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6 December 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 – Cost Pass Through Events for Period Beginning 1 January 2014
Public Submission

In relation to the Economic Regulation Authority's (ERA) Revised Access Arrangement for the ATCO Gas Australia Mid-West and South-West Gas Distribution Systems as released on 25 June 2012 (Access Arrangement), a number of cost pass through events have arisen including an adjustment for carbon tax recovery during the 2012/13 year.

In accordance with the Access Arrangement, ATCO Gas Australia has used its reasonable endeavours to provide to the ERA 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**).

ATCO Gas Australia submitted the above Variation report - cost pass through letter dated 23 August 2013, as it proposed to amend tariffs on 1 January 2014 to recover new cost pass through items as well as make an adjustment for over recovery of carbon tax in the 2012/13 year. ATCO Gas Australia has now amended that Variation report to incorporate the most up to date information as previously arranged with the ERA.

In accordance with the requirements of clause 4.2 of Annexure B of the Access Arrangement (Annexure B), the variation report is contained in attachment A – Variation report – cost pass through event.

The anticipated cost pass through amount is $1,073,357.

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 1

Cost Pass Through	$ Nominal
Cost Pass Through items to be recovered by way of standing charge	1,161,665
Cost Pass Through items to be recovered by way of volume charge	(88,308)
Total Cost Pass Through items to be recovered	1,073,357

Table 2 shows the impact of the cost pass through events on tariffs.

Table 2

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
	1-Jan-14	30-Jun-14	Average	Percentage of UAFG	$/Delivery point	Jan 2013 to June 2013		$/GJ
A1	70	70	70	9.30%	$ 3.47990	5,315,662	(8,208)	-$ 0.00154
A2	108	108	108	1.58%	$ 3.47990	946,320	(1,393)	-$ 0.00147
B1	1,370	1,395	1,383	7.18%	$ 3.47990	749,886	(6,339)	-$ 0.00845
B2	9,758	10,008	9,883	5.29%	$ 3.47990	577,970	(4,672)	-$ 0.00808
B3	657,291	666,175	661,733	76.66%	$ 3.47990	4,369,263	(67,696)	-$ 0.01549
	668,597	677,756	673,176	100.00%		11,959,100	(88,308)	

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 $.02098 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) + $.02098/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 3.

Table 3

Tariff Category	Tariff Component	Current Reference Tariff Beginning 1 July 2013	Proposed Cost Pass Through Tariff Component	Proposed Revised Reference Tariff Beginning 1 January 2014
Tariff A1	Fixed Charge	$46,739.06	$3.48	$46,742.54
Tariff A1	Demand <10kms	$197.00	$0.00	$197.00
Tariff A1	Demand >10km	$103.69	$0.00	$103.69
Tariff A1	Usage First 10 km's	$0.04180	$0.00000	$0.04180
Tariff A1	Usage >10 km's	$0.02088	$0.00000	$0.02088
Tariff A1	Usage - Carbon tax	$0.02252	-$0.00154	$0.02098
Tariff A2	Fixed Charge	$25,875.70	$3.48	$25,879.18
Tariff A2	First 10 TJ	$2.52	$0.00	$2.52
Tariff A2	> 10 TJ's	$1.36	$0.00	$1.36
Tariff B1	Fixed Charge	$1,300.24	$3.48	$1,303.72
Tariff B1	First 5 TJ	$5.11	-$0.01	$5.10
Tariff B1	> 5 TJ's	$4.40	-$0.01	$4.39
Tariff B2	Fixed Charge	$323.26	$3.48	$326.74
Tariff B2	First 100 GJ's	$8.43	-$0.01	$8.42
Tariff B2	> 100 GJ's	$5.07	-$0.01	$5.06
Tariff B3	Fixed Charge	$67.57	$3.48	$71.05
Tariff B3	First 10 GJ's	$14.17	-$0.02	$14.15
Tariff B3	>10 GJ's	$6.24	-$0.02	$6.22

Should you have any queries or require further information, please do not hesitate to contact me on 6218 1722.

Yours sincerely,

Sally McMahon

General Manager Regulatory and Risk

Att.

Attachment A: Cost Pass Through Events

Table A1 – Cost pass Through

Cost Pass Through items to be recovered by way of standing charge	**$ Nominal**	**Cost Pass Through Event**
Carbon tax non volume related emissions liability	10,650	1
Safety Awareness Campaign	552,500	2
Field Inspections - Safety, Competency and Network Integrity Performance Monitoring	208,015	3
Petroleum and Geothermal Energy Regulations 2011 effective 1 January 2012 Administered by Department of Mines and Petroleum - Environmental Management Plan for the Class 600 Section of the Mandurah Gas Lateral	5,500	4
AEMC Rule Change	385,000	5
Cost Pass Through items to be recovered by way of standing charge	1,161,665	
Cost Pass Through items to be recovered by way of volume charge	**$ Nominal**	
Volume related emissions liability	(82,749)	1
Forecast cost due to carbon tax impost added to UAFG price $/GJ	(5,559)	1
Cost Pass Through items to be recovered by way of volume charge	(88,308)	
Total Cost Pass Through items to be recovered	1,073,357	

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 submitted in 2012 that the enactment of the *Clean Energy Act 2011* (Cth) (the Act) would constitute a *"Costs Pass Through Event"* pursuant to the Reference Tariff Variation Mechanism for Haulage Tariffs of the Access Arrangement.

The Act received assent in November 2011 and the Australian Federal Government introduced the carbon pricing mechanism on 1 July 2012.

Pursuant to section 20 of the Act, an entity will be considered as 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.

ATCO Gas Australia would, prima facie be considered a liable entity for the purposes of the Act on the basis that 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 involves the production of covered emissions of greenhouse gases with a carbon dioxide equivalence in excess of 25,000 tonnes per financial year.

Based on this assessment, a cost pass through amount of $2,720,853 was approved for the 2012/13 year in relation to carbon tax (Approved Amount). It was recognised that ATCO Gas Australia's actual carbon tax liability may vary from the Approved Amount. Consequently, ATCO Gas Australia confirms that it intends to vary reference tariffs to ensure that ATCO Gas Australia does not receive a benefit from any over recovery or loss from under recovery of carbon tax due to the potential for variance.

Supporting Calculations (sub-clause 4.2(b))

Based on the gas haulage for the 2012/13 year, as submitted for National Gas Emissions Reporting, ATCO Gas Australia's liability is $2,587,158. The cost associated with carbon tax imposed added to UAFG price $/GJ is $66,886 and other non-gas sales related emissions is $44,291. The cost pass through adjustment for the difference between the actual carbon tax liability and the carbon tax recovered via tariffs is as follows:

Carbon Tax Related Cost Pass Through Items	Actual Carbon Tax Liability	Actual Carbon Tax Collected	Variance
	$ Nominal	$ Nominal	$ Nominal
Fugitive emissions gas haulage related liability	$ 2,587,158	$ 2,669,907	(82,749)
Forecast cost due to carbon tax imposed added to UAFG price $/GJ	$ 66,886	$ 72,445	(5,559)
Carbon tax non volume related emissions liability	$ 44,291	$ 33,641	10,650
	2,698,335	2,775,993	(77,658)

Supporting information (sub-clause 4.2(c))

The calculation of the number of carbon units which need to be purchased in relation to the 2012/13 year is based on the greenhouse gas emissions reported by ATCO Gas Australia in compliance with National Gas Emissions Reporting (NGER) guidelines multiplied by $23.00 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.

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 between the five reference tariff services is based on the UAFG cost allocations used for the Access Arrangement.

Cost Pass Through Event 2 – Safety Awareness Campaign

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

In August 2013, Energy*Safety* instructed ATCO Gas Australia to undertake an ongoing, public awareness campaign through the *AS 4645.1-2008 Appendix F* mechanism. The campaign is aimed at the general public and is not limited to Western Australian gas consumers. As ATCO Gas Australia is the entity which is contacted to respond to gas faults, it was identified by Energy*Safety* as the most appropriate entity to manage the public awareness campaign.

ATCO Gas Australia will work in conjunction with Energy*Safety* to determine the penetration effectiveness of the Safety Awareness Campaign and any additional information that can be posted on the ATCO Gas Australia public website to further assist the Safety Awareness Campaign.

Supporting Calculations (sub-clause 4.2(b))

The estimated Conforming Operating Expenditure associated with the cost of implementing the Safety Awareness Campaign is estimated to be $552,500 in 2013/14.

100% of these costs relate to the Mid-West and South West Gas Distribution Systems. An advertising campaign plan has been devised to implement the Safety Awareness Campaign. The campaign will be implemented as soon as possible. All costs will be incurred prior to 30 June 2014.

Cost Pass Through Event 3: Field Inspections – Safety, Competency and Network Integrity Performance Monitoring

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

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

The 9 January 2010 revision of the *Gas Standards (Gas Supply and System Safety) Regulations 2000* (GSSSR) included a requirement to prepare a Safety Case for submission for approval and subsequent acceptance by 9 January 2011 (which was subsequently changed 3 August 2012 by a later revision of the GSSR).

ATCO Gas Australia was required to submit a Safety Case for approval in accordance with the Gas Standards (Gas Supply and System Safety) Regulations 2000 (GSSSR). The Director of EnergySafety accepted the ATCO Gas Australia's GDS Safety Case on 28 July 2011 and the Safety Case was implemented 28 January 2013. Once implemented, ATCO Gas Australia is required to ensure that a prescribed activity is carried out in such a way as to comply with the safety case (see GSSSR Regulation 37 and s14 Gas Standards Act 1972).

The preparation and acceptance of the GDS Safety Case through regulation 27(2)(a) of 2010 Revision introduced the requirement to comply with AS/NZS 4645.1-2008, Gas distribution networks, Part 1: Network management. Section 2.3 *Formal Safety Assessment* AS/NZS 4645.1 prescribed a new requirement for network operators to conduct a wide range of formal safety assessments (FSAs) "... at all stages throughout the life-cycle of a gas distribution network." The following sections of AS/NZS 4645.1 outline the obligations documented in AS/NZS 4645.1 where the development of controls is determined through FSA:

- Section 3.2 *General:* defines that "planning processes based on systematic analysis of functional requirements shall be established and these shall include changes in gas demand and safety aspects of the network. The functional requirements shall be documented and shall be kept up-to-date and reviewed when significant changes occur".

- Section 3.3 *Functional Requirements*: "In setting integrity criteria, at least the following matters shall be considered: "...(a) planned operational life...(i) competency of personnel..."

- Section 10 *Performance Monitoring:* describe the requirement to monitor key aspects of the gas distribution system and have an approved performance monitoring plan.

ATCO Gas Australia conducted a Field Inspections FSA that assessed the following:
(1) the requirements for performance monitoring of the competence and safety of employees and direct employed contractors; and
(2) the integrity of the gas distribution system through focused inspection and audit of field personnel undertaking prescribed activities.

The Field Inspections FSA encompassing the review of the current field inspection programme was completed in May 2013. The Field Inspections FSA:
- Identified the need for dedicated resources to conduct Field Inspections to monitor employee competence and safety and the integrity of the network.
- Identified 3 new network prescribed activities in addition to the 58 already identified.
- Determined the annual frequency (derived from 2012 data) with which each of the 61 activities is conducted.
- Assessed the risk of each activity.

The Field Inspection FSA determined that ATCO Gas Australia currently conducts 567 inspections using non-dedicated personnel conducting field inspections, to monitor employee and contractor safety and the integrity of the network compared to 1,226 Field Inspections (covering the Albany and Kalgoorlie sub-networks as well as coastal area) that will be required in 2013/2014.

The regulatory change through implementing the safety case has resulted in a requirement for 1,123 Field Inspections to be conducted for the coastal area in 2013/2014. 103 annual Field Inspections will be conducted in the Albany and Kalgoorlie sub-networks. In order to implement the assessed requirement for 1,123 Coastal Area Field Inspections using dedicated Inspectors, ATCO Gas Australia will need to engage 4 additional dedicated Field Inspectors to undertake these tasks full-time.

The outcome of the Field Inspections FSA and therefore the extent of changes to the Field Inspections and resource requirements could not be known until the completion of that assessment. The timeframe from initiating preparation of the GDS Safety Case to completion of the GDS Safety Case implementation is over two years, which meant that estimating costs at the time of preparation for the Access Arrangement review was impractical.

The regulatory change, in particular the requirement for additional inspections, has resulted in a requirement for additional resources with consequent additional costs of $208,015 to 30 June 2014. 100% of these costs relate to the Mid-West and South West Gas Distribution Systems. Costs relating to Albany and Kalgoorlie have been specifically excluded from the calculations.

Cost Pass Through Event 4: *Petroleum Pipelines (Environment) Regulations 2012-* Environmental Management Plan

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

The *Petroleum Pipelines (Environment) Regulations 2012* (Regulations) came into operation on 29 August 2012 on which these regulations are published in the *Gazette*. The objective of these regulations is to ensure that any pipeline activity is carried out in a manner consistent with the principles of ecologically sustainable development and carried out in accordance with an environment plan.

In accordance with Part 6 –Transitional Provisions of the Regulations, the environmental management plan is required to be submitted on or before the 28 of August 2013.

To comply with the Regulations, the environmental management plan for the Class 600 section of the Mandurah Gas Lateral must be updated and then approved by the Minister for Mines and Petroleum. 100% of the updated environmental management plan relates to the Mid-West and South-West Gas Distribution systems.

Estimating costs at the time of preparation for the 17 May 2013 submission was impractical as the formal gap analysis audit findings conducted for the Mandurah Gas Lateral are still being conducted, and the environmental management plan is due to be updated based on the gap analysis audit findings conducted for the Mandurah Gas Lateral in accordance with the Regulations.

Supporting Calculations (sub-clause 4.2(b))

The estimated Conforming Operating Expenditure associated with the cost of the updated environmental management plan is $5,500. 100% of these costs relate to the Mid-West and South West Gas Distribution Systems as the cost relates to the Mandurah gas lateral.

Cost Pass Through Event 5: 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, ATCO Gas Australia is incurring additional legal 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 $385,000.

Attachment B: Varied tariffs to apply from 1 January 2014

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 January 2014. Details of the individual calculations are provided in the attached spreadsheet.

Varied Reference Tariff A1:

(i) the standing charge is $46,742.54 (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. $0.02098 (ex GST) per gigajoule

Varied Reference Tariff A2:

(i) the standing charge is $25,879.18 (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 $1,303.72 (ex GST) per year;

(iv) the usage charge rate is:

A. $5.10 (ex GST) per gigajoule for the first 5 terajoules of gas delivered to the user per year;

B. $4.39 (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 $326.74 (ex GST) per year; and

(ii) the usage charge rate is:

A. $8.42 (ex GST) per gigajoule for the first 100 gigajoules of gas delivered to the user per year; and

B. $5.06 (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 $71.05 (ex GST) per year; and

(ii) the usage charge rate is:

A. $14.15 (ex GST) per gigajoule for the first 10 gigajoules of gas delivered to the user per year; and

B. $6.22 (ex GST) per gigajoule for gas delivered to the user in excess of 10 gigajoules per year.