



Notice

3 December 2020

Mid-West and South-West Gas Distribution Systems

Reference tariff variation – 1 January 2021

The Economic Regulation Authority has not approved an annual reference tariff variation proposed by ATCO Gas Australia for the Mid-West and South-West Gas Distribution Systems (GDS).

The GDS access arrangement provides for an annual tariff variation to adjust for the differences in forecast and actual inflation, cost pass-through events and updating the calculation of the rate of return. ATCO submitted a tariff variation report detailing its proposed reference tariff schedule that will apply from 1 January 2021.

The ERA reviewed ATCO's proposed cost pass-through events and the estimate of the debt risk premium to calculate the rate of return and has verified that these components of the tariff variation mechanism are in accordance with the approved access arrangement.

ATCO has used a different measure of inflation than that specified in the access arrangement for haulage services and ancillary reference services.

The ERA has not approved the proposed use of a different measure of inflation for haulage reference services as there is no provision in the access arrangement for ATCO to use a different index for these services. Therefore, the ERA has not approved the proposed reference tariff variations for haulage reference services (reference tariff classes A1, A2, B1, B2 and B3).

However, the relevant section of the access arrangement does allow ATCO to use a different measure of inflation for ancillary reference services if, in ATCO's reasonable opinion, the Consumer Price Index is published on a materially difference basis to the time of the last revisions to the access arrangement. The ERA has approved ATCO's temporary use of the 'trimmed mean' measure of inflation, recognising the extraordinary effect of the COVID-19 pandemic. The ERA has approved the proposed reference tariffs for the ancillary reference services.

ATCO's [current reference tariffs](#) for haulage reference services will continue to apply until ATCO submits a compliant revisions proposal for the ERA's approval.

Reasoning

ATCO's approved tariff variation mechanisms are set out in Annexure B and Annexure C of the access arrangement.

ATCO has used a 'trimmed mean' measure of inflation instead of the 'CPI All Groups, Weighted Average of Eight Capital Cities' measure which is specified in the tariff variation formulas for haulage services (section 1.3.1, Annexure B) and ancillary services (section 2, Annexure C).

'CPI All Groups, Weighted Average of Eight Capital Cities' is a defined term in the access arrangement. It is defined as "the Consumer Price Index for All Groups, Weighted Average of Eight Capital Cities published by the Australian Bureau of Statistics or, if applicable, an alternative index determined under clause 2(b) of Annexure C of the Access Arrangement."

The "or, if applicable, ..." part of the definition only applies to the consideration of matters relating to Annexure C, which deals with the reference tariffs associated with ancillary services.

ATCO has applied clause 2(b) of Annexure C of the access arrangement to the reference tariff variation formula for haulage services, which is separately dealt with in Annexure B of the access arrangement.

The ERA considers that the reference in clause 2(b) of Annexure C is to the 'Consumer Price Index referred to in clause 2(a) of this Annexure C'. Therefore, it applies only to Reference Tariffs for Reference Services dealt with in Annexure C, being Ancillary Services. The CPI term in the haulage tariff variation formula should therefore remain as the CPI All Groups, Weighted Average of Eight Capital Cities.

Further, Clause 2(b) of Annexure C of the access arrangement permits a substitute index to be used for inflation for the variation of ancillary reference services only if the CPI All Groups, Weighted Average of Eight Capital Cities ceases to be published quarterly by the Australian Bureau of Statistics (which has not occurred) or in the *reasonable* opinion of ATCO Gas Australia that CPI All Groups, Weighted Average of Eight Capital Cities is published on a materially different basis (including due to a change in its nature, composition, data or reference basis).

In its proposal, ATCO submitted that the September quarter 2020 CPI was materially affected by COVID-19 due to government policies (including free childcare and rental support) and estimated prices for domestic and international holiday travel and accommodation, and seven prices series for Melbourne due to lockdown restrictions.

The Australian Bureau of Statistics published annual CPI for the September quarter was 0.7 per cent and the trimmed CPI that ATCO proposed was 1.2 per cent for the same period.

Pursuant to clause 2(b) of Annexure C, ATCO's ability to use a substitute index for Ancillary Services tariffs is subject to the ERA's approval. The ERA considers that ATCO Gas Australia's opinion that the CPI has been published on a materially different basis is reasonable.

Further information

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