



ATCO Gas

A U S T R A L I A

2018 Variation Report

1 November 2017

Public

An appropriate citation for this paper is:

2018 Variation Report

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1. Introduction

This variation report details the varied tariff components of the natural gas haulage reference tariffs that will apply from 1 January 2018 to 31 December 2018.

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

All haulage tariffs commencing 1 January 2018 have been recalculated to reflect the X-Factor₂₀₁₈ and the annual CPI adjustment.

2. X-Factor calculation

The X-Factor₂₀₁₈ is the price change from 1 January 2017 to 1 January 2018 after including approved cost pass-throughs and the annual update of the trailing average debt risk premium for 2018, in 30 June 2014 dollars.

The X-Factor₂₀₁₈ value applied to haulage tariffs is -9.594%.

The X-Factor₂₀₁₈ has been calculated using the following update of the trailing average debt risk premium (DRP):

- $DRP_{2018} = 1.689\%$.

The X-Factor₂₀₁₈ also includes the following cost pass-through events:

- \$14,309 operating expenditure for gas quality sampling and \$27,200 capital expenditure for amendments to the Gas Interconnection Management (GIM) software required due to the installation of a new physical gate point at Russell Road, Munster.
- \$50,362 operating expenditure to comply with the National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015 to apply from 1 July 2016, which was legislated in 2015.

3. Cost pass-through events

3.1 Physical gate point at Russell Road, Munster

The Munster physical gate point connects the Mid-West and South-West Gas Distribution System with the Parmelia Gas Pipeline. The physical gate point was requested by APA in 2015, and an agreement to construct the new Munster interconnection was signed on 11 December 2015. As a result, the costs associated with the new physical gate point were unforeseen at the time ATCO Gas Australia submitted its November 2014 access arrangement proposal¹, and were not provided for in the ERA's Final Decision.

Physical gate point costs are cost pass-through events defined at clause 2.1(b) of Annexure B of the access arrangement. Clause 2.1(b) is noted below:

2.1 Cost Pass-Through Events

For the purpose of this clause 2, each of the following is a "Cost Pass-Through Event"...

...(b) ATCO Gas Australia incurs Physical Gate Point Costs that constitute Conforming Capital Expenditure or Conforming Operating Expenditure;

3.1.1 Operating expenditure

ATCO Gas Australia must maintain the natural gas in its distribution system to a specific quality and odorant level as required by Division 2 of the *Gas Standards (Gas Supply and System Safety) Regulations 2000*. Regular testing of natural gas at and near the point where gas enters the distribution system from a transmission pipeline helps ensure gas being supplied to customers is of sufficient quality. In particular, odorant analysis is a critical component of network safety, as properly odourised gas allows leaks and faults to be detected.

The gas sampling and analysis costs are *such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services*, and therefore conform to National Gas Rule 91(1) as:

- gas sampling and analysis is required to meet Gas Standards legislated requirements; and
- the provider of gas sampling services is selected by a competitive tender process to minimise costs.

The Munster physical gate point came into operation on 29 April 2016. Samples relating to the new interconnection are taken at Russell Road, Munster and nearby Moylan Road, Wattleup.

The gas sampling and analysis costs related to the Russell Road, Munster interconnection not included in prior Tariff Variation Notices to the end of September 2017 were \$14,309.

3.1.2 Capital expenditure

The capital costs of constructing the Munster physical gate point have been recovered directly from APA, and therefore are not a cost pass-through event. However, there are computer software costs relating to this cost pass-through event.

The Gas Inflows Management (GIM) system is software designed by ATCO Gas to meet the AEMO gas market rules that require ATCO Gas to declare the HHV (Higher Heating Value) for each gas zone. A new Heating Value Management Plan was required under the *Gas Standards (Gas Supply and System Safety)*

¹ ATCO Gas Australia's Response to the ERA's Draft Decision on required amendments to the Access Arrangement for the Mid-West and South-West Gas Distribution System was submitted to the ERA on 27 November, 2014.

Regulations 2000 due to the injection of differing specification gas at the interconnection point by APA. The GIM application required alteration to accommodate the new Heating Value Management Plan.

That plan includes how ATCO Gas will calculate HHV values for the network affected by gas inflows from the new interconnection point. GIM software is then modified to implement the Heating Value Management Plan. Modification of the software includes the acceptance, validation and reporting of the incoming data for the new gas zone as well as the declaration to the gas market of the calculated gas heating value for this network to allow all metered gas volumetric data to be converted to energy for the billing of customers and operation of the WA gas market.

The amount of expenditure incurred in modifying the GIM software is \$27,200.

3.2 National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015

On 1 July 2016 the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015 (the Safeguard Mechanism)* came into effect having been signed into force by the Federal Minister for the environment on 7 October 2015.

The Safeguard Mechanism creates a baseline of carbon emissions based on historical data and emissions formulas contained within it. If in future the emitter has emissions greater than that baseline a liability arises in connection with those increased emissions. That liability can be acquitted by purchasing Australian Carbon Credit Units (ACCUs) equivalent to the liability arising from those increased emissions.

The implementation of the Safeguard Mechanism and the consequent liability imposed on ATCO Gas gives rise to a cost pass-through event under clause 2.1(d) of Annexure B of the access arrangement. Clause 2.1(d) is noted below:

2.1 Cost Pass-Through Events

For the purpose of this clause 2, each of the following is a "Cost Pass-Through Event"...

...(d) ATCO Gas Australia incurs Conforming Capital Expenditure or Conforming Operating Expenditure as a direct result of any Law that imposes a fee or Tax on greenhouse gas emissions or concentrations; and for avoidance of doubt; this expenditure includes only direct capital or direct operating expenditure associated with preparation for, compliance with the Laws which implement, and the participation in, the Emissions Trading Scheme; and liability only for direct capital or direct operating expenditure transferred to ATCO Gas Australia from another entity as a direct result of acting in accordance with the Emissions Trading Scheme.

Section 22(1) of the Safeguard Mechanism provides for certain conditions under which an emitter can apply to the Regulator for revision of the baseline emissions. ATCO Gas is making a submission under section 22(1)(d) the "initial calculated baseline criteria". The anticipated impact is to reduce the liability to purchase ACCUs by approximately \$220,000 at the rate of \$15 per tonne CO₂ equivalent units. The need to make an "initial calculated baseline" submission is driven by a change made to the unaccounted for gas (UAFG) factor for Western Australia contained in section 3.80(3) of the August 2016 National Greenhouse and Energy Reporting Scheme Measurement Technical Guidelines for the estimation of emissions by facilities in Australia to apply for the 2016-17 reporting year.

ATCO Gas has engaged relevant experts to assist with the preparation of the submission to help ensure its success by application of their specialist expertise in this very technical area. The first phase of the project, has confirmed that ATCO Gas is in a position to pursue a "Calculated Baseline Application". In the second phase, the experts have assisted with the preparation of the submission to ensure it complies with the technical, legislative and other requirements necessary for the submission to succeed.

A submission to revise ATCO Gas's baseline carbon emission must be supported by an auditor's report pursuant to section 22(2)(d) of the Safeguard Mechanism. ATCO Gas engaged an external auditor. The cost of this audit is a cost pass-through event defined at clause 2.1(d) of Annexure B of the access arrangement

being conforming operating expenditure as a direct result of a Law that imposes a fee or Tax on greenhouse gas emissions.

The total costs pass through included in this tariff variation report relating to the Safeguard Mechanism is \$50,362.

The actual ACCU liability for the year ended 30 June 2017 will not be known until February 2018. It is anticipated that a cost pass-through event for the ACCU liability will be included in the 1 January 2019 Variation report.

4. CPI adjustment

In accordance with the formulas provided in clause 1.3 of Annexure B of the Revised Access Arrangement for the Mid-West and South-West Gas Distribution Systems, haulage tariffs have been adjusted to reflect CPI All Groups, Weighted Average of Eight Capital Cities. The following CPI values have been applied:

- $CPI_{\text{Mar}2013} = 102.4$
- $CPI_{\text{Sep}2014} = 106.4$
- $CPI_{\text{Sep}2015} = 108.0$
- $CPI_{\text{Sep}2016} = 109.4$
- $CPI_{\text{Sep}2017} = 111.4$

5. Proposed Haulage Tariffs and varied Tariff Components

The varied reference tariffs, excluding GST, are listed below and will be applicable from 1 January 2018. Details of the individual calculations are provided in the attached spreadsheet.

5.1 Varied reference tariff A1

The following charges will apply from 1 January 2018:

1. the Standing Charge is \$35,827.40 divided by 365;
2. the Demand Charge Rate is:
 - a) \$151.04 for the first 10 kilometres of the Interconnection Distance; and
 - b) \$79.50 for any part of the Interconnection Distance in excess of 10 kilometres;
3. the Usage Charge Rate is:
 - a) \$0.03195 per Gigajoule per kilometre for the first 10 kilometres of the Interconnection Distance; and
 - b) \$0.01610 per Gigajoule per kilometre for any part of the Interconnection Distance in excess of 10 kilometres.

5.2 Varied reference tariff A2

The following charges will apply from 1 January 2018:

1. The Standing Charge is \$19,827.70 divided by 365;
2. the Usage Charge Rate is:
 - a) \$1.92 per Gigajoule for the first 10 Terajoules of gas delivered to the User at a Delivery point per year; and
 - b) \$1.03 per Gigajoule for usage in excess of the first 10 Terajoules of gas delivered to the User at a Delivery point per year.

5.3 Varied reference tariff B1

The following charges will apply from 1 January 2018:

1. the Standing Charge is \$1,002.38 divided by 365;
2. the Usage Charge Rate is:
 - a) \$3.81 per Gigajoule for the first 5 Terajoules of gas delivered to the User at a Delivery point per year; and
 - b) \$3.28 per Gigajoule for any usage in excess of the first 5 Terajoules of gas delivered to the User at a Delivery Point per year.

5.4 Varied reference tariff B2

The following charges will apply from 1 January 2018:

1. the Standing Charge is \$250.44 divided by 365;
2. the Usage Charge Rate is:
 - a) \$6.37 per Gigajoule for the first 274 Megajoules per day of gas delivered to the User at a Delivery point; and
 - b) \$3.79 per Gigajoule for any usage in excess of the first 274 Megajoules of gas delivered to the User at a Delivery Point.

5.5 Varied reference tariff B3

The following charges will apply from 1 January 2018:

1. the Standing Charge is \$104.77 divided by 365;
2. the Usage Charge Rate is:
 - a) \$0.00 per Gigajoule for the first 5 Megajoules per day of gas delivered to the User at a Delivery Point;
 - b) \$7.77 per Gigajoule for the next 22 Megajoules per day of gas delivered to the User at a Delivery Point; and
 - c) \$3.35 per Gigajoule for any usage in excess of the first 27 Megajoules per day of gas delivered to the User at a Delivery Point.