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ATCO Gas AUSTRALIA

5 June 2013

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 2013
Public Submission

I refer to the Economic Regulation Authority's (ERA) Revised Access Arrangement for the ATCO Gas Australia's Mid-West and South-West Gas Distribution Systems as released on 25 June 2012 (Access Arrangement).

As you are aware, the Reference Tariff Variation Mechanism for Haulage Tariffs detailed in Annexure B of the Access Arrangement (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**).

As noted previously, 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 2013.

ATCO Gas Australia submitted both of the above variation reports on 22 February 2013. As agreed with the ERA, ATCO Gas Australia hereby provides an update of supporting information and calculations:

- The actual weighted average eight capital cities CPI index at March 2013.
- Actual cost information to 30 April 2013.

Table 1 below shows the forecast regulatory costs for the year to 30 June 2013 (as stated at clause 2.4(b) of Annexure B) of the Access Arrangement as well as costs for the year based on actual performance and the best available forecasts to 30 June 2013. The table also shows the anticipated cost pass through amount.

Table 1

Regulatory Costs	Regulatory costs included in Access Arrangement tariff calculation $Dec. 2009	Actual Regulatory Costs $Dec. 2009	Actual Regulatory Costs $ Nominal	Attachment
Regulatory cost centre	2,296,004	2,687,988	2,934,436	A
Licences and fees (ERA, OOE etc:)	2,103,346	1,934,775	2,112,164	B
Technical Compliance cost centre	1,899,118	1,345,466	1,468,824	C
	6,298,468	5,968,229	6,515,424	
Add:				
Inspection of Gasfitter Installations	0	172,570	188,392	D
Total regulatory costs to be allocated to Albany and Kalgoorlie 2% deduction	6,298,468	6,140,799	6,703,816	
Deduct:				
Amount relating to Albany and Kalgoorlie	125,970	122,816	134,076	
Not subject to Albany and Kalgoorlie deduction:				
Increase in ERA fees advised by ERA post January 2010 submission	357,000	0	0	
Total Regulatory Costs	6,529,498	6,017,983	6,569,740	

	$ Nominal	Attachment
Over Pressure Shut-off (OPSO) Capital Expenditure to 30 June 2013	620,096	D

	$ Nominal	Attachment
Cost Pass Through Amount	4,153,751	E

Updated variation reports in accordance with the requirements of clause 4 of Annexure B are contained in five attachments.

- Attachment A to D – Variation report – reference tariff variation formula in accordance with clause 4.1 of Annexure B;
- Attachment E – Variation report – cost pass through event in accordance with clause 4.2 of Annexure B.

Set out below is the anticipated reference tariff variation per the reference tariff variation formula clause 2.4, Annexure B.

Variation per Reference Tariff Variation Formula 1 July 2013

The calculation of the escalation of the tariff rates is determined by applying the following equation:

(a) $Pij_{2013/14} <= P_0ij\ (1+ V_{2013/14}) * CPI_{Mar\ 2013}/CPI_{Sep2008}$

where:

$P^{ij}_{2013/14}$	is the value of Tariff Component j of haulage Tariff i as varied on and from the first day of the variation period;
P_0^{ij}	is the value of Tariff Component j of haulage Tariff i as set out in Annexure A;
$V_{2013/14}$	is calculated by applying the formula set out in clause 2.4(b) of Annexure B;
$CPI_{Mar\ 2013}$	is the value of the CPI All Groups, Weighted Average of Eight Capital Cities for the quarter ending on 31 March 2013; and
$CPI_{Sep2008}$	is the value of the CPI All Groups, Weighted Average of Eight Capital Cities for the quarter ending on 30 September 2008.

(b) For the purpose of clause 2.4(a) of Annexure B, $V_{2013/14}$ is calculated by applying the following formula:

$$V_{2013/14} = \frac{\Delta ROpex_{2012/13} * (1+WACC) + Y_{2013/2014} + Z_{2013/2014}}{ExpRev_{2013/14}}$$

and

$$\Delta ROpex_{2012/13} = AROpex_{2012/13} * \frac{CPI_{Sep2009}}{CPI_{Mar\ 2013}} - FROpex_{2012/13}$$

where:

$AROpex_{2012/13}$	is Actual Regulatory Operating Expenditure for the period from 1 July 2012 to 30 June 2013;
$FROpex_{2012/13}$	is \$6.529 million (real \$ as at 31 December 2009);
$CPI_{Sep2009}$	is the CPI All Groups, Weighted Average of Eight Capital Cities for the quarter ending on 30 September 2009;
$Y_{2013/2014}$	is depreciation, for the period from 1 July 2013 to 30 June 2014, of unanticipated Regulatory Capital Expenditure (real \$ as at 31 December 2009) incurred in the period from 1 July 2010 to 30 June 2013;

$Z_{2013/2014}$ is the return, for the period from 1 July 2013 to 30 June 2014, on unanticipated Regulatory Capital Expenditure (real $ as at 31 December 2009) incurred in the period from 1 July 2010 to 30 June 2013;

WACC is 7.75%; and

$ExpRev_{2012/13}$ is $173.993 million (real $ 31 December 2009).

$\Delta ROpex_{2012/13}$ being actual $ Nominal regulatory OPEX $6,569,740 deflated to $6,017,983 real $ 31 December 2009 less forecast regulatory OPEX $6,529,498 (real $ 31 December 2009) = $(511,515) (real $ 31 December 2009).

There was unanticipated regulatory capital expenditure incurred in 2012/2013. As a result, depreciation and return on investment on this capital expenditure has been added to $V_{2013/14}$ as per the reference tariff variation formula clause 2.5, Annexure B of the Access Arrangement. Refer to attachment A for the calculation of the amounts $\underline{Y_{2013/2014}}$ and $\underline{Z_{2013/2014}}$ for unanticipated Regulatory Capital Expenditure to be included in the tariff variation formula shown below. The amounts are as follows:

$\underline{Y_{2013/2014}}$ = $14,200 (real $ 31 December 2009)

$\underline{Z_{2013/2014}}$ = $44,021 (real $ 31 December 2009)

$$V_{2013/14} = \frac{\Delta ROpex_{2012/13} * (1+WACC) + Y_{2013/2014} + Z_{2013/2014}}{ExpRev_{2013/14}} = -0.00283$$

The variation factor to be applied 1 July 2013 to tariff components P_0^{ij} is determined as $(1+V_{2012/13}) * CPI_{Mar\ 2013}/CPI_{Sep2008} = 1.1015$

With regard to cost pass through items, it is proposed that items which are a fixed cost be recovered via a variation 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	$ Nominal
Cost Pass Through items to be recovered by way of standing charge	1,325,604
Cost Pass Through items to be recovered by way of volume charge	2,828,147
Total Cost Pass Through items to be recovered	4,153,751

Forecast average reference delivery points for 2013/14 are 668,187. Therefore, the estimated charge per delivery point for costs pass through items to be recovered via standing charges is $1.98388 per delivery point for the 2013/14 year.

The volume related charges are based on a reference tariff plus prudent discounted volume of 26,486,176 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			Percentage of UAFG Allocated to Tariff Class in Access Arrangement Submission	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-13	30-Jun-14	Average	Percentage of UAFG	$/Delivery point			$/GJ
A1	76	79	78	9.30%	$ 1.98388	11,675,344	262,884	$ 0.02252
A2	106	109	108	1.58%	$ 1.98388	2,050,714	44,615	$ 0.0218
B1	1,353	1,393	1,373	7.18%	$ 1.98388	1,622,976	203,006	$ 0.1251
B2	9,494	9,944	9,719	5.29%	$ 1.98388	1,234,128	149,621	$ 0.1212
B3	648,638	665,182	656,910	76.66%	$ 1.98388	9,903,013	2,168,021	$ 0.2189
	659,667	676,707	668,187	100.00%		26,486,176	2,828,147	

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 $.02252 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) + $.02252/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.

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	$P_{2013/14}^{ij}$ \$	Cost Pass Through Tariff Component	$P_{2013/14}^{ij}$ Plus Cost Pass Through
Tariff A1	Fixed Charge	46,737.08	1.98	46,739.06
Tariff A1	Demand <10kms	197.00		197.00
Tariff A1	Demand >10km	103.69		103.69
Tariff A1	Usage First 10 km's	0.04180		0.04180
Tariff A1	Usage >10 km's	0.02088		0.02088
Tariff A1	Usage - Carbon tax		0.02252	0.02252
Tariff A2	Fixed Charge	25,873.71	1.98	25,875.70
Tariff A2	First 10 TJ	2.50	0.02	2.52
Tariff A2	> 10 TJ's	1.34	0.02	1.36
Tariff B1	Fixed Charge	1,298.25	1.98	1,300.24
Tariff B1	First 5 TJ	4.98	0.13	5.11
Tariff B1	> 5 TJ's	4.27	0.13	4.40
Tariff B2	Fixed Charge	321.28	1.98	323.26
Tariff B2	First 100 GJ's	8.31	0.12	8.43
Tariff B2	> 100 GJ's	4.94	0.12	5.07
Tariff B3	Fixed Charge	65.58	1.98	67.57
Tariff B3	First 10 GJ's	13.95	0.22	14.17
Tariff B3	>10 GJ's	6.02	0.22	6.24

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,

Deborah Evans

General Manager Regulatory and Risk

Att.

Attachment A: Regulatory Affairs Cost Centre

Table A1 - Regulatory Affairs Cost Centre Costs

Regulatory Affairs Cost Centre Costs	Actual July 2012 to April 2013	Forecast May to June 2013	2012/13 Year	AA Forecast	Variance
	$ Nominal	$ Nominal	$ Nominal	$ Nominal	$ Nominal
	2,050,242	884,194	2,934,436	2,506,514	427,922

A positive amount in Table A1 above indicates an overspend compared to the Access Arrangement. Regulatory costs per the Access Arrangement have been converted to nominal dollars using an inflator of 1.0917.

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

There are significant consulting fees estimated for the period May to June 2013 as preparations are well underway for determining proposed revisions to the Access Arrangement effective 1 July 2014. The fees reflect work already completed as well as being undertaken in responding to changes in the regulatory framework.

Table A2 – Regulatory Cost Centre – Consulting Fees

	Actual July 2012 to April 2013	Forecast May to June 2013	2012/13 Year	AA Forecast	Variance
	$ Nominal	$ Nominal	$ Nominal	$ Nominal	$ Nominal
Consulting fee costs submitted	739,779	401,983	1,141,762	1,227,675	(85,913)

Attachment B: Licence Fees and Charges

ATCO Gas Australia pays fees and levies to a number of government agencies, e.g. Energy Safety Levy, or as a result of complying with legislation, e.g. REMCO fee. The total actual and forecast expense is $2,112,164 for the 2012/13 year.

Attachment C: Technical Compliance Cost Centre

Table A11 – Technical Compliance Cost Centre

Technical Compliance Cost Centre Costs	Actual July 2012 to April 2013 $ Nominal	Forecast May to June 2013 $ Nominal	2012/13 Year $ Nominal	AA Forecast $ Nominal	Variance $ Nominal
	1,179,577	289,247	1,468,824	2,073,238	(604,414)

Salaries & Labour

The actual and budgeted FTE's are expected to increase by June 30 due to new engineers being hired to implement the Safety Case, including conducting formal safety assessments, and managing the load of construction inspections that have been mandated to be conducted.

Consulting Fees

Consulting fees are lower than anticipated in the 2012/13 year as consulting costs associated with the Safety Case submitted under the amended GSSS Regulations 2000 to comply with updated versions of the following standards came in under the forecast amount in the Access Arrangement submission:

(a) AS 4645:2008 Gas Distribution Networks Part 1: Network Management; and
(b) AS 2885.1:2007 Pipelines — Gas and liquid petroleum — Design and construction and
(c) AS 2885.3: 2001 Pipelines — Gas and liquid petroleum — Operation and maintenance.

Attachment D: Additional Operating Regulatory Costs

Additional costs which fall within the definition of 'regulatory costs' and which were not foreseen at the time of preparing access arrangement forecast are detailed below.

Inspection of Gasfitter Installations

New gasfitter permit holders must 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. There has been an unforseen number of gasfitters who have recently completed training or for other reasons being classed as a "non-listed" gasfitter that require inspection of their installations until they achieve five clear installations in accordance with the Inspection Plan approved by Energy Safety.

The additional cost is estimated to be $188,392.

Additional Regulatory Capital Costs

Unanticipated Regulatory Capital Expenditure was incurred as a result of the EnergySafety Audit Report dated 22 November 2010 that issued ATCO Gas Australia with Corrective Action Request No.2 (page 2) to Review Over Pressure Shut-Off Strategy (or OPSO Strategy).

To April 2013, $620,096 has been spent on regulatory capital expenditure in relation to this matter and is reflected in the tariff variation formula on page 4.

Attachment E: Cost Pass Through Events

Table E1 – Cost pass Through

Cost Pass Through items to be recovered by way of standing charge	$ Nominal	Cost Pass Through Event
Carbon tax preparation and administration costs (net of 2% for Albany and Kalgoorlie)	11,860	1
Carbon tax non volume related emissions liability	31,768	1
Compliance (audits and weed control) with native vegetation clearing permits	30,000	2
Human Resources related costs	259,838	3
AEMC Rule Change	264,571	4
Notice of Intent/Gas Inspectors	334,539	5
Leak Surveys	381,000	6
Petroleum and Geothermal Energy Safety Levy Act 2011 and Regulations 2011 effective 1 January 2012 Administered by Department of Mines and Petroleum - Levy	12,028	7
Cost Pass Through items to be recovered by way of standing charge	1,325,604	
Cost Pass Through items to be recovered by way of volume charge	**$ Nominal**	
Volume related emissions liability	2,754,984	1
Forecast cost due to carbon tax impost added to UAFG price $/GJ	73,163	1
Cost Pass Through items to be recovered by way of volume charge	2,828,147	
Total Cost Pass Through items to be recovered	4,153,751	

Cost Pass Through Event 1 - *Clean Energy Act 2011 (Cth)*

Statement of reasons for variation of the Haulage Tariffs (sub clause 4.2(a))

ATCO Gas Australia submits that the enactment of the *Clean Energy Act 2011* (Cth) (the Act) constitutes a *"Costs Pass Through Event"* pursuant to sub-clauses 3.1(c) and (d) (Costs Pass Through Events) of Annexure B, Reference Tariff Variation Mechanism for Haulage Tariffs, of the Access Arrangement;

In November 2011, the Australian Federal Government enacted the Act. Pursuant to section 4 of the Act, the Government introduced the carbon pricing mechanism on 1 July 2012. Under the carbon pricing mechanism, *"liable entities"* must obtain, and surrender, to the Federal Government the number of carbon units equivalent to their greenhouse gas emissions for the particular process or activity that they undertake. One carbon unit is equivalent to greenhouse gas emissions with carbon dioxide equivalence of one tonne.

Pursuant to section 20 of the Act, an entity is a *"liable entity"* if it has *"operational control"* of a facility and that facility is responsible for covered emissions of greenhouse gases with a carbon dioxide equivalence of 25,000 tonnes or more in a financial year.

As ATCO Gas Australia has operational control over the Mid-West and South-West Gas Distribution Systems (GDS) as defined by the Act, and the GDS constitutes a single undertaking that in its activity involves the production of covered emissions of greenhouse gases with a carbon dioxide equivalence in excess of 25,000 tonnes per financial year, it would, *prima facie*, be considered a *"liable entity"* for the purposes of the Act and be subject to the carbon pricing mechanism.

ATCO Gas Australia will incur *"Conforming Operating Expenditure"* as defined in sub-clause 12.1 of the Access Arrangement as a direct result of the enactment of the *Clean Energy Act 2011 (Cth)* being:

- the cost of purchasing carbon units and
- the costs to undertake an independent audit of the ATCO Gas Australia's emissions report to be provided to the Commonwealth Department of Climate Change and Energy Efficiency pursuant to a 2012/2013 amendment under the *National Greenhouse and Energy Reporting Act* 2007 (Cth).
- the costs of implementing the provisions of the Act.

Supporting Calculations (sub-clause 4.2(b))

For the first three financial years after the introduction of the carbon pricing mechanism, the so-called *"Fixed Charge Years"* (being the 2012, 2013 and 2014 years ending 30 June), the price per tonne of greenhouse gas emitted is set at $23, $24.15 and $25.40, respectively.

Based on the actual and forecast gas haulage for the 2012/13 year, ATCO Gas Australia's liability is $2,754,984. There will be an estimated further cost associated with other non-gas sales related emissions of $31,768.

Due to the fact that ATCO group is likely to emit greater than 125,000 tonnes of greenhouse gases in a financial year, Section 74AA, a new amendment under the *National Greenhouse and Energy Reporting Act 2007 (Cth)* (NGERS), imposes a mandatory requirement to provide an independent audit report to the Commonwealth Department of Climate Change and Energy Efficiency. The independent audit will review the methodology applied by ATCO Gas Australia in determining its carbon emissions. The estimated cost of the audit associated with ATCO Gas Australia is included in event 1 under the description carbon tax preparation and administration costs.

Supporting information (sub-clause 4.2(c))

The calculation of the number of carbon units which need to be purchased in relation to the 2013/14 year will be based on the greenhouse gas emissions reported by ATCO Gas Australia in compliance with NGERS multiplied by $24.15 per tonne. ATCO Gas Australia creates greenhouse gas emissions as a result of the fugitive emissions component of unaccounted for gas, transportation fuel and electricity use. For the purposes of the tariff variation, the emissions for 2013/14 have been based on actual and forecast haulage sales for the 2012/13 year.

As the principal source of greenhouse gas emissions results from the fugitive emissions component of unaccounted for gas, the allocation of the cost of permits among the five reference tariff services is based on the UAFG cost allocations used for the Access Arrangement. This methodology is consistent with that applied for the 2012/13 year.

Carbon Tax Related Cost Pass Through Items	$ Nominal
Fugitive emissions gas haulage related liability	$ 2,754,984
Forecast cost due to carbon tax impost added to UAFG price $/GJ	$ 73,163
Carbon tax preparation and administration costs	$ 11,860
Carbon tax non volume related emissions liability	$ 31,768
	$ 2,871,775

Cost Pass Through Event 2 - Environmental Protection (Clearing of Native Vegetation) Regulations 2004

Statement of reasons for variation of the Haulage Tariffs (sub clause 4.2(a))

These Regulations require a permit for the clearing of native vegetation. These permits may be granted with conditions. ATCO Gas Australia has been granted three permits in respect of the clearing of native vegetation and there is a requirement for an annual external audit to be undertaken. Audits are to be conducted annually from the grant of the permits.

ATCO Gas Australia's Native Vegetation Clearing Permits were granted in January and April 2010 and thus the related audit and other compliance costs could not reasonably have been forecast for the access arrangement period.

There are two identified compliance costs related to the permits.

- An annual audit for each permit
- An annual weed control activity for each permit

Supporting Calculations (sub-clause 4.2(b))

The estimated Conforming Operating Expenditure associated with compliance actions required under the clearing permits is estimated to be $30,000 in 2012/13.

100% of these costs relate to the Mid-West and South West Gas Distribution Systems as the areas covered by the permits relate to the Mid-West and South West Gas Distribution Systems location.

Cost Pass Through Event 3 – Human Resources Related Costs

Statement of reasons for variation of the Haulage Tariffs (sub clause 4.2(a))

The *Fair Work Act 2009* (FWA) introduced the Fair Work System effective 1 January 2010. It represented a significant change to the legislative framework for industrial relations. There is an obligation on employers to ensure ongoing compliance with the FWA. It was necessary during the 2012/13 year to obtain legal advice on implementing specific provisions of the FWA.

The timing of the implementation of the Act was such that the cost of obtaining external legal advice could not reasonably have been forecast for the access arrangement period.

The Superannuation Guarantee (Administration) Amendment Act 2012 received royal assent on 29 March 2012. Legislation has been passed by Parliament to implement a phased increase in the Superannuation Guarantee Levy (Levy) between 1 July 2013 and 1 July 2019. The Levy will increase from the current 9.00% of ordinary time earnings to 9.25% for the period from 1 July 2013 to 30 June 2014.

The *Tax Laws Amendment (2012 Measures No. 4) Act 2012* received royal assent on 28 September 2012. Legislation has been passed by Parliament to implement changes affecting the calculation of Fringe Benefit Tax (FBT) payable with respect to a living-away-from-home-allowance (LAFHA) and other LAFHA-based benefits. The FBT payable commencement date for the living-away-from-home changes applies to LAFHA and LAFHA-based benefits that are provided from 1 October 2012.

Total human resources related costs related to these three changes in legislation are $259,838.

Cost Pass Through Event 4: AEMC Rule Changes

Statement of reasons for variation of the Haulage Tariffs (sub clause 4.2(a))

In October 2011, the Australian Energy Regulator (AER) and the Energy Users Rule Change Committee (EURCC) submitted to the Australian Energy Market Commission (AEMC) two rule change proposals regarding, amongst other things, the rate of return provisions under the National Gas Rules (NGR) and the National Electricity Rules (NER).

In March 2012, the AEMC delivered its initial directions paper on the proposed rule change, followed by a draft rule determination in mid-2012. On 29 November 2012, the AEMC released its final determination on the rule change process.

As a result of the AEMC's final determination on 29 November 2012, amendments were made to the rate of return provisions in the NGR. Those amendments required the Economic Regulation Authority (ERA) to develop rate of return guidelines before 29 November 2013. The transitional arrangements for implementing the rule change have also resulted in the lodgement date for AGA's proposed revisions to its access arrangement being deferred from July 2013 to early 2014.

On 21 December 2012, the ERA issued its initial consultation paper on the rate of return guidelines in accordance with rule changes made by the AEMC in November 2012. ATCO Gas Australia has now engaged external economic and legal consultants to assist prepare a response submission to the ERA'S consultation process. As a result, AGA is incurring additional legal and consulting costs over and above what could have reasonably been foreseen at the time of preparing access arrangement forecasts.

Total AEMC Rule Change costs related to the change in legislation are $264,571.

Cost Pass Through Event 5: Notice of Intent/Gas Inspections

Statement of reasons for variation of the Haulage Tariffs (sub clause 4.2(a))

Energy*Safety* conducted a 2012 review of gas fitting work associated with new and additional gas installations relating to commercial, industrial, multi-storey and multi-residential premises. In October 2012 Energy Safety published Energy Bulletin No.60 ('Bulletin No.60'), defining proposed gas industry changes, being the introduction of a requirement to submit to Network Operators a 'Notice of Intent' (NOI) relating to gas fitting works on 'complex' gas installation. Bulletin No.60 defined the criteria for determining 'complex' gas installations.

This new NOI form, which is to be submitted prior to commencement of gas fitting work, will be additional to the current Notice of Completion (NOC) form which is submitted upon completion of all gas fitting work. The Network Operator will be required to cross reference and link both forms associated with each 'complex' gas installation.

The NOI will require ATCO Gas Australia to visit the site to ensure the proposed works are safe and meet relevant standards. Based on current work volumes it is anticipated additional costs of $334,539 will be incurred in relation to NOI's for the 2013/14 year.

Cost Pass Through Event 6: Leakage Surveys

Statement of reasons for variation of the Haulage Tariffs (sub clause 4.2(a))

The *Gas Standards Act 1972* and specifically the *Gas Standards (Gas Supply and System Safety) Regulations 2000* prescribe the requirements for conducting leak surveys of the Gas Distribution Network.

The version of the *Gas Standards (Gas Supply and System Safety) Regulations 2000* (GSSSR) now in force is the 9 January 2010 revision. Schedule 2 of the GSSSR prescribed the mandatory standards specifying the requirements for 'leakage survey', that being compliance with section AG 603 – 1978 *Gas Distribution Code* published by the Australian Gas Association. Clauses 7.7.2 and 7.7.3 of AG 603 prescribed the requirements for 'leakage surveys and routine procedures' with which ATCO Gas Australia complied.

The 9 January 2010 revision of the GSSSR included the requirement to prepare a Safety Case for submission for approval and subsequent 'acceptance' by 9 January 2011 (a later revision to the GSSSR, changed this date to 3 August 2012). The Director of Energy Safety accepted the ATCO Gas Australia's GDS Safety Case under the provisions of Regulation 34 of the Gas Standards (Gas Supply and System Safety) Regulations 2000 on 28 July 2011.

The GSSSR includes a Safety Case 'implementation plan' period of up to 18 months During that period formal safety assessments are conducted which then lead to decisions about how the Safety Case is to be implemented in the applicable operational areas. The Safety Case was "implemented" (that is, the safety case implementation plan was completed) on 28 January 2013 in accordance with the conditions of 'acceptance' of the Safety Case.

The conducting of the 'leak survey formal safety assessment' requirement as per Clause 6.5.3 of AS/NZS 4645.1-2008 was included in the 'safety case implementation plan' and completed in

January 2013. As part of the formal safety assessment, surveys were conducted to identify the locations of risk, to be surveyed annually. The result was an additional 753 locations, 868Kms of high risk pipeline and 179 Kms of CBD streets where annual Leak Surveys are to be performed.

The outcome of the 'leak survey formal safety assessment' and therefore the extent of changes to the leak survey programme and resource requirements could not be known until the completion of that assessment. As the timeframe from initiating preparation of the safety case to completion of the safety case implementation is over two years, estimating costs at the time of preparation for the Access Arrangement review was impractical.

The regulatory change, in particular the requirement for additional annual leak surveys, has resulted in a requirement for additional resources with consequent additional costs of $381,000.

Cost Pass Through Event 7: *Petroleum and Geothermal Energy Safety Levy Act 2011 and Regulations 2011* effective 1 January 2012 - Levy

Statement of reasons for variation of the Haulage Tariffs (sub clause 4.2(a))

A safety levy has been introduced and administered by the Department of Mines and Petroleum for regulatory services rendered in relation to the relevant Acts: *Petroleum and Geothermal Energy Safety Resources Act 1967* (PAGERA), *Petroleum Pipelines Act 1969* (PPA). 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.

The cost of the levies has been calculated to be $12,028 for 2012/13year.

Attachment F: Varied tariffs to apply from 1 July 2013

This variation report details the varied tariff components of the reference tariffs for application during variation year 2013/14.

The determination of the varied tariff components has been undertaken in accordance with Annexure B of the Access Arrangement for the Mid-West and South-West Gas Distribution Systems.

The varied reference tariffs, excluding GST, are listed below and will be applicable from 1 July 2013. Details of the individual calculations are provided in the attached spreadsheet.

Varied Reference Tariff A1:

(i) the standing charge is $46,739.06 (ex GST) per year;

(ii) the demand charge rate is:

A. $197.00 (ex GST) per gigajoule per kilometre per year for the first 10 kilometres of the interconnection distance; and

B. $103.69 (ex GST) per gigajoule per kilometre per year for any part of the interconnection distance in excess of 10 kilometres;

(iii) the usage charge rate is:

A. $0.04180 (ex GST) per gigajoule per kilometre for the first 10 kilometres of the interconnection distance;

B. $0.02088 (ex GST) per gigajoule per kilometre for any part of the interconnection distance in excess of 10 kilometres;

C. $0.02252 (ex GST) per gigajoule

Varied Reference Tariff A2:

(i) the standing charge is $25,875.70 (ex GST) per year;

(ii) the usage charge rate is:

A. $2.52 (ex GST) per gigajoule for the first 10 terajoules of gas delivered to the user per year; and

B. $1.36 (ex GST) per gigajoule for gas delivered to the user in excess of 10 terajoules per year and up to 10 terajoules per year;

Varied Reference Tariff B1:

(iii) the standing charge is $1,300.24 (ex GST) per year;

(iv) the usage charge rate is:

A. $5.11 (ex GST) per gigajoule for the first 5 terajoules of gas delivered to the user per year;

B. $4.40 (ex GST) per gigajoule for gas delivered to the user in excess of 5 terajoules per year; and

Varied Reference Tariff B2:

(i) the standing charge is $323.26 (ex GST) per year; and

(ii) the usage charge rate is:

A. $8.43 (ex GST) per gigajoule for the first 100 gigajoules of gas delivered to the user per year; and

B. $5.07 (ex GST) per gigajoule for gas delivered to the user in excess of 100 gigajoules per year;

Varied Reference Tariff B3:

(i) the standing charge is $67.57 (ex GST) per year; and

(ii) the usage charge rate is:

A. $14.17 (ex GST) per gigajoule for the first 10 gigajoules of gas delivered to the user per year; and

B. $6.24 (ex GST) per gigajoule for gas delivered to the user in excess of 10 gigajoules per year.