

16 May 2012

Rob Püllella
Executive Director Access
Economic Regulation Authority
Level 4
469 Wellington Street
PERTH WA 6000

Dear Rob,

**ATCO Gas Australia Pty Ltd: Access Arrangement – Cost pass Through Event
– Carbon Tax for Period Beginning 1 July 2012
Public Version**

The Australian Federal Government carbon tax (the tax), resulting from the *Clean Energy Act 2011(Cth)* and related legislation (the Clean Energy Legislative Package), will apply from 1 July 2012. ATCO Gas Australia will be subject to the tax primarily due to the carbon content of fugitive emissions. A much smaller liability arises due to the use of carbon based fuels by ATCO Gas Australia and its sub-contractors. There will also be costs associated with implementing the tax. ATCO Gas Australia's cost pass through amount for the year to 30 June 2013 can be split into three categories as shown in the table below.

Source of cost pass through	Amount	Proposed Recovery Method
Haulage related fugitive emissions	\$ 2,687,063	\$/GJ
Non fugitive emissions	\$ 33,790	\$/Delivery point
Implementation costs	\$ 56,333	\$/Delivery point
Total	<u>\$ 2,777,186</u>	

As noted in Annexure B of our letter to you dated 22 February 2012, the liability for the tax arises during the period 1 July 2012 to 30 June 2013. ATCO Gas Australia advised that the liability is a cost pass through event under clause 3, Annexure B of the Economic Regulation Authority's revised access arrangement for the ATCO Gas Australia's Mid-West and South-West Gas Distribution Systems as published on 28 April 2011.

1.0 Classification of emissions

The provision of the haulage services leads to the creation of fugitive and, to a lesser extent, non fugitive emissions associated with the operation of the distribution network. The most significant source of emissions arises from the existence of unaccounted for gas to the extent



that this is caused by breaks and leaks in the network. Emissions are also associated with energy consumption, vehicle usage and goods and services which have resulted in carbon dioxide or methane emissions in their provision.

ATCO Gas Australia has estimated its fugitive emissions in accordance with natural gas distribution Method 1 under the *National Greenhouse and Energy Reporting (Measurement) Determination 2008*. This method establishes that the level of emissions is proportional to the total gas sales from the network, in accordance with the following formula¹:

$$E_{jp} = S_p \times \%UAG_p \times 0.55 \times C_{jp}$$

where:

E_{jp} is the fugitive emissions of gas type (j) that result from natural gas distribution in a State or Territory (p), measured in tCO₂e

S_p is the total sales from the pipeline system in a State or Territory (p) measured in terajoules

$\%UAG_p$ is the percentage of unaccounted for gas in the pipeline system in a State or Territory (p)

C_{jp} is the natural gas composition factor for gas type (j) for the natural gas supplied in a State or Territory measured in tCO₂e per terajoule.

For the purposes of forecasting fugitive emissions ATCO Gas Australia must forecast haulage sales for 2012/13. ATCO Gas Australia has estimated its haulage volumes to be 26,408,269 GJs based on actual volumes July 2011 to April 2012 and forecast volume for the months of May and June 2012.

Tariff Class	Volume including prudent discounted (non reference tariff) volume
A1	11,913,449
A2	2,092,800
B1	1,554,316
B2	1,194,199
B3	9,653,533
	26,408,296

The reason for using the 2011/12 forecast volumes as the basis of the estimate for determining 2012/13 emissions lies in the fact that this approach complies with the provisions of the Clean Energy Legislative Package and minimises the potential of incurring a penalty for underestimating if a different basis were to be used for calculating the initial 75% carbon tax liability.

¹ refer page 212 of the NGER Guidelines, the unaccounted for gas as a percentage of gas haulage volume (UAFG%) and the gas composition factors prescribed for Western Australia



Notwithstanding the analysis provided in our previous letter, as fugitive emissions are calculated on the basis of haulage volumes, it is proposed that the costs of carbon tax are recovered via a variable charge based on haulage volumes in each reference service class. It is further proposed that the proportion of carbon costs to be recovered from each tariff class be weighted by the percentage of UAFG allocated to each tariff class in the Access Arrangement.

The calculation of non fugitive emissions varies depending on the source and type of emission. The estimate of non fugitive emissions has been based on NGER reported amounts for the 2010/11 year. The calculation of this amount was subject to an independent review. It is not anticipated these amounts will change significantly for the 2012/13 year. Given that the amount does not relate to haulage volumes it is proposed that the amount be recovered via a minor amendment to standing charges per delivery point.

The table below details ATCO Gas Australia's forecast exposures:

											Deduct Albany and Kalgoorlie Portion	Reference Service portion
											1.17%	98.83%
EmissionSource	Unit Conversion				Recalculation of Scope 1 GHG Factors					Total Emissions (tCO2e)	Albany and kalgoorlie Emissions (tCO2e)	Net Reference Service Related Emissions (tCO2e)
	Source Unit	Source Amount	Measureme nt Criteria	Energy Content	Scope 2 Emissions (tCO2e)	Scope1 Factor- CO2	Scope1 Factor- CH4	Scope1 Factor- N2O	Scope 1 Total			
Non fugitive emission related emissions												
Electricity from the electricity grid	kWh	708,853	1 tCO2e per 1 NGERS per	1.0	581					581		7
Petrol Transport	kL	122	1 tCO2e per 1 NGERS per	34.2	-	279	3	10	291	291		3
Petrol - Stationary	kL	2	1 tCO2e per 1 NGERS per	34.2	-	5	0	0	5	5		0
Diesel Transport	kL	342	1 tCO2e per 1 NGERS per	38.6	-	913	3	7	923	923		11
Diesel - Stationary	kL	80	1 tCO2e per 1 NGERS per	38.6	-	213	0	1	214	214		3
LPG Transport	kL	1	1 tCO2e per 1 NGERS per	26.2	-	2	0	0	2	2		0
Acetylene	kL	-	1 tCO2e per 1 NGERS per	26.2	-	-	-	-	-	-		-
Petroleum based oils - Stationary	kL	4	1 tCO2e per 1 NGERS per	38.8	-	4	-	-	4	4		0
Natural gas used in light duty vehicles (LDV) e.g. cars, forklifts	m3	23,512	1 tCO2e per 1 NGERS per	0.0393	-	47	-	-	47	47		1
Total non fugitive emission related emissions						1464	5	- 17	1487	1487		17
Carbon tax @ \$23/Tonne CO2-e												
Fugitive emissions												
Natural Gas Network- Distribution loss (throughput)	TJ	-	1 tCO2e per 1 NGERS per	1.0	-	407	113,335	-	113,743	113,743		113,743

2.0 Calculation of carbon tax liability based on emission category

2.1 Fugitive emissions

Applying Method 1 Calculation

CH₄ - Methane

Total sales in terajoules	26,408
Legislated %UAG	2.55%
Proportion of gas unaccounted for deemed to be emissions under the reporting guidelines	0.55
Natural gas composition factor in CO ₂ -e tonnes per terajoule	306
Methane Fugitive Emissions (tonnes CO₂-e)	113,335

CO₂ Carbon dioxide

Total sales in terajoules	26,408
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Legislated %UAG	2.55%
Proportion of gas unaccounted for deemed to be emissions under the reporting guidelines	0.55
Natural gas composition factor in CO ₂ -e tonnes per terajoule	1.1
Carbon Dioxide Fugitive Emissions (tonnes CO ₂ -e)	407
Total estimated fugitive emissions per NGER Guidelines (tonnes CO ₂ -e)	113,743
Carbon tax rate \$23/tonne CO ₂ -e	\$ 23.00
Estimated carbon tax liability	\$ 2,616,079

2.2 Non fugitive emissions

Carbon dioxide Fugitive Emissions (tonnes CO ₂ -e)	1,469
Carbon tax rate \$23/tonne CO ₂ -e	\$ 23.00
Estimated carbon tax liability	\$ 33,790
Total Estimated Carbon Tax Liability for fugitive and non fugitive emissions	\$ 2,649,869

3.0 Purchase and surrender of carbon permits

The mechanics of the surrendering of carbon permits to meet a carbon tax liability is as follows:

ATCO Gas Australia must purchase and surrender carbon permits/units to the Commonwealth Government equivalent to 75% of its total liability estimated for the year 2012/13 between 1 April and 15 June 2013. The 75% estimate is to be based on emissions recorded during 2011/12.

The remaining 25% must be purchased and surrendered between 31 October 2013 and 1 February 2014. The 25% will reflect the balance between the liability based on actual emissions for 2012/13 less the 75% previously submitted. Significant penalties would apply to ATCO Gas Australia if it was to estimate the initial 75% liability on a basis other than the previous year's emissions and the number of permits surrendered to meet its provisional liability results in meeting less than 75% of this amount. (Refer Clean Energy (Unit Shortfall Charge—General) Act 2011.)

4.0 Timing of regulatory recovery of carbon related costs

Given that the liability arises and relates to gas distribution volumes in the period 1 July 2012 to 30 June 2013, it is proposed that the carbon related costs be recovered via reference and non reference tariffs in the same period. ATCO Gas Australia notes that notwithstanding the timing of the actual payments that no account of the time value of money should be taken into consideration.



The justification for this position is based on the fact that:

- If the cost pass through variation is approved in the form and amount proposed, the carbon related costs are recovered via tariffs in the period in which the liability for the costs is incurred;
- It aligns with the Australian Energy Regulator's treatment of the recovery of carbon related costs associated with the Multinet Gas Distribution Partnership in March 2012; and
- The meter reading cycle for the bulk of ATCO Gas Australia delivery points occurs on a 3 monthly cycle which means that the recovery of carbon related costs will be lagged by 3 months and overlap into the 2013/14 year in any event.

5.0 Carbon related implementation costs

In determining the costs to be recovered for complying with the Clean Energy Legislation Package, ATCO Gas Australia has taken into consideration the form of the legislation which is known as at 30 April 2012.

At this point in time, no requirement to separately detail on invoices the quantity of carbon permit attached to a haulage tariffs has been identified and therefore no additional costs associated with changes to billing or financial systems have been taken into consideration.

During 2012/13, ATCO Gas Australia is likely to implement an SAP system module to facilitate the collection of data for calculating carbon liability but the associated costs will be recovered as part of the July 2013 Tariff Variation calculation.

Implementation of Clean Energy Legislative Package	\$
Review of NGER reporting process	12,000
Independent audit of 2012/13 liability ²	25,000
Advice on taxation and accounting treatment of carbon liability	20,000
Sub-total	57,000
Deduct: Portion relating to Albany and Kalgoorlie	667
Carbon tax related costs pass through amount relating to MWSW GDS	56,333

Given that implementation costs do not vary as a consequence of haulage volumes it is proposed the \$56,333 is recovered via a minor amendment to standing charges per delivery point. Forecast average delivery points for 2012/13 are 656,122 calculated as follows:

² The independent audit obligation is mandatory for reporting groups with CO₂-e totalling >125k. ATCO Gas Australia falls within the ATCO Australia reporting group. The estimated cost of the audit represents only ATCO Gas Australia's portion.

Forecast number of delivery points - including customers receiving prudent Tariff Class discounts			
	30-Jun-12	30-Jun-13	Average
A1	73	73	73
A2	113	113	113
B1	1,317	1,357	1,337
B2	8,975	9,476	9,225
B3	637,093	653,653	645,373
	647,572	664,672	656,122

6.0 Carbon tax imposed on UAFG

ACIL Tasman has prepared a draft report "Gas Prices in Western Australia, 2012/13 Review of inputs to the Wholesale Electricity Market" for the Independent Market Operator, dated February 2012. On page 1 of the report, ACIL Tasman forecasts increases of \$0.06/GJ and \$0.03/GJ on the cost of gas and use of gas transmission pipelines respectively. The impact of these carbon related costs on ATCO Gas Australia's replacement of UAFG are reflected in the haulage related fugitive emissions costs.

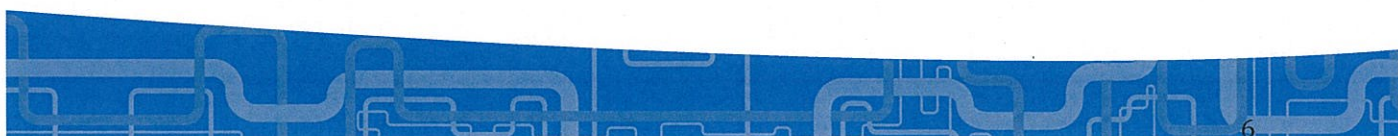
Given that these costs relate to throughput volumes, it is proposed that they are recovered via a variable charge.

7.0 Summary of cost recovery of carbon costs on haulage tariffs

The following table details the amounts to be recovered on both a delivery point and volume related basis.

Cost Pass Through items to be recovered by way of standing charge	\$ Nominal
Carbon tax preparation and administration costs	56,333
Carbon tax non volume related emissions liability	33,790
Cost Pass Through items to be recovered by way of standing charge	90,123
Cost Pass Through items to be recovered by way of volume charge	\$ Nominal
Cost Pass Through items to be recovered by way of volume charge	2,687,063
Total Cost Pass Through items to be recovered	2,777,186

Recovery of these amounts are weighted across tariff classes as follows:

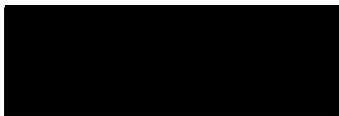


Forecast number of delivery points - including those receiving prudent discounts				Cost Pass Through cost per delivery Point		Volume including prudent discounted (non reference tariff) volume	Carbon tax costs related to volume allocated to tariff class	Carbon Tax Cost Pass Through per GJ \$/GJ
Tariff Class	30-Jun-12	30-Jun-13	Average	\$/Delivery point				
A1	73	73	73	\$ 0.13736	\$ 10	11,913,449	249,770	\$ 0.0210
A2	113	113	113	\$ 0.13736	\$ 16	2,092,800	42,390	\$ 0.0203
B1	1,317	1,357	1,337	\$ 0.13736	\$ 184	1,554,316	192,879	\$ 0.1241
B2	8,975	9,476	9,225	\$ 0.13736	\$ 1,267	1,194,199	142,157	\$ 0.1190
B3	637,093	653,653	645,373	\$ 0.13736	\$ 88,646	9,653,533	2,059,868	\$ 0.2134
	647,572	664,672	656,122		\$ 90,123	26,408,296	2,687,063	

As the implications of the Clean Energy Legislative Package on ATCO Gas Australia and therefore Users and end use gas consumers are material, we are keen to ensure an equitable approach is taken to cost recovery. To the extent that carbon costs relating to the period 2012/13 are over or under recovered, we would expect to make an adjustment as part of the July 2013 tariff variation mechanism along the lines of the adjustment for forecast and actual regulatory costs.

Should you have any queries or require further information with regards to the above information, please don't hesitate to contact me on 6218 1722.

Yours sincerely,



Deb Evans

General Manager Regulatory and Risk



18 May 2012

Rob Pullella
Executive Director Access
Economic Regulation Authority
Level 4
469 Wellington Street
PERTH WA 6000

Dear Rob,

**ATCO Gas Australia Pty Ltd: Access Arrangement – Reference Tariff Variation
for Period Beginning 1 July 2012
Public Submission**

I refer to the Economic Regulation Authority's (ERA) Access Arrangement for the Mid-West and South-West Gas Distribution Systems released on 28 April 2011 which became effective on 12 May 2011. (The Access Arrangement).

We note that the Reference Tariff Variation Mechanism for Haulage Tariffs detailed in Annexure B requires ATCO Gas Australia to use its reasonable endeavours to give the ERA:

- A Variation report – reference tariff variation formula, at least 90 Business Days before the date on which the Haulage Tariff is to be varied (**Clause 4.1 Variation**), and
- A variation report – cost pass through event, at least 90 Business Days before the date on which the Haulage Tariff is to be varied due to a cost pass through event (**Clause 4.2 Variation**).

In the circumstance where a cost pass through event occurs, Annexure B of the Access Arrangement does not specify that the consequential tariff variation needs to coincide with the beginning of a tariff variation period as defined in the *Reference Tariff Variation Mechanism – Variation in Accordance With Formula* outlined in section 2 of Annexure B of the Access Arrangement. However, for administrative efficiency, the nominated start date for the varied Haulage Tariffs due to both a Clause 4.1 Variation and a Clause 4.2 Variation is 1 July 2012.

Further to this, please find attached finalised tariff variation reports in accordance with clause 4 of Annexure B of the Access Arrangement to vary haulage tariffs effective 1 July 2012. These reports build upon the draft reports provided on 22



February 2012, additional supporting documentation on 15 April 2012 and estimate of carbon tax liability provided on 16 May 2012. The reports have now been updated to reflect actual expenditures to 30 April 2012.

The information to support the totals in the table has been split into 5 attachments as follows;

Table 1

Regulatory Costs	Regulatory costs included in Access Arrangement tariff calculation	Actual Regulatory Costs	Actual Regulatory Costs	Attachment
	\$Dec. 2009	\$Dec. 2009	\$ Nominal	
Regulatory cost centre	2,867,783	1,487,105	1,583,246	A
Licences and fees	2,103,346	2,108,807	2,245,141	B
Technical Compliance cost centre	1,899,253	1,568,539	1,669,945	C
	6,870,382	5,164,450	5,498,332	D
Increased audit costs not forecast		31,380	33,409	D
DEC required monitoring of groundwater at Jandakot site		6,387	6,800	D
National Occupation Licensing - Impact on Inspection activity and costs		190,170	202,465	D
	6,870,382	5,392,388	5,741,006	
Deduct amount relating to Albany and Kalgoorlie	110,690	107,848	114,820	
Total Regulatory Costs	6,759,692	5,284,540	5,626,186	

Cost pass through amount	\$ Nominal	Attachment
	2,797,694	E

Taking account of actual regulatory costs and inflation in accordance with the tariff variation formula contained clause 2.3, Annexure B of the access arrangement, reference tariffs should increase by 6.75% relative to the reference tariffs contained in table 34 of the ERA's final decision dated 28 February 2011.

Calculation of the 6.75% in accordance with clause 2.3 of Annexure B of the access arrangement is as follows:

$$P_{ij}^{2012/13} \leq P_{0ij} (1 + V_{2012/13}) * CPI_{Mar 2012} / CPI_{Sep2008}$$

Where:

$$CPI_{Mar 2012} = 179.5$$

$$CPI_{Sep2008} = 166.5$$

$$V_{2012/13} = \frac{\Delta RO_{pex2012/13} * (1+WACC)^1}{ExpRev_{2012/13}}$$

$$WACC = 7.4\%$$



$$\Delta \text{ROpex}_{2011/12} = \text{AROpex}_{2011/12} * \text{CPI}_{\text{Sep2009}} / \text{CPI}_{\text{Mar 2012}} - \text{FROpex}_{2011/12}$$

$$\text{CPI}_{\text{Sep2009}} = 168.6$$

$\text{AROpex}_{2011/12} = \$5,626,186$ (The Actual Regulatory Operating Expenditure for the period from 1 July 2011 to 30 June 2012 contained above in table 1)

$$\text{FROpex}_{2011/12} = \$6.760 \text{ million (real \$ as at 31 December 2009)}$$

$$\text{ExpRev}_{2012/13} = \$160.771 \text{ million (real \$ as at 31 December 2009)}$$

And therefore;

$$\Delta \text{ROpex}_{2011/12} = \$5,626,189 * 168.6/179.5 - 6,759,692$$

$$= -\$1,475,149$$

$$V_{2012/13} = \frac{-\$1,475,149 * (1+.074)^1}{\$160,771,000} = -.00985$$

$$P_{2012/13}^{ij} \leq P_{0ij} (1 + -.00985) * 179.5/166.5$$

$$P_{2012/13}^{ij} \leq P_{0ij} * 1.0675$$

With regard to cost pass through items it is proposed that items which are a fixed cost be recovered via an amendment to standing charges while items that vary significantly with volume be recovered by way of a variation to volume related tariffs.



Table 2

Cost Pass Through items to be recovered by way of standing charge	\$ Nominal
Cost Pass Through items to be recovered by way of standing charge	110,631
Cost Pass Through items to be recovered by way of volume charge	\$ Nominal
Volume related emissions liability	2,616,079
Forecast cost due to carbon tax impost added to UAFG price	70,984
Cost Pass Through items to be recovered by way of volume charge	2,687,063
Total Cost Pass Through items to be recovered	2,797,694

Forecast average reference delivery points for 2012/13 are 656,122. Therefore, the estimated charge per delivery point for costs pass through items to be recovered via standing charges is \$0.16861 per delivery point for the 2012/13 year.

The volume related charges are based on a reference tariff plus prudent discounted volume of 26,408,296 gigajoules.

Table 3 below shows the impact of the cost pass through on tariffs.

Table 3

Tariff Class	Forecast number of delivery points - including customers receiving prudent discounts			Cost Pass Through cost per delivery Point	Volume including prudent discounted (non reference tariff) volume	Carbon tax costs related to volume allocated to tariff Class	Cost Pass Through per GJ \$/GJ
	30-Jun-12	30-Jun-13	Average	\$/Delivery point			\$/GJ
A1	73	73	73	\$ 0.16861	11,913,449	249,770	\$ 0.0210
A2	113	113	113	\$ 0.16861	2,092,800	42,390	\$ 0.0203
B1	1,317	1,357	1,337	\$ 0.16861	1,554,316	192,879	\$ 0.1241
B2	8,975	9,476	9,225	\$ 0.16861	1,194,199	142,157	\$ 0.1190
B3	637,093	653,653	645,373	\$ 0.16861	9,653,533	2,059,868	\$ 0.2134
	647,572	664,672	656,122		26,408,296	2,687,063	

With regard to implementation on the A1 reference tariff the volume related charge for each end user is expressed as GJ kilometres. The published usage tariff is multiplied by the distance in kilometres from the transmission pipeline to the delivery point to arrive at a rate per GJ kilometre for each individual delivery point. The \$.0210 per GJ carbon tax tariff variation should be added to that resultant individual delivery point tariff rate not the published usage tariff rate in GJ kilometres. By adding the tariff variation to the final individual rate, the variation amount is not

distorted by the kilometre amount applied to the published usage tariff. In effect the less than 10Km usage charge per GJ becomes;

Usage charge per GJ for an A1 delivery point =

(Km from transmission pipeline to delivery point X Published tariff \$/GJ Kilometre) + \$.021/GJ

The carbon tax tariff variation should not be applied to the A1 tariff usage rate greater than 10 kilometres because it would double count the tariff adjustment. For all other tariff classes however, the carbon tax tariff variation should be applied to all tariff bands to ensure it is applied to the total volume for each delivery point.

More detail on the carbon tax related costs have been provided in our letter dated 16 May 2012.

The total impact on reference tariffs of the reference tariff variation mechanism and the cost pass through is shown in table 4.



Table 4

Tariff Category	Tariff Component	P _{2012/13} ^{ij} \$	Cost Pass Through Tariff Component	P _{2012/13} ^{ij} Plus Cost Pass Through
Tariff A1	Fixed Charge	41,999.09	0.17	41,999.26
Tariff A1	Demand <10kms	177.03		177.03
Tariff A1	Demand >10km	93.18		93.18
Tariff A1	Usage First 10 km's	0.03756		0.03756
Tariff A1	Usage >10 kms	0.01876		0.01876
Tariff A1	Usage GJs - Carbon tax		0.0210	0.0210
Tariff A2	Fixed Charge	23,250.76	0.17	23,250.93
Tariff A2	First 10 TJ	2.24	0.02	2.26
Tariff A2	> 10 TJs	1.20	0.02	1.22
Tariff B1	Fixed Charge	1,166.64	0.17	1,166.81
Tariff B1	First 5 TJ	4.48	0.12	4.60
Tariff B1	> 5 TJs	3.84	0.12	3.97
Tariff B2	Fixed Charge	288.71	0.17	288.88
Tariff B2	First 100 GJ's	7.47	0.12	7.59
Tariff B2	> 100 GJs	4.44	0.12	4.56
Tariff B3	Fixed Charge	58.93	0.17	59.10
Tariff B3	First 10 GJs	12.54	0.21	12.75
Tariff B3	>10 GJs	5.41	0.21	5.62

Should you have any queries or require further information, please don't hesitate to contact me. on 6218 1722. We will meet with you at your earliest convenience to review the information attached if that would be of assistance.

Yours sincerely,



Deb Evans

General Manager Regulatory and Risk

Att.

ATTACHMENT A: Regulatory Cost Centre Costs

Table A1 – Regulatory Cost Centre Costs

Regulatory Cost Centre	Actual July 2011 to April 2012 \$ Nominal	Forecast May to June 2012 \$ Nominal	2011/12 Year \$ Nominal	AA Forecast \$ Nominal	Variance \$ Nominal
	1,020,908	562,338	1,583,246	3,053,185	- 1,469,939

A negative amount in the table above indicates an under spend compared to the access arrangement. Regulatory costs per the access arrangement have been converted to nominal dollars using a factor of 6.5%.

Salaries and Labour

The salaries and labour costs forecast for the access arrangement were under forecast because they did not reflect fully the cost of staff required to monitor regulatory compliance with legislation. In order to prudently manage regulatory obligations, positions have been established within the regulatory costs centre to;

- Manage risk - in particular compliance with regulatory obligations including undertaking of regulatory audits
- Establish and maintain a regulatory obligations register as well as monitor compliance with regulatory obligations
- Manage documents to ensure document controls comply with regulatory obligations and correctly communicate regulatory obligations such as contained in gas standards

Consulting Fees

Consulting fees have been compiled from the general ledger accounts and adjusted to deduct costs relating to the final decision appeal. There are significant consulting fees estimated for the period May to June 2012 because preparations have commenced for determining proposed revisions to the access arrangement effective 1 July 2014 so that these may be lodged in a timely manner by 30 June 2013. The estimate of consulting fees has been based on actual costs incurred in preparing proposed revisions for the 2010 to 2014 access arrangement. The pro rata monthly expenditure from July 2011 to April 2012 will therefore not be reflective of the likely level of consulting costs associated with the period May to June 2012 which will be directly related to the development of the proposed access arrangement revisions. A number of consultants have already been engaged or are in the process of finalising engagement arrangements.

Table A3 – Regulatory Cost Centre Consulting Fees

	Actual July 2011 to April 2012 \$ Nominal	Forecast May to June 2012 \$ Nominal	2011/12 Year AA Forecast \$ Nominal	Variance \$ Nominal
Consulting fee costs submitted	145,741	217,207	362,948	1,432,363 - 1,069,415

Note that the amount included for audit fees above is for non financial audits and is not included in the amount claimed below at Attachment D for additional **finance** audit costs. ATCO Gas Australia has ceased using an external third party for the provision of internal audit services. These services are now being provided through the ATCO internal audit office and charges for these services have not yet been received.

Consultant fees are expected to increase markedly over the next few months as ATCO Gas Australia prepares for the next access arrangement submission.

Legal Fees

A review of legal fees for the Regulatory cost centre revealed that all legal costs from 1 July 2011 to 30 April 2012 related to the appeal of the ERA's final decision in April 2011 and have therefore been removed from regulatory costs.

ATTACHMENT B: Licences and Fees

The total actual and forecast expense is \$2,245,141 (\$ Nominal) for the 2011/12 year.

ATTACHMENT C: Technical Compliance Cost Centre

Table C1 - Technical Compliance Cost Centre Costs

	Actual July 2011 to April 2012 \$ Nominal	Forecast May to June 2012 \$ Nominal	2011/12 Year \$ Nominal	AA Forecast \$ Nominal	Variance \$ Nominal
Operating Expenses per cost centre report	1,298,166	371,779	1,669,945	2,022,040	- 352,095

Salaries and Labour

The actual and budgeted amounts have been reduced to remove training staff costs that were not included as part of the technical compliance cost centre costs in the access arrangement submission.

Staff numbers are expected to increase by June 30 as new engineers are brought in to implement the safety case, including formal safety assessments, and also to handle the load of construction inspections.

Consulting Fees

With regard to the forecast consulting fees for May and June a consultant has been engaged to prepare a number of Piping and Instrument Drawings for the purpose of conducting Hazard and Operability Studies on Pressure Reduction Station.

Motor Vehicle Expenses

The Technical Compliance cost centre is currently running 3 vehicles and is in the process of purchasing a fourth vehicle. Motor vehicle hire and repair costs are higher than forecast due to a motor vehicle accident.

Administrative expenses submitted are as per the general ledger.



ATTACHMENT D: Other Regulatory Cost Increases

Increased Finance Audit Cost

ATCO Gas Australia has incurred increased financial audit costs of \$33,409 above forecast in the access arrangement.

DEC required monitoring of groundwater at Jandakot site

A letter contained from the Department of Environment and Conservation dated 15 April 2011 notified classification of the Jandakot depot site as "Possibly contaminated – investigation required.

National Occupational Licensing (NOLS)

EnergySafety has advised that National Occupational Licensing (NOLS) is due to be implemented on 1 July 2012. The new law will require holders of any existing Certificates of Competency (CoC) to apply and have their CoC converted to a gasfitting permit. A holder of a CoC converting to a permit is deemed to be a new permit holder. New permit holders have to have 100% of their installations inspected until they have 5 "clear" installations. The usual rate for a qualified gasfitter is inspection of 5% of new installations and 7.5% of additional installations. Due to the number of gasfitters converting from a CoC to a permit in anticipation of the new legislation there has been an increase in the number of inspections required and a consequent increase in cost.

The Gas Inspection cost centre carries out industrial and commercial installation inspections. The Customer Service cost centre carries out domestic installation inspections. Both of these cost centres have experienced cost increases compared to the costs submitted for the access arrangement.

The additional cost is estimated to be \$202,465.



ATTACHMENT E: Cost Pass Through Events

Table E1 – Cost Pass Through

Cost Pass Through items to be recovered by way of standing charge	\$ Nominal
Audit of compliance with native vegetation clearing permits(net of 2% for Albany and Kalgoorlie)	6,233
Compliance costs Fair Work Act 2009 - legal fees (net of 2% for Albany and Kalgoorlie)	1,788
Petroleum and Geothermal Energy Safety Levy Act 2011 and Regulations 2011 effective 1 January 2012 Administered by Department of Mines and Petroleum	12,487
Carbon tax preparation and administration costs	56,333
Carbon tax non volume related emissions liability	33,790
Cost Pass Through items to be recovered by way of standing charge	110,631
Cost Pass Through items to be recovered by way of volume charge	\$ Nominal
Cost Pass Through items to be recovered by way of volume charge	2,687,063
Total Cost Pass Through items to be recovered	2,797,694

Carbon Tax

There are costs associated with implementation of systems to administer the carbon tax, the impact on ATCO Gas Australia's input costs as well as the tax to include in the carbon tax costs. A detailed estimate of the impact of the carbon tax has been forwarded under separate cover.

The basis for the percentage allocation of the volume related emissions liability to the various tariff classes mirrors the cost allocation methodology used for apportioning UAFG costs to tariff classes in ATCO Gas Australia's submission dated 29 January 2010. This initial allocation methodology was determined by reference to the sources and drivers of UAFG as follows:



Source of UAFG	Allocation Methodology	Rationale
Gate station metering differences	Volume	Metering differences relate to all tariff classes by volume
Non - Interval metering temp correction	Volume	Affects reference services B1, B2 and B3 which rely on global conversion factors for volume correction
Interval metering	Volume	Conversion factors are live and therefore metering differences are
Physical leakage	Delivery points	Driven by length of pipe and connections. Generally on low and medium pressure pipelines. High pressure pipelines have protections in place.

Statistics relating to physical leakage are collated on mains, connections and meters on the low, medium and high pressure parts of the network. The statistics for 2010/11 detailed below demonstrates that the majority of leaks occur on the low and medium pressure parts of the network from which reference services B1, B2 and B3 are supplied.

Location of Leak	Low Pressure	Medium Pressure	High Pressure	Total
Mains	235	354	11	600
<i>% of total leaks on mains</i>	39%	59%	2%	
Connections	2188	3492	323	6003
<i>% of total leaks on connections</i>	36%	58%	5%	
Meters	404	539	65	1008
<i>% of total leaks on meters</i>	40%	53%	6%	
Totals	2827	4385	399	7611
	37%	58%	5%	

For this reason, the percentage allocations applied to the apportionment of UAFG costs to the various tariff classes which correlate closely with the leaks data, was retained for the allocation of the volume related carbon emissions liability.

Native Vegetation Clearing Permit Audits

There are three native vegetation clearing permits which conditions include;

- Removing or killing weeds in the cleared area at least once in a twelve month period
- Must maintain certain records in relation to the cleared area



- Must provide to the CEO (of DEC) on or before 30 June of each year, a written report of records required under condition 12 of the Permit and activities done by the Permit Holder under the Permit between 1 January and 31 December of the preceding year.

The permits are;

- CPS3491/1 Clearing in shires of Murray and Mandurah
- CPS713/1 Clearing of environmentally sensitive areas for maintenance of the existing network
- CPS3454/1 Clearing of environmentally sensitive areas to extend the gas network

Compliance Costs Fair Work Act 2009

Legal costs have been incurred in implementing the Fair Work Australia legislation

Petroleum and Geothermal Energy Safety Levy Act 2011 and Regulations 2011 effective 1 January 2012

A new safety levy has been introduced administered by the Department of Mines and Petroleum. The levy relates to the Mandurah gas lateral and so 100% of the levy relates to the Mid-West and South-West Gas Distribution systems.

