachment 6

Issue raised	ERA response	More information
costs of stranded assets resulting from a decline in demand for gas. Households and particularly those on low incomes, are under exceptional financial pressure in the present environment and so every effort should be made to avoid unnecessarily increasing the costs that they are facing. Network businesses are best placed to respond to the risks associated with falling demand. As such, it is critical that they demonstrate that they are taking the necessary and sufficient action required to address these risks before there is any consideration of transferring this risk to consumers through accelerated depreciation. The revenue and pricing principles state that providers should be offered a 'reasonable opportunity to recover at least the efficient costs', rather than a right to recover all costs. To determine what is reasonable, networks should be identifying and mitigating the risks that a decline in demand poses. WACOSS does not consider that the proposal from ATCO, which would result in increased investment in capex and opex, new connections to the network and 'enabling renewable gas' projects, in any way demonstrates that it is taking sufficient action to mitigate stranding risks.	The provision of accelerated depreciation is a reasonable regulatory tool to manage the potential for reducing levels of future customer demand. However, the ERA does not consider that ATCO's AA6 proposal is robust nor is it supported by a strong modelling methodology.	
Cost recovery of disconnection service		
WACOSS is concerned by the scale of ATCO's proposed cost for the permanent disconnection service. A $1,184.80 fee would act as a significant barrier for low-income households who wish to electrify. In the majority of circumstances where a gas appliance needs to be replaced, analysis indicates it is more economic to replace it with an electric appliance. As such, when the gas appliances belonging to low-income households reach the end of their lives, it is likely to be in their interest to purchase an electric replacement.	The ERA has considered the permanent disconnection service in the context of the Western Australian gas safety framework, which due to local factors (such as differing building standards), does not require gas abolishment and the removal of unused gas infrastructure. ATCO must review the terms and conditions set out in the Permanent Disconnection Contract to identify any improvements that can clarify and/or resolve the matters raised in submissions to the ERA with respect to the permanent disconnection service. As a	Attachment 9 Attachment 3

Issue raised	ERA response	More information
A significant disconnection fee, however, means that these households could be required to pay the fixed costs of two networks, no matter whether they use appliances reliant on that energy source or not.	minimum, the terms and conditions for the permanent disconnection service must: • Clarify the service options for disconnection (whether temporary or permanent) and clearly set out the circumstances where the permanent disconnection service is required. • Clarify the extent to which property will be repaired or reinstated with respect to disturbances to paving, concrete, bitumen and other things that form part of a property crossover/verge. The ERA has approved a lower tariff for the permanent disconnection service, having considered the various costs incurred by ATCO.	
Renewable gas		
WACOSS does not consider it appropriate for ATCO to be able to recover any of the costs associated with its hydrogen blending trials and enabling renewable gas program through the access arrangement. WACOSS is concerned that this proposal seeks to push unnecessary and inefficient costs onto customers. Electrification is the only plausible direction away from using fossil gas in homes. Running electric appliances is four times cheaper than using biomethane, and more than ten times cheaper than using hydrogen. Existing gas appliances can only tolerate a low level of hydrogen before they are unable to operate safely, while hydrogen-ready appliances cannot operate on primarily fossil gas networks. As such, moving to a hydrogen-only or hydrogen-dominant network would require an incredibly abrupt and highly expensive simultaneous switch to take place across households.	The ERA recognises the importance of carbon emissions reduction strategies across the economy to reduce Australia's carbon emissions and meet legislated government targets. ATCO proposed to spend $26.4 million to voluntarily reduce either its own or customers' carbon emissions. ATCO's proposals are not feasible under the current economic regulatory framework and ATCO has not sufficiently demonstrated that these proposals (if they were permitted under the legislative framework) are the most cost-efficient solutions to reduce carbon emissions that would be undertaken by a prudent gas service provider. As a result, the ERA has not accepted ATCO's proposal. The ERA's customer engagement indicated that the level of support for ATCO's proposed greenhouse gas reduction strategies overall was quite strong. However, when residential gas customers are asked about the amount they would be willing to financially contribute to support these strategies, the support for greenhouse reduction strategies fell materially.	Attachment 4

Issue raised	ERA response	More information
Stakeholder engagement		
WACOSS welcomes the engagement by ATCO and their external consultant during the preparation process of this access arrangement. WACOSS considers that best practice consultation by networks and distributors requires them to engage in deliberative processes whereby they can reach negotiated outcomes with consumers on specific aspects of the proposal. Consumers need to be presented with balanced and relevant information to ensure they are able to provide informed feedback and are not directed towards particular answers. Engagement should also be continuous and not only occur during access arrangement processes. WACOSS considers that the consumer engagement by ATCO has not yet reached this level of best practice	The ERA has commissioned independent research on the veracity and quality of ATCO's stakeholder consultation. This research has found that the ERA can be confident that the sampling and statistical analysis of the survey has been conducted at industry standard. However, the ERA has significant reservations over the extent to which the finding would be repeated in an environment in which customers were adequately informed about the issues they were asked to evaluate.	Overview
Tariff path		
A smoother price path than that proposed by ATCO would be preferable. It is typically easier for consumers to respond to price movements that are introduced gradually. Should the price increase be passed through, it risks creating a price shock for the consumer. For a low-income household, this can increase the challenges of managing their already stretched income.	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). The ERA engaged Patterson Research Group to help conduct a survey of 1,000 small use gas customers in March 2024. One of the questions asked in the survey tested the views of gas users to tariff path options. Those consumers' 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). The indicative one-off increase presented in the survey was for 11 per cent in 2025. If the price was to increase beyond this percentage, then the preferences of consumers may not be the same.	Attachment 3

Issue raised	ERA response	More information
Tariff structures		
Any consideration regarding changing network tariff structures must be based on a thorough examination of the impacts that this would have on consumers living on low incomes or who are experiencing other forms of vulnerability. Tariffs that encourage gas use are not desirable, but the impacts for those who are vulnerable to energy hardship and stress must be mitigated before any alternative tariff structure is implemented. Customers with high energy needs would see higher network prices should a shift away from declining block tariffs be passed through. Customers who are renters would have no capacity to respond to the price signals from changing the tariff structure. Energy concessions are typically provided, for eligible customers, through their electricity bill. Changes to gas network tariffs should be accompanied, therefore, by necessary protections for customers who are experiencing or are vulnerable to energy hardship and stress before there is any move to full implementation.	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. The ERA has also made adjustments 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 ATCO's cost drivers. 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.	Attachment 3