



Ref: JW-JW-SL: 0534

29 November 2016

Mr Greg Watkinson
Chief Executive Officer
Economic Regulation Authority

Attention: Tyson Self, Assistant Director Gas

By e-mail: Tyson.self@erawa.com.au

Dear Mr Watkinson

Scheduled Reference Tariff Variation Notice for the Goldfields Gas Pipeline

Goldfields Gas Transmission Pty Limited (GGT) is proposing to vary the Reference Tariff for the Goldfields Gas Pipeline in accordance with the mechanism for Scheduled Variation set out in section 4.5, and section A2 of schedule A, of the Access Arrangement, and seeks the Economic Regulation Authority's approval of the proposed varied tariff.

This letter is the Scheduled Reference Tariff Variation Notice required by section 4.5.1 (b) of the Access Arrangement for the Goldfields Gas Pipeline (GGP).

GGT is not proposing to vary the Reference Tariff as a result of the occurrence of a Cost Pass-through Event.

The proposed variation does, however, take into account annual updating of the return on debt. GGT has updated the return on debt for the 2017 calendar year using a debt risk premium of 2.553%. The debt risk premium has been established from corporate debt yields over the 20 days averaging period proposed by GGT for updating the return on debt for 2017.

The varied Reference Tariff Components which GGT proposes applying from 1 January 2017 are:

Toll tariff	\$0.117231/GJ MDQ
Capacity reservation tariff	\$0.000625/GJ MDQ km
Throughput tariff	\$0.000230/GJ km

GGT's tariff variation calculations are set out in the table attached to this letter (which, if required, is available as a spreadsheet).

Should GGT be able to further assist the ERA's process of approving the proposed tariff variation, please contact me on (08) 6189 4594, or at john.williams@apa.com.au.

Yours sincerely


John Williams
Manager Regulatory



Attachment

Goldfields Gas Pipeline Reference Tariff Variation

Each of the components of the GGP Reference Tariff may be varied, annually, provided the varied tariff component satisfies the following conditions:

$$p_t^i \leq p_{t-1}^i \times (1 + X_{Factor_t}^i) \times \frac{(1 + Y^i)}{(1 + Z)^D} \times \left(\frac{SepCPI_{t-1}}{SepCPI_{t-2}} \right)^D$$

and

$$\sum_{i=1}^3 p_t^i q_{t-2}^i \leq \frac{1}{(1 + Z)^D} \times \left(\frac{SepCPI_{t-1}}{SepCPI_{t-2}} \right)^D \times \sum_{i=1}^3 (1 + X_{Factor_t}^i) p_{t-1}^i q_{t-2}^i$$

where:

- $i = 1, 2, 3$ are the Reference Tariff Components ($i = 1$ denotes the Toll Tariff, $i = 2$ denotes the Capacity Reservation Tariff, and $i = 3$ denotes the Throughput Tariff)
- t is the period in which the varied tariff applies: July – December 2016, January to December 2017, January to December 2018, January to December 2019
- p_t^i is the value of Reference Tariff Component i as varied for Year t
- p_{t-1}^i is the value of the Reference Tariff Component i in Year $t - 1$
- $X_{Factor_t}^i$ is the change in Reference Tariff Component i as varied for Year t
- Y^i is 0.02
- Z is 0.0146 (1.46% being the forecast annual percentage inflation rate used in the ERA's June 2016 Final Decision on the GGP Access Arrangement revisions proposal)
- D is the number of calendar days in regulatory period t divided by the number of calendar days in regulatory year t
- $SepCPI_{t-1}$ is the Consumer Price Index, All Groups, Weighted Average of Eight Capital Cities, for the September Quarter in the year one year prior to Year t
- $SepCPI_{t-2}$ is the Consumer Price Index, All Groups, Weighted Average of Eight Capital Cities, for the September Quarter in the year two years prior to Year t
- q_{t-2}^i is the quantity of service, in Year $t - 2$, which is paid for at Reference Tariff Component i

The Reference Tariff Components which are to be varied are the components applying at 1 July 2016, and are set out in the Details of schedule A to the GGP Access Arrangement. They are:

Toll Tariff	\$/GJ MDQ	0.116369
Capacity Reservation Tariff	\$/GJ km MDQ	0.000620
Throughput Tariff	\$/GJ km	0.000228

These are the values of p_{t-1} in the formulae above.

The formulae are to be applied to determine the varied tariff components for year $t = 2$, which is the calendar year 1 January 2017 to 31 December 2017.

GGT has updated the return on debt of the GGP Access Arrangement, which is determined using a trailing average approach. GGT has determined a new debt risk premium for 2017 in accordance with the principles and procedure set out in the ERA's June 2016 Final Decision on the GGP Access Arrangement revisions proposal. That new debt risk premium, 2.553%, has been used in the rate of return calculation of the ERA's Final Decision tariff model (as amended on 21 July 2016) to determine the X Factors for 2017.

When the updated debt risk premium is included in the rate of return calculation of the Final Decision tariff model, and the model is recalculated, the X Factors for 2017 are:

$X_{Factor}_{2017}^{Toll}$		0.008224
$X_{Factor}_{2017}^{Capacity\ reservation}$		0.009125
$X_{Factor}_{2017}^{Throughput}$		0.007908

GGT has used the following values for the other parameters when applying the tariff variation formulae of clause A2 of schedule 2 to the GGP Access Arrangement:

Y_i		0.02
D	Number of days in regulatory period 1 (184) divided by number of days in year 1 (365)	0.504110
Z		0.0146
$SepCPI_{t-1}$	Consumer Price Index, All Groups, Weighted Average of Eight Capital Cities, for September Quarter 2015	109.4
$SepCPI_{t-2}$	Consumer Price Index, All Groups, Weighted Average of Eight Capital Cities, for September Quarter 2015	108.0

The limits on the varied Reference Tariff Components are:

Toll Tariff	\$/GJ MDQ	0.119575
Capacity Reservation Tariff	\$/GJ MDQ km	0.000638
Throughput Tariff	\$/GJ km	0.000234

Quantities of service provided in Year $t - 2$ (1 January 2015 to 31 December 2015) were:

Capacity	TJ MDQ	37,520.09
Capacity x distance	PJ MDQ km	40,366.17
Throughput x distance	PJ km	27,547.52
Limit on movement of weighted average tariff basket	\$m	35.958704
Revenue from tariff basket when $Y_i = 0.02$	\$m	36.677878

Varied Reference Tariff Components with $Y_i = 0$:

Toll tariff	\$/GJ MDQ	0.117231
Capacity reservation tariff	\$/GJ MDQ km	0.000625
Throughput tariff	\$/GJ km	0.000230
Revenue from tariff basket when $Y_i = 0$:	\$m	35.958704

The varied Reference Tariff Components to apply from 1 January 2017 are:

Toll tariff	\$/GJ MDQ	0.117231
Capacity reservation tariff	\$/GJ MDQ km	0.000625
Throughput tariff	\$/GJ km	0.000230