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12 November 2021

Jenness Gardner
Chief Executive Officer
Economic Regulation Authority
Level 4, 469 Wellington Street
PERTH WA 6000

Submitted via email: records@erawa.com.au

Dear Ms Gardner

Re: Reference Tariff Variation for period beginning 1 January 2022

In accordance with the Revised Access Arrangement (approved by the Economic Regulation Authority on 15 November 2019), ATCO has calculated the reference tariffs that will come into effect on 1 January 2022. The attached reference tariff schedule (see Attachment 1) details the revised reference tariffs that will apply from 1 January 2022 and tariff variation report (see Attachment 2) provides information to support the proposed variations to the reference tariffs.

On 1 January 2022, haulage reference tariffs will increase by 3.48% with the exception of the B3 fixed charge, which will increase by 3.01%. Ancillary reference services will increase by 2.50%.

As provided for in the tariff variation mechanism, ATCO has varied its reference tariffs to account for:

- movements in inflation;
- the annual update of the debt risk premium (DRP); and
- cost pass-through events described in the tariff variation mechanism for the periods 1 October 2020 to 30 September 2021 related to:
    - **Superannuation guarantee costs –** Increased legislated superannuation guarantee costs from 1 July to 30 September 2021 due to the increase in the superannuation percentage from 9.5% to 10.0%.
    - **Modern Slavery Act 2018 compliance** – Annual subscription for software to efficiently implement modern slavery legislation compliance requirements.
    - **Construction training fund (CTF) levy** – Amendments to the levy coverage in 2018 extended coverage that included ATCO Gas. ATCO has now paid an amount to satisfy its CTF obligations.

Similar to last year, ATCO has applied the tariff variation mechanism formulas in good faith, as we intended in our response to the AA5 Draft Decision. This means that we have effectively excluded the fixed component of the B3 reference tariff from the overall constraint formula. This results in changes to tariffs that are less than what is permitted under a strict application of the overall constraint formula.

It is requested that in order to allow sufficient time for changes to ATCO's billing system, the retail market hub and retailers' systems to account for the tariff variation that the ERA advise of its decision before the end of November.

If you have any questions or would like to discuss this tariff variation further please contact me or Hugh Smith, General Manager Regulation.

Yours sincerely

[redacted]

John Ivulich
Chief Financial Officer

Attachment 1: 2022 Reference Tariffs

Attachment 2: 2022 Tariff Variation Report

ATTACHMENT 1: 2022 REFERENCE TARIFFS

FROM 1 JANUARY 2022

EIM# 106272351

PUBLIC
12 November 2021

ATCO

2022 REFERENCE TARIFFS

FROM 1 JANUARY 2022

Table 1: Haulage reference tariffs

Charging parameter	Units	Varied Tariffs ($ nominal GST exclusive)
Reference tariff A1		
Standing charge	$/year	35,342.19
Demand charge		
First 10 km	$/GJ km	148.96
Distance > 10 km	$/GJ km	78.41
Usage charge		
First 10 km	$/GJ km	0.03151
Distance > 10 km	$/GJ km	0.01588
Reference tariff A2		
Standing charge	$/Year	19,555.12
First 10 TJ per year	$/GJ	1.90
Volume > 10 TJ per year	$/GJ	1.01
Reference tariff B1		
Standing charge	$/Year	988.70
First 5 TJ per year	$/GJ	3.76
Volume > 5 TJ per year	$/GJ	3.23
Reference tariff B2		
Standing charge	$/Year	248.12
First 274 MJ per day	$/GJ	6.29
Volume > 274 MJ per day	$/GJ	3.75
Reference tariff B3		
Standing charge	$/Year	123.22
First 5 MJ per day	$/GJ	0.00
Volume > 5 and < 27 MJ per day	$/GJ	5.78
Volume > 27 MJ per day	$/GJ	3.86

Table 2: Ancillary reference tariffs

Ancillary reference service	Varied Tariffs ($ nominal GST exclusive)
Applying a Meter Lock	51.52
Removing a Meter Lock	28.02
Deregistering a Delivery Point	128.47
Disconnecting a Delivery Point	102.67
Reconnecting a Delivery Point	145.34
Special Meter Reading	13.44

Notes

This reference tariff schedule:

- is to be read in conjunction with Annexures A and C of the Revised Access Arrangement for the ATCO Gas Australia Mid-West and South-West Gas Distribution Systems (dated 15 November 2019)
- does not supersede or amend any tariff variation or reference tariff published by the Economic Regulation Authority

ATTACHMENT 2: TARIFF VARIATION REPORT

TARIFF VARIATION 1 JANUARY 2022

GAS DIVISION

Access Arrangement 2020-24

PUBLIC
12/11/2021

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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 2022 to 31 December 2022.

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 2022 have been recalculated to reflect the X-Factor$_{2022}$ and the annual CPI adjustment.

2. 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 inflation.

In accordance with the formulas provided in clause 2 of Annexure C of the Revised Access Arrangement for the Mid-West and South-West Gas Distribution Systems, reference tariffs associated with ancillary services have been adjusted to reflect inflation.

Inflation was applied using the CPI All Groups, Weighted Average of Eight Capital Cities. The following CPI values applied:

Table 2.1: CPI All Groups, Weighted Average of Eight Capital Cities

Date	CPI Index
September 2018	113.5
September 2020	116.2
September 2021	119.7

3. X-FACTOR CALCULATION

The X-Factor is the average rate of change in tariffs before adjustments for inflation. The X-Factor is re-calculated each year to include approved cost pass-through events and the annual update of the trailing average debt risk premium.

The $X\text{-}Factor_{2022}$ value applied to haulage tariffs is 0.43%.

The $X\text{-}Factor_{2022}$ has been calculated using an updated trailing average debt risk premium (DRP) of 2.082%.

The $X\text{-}Factor_{2022}$ also includes the following cost pass-through events:

- Operating expenditure:
    - $28,188 for increase in superannuation guarantee
    - $21,650 for Modern Slavery Act 2018
    - [redacted] for Construction Industry Training Fund levy
- Capital expenditure: $16,162 for increase in superannuation guarantee

3.1 Annual update of trailing average debt risk premium

There is an automatic annual adjustment to the rate of return for the revised debt risk premium. The trailing average debt risk premium has been updated to incorporate DRP_{2022}.

The ten DRP estimates used to derive the trailing average debt risk premium are listed in the table below:

Table 3.1:2022 trailing average debt risk premium

	DRP_t
Calendar year 2013: $\mathbf{DRP}_{2013}$	3.068%
Calendar year 2014: $\mathbf{DRP}_{2014}$	2.250%
Calendar year 2015: $\mathbf{DRP}_{2015}$	1.953%
Calendar year 2016: $\mathbf{DRP}_{2016}$	2.467%
Calendar year 2017: $\mathbf{DRP}_{2017}$	2.326%
Calendar year 2018: $\mathbf{DRP}_{2018}$	1.689%
Calendar year 2019: $\mathbf{DRP}_{2019}$	1.663%
Calendar year 2020: $\mathbf{DRP}_{2020}$	1.770%
Calendar year 2021: $\mathbf{DRP}_{2021}$	2.075%
Calendar year 2022: $\mathbf{DRP}_{2022}$	1.562%
2022 TRAILING AVERAGE	**2.082%**

4. COST PASS-THROUGH EVENTS

4.1 Superannuation guarantee charge increase

On 1 July 2021 the Superannuation Guarantee charge increased from 9.5% to 10%. This increase was not included in the forecast costs for the access arrangement review period 2020 to 2024.

The changes to the Superannuation Guarantee percentage are a change in law and therefore a cost pass through event pursuant to clause 2.1 (iii) of Annexure B of the revised access arrangement.

Legislative context

The *Superannuation Guarantee (Administration) Act 1992* (the Act) at clause 19(2) sets out the Superannuation Charge percentage. The percentages were set in 2014 by amendment to the *Superannuation Guarantee (Administration) Act 1992* via Schedule 6 of the *Minerals Resource Rent Tax Repeal and Other Measures Bill 2014.* The table at clause 19(2) of the Act states the Superannuation Guarantee charge increased from 9.5% to 10% on 1 July 2021.

Uncertainty that the Superannuation Guarantee percentage change would be implemented

Although the forecast superannuation guarantee charge percentage has been specified in legislation since 2014 there has been no certainty the law will stand as legislated. For example:

- The proposed 2014 increase in the superannuation guarantee charge was deferred by the Abbott Government following its election in 2014.
- As Senator Urquhart pointed out in the Senate on 25 February this year[1]:

  "The guarantee is legislated to increase from 9.5 to 10 per cent on 1 July this year. It will then increase in 0.5 per cent increments to 12 per cent by July 2025. But the federal government is yet to officially commit to this year's increase, with Mr Frydenberg saying in recent months that a decision will be made in the May 2021 budget. He has announced that the legislated increase of superannuation to 10 per cent in 2021 will be reconsidered following the public release of the retirement income review, along with the economic impacts of the COVID-19 pandemic. A group of coalition backbenchers have publicly expressed opposition to a rise in the super guarantee".
- In a November 2020 joint media release with Senators Rushton and Hume summarising the report "Retirement Income Review Final Report" the Treasurer highlighted statements suggesting the superannuation guarantee charge should not be increased.

  "More efficient use of savings in retirement can have a bigger impact on improving retirement income than increasing the Superannuation Guarantee (SG).

  The weight of evidence suggests an increase in the SG rate will result in lower wages growth, impacting standards of living"[2].

  - Treasurer Frydenberg confirmed his views in an opinion article for the Herald Sun dated 17 November 2020 republished on his electorate website.[3]

[1] Senator Urquhart, Tasmania—Opposition Whip in the Senate, Hansard, Senate on 25/02/2021, Treasury Laws Amendment (Reuniting More Superannuation) Bill 2020 - Second Reading.

2 Joint media release with Senator the Hon Anne Ruston Minister for Families and Social Services Senator the Hon Jane Hume Assistant Minister for Superannuation, Financial Services and Financial Technology, The Hon. Josh Frydenberg, Treasurer of the Commonwealth of Australia, website, 20 November 2020, https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/media-releases/retirement-income-review-final-report.

[3] Josh Frydenberg MP, Federal member for Kooyong, electorate website, https://joshfrydenberg.com.au/latest-news/sound-policy-is-behind-a-secure-retirement/

"At $3 trillion Australia's pool of superannuation savings is the fourth largest in the world and will only grow over time.

As a result, the cost of superannuation tax concessions also increases lifting as a proportion of GDP from 2.1 per cent to 2.7 per cent by 2060, comprising a greater cost to GDP at that time than the age pension.

Around 90 per cent of employees are covered by compulsory super and the superannuation guarantee (SG) is legislated to increase from 9.5 per cent today to 12 per cent by 2025.

The Review concludes "maintaining the superannuation guarantee rate at 9.5 per cent would allow for higher living standards in working life" – the argument being "the weight of evidence suggests the majority of increases in the SG comes at the expense of growth in take home wages".

This is the trade-off the Governor of the Reserve Bank and the Grattan Institute among others have alluded to. The report determines a replacement rate of 65-70 per cent of pre-retirement income achieves "a reasonable balance between living standards in working life and retirement".

For most people, this benchmark does not require in the Review's view an increase in the SG. Instead a more effective use of accumulated savings in retirement can have a larger impact on people's retirement incomes than increasing the SG.

In this respect the Review finds "most retirees die with the bulk of their wealth intact".

Taken together, the history of amendments to the Superannuation Guarantee percentage and the apparent power of the Government of the day to alter the timing and amount of the percentage mean that the Superannuation Guarantee percentage cannot be considered to be in force until confirmed by the Government of the day. Therefore, the change of the Superannuation Guarantee percentage from 9.5% to 10% is a change in law at the date of the change for the purpose of being a cost pass through event pursuant to clause 2.1 (iii) of Annexure B of the revised access arrangement.

Due to the uncertainty around the Superannuation Guarantee changes, increases in the Superannuation Guarantee percentage were not included in the forecast costs for the access arrangement review period 2020 to 2024.

Minimum income threshold removed

Additionally, in the 2021 budget the Superannuation Guarantee $450 minimum income threshold was removed amending and extending the conditions under which the Superannuation Guarantee would apply[4].

Impact on ATCO

About 100 of ATCO Gas' employment contracts are covered by an enterprise bargaining agreement which includes the following obligation in clause 19(a):

"The Company will contribute, on the Employee's behalf, an amount prescribed by the Superannuation Guarantee (Administration) Act 1992 (Cth) into a complying superannuation fund of the Employee's choice."

4 Budget speech 2021-2022, Delivered on 11 May 2021 on the second reading of the Appropriation Bill (No. 1) 2021-22, https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/speeches/budget-speech-2021-22

For the other approximately 290 employment contracts ATCO Gas has been forced to increase the overall labour costs, to include the Superannuation Guarantee percentage increase, due to labour market conditions. Western Australia is currently experiencing a surge in infrastructure activity which when combined with restrictions on importing staff from overseas or elsewhere in Australia is causing a shortage of skilled personnel.

If ATCO were to pass on the cost of the Superannuation Guarantee percentage increase in the form of a cut to take-home pay it would inevitably result in the loss of skilled staff not to mention the impact on overall staff morale. The consequential effect would be a deleterious effect on ATCO Gas' ability to provide services in a safe and efficient manner due to the lack of experienced staff. It is in the long term interests of consumers for ATCO Gas to retain experienced staff to provide safe and reliable services at the lowest sustainable cost.

Only costs related to employees on the Mid-West and South-West Gas Distribution Network have been included. An amount for other than reference services has been deducted from the total costs incurred based on hours timesheeted to services. The remaining amount relating to reference services has been allocated between operating and capital expenditure based on timesheeted hours. The cost pass through amount relating to ATCO Gas' Mid-West and South-West Gas Distribution network is $28,188 operating expenditure and $16,162 capital expenditure. Details of the cost allocation are shown in Appendix A.

4.2 Commonwealth Modern Slavery Act 2018 (the Act)

The Commonwealth Modern Slavery Act 2018 (the Act) entered into force on 1 January 2019. The Act established a national Modern Slavery Reporting Requirement (Reporting Requirement). This Reporting Requirement applies to large businesses and other entities in the Australian market with annual consolidated revenue of at least AUD$100 million.

Entities required to comply with the Reporting Requirement, including ATCO Gas, must prepare annual Modern Slavery Statements. These statements must set out the reporting entity's actions to assess and address modern slavery risks in their global operations and supply chains.[5] The Australian Government publishes these statements through an online central register. The first reporting cycle was the year ended 30 June 2021.

The *Commonwealth Modern Slavery Act 2018* is a change in law and therefore a cost pass through event pursuant to clause 2.1 (iii) of Annexure B of the revised access arrangement.

To efficiently implement the reporting requirements ATCO has invested in software to compile and collate the necessary supplier data. [redacted] which converted to AUD $64,341. Supporting documents are contained in Appendix A.2. 37.5% of the total cost was allocated to ATCO Gas based on an equal weighting of the number of suppliers and purchase value compared to the ATCO Australia Group of companies utilising the software. A further 2.0% of the 37.5% was deducted as an estimate of the costs related to Albany and Kalgoorlie based on number of delivery points consistent with the regulatory accounts cost allocation method. The net amount allocated to the Mid-West and South-West Gas Distribution Network is $23,648. An amount of $1,998 was deducted as relating to other than reference services based on timesheeted hours. The net amount relating to reference services is $21,650.

5 Guidance on the reporting requirements can be found on the Australian Border Force website. At the following website link. https://modernslaveryregister.gov.au/resources/modern-slavery-reporting-entities_guidance.pdf

4.3 Construction Industry Training Fund

The Building and Construction Industry Training Fund and Levy Collection Act 1990 (the Act) was assented to in December 1990. The associated regulations which define the scope of activities subject to the Building and Construction Industry Training Fund (CITF) Levy were amended by the Building and Construction Industry Training Fund and Levy Collection Amendment Regulations 2018, effective from 1 October 2018. The effect of the amended regulations was to broaden the scope of activities subject to the regulations such that ATCO Gas construction activities were now subject to the levy.

Building and Construction Industry Training Fund and Levy Collection Amendment Regulations 2018 are a change in law and therefore a cost pass through event pursuant to clause 2.1 (iii) of Annexure B of the revised access arrangement.

Construction activities subject to the levy are:

- Construction of new assets where the value of the works relating to those assets exceeds $20,000; and
- Works relating to replacement, alteration, renovation, reconfiguration or relocation – a threshold of $10 million applies.

The training levy is calculated at 0.2 per cent of the total value of construction and is to be paid prior to the start of the project. The project owner is responsible for payment of the levy and reporting of project details to the Construction Training Fund (CTF) which administers the levy. Generally, the project owner is the head contractor where they are engaged to carry out, or cause to be carried out, all of the construction work.

ATCO Gas has been in discussion with the CTF since the regulation amendments to arrive at the amount of levy payable by ATCO Gas. Agreement has not been able to be formally reached. However, ATCO Gas has paid the levy required to satisfy its obligations under the amended regulations.

The total amount paid to the CTF was [redacted]. Of that amount, [redacted] was recovered through capital contributions to network capital project costs and a further [redacted] related to projects in Albany and Kalgoorlie leaving a net amount of [redacted] as a cost to the Mid-West and South-West Gas Distribution Network as a cost pass through event.

5. PROPOSED HAULAGE TARIFFS AND VARIED TARIFF COMPONENTS

The varied reference tariffs, excluding GST, are listed below and will be applicable from 1 January 2022. 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 2022:

1. the Standing Charge is $35,342.19 divided by 365;
2. the Demand Charge Rate is:
   a) $148.96 for the first 10 kilometres of the Interconnection Distance; and
   b) $78.41 for any part of the Interconnection Distance in excess of 10 kilometres;
3. the Usage Charge Rate is:
   a) $0.03151 per Gigajoule per kilometre for the first 10 kilometres of the Interconnection Distance; and
   b) $0.01588 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 2022:

1. The Standing Charge is $19,555.12 divided by 365;
2. the Usage Charge Rate is:
   a) $1.90 per Gigajoule for the first 10 Terajoules of gas delivered to the User at a Delivery point per year; and
   b) $1.01 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 2022:

1. the Standing Charge is $988.70 divided by 365;
2. the Usage Charge Rate is:
   a) $3.76 per Gigajoule for the first 5 Terajoules of gas delivered to the User at a Delivery point per year; and
   b) $3.23 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 2022:

1. the Standing Charge is $248.12 divided by 365;
2. the Usage Charge Rate is:

a) $6.29 per Gigajoule for the first 274 Megajoules per day of gas delivered to the User at a Delivery point; and

b) $3.75 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 2022:

1. the Standing Charge is $123.22 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) $5.78 per Gigajoule for the next 22 Megajoules per day of gas delivered to the User at a Delivery Point; and

   c) $3.86 per Gigajoule for any usage in excess of the first 27 Megajoules per day of gas delivered to the User at a Delivery Point.