

Assessment of Mid-West and South-West Gas Distribution System Reference Tariff Variation Report for 2011/12

Submitted by WA Gas Networks Pty Ltd

17 June 2011

Economic Regulation Authority



WESTERN AUSTRALIA

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Decision

1. On 16 May 2011, WA Gas Networks Pty Ltd (**WAGN**) submitted a variation report to vary reference tariffs in accordance with Annexure B of the approved access arrangement for the Mid-West and South-West Gas Distribution System (**GDS**). WAGN provided further supporting information on 30 May 2011.
2. The variation report was given to the Economic Regulation Authority (**Authority**) for approval under the approved access arrangement in accordance with rule 97 of the National Gas Rules (**NGR**) for the period 2011/12 (1 July 2011 to 30 June 2012).¹
3. WAGN's proposed variation report was submitted under the terms of the approved access arrangement that applies to the GDS for the access arrangement period (2010 to 2014).
4. The reference tariff variation mechanism provides for a CPI adjustment, an adjustment for regulatory operating expenditure and cost pass through events specified in Annexure B of the approved access arrangement.
5. In accordance with the requirements of Annexure B of the approved access arrangement, the Authority has assessed the proposed annual variations to tariff components that is sought to take effect from 1 July 2011 to 30 June 2012.
6. The Authority does not approve WAGN's proposed reference tariff variation, as it is inconsistent with the approved reference tariff variation mechanism.
7. The reasons for this decision are set out in this document and the Authority has also indicated the tariff variation that would be considered to be consistent with the approved reference tariff variation mechanism based on the information submitted by WAGN.
8. The Authority notes that the NGR (rule 97(4)) and the approved reference tariff variation mechanism only allows for the Authority to approve or not approve the reference tariff variation proposal.
9. However, WAGN could make further representations to the Authority either amending the scope of the expenditure it seeks to pass through under the reference tariff variation mechanism, or by providing further information in support of its proposal.
10. The Authority has re-calculated WAGN reference tariffs that could be approved following its assessment which include the following revisions:
 - a) CPI increase of 6.13% (based on the CPI values for September 2008 and March 2011).
 - b) Underspend of regulatory operating expenditure and pass through cost of \$1.831 million (\$2009) for the six month period January 2010 to June 2010 (calculated as the difference between approved forecast regulatory operating expenditure and actual operating expenditure).

¹ WAGN Pty Ltd, 16 May 2011, WA GAS Networks Pty Ltd: Access Arrangement – Reference Tariff Variation.

- c) Overspend of regulatory operating expenditure and pass through cost \$0.327 million (\$2009) for the 12 month period July 2010 to June 2011 (calculated as the difference between the approved forecast regulatory operating expenditure and actual operating expenditure).
- d) Using the tariff variation formula the changes to regulatory operating expenditure is calculated to lead to a reduction of 1.13%.
11. As a result, the overall reference tariff increase should be 4.93%.
12. Accordingly, the Authority has determined that the Reference Tariff (excluding GST) should be varied as follows:

Tariff Category	Tariff Component	P_{ij}^0 (\$)	$P_{ij}^{2011/12}$ (\$)
Tariff A1	Fixed Charge	39,345.21	41,283.45
Tariff A1	Demand <10kms	165.85	174.02
Tariff A1	Demand >10km	87.29	91.59
Tariff A1	Usage First 10 km's	0.03518	0.03691
Tariff A1	Usage >10 km's	0.01758	0.01845
Tariff A2	Fixed Charge	21,781.57	22,854.58
Tariff A2	First 10 TJ	2.10	2.20
Tariff A2	> 10 TJ's	1.13	1.19
Tariff B1	Fixed Charge	1,092.92	1,146.76
Tariff B1	First 5 TJ	4.20	4.41
Tariff B1	> 5 TJ's	3.60	3.78
Tariff B2	Fixed Charge	270.46	283.78
Tariff B2	First 100 GJ's	6.99	7.33
Tariff B2	> 100 GJ's	4.16	4.36
Tariff B3	Fixed Charge	55.21	57.93
Tariff B3	First 10 GJ's	11.74	12.32
Tariff B3	>10 GJ's	5.07	5.32

REASONS

REQUIREMENTS OF THE NATIONAL GAS RULES

13. Rule 92 requires that a full access arrangement is required to include a reference tariff variation mechanism. The specific requirements for a reference tariff variation mechanism are set out in rule 97. These requirements include providing the ERA with adequate oversight or powers of approval over the variation of the reference tariff. **Attachment 1** provides a copy of the relevant rules.

REFERENCE TARIFF ADJUSTMENT MECHANISM IN THE APPROVED ACCESS ARRANGEMENT

14. Annexure B of the approved access arrangement for the GDS provides the reference tariff variation mechanism (**Attachment 2**). In summary, it provides for a variation in accordance with:
 - a) CPI All Groups, Weighted Average of Eight Capital Cities increases (approved access arrangement Annexure B, clause 2);
 - b) a variation in accordance with a formula measuring the variation in actual regulatory operating expenditure with forecast regulatory operating expenditure² (approved access arrangement Annexure B, clause 2); and
 - c) a cost pass through event (approved access arrangement Annexure B, clause 3).
15. Annexure B also requires WAGN to provide two variation reports that provide for each of the reference tariff variation formula and the cost pass through event (Annexure B, clause 4). The reports require WAGN to:
 - a) state the proposed amended reference tariffs and when they commence;
 - b) provide supporting calculations of the proposed revised reference tariffs;
 - c) a statement of reasons for the proposed variation and cost;
 - d) supporting calculations for the proposed variation and cost; and
 - e) supporting information substantiating the amount and nature of the cost.
16. The detailed specific reporting requirements are provided in **Attachment 2** of this document.
17. Annexure B of the approved GDS access arrangement provides that the reference tariff and other charges are not subject to variation or modification during the access arrangement period other than for CPI and other adjustments in accordance with the reference tariff adjustment mechanism as described in Annexure B of the approved access arrangement.

PROPOSED ANNUAL TARIFF VARIATION

18. On 16 May 2011, WAGN provided the Authority with a variation report to vary the reference tariff for 2011/12 (from 1 July 2011 to 30 June 2012).
19. Subsequently, the Secretariat of the Authority met with WAGN on 23 May 2011 to discuss its reference tariff variation proposal. The Authority asked WAGN to provide additional substantiation and clarification of aspects of its reference tariff variation proposal consistent with clause 4 of the approved access arrangement.
20. WAGN subsequently provided a supplementary variation report on 30 May 2011 with additional information and minor adjustments to WAGN's first proposal. It further supplemented its supporting information on 10 June 2011.

² **Regulatory Operating Expenditure** means Regulatory Costs which are Conforming Operating Expenditure incurred in relation to the WAGN GDS.

Proposed variations and proposed effective date for variations:

21. WAGN proposed that the Reference Tariff (excluding GST) is to be varied by 5.58% as follows (in accordance with the WAGN variation report on 30 May 2011):

Tariff Category	Tariff Component	P ^u _{ii} (\$)	P ^u _{2011/12} (\$)
Tariff A1	Fixed Charge	39,345.21	41,574.54
Tariff A1	Demand <10kms	165.85	175.25
Tariff A1	Demand >10km	87.29	92.24
Tariff A1	Usage First 10 km's	0.03518	0.03717
Tariff A1	Usage >10 km's	0.01758	0.01858
Tariff A2	Fixed Charge	21,781.57	23,015.73
Tariff A2	First 10 TJ	2.10	2.22
Tariff A2	> 10 TJ's	1.13	1.19
Tariff B1	Fixed Charge	1,092.92	1,154.85
Tariff B1	First 5 TJ	4.20	4.44
Tariff B1	> 5 TJ's	3.60	3.80
Tariff B2	Fixed Charge	270.46	285.78
Tariff B2	First 100 GJ's	6.99	7.39
Tariff B2	> 100 GJ's	4.16	4.40
Tariff B3	Fixed Charge	55.21	58.34
Tariff B3	First 10 GJ's	11.74	12.41
Tariff B3	>10 GJ's	5.07	5.36

22. WAGN stated that, consistent with Annexure B of the approved access arrangement, the proposed variation to the Reference Tariff is conducted to accommodate a historical CPI increase, regulatory operating expenditure and pass through costs.
23. The proposed effective date nominated by WAGN for the variations is 1 July 2011.

WAGN Proposed values for the variation mechanism

24. WAGN has set out its application of Annexure B of the approved access arrangement in its 16 May 2011 variation report, a public version of which is replicated in **Attachment 3**.
25. In its 16 May 2011 submission WAGN provided a spreadsheet it claimed demonstrated its tariff calculations in accordance with clause 4 of the approved access arrangement. WAGN did not update this spreadsheet with its supplementary submission of 30 May 2011, but the Authority was able to recreate its calculations.

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26. WAGN's calculation results in the following adjustments (based on WAGN variation report of 30 May 2011):
- a) CPI increase of 6.1% (based on CPI values for September 2008 and March 2011).³
 - b) Underspend of regulatory operating expenditure of \$1.638 million (\$2009) for the six month period of January 2010 to June 2010 (calculated as the difference between approved forecast regulatory operating expenditure and actual operating expenditure).
 - c) Overspend of regulatory operating expenditure \$1.008 million (\$2009) for the 12 month period of July 2010 to June 2011 (calculated as the difference between approved forecast regulatory operating expenditure and actual operating expenditure). This amount includes forecast expenditure of \$0.619 million (\$2009) for the two month period from May to June 2011.
 - d) Using the tariff variation formula the changes to regulatory operating expenditure results in a tariff reduction of 0.52%.
27. As a result, WAGN seeks an overall reference tariff increase of 5.6%.⁴

THE AUTHORITY'S ASSESSMENT

28. In assessing WAGN's reference tariff variation report, the Authority has addressed the following matters in the context of the approved reference tariff variation mechanism in Annexure B of the approved access arrangement:
- a) The calculation methods and the accuracy of the calculations applied by WAGN.
 - b) The CPI adjustment component of the reference tariff variation formula (clause 2.2).
 - c) The actual regulatory operating expenditure relative to the approved forecast regulatory operating expenditure for each of the two individually identified periods of 1 January 2010 to 30 June 2010 and 1 July 2010 to 30 June 2011 (clause 2.2).
 - d) The cost pass through events and associated costs (clause 3).

CPI adjustment

29. The Authority has reviewed WAGN's CPI (all Groups, weighted average of eight capital cities) calculation and it is consistent with clause 2.2 of the approved access arrangement, leading to an inflation increase of 6.1%.

³ $\text{CPI}(\text{March } 2011) / \text{CPI}(\text{September } 2008) = 176.70 / 166.5 = 1.061$.

⁴ WAGN (16 May 2011) stated "The variation in each tariff component can therefore be no more than 1.061-0.0043 which equates to an increase of 5.7%." (p.14). WAGN (30 May 2011) stated "The variation in each tariff component can therefore be no more than 1.061 -0.0052 which equates to an increase of 5.6%." (p.12). It is noted that the correctly rounded figures translate into the following reference tariff variation increases 5.67% (based on the WAGN 16 May 2011 submission) and 5.58% (based on the WAGN 30 May 2011 submission).

Regulatory cost adjustments

30. The Authority makes the following observations about the regulatory cost adjustment outlined in Annexure B, clause 2.2 and 3 of the approved access arrangement.
- a) Clause 2.2(a) provides for an adjustment for actual regulatory operating expenditure for the period of 1 January 2010 to 30 June 2010 relative to approved forecast regulatory operating expenditure.
 - b) Clause 3 provides for an adjustment for certain specified cost pass through events.
31. The Authority notes the following definitions:

Regulatory Operating Expenditure means Regulatory Costs which are Conforming Operating Expenditure incurred in relation to the WAGN GDS;

Regulatory Costs means direct costs as a result of:

- (a) a Regulatory Obligation or Requirement (as defined in section 6 of the National Gas Access Law) that are demonstrated to have reasonably been excluded from forecast Conforming Operating Expenditure for the Access Arrangement Period;
- (b) WAGN's compliance with the National Gas Access (Western Australia) Legislation, its Distribution Licence, the *Energy Coordination Act 1994* (WA), the *Gas Standards Act 1972* (WA), the *Energy Operators (Powers) Act 1979* (WA), the *Environmental Protection Act 1986* (WA), and its compliance with all other applicable Laws and with the requirements of any government department, agency or authority operating in accordance with those Laws to the extent such cost can be demonstrated to have been reasonably excluded from the forecast Conforming Operating Expenditure;

(ERA underlining)

32. *Section 6* of the National Gas Access Western Australia Law is provided in **Attachment 3**.
33. The Authority provides its considerations for each element of the regulatory operating cost and cost pass through below.

Approved forecast regulatory cost

34. The approved regulatory operating expenditure in the approved reference tariff variation mechanism is:
- a) \$4.092 million (\$2009) for the period of 1 January 2010 to 30 June 2010; and
 - b) \$ 5.768 million (\$2009) for the period of 1 July 2010 to 30 June 2011.
35. For the purpose of its reference tariff variation determination the Authority has adopted these values. WAGN has adopted consistent values in its variation proposal.

Actual regulatory operating expenditure – Annexure B, clause 2

36. WAGN submits that its actual regulatory operating expenditure for this period was a total of \$2.519 million (nominal) consisting of:⁵
- a) regulatory operating expenditure of \$2.300 million (nominal); and
 - b) a further cost pass through of \$0.219 million (nominal).
37. WAGN has converted this value to \$2.454 million (converted using December 2009 CPI on June 2010 CPI). As a result, WAGN submits that it underspent \$1.638 million (\$2009) relative to the approved forecast regulatory operating expenditure.
38. WAGN submits that its actual regulatory operating expenditure for this period was a total of \$7.101 million (nominal) consisting of:
- a) regulatory operating expenditure of \$6.715 million (nominal); and
 - b) a further cost pass through of \$0.386 million (nominal).
39. WAGN has converted this value to \$5.776 million (\$2009). As a result, WAGN submits that it overspent \$1.008 million (\$2009) relative to the approved forecast regulatory operating expenditure.

Regulatory operating expenditure - July 2010 to June 2011 (\$nominal)

Category	Jan 2010 to Jun 2010	July 2010 to May 2011	May 2011 to June 2011	2010/11 Total
Regulatory cost centre	689,360	1,736,318	618,801	2,355,918
Technical cost centre	516,698	Np	Np	1,581,646
Licence fees and charges	1,141,542	Np	Np	2,914,477
Sub-total	2,347,600	Np	Np	6,852,041
Deduct 2% relating to Albany and Kalgoorlie	46,952	Np	Np	137,041
TOTAL	2,300,648			6,715,000
ERA recalculation to \$2009				
TOTAL (\$2009)	2,265,891			6,407,182
Approved forecast regulatory operating expenditure	4,092,000			5,768,000
Variation (\$2009)	-1,826,109			639,182

Note: * Due to a negative expense item

⁵ WAGN 30 May 2011, page 11.

40. For the period of January 2010 to June 2010, WAGN advises that the reason for the underspend is associated with an unanticipated delay in the access arrangement process.
41. The Authority has reviewed WAGN's supporting information and is satisfied that it meets the requirements of the reference tariff variation mechanism for the following reasons:
 - a) the budgeted forecast regulatory operating expenditure was assessed and approved as a part of the access arrangement process;
 - b) WAGN has provided evidence that the expenditure that has been incurred is conforming operating expenditure; and
42. For the period of July 2010 to June 2011, the Authority has assessed WAGN's regulatory operating expenses and is broadly satisfied that these meet the requirements of the approved reference tariff variation mechanism. However, the Authority notes that WAGN has included costs relating to the review of the access arrangement in its regulatory operating expenditure.
43. The Authority is of the view that the costs of an appeal process cannot be passed through to customers under the reference tariff variation mechanism for reasons which include:
 - a) An appeal is not an obligation or a requirement under the law.
 - b) Passing on appeal costs could create perverse incentives for the service provider, as the service provider would be able to pass on any cost of an appeal to its customers, and would bear the appeal cost regardless of the outcome of the appeal.
 - c) If the service provider were to win the appeal it would be reimbursed costs and also gain from the outcome of the appeal. Conversely, if it were to lose the appeal it initiated, it is not reasonable for customers to bear the service provider's costs.
44. The Authority's assessment of the treatment of review costs is also consistent with the requirement for cost pass through events under clause 3 of Annexure B.
45. However, WAGN has argued that a third party also lodged an appeal (subsequent to WAGN's own appeal), and this has imposed an additional obligation on it to intervene in the appeal as a reasonable and prudent operator. WAGN has advised that an estimate of this cost is included in its variation report on 30 May 2011.⁶
46. Consistent with its finding above (paragraph 42 to 44, the Authority is of the view that any expenditure associated with reviews cannot and should not be passed through.
47. The Authority has identified expenditure totalling \$0.395 million (nominal) associated with review.⁷
48. Based on its assessment of WAGN's evidence for the expenditure being incurred the Authority is of the view that the remainder of the *actual* regulatory operating expenditure can be passed through under the reference tariff variation mechanism.

⁶ WAGN letter (10 June 2011).

⁷ WAGN (30 May 2011) and WAGN (10 June 2010).

49. The Authority is satisfied that the share of costs deducted from the cost pass through to adjust for Albany and Kalgoorlie is consistent with the access arrangement and is therefore reasonable.

Cost pass through events and costs – Annexure B, clause 3

50. The Authority has also assessed WAGN's specific cost pass through for the period. In doing this, the Authority has had particular regard to the defined cost pass through events in clause 3.1.
51. Having regard to the regulatory requirements referred to in paragraphs 31 and 32, the Authority is of the view that WAGN has to demonstrate that the expenditure is in the nature of a Regulatory Obligation or Requirement, and was reasonably excluded from the approved forecast conforming operating expenditure. This is also consistent with the Authority's reasoning in its final decision in relation to the GDS access arrangement.
52. The costs that WAGN proposes to pass through (under clause 3) for the period from January 2010 to June 2010 are provided in the table below. Each element of this is subsequently discussed.

Cost pass through from January 2010 to June 2010 (\$nominal)

	2010	2010/11
Cost pass through event 1: Occupational Safety and Health Regulations 1996 - Regulation 3.143 amended 28 Nov. 2008	221,438	280,964.23
Cost pass through event 2: Audit of compliance with native vegetation clearing permits	NA	15,000
Cost pass through event 3: Compliance costs Fair Work Act 2009	NA	17,986
Cost pass through event 4: O.H. & S. Harmonisation- Work Health and Safety Act 2010	NA	42,395
Cost pass through event 5: Unaccounted for gas	1,648	37,126
Sub-total	223,086	393,471.00
Deduct 2% for Albany and Kalgoorlie	4,462	7,127.00
Total cost pass through	218,624	386,345

53. In terms of cost pass through **event 1**, WAGN's explanation for the additional occupational health and safety cost is that it did not fully anticipate the cost associated with implementing the regulations. WAGN has calculated the associated costs as the expenditure associated with the staff attending training.
54. It is the Authority's view that WAGN's reasoning does not substantiate that it has incurred an unexpected regulatory costs resulting from a new regulatory requirement:
- the regulatory requirement was imposed in 2008, which should have allowed WAGN to include a reasonable estimate of costs in its access arrangement proposal;
 - the fact that WAGN did not do so because it did not foresee the implications does not constitute a valid reason.
55. Accordingly, the Authority does not approve this cost pass through.
56. In terms of cost pass through **event 2**, WAGN has advised the Authority that these are new requirements and that the cost was not reasonably foreseen. The Authority

- accepts this having considered WAGN's variation report and the amount of expenditure submitted.
57. In terms of pass through **event 3**, WAGN has advised that this was a new requirement that came into effect on 1 January 2010. The Authority accepts this having considered WAGN's variation report, and the amount of expenditure submitted.
 58. In terms of cost pass through **event 4**, WAGN has advised that this is part of a national regulatory process to harmonise Western Australian legislation with the *Model Work Health and Safety Act* by 1 January 2012. The Authority accepts this having regard to WAGN's variation report and the amount of expenditure submitted.
 59. In terms of cost pass through **event 5**, the reference tariff variation mechanism allows for an adjustment for the cost of any replaced unaccounted for gas to the extent that this reflects an increase over and above the CPI(8 Cities)⁸ increase for the period (Annexure B, clause 3.1(e)).
 60. WAGN has provided the Authority with evidence of the nature of its gas contract relevant to unaccounted for gas. Details about this are provided in confidential **Attachment 4**.
 61. The Authority has assessed the information provided by WAGN (including the considerations in Attachment 4):
 - a) While WAGN has not documented any specific amount of unaccounted for gas it has replaced, WAGN has provided an actual value of unaccounted for gas that it has purchased. The Authority has not been able to verify WAGN's numbers, using WAGN's information or data from the confidential approved model. Therefore, that Authority has not been able to verify the cost imposed on WAGN by replacing unaccounted for gas.
 - b) For the period of July 2010 to June 2011, the Authority finds that the relative increase in WAGN's gas prices do not meet the requirements of the reference tariff variation mechanism having assessed WAGN's information, and does not approve the amended costs. Clause 3.1(e) of Annexure B only provides for the pass through of costs where there has been a "change in the price of gas purchased by WAGN to replace unaccounted for gas, and this change exceeds the change due to inflation, as measured by the change in" CPI(8 Cities).

Other issues

62. The Authority also noted a number of arithmetical corrections were required when applying the tariff variation mechanism. These corrections were associated with issues of precision arising from tariffs determined in the Authority's tariff and revenue model for the approved access arrangement. These include rounding of numbers by WAGN.
63. These corrections to the WAGN calculation and the revised reference tariff variation parameters used to calculate the reference tariff are reflected in **Attachment 5**. The total impact of these corrections is an increase of \$26,760 (\$2009).

⁸ CPI All Groups, Weighted Average of Eight Capital Cities.

Overall adjustments

64. The Authority notes that the NGR (rule 97(4) and the approved reference tariff variation mechanism only allows for the Authority to approve or not approve the reference tariff variation proposal.
65. Based on the assessment in this report, the Authority does not approve WAGN's proposed reference tariff variation.
66. The Authority has re-calculated WAGN reference tariffs that could be approved following its assessment and include the following revisions:
- CPI increase of 6.13% (based on the CPI values for September 2008 and March 2011).
 - Underspend of regulatory operating expenditure and pass through cost of \$1.831 million (\$2009) for the six month period January 2010 to June 2010 (calculated as the difference between approved forecast regulatory operating expenditure and actual operating expenditure).
 - Overspend of regulatory operating expenditure and pass through cost \$0.327 million (\$2009) for the 12 month period July 2010 to June 2011 (calculated as the difference between the approved forecast regulatory operating expenditure and actual operating expenditure).
 - Using the tariff variation formula the changes to regulatory operating expenditure is calculated to lead to a reduction of 1.13%.
67. As a result, the overall reference tariff increase should be 4.93%.
68. Accordingly, the Authority has determined that the Reference Tariffs (excluding GST) should be varied as follows:

Tariff Category	Tariff Component	P_{ij}^U (\$)	$P_{2011/12}^U$ (\$)
Tariff A1	Fixed Charge	39,345.21	41,283.45
Tariff A1	Demand <10kms	165.85	174.02
Tariff A1	Demand >10km	87.29	91.59
Tariff A1	Usage First 10 km's	0.03518	0.03691
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Tariff A2	Fixed Charge	21,781.57	22,854.58
Tariff A2	First 10 TJ	2.10	2.20
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Tariff B2	> 100 GJ's	4.16	4.36
Tariff B3	Fixed Charge	55.21	57.93
Tariff B3	First 10 GJ's	11.74	12.32
Tariff B3	>10 GJ's	5.07	5.32

Attachment 1

Relevant National Gas Rules

92 Revenue equalisation

- (1) A full access arrangement must include a mechanism (a **reference tariff variation mechanism**) for variation of a reference tariff over the course of an access arrangement period.
- (2) The reference tariff variation mechanism must be designed to equalise (in terms of present values):
 - (a) forecast revenue from reference services over the access arrangement period; and
 - (b) the portion of total revenue allocated to reference services for the access arrangement period.
- (3) However, if there is an interval (the **interval of delay**) between a revision commencement date stated in a full access arrangement and the date on which revisions to the access arrangement actually commence:
 - (a) reference tariffs, as in force at the end of the previous access arrangement period, continue without variation for the interval of delay; but
 - (b) the operation of this subrule may be taken into account in fixing reference tariffs for the new access arrangement period.

97 Mechanics of reference tariff variation

- (1) A reference tariff variation mechanism may provide for variation of a reference tariff:
 - (a) in accordance with a schedule of fixed tariffs; or
 - (b) in accordance with a formula set out in the access arrangement; or
 - (c) as a result of a cost pass through for a defined event (such as a cost pass through for a particular tax); or
 - (d) by the combined operation of 2 or more of the above.
- (2) A formula for variation of a reference tariff may (for example) provide for:
 - (a) variable caps on the revenue to be derived from a particular combination of reference services; or
 - (b) tariff basket price control; or
 - (c) revenue yield control; or
 - (d) a combination of all or any of the above.
- (3) In deciding whether a particular reference tariff variation mechanism is appropriate to a particular access arrangement, the AER [ERA] must have regard to:
 - (a) the need for efficient tariff structures; and

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- (b) the possible effects of the reference tariff variation mechanism on administrative costs of the AER, the service provider, and users or potential users; and
 - (c) the regulatory arrangements (if any) applicable to the relevant reference services before the commencement of the proposed reference tariff variation mechanism; and
 - (d) the desirability of consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction); and
 - (e) any other relevant factor.
- (4) A reference tariff variation mechanism must give the AER adequate oversight or powers of approval over variation of the reference tariff.
 - (5) Except as provided by a reference tariff variation mechanism, a reference tariff is not to vary during the course of an access arrangement.
69. Both of these rules are full discretion. Full discretion is defined under rule 40 of the NGR.

40 AER's discretion in decision making process regarding access arrangement proposal

Full discretion

- (3) In all other cases, the AER [ERA] has a discretion to withhold its approval to an element of an access arrangement proposal if, in the AER's [ERA's] opinion, a preferable alternative exists that:
 - (a) complies with applicable requirements of the Law; and
 - (b) is consistent with applicable criteria (if any) prescribed by the Law.

Example:

In dealing with a full access arrangement submitted for its approval, the AER [ERA] could, in its draft decision, insist on changes to queuing requirements if of the opinion that the changes could improve competition in upstream or downstream markets for natural gas.

Attachment 2

GDS Access Arrangement, Annexure B

REFERENCE TARIFF VARIATION MECHANISM for Haulage Tariffs

1. REFERENCE TARIFF VARIATION MECHANISM

This Reference Tariff Variation Mechanism provides for the variation of a Haulage Tariff:

- (a) in accordance with clause 2 of this Annexure B; and
- (b) as a result of a cost pass through for a defined Cost Pass Through Event, under clause 3 of this Annexure B.

2. REFERENCE TARIFF VARIATION MECHANISM – VARIATION IN ACCORDANCE WITH FORMULA

2.1. Variation

- (a) WAGN may vary any Haulage Tariff by varying one or more Tariff Components of that Haulage Tariff during a Variation Period in accordance with this clause 2 of Annexure B.
- (b) Each Haulage Tariff varied under this clause 2 of Annexure B applies as varied on and from the first day of the applicable Variation Period.
- (c) Where, in this clause 2 of Annexure B, reference is made to forecast Regulatory Operating Expenditure, that forecast is to be in Real December 2009 Dollars.
- (d) Where, in this clause 2 of Annexure B, a reference is made to actual Regulatory Operating Expenditure, that actual is to be in Nominal Dollars (dollars of the day) as presented in the WAGN Financial Statement.

2.2. Variation Period is the year commencing 1 July 2011

- (a) If the Variation Period is the Year commencing 1 July 2011, any variation of a Tariff Component under clause 2.1(a) of Annexure B must satisfy the following conditions:

$$P_{2011/12}^{ij} \leq P_0^{ij} (1 + V_{2011/12}) * \frac{CPI_{Mar2011}}{CPI_{Sep2008}}$$

where:

$P_{2011/12}^{ij}$ is the value of Tariff Component j of haulage Tariff i as varied on and from the first day of the variation period;

P_0^{ij} is the value of Tariff Component j of haulage Tariff i as set out in Annexure A.

$V_{2011/12}$ is calculated by applying the formula set out in clause 2.2(b) of Annexure B

$CPI_{Mar2011}$ is the CPI All Groups, Weighted Average of Eight Capital Cities for the quarter ending on 31 March 2011 and

$CPI_{Sep2008}$ is the CPI All Groups, Weighted Average of Eight Capital Cities for the quarter ending on 30 September 2008.

- (b) For the purpose of clause 2.2(a) of Annexure B, $V_{2011/12}$ is calculated by applying the following formula:

$$V_{2011/12} = \frac{\Delta ROpex_{2010(1)} * (1 + WACC)^2 + \Delta ROpex_{2010/11} * (1 + WACC)^1}{ExpRev_{2011/12}}$$

and

$$\Delta ROpex_{2010(1)} = AROpex_{2010(1)} * \frac{CPI_{Dec2009}}{CPI_{Jun2010}} - FROpex_{2010(1)}$$

and

$$\Delta ROpex_{2010/11} = AROpex_{2010/11} * \frac{CPI_{Sep2009}}{CPI_{Mar2011}} - FROpex_{2010/11}$$

where:

AROpex₂₀₁₀₍₁₎ is Actual Regulatory Operating Expenditure for the period from 1 January 2010 to 30 June 2010;

FROpex₂₀₁₀₍₁₎ is \$4.092 million (real \$ as at 31 December 2009);

AROpex_{2010/11} is Actual Regulatory Operating Expenditure for the period from 1 July 2010 to 30 June 2011;

FROpex_{2010/11} is \$5.768 million (real \$ as at 31 December 2009);

CPI_{Dec2009} is the CPI All Groups, Weighted Average of Eight Capital Cities for the quarter ending on 31 December 2009;

CPI_{Jun2010} is the CPI All Groups, Weighted Average of Eight Capital Cities for the quarter ending on 30 June 2010;

CPI_{Sep2009} is the CPI All Groups, Weighted Average of Eight Capital Cities for the quarter ending on 30 September 2009;

CPI_{Mar2011} is the CPI All Groups, Weighted Average of Eight Capital Cities for the quarter ending on 31 March 2011;

ExpRev_{2011/12} is \$155.715 million (real \$ as at 31 December 2009) and

WACC is 7.40%.

2.3. Variation Period is the year commencing 1 July 2012

- (a) If the Variation Period is the Year commencing 1 July 2012, any variation of a Tariff Component under clause 2.1(a) of Annexure B must satisfy the following conditions:

$$P_{2012/13}^{ij} \leq p_0^{ij} (1 + V_{2012/13}) * \frac{CPI_{Mar2012}}{CPI_{Sep2008}}$$

where:

$P_{2012/13}^{ij}$ is the value of Tariff Component *j* of haulage Tariff *i* as varied on and from the first day of the variation period;

p_0^{ij} is the value of Tariff Component *j* of haulage Tariff *i* as set out in Annexure A;

$V_{2012/13}$ is calculated by applying the formula set out in clause 2.3(b) of Annexure B;

$CPI_{Mar2012}$ is the CPI All Groups, Weighted Average of Eight Capital Cities for the quarter ending on 31 March 2012; and

$CPI_{Sep2008}$ is the CPI All Groups, Weighted Average of Eight Capital Cities for the quarter ending on 30 September 2008.

(b) For the purpose of clause 2.3(a) of Annexure B, $V_{2012/13}$ is calculated by applying the following formula:

$$V_{2012/13} = \frac{\Delta ROpex_{2011/12} * (1 + WACC)^1}{ExpRev_{2012/13}}$$

and

$$\Delta ROpex_{2011/12} = AROpex_{2011/12} * \frac{CPI_{Sep2009}}{CPI_{Mar2012}} - FROpex_{2011/12}$$

where:

$AROpex_{2011/12}$ is Actual Regulatory Operating Expenditure for the period from 1 July 2011 to 30 June 2012;

$FROpex_{2011/12}$ is \$6.760 million (real \$ as at 31 December 2009);

$CPI_{Sep2009}$ is the CPI All Groups, Weighted Average of Eight Capital Cities for the quarter ending on 30 September 2009;

$CPI_{Mar2012}$ is the CPI All Groups, Weighted Average of Eight Capital Cities for the quarter ending on 31 March 2012

$ExpRev_{2012/13}$ is \$160.771 million (real \$ as at 31 December 2009) and

$WACC$ is 7.40%.

2.4. Variation Period is the year commencing 1 July 2013

(a) If the Variation Period is the year commencing 1 July 2013, any variation of a Tariff Component under clause 2.1(a) of Annexure B must satisfy the following conditions:

$$P_{2013/14}^{ij} \leq p_0^{ij} (1 + V_{2013/14}) * \frac{CPI_{Mar2013}}{CPI_{Sep2008}}$$

where:

$P_{2013/14}^{ij}$ is the value of Tariff Component j of haulage Tariff i as varied on and from the first day of the variation period;

p_0^{ij} is the value of Tariff Component j of haulage Tariff i as set out in Annexure A;

$V_{2013/14}$ is calculated by applying the formula set out in clause 2.4(b) of Annexure B;

$CPI_{Mar2013}$ is the CPI All Groups, Weighted Average of Eight Capital Cities for the quarter ending on 31 March 2013 and

$CPI_{Sep2008}$ is the CPI All Groups, Weighted Average of Eight Capital Cities for the quarter ending on 30 September 2008.

- (b) For the purpose of clause 2.4(a) of Annexure B, $V_{2012/13}$ is calculated by applying the following formula:

$$V_{2013/14} = \frac{\Delta ROpex_{2012/13} * (1 + WACC)^1}{ExpRev_{2013/14}}$$

and

$$\Delta ROpex_{2012/13} = AROpex_{2012/13} * \frac{CPI_{Sep2009}}{CPI_{Mar2013}} - FROpex_{2012/13}$$

where:

$AROpex_{2012/13}$ is Actual Regulatory Operating Expenditure for the period from 1 July 2012 to 30 June 2013;

$FROpex_{2012/13}$ is \$6.529 million (real \$ as at 31 December 2009);

$CPI_{Sep2009}$ is the CPI All Groups, Weighted Average of Eight Capital Cities for the quarter ending on 30 September 2009;

$CPI_{Mar2013}$ is the CPI All Groups, Weighted Average of Eight Capital Cities for the quarter ending on 31 March 2013

$ExpRev_{2013/14}$ is \$165.740 million (real \$ as at 31 December 2009) and

$WACC$ is 7.40%.

2.5. Alternative to CPI All Groups, Weighted Average of Eight Capital Cities

If the CPI All Groups, Weighted Average of Eight Capital Cities ceases to be published quarterly by the Australian Bureau of Statistics (**ABS**) or is published on a materially different basis (including due to a change in its nature, composition, data or reference base) to its basis at the time of the commencement of the Current Access Arrangement Period, then one of the following alternatives may be used:

- (a) If the ABS publishes a substitute index, WAGN may (subject to the ERA's approval) use the substitute index if it believes the use of that substitute index (with, if necessary, any arithmetical correction factor) will maintain a reasonable level of continuity between Haulage Tariffs calculated using the CPI All Groups, Weighted Average of Eight Capital Cities and Haulage Tariffs calculated using the substitute index.
- (b) If WAGN does not adopt a substitute index under clause (a) of Annexure B, WAGN may (subject to the ERA's approval) use any other substitute index.
- (c) If the ERA does not approve an index proposed by WAGN under clause (b) of Annexure B, then WAGN may use a substitute index determined by an independent consulting actuary. The independent consulting actuary will be appointed at the request of WAGN or the ERA by the President for the time being of the Institute of Actuaries of Australia. The consulting actuary will act as an expert and not as an

arbitrator. The actuary's costs will be borne by WAGN and may be recovered through Haulage Tariffs.

3. REFERENCE TARIFF VARIATION MECHANISM – COST PASS THROUGH EVENTS

3.1. Cost Pass Through Events

For the purpose of this clause 3 of Annexure B, each of the following is a "Cost Pass Through Event":

- (a) WAGN incurs HHV Costs that constitute Conforming Operating Expenditure;
- (b) WAGN incurs Physical Gate Point Costs that constitute Conforming Operating Expenditure;
- (c) WAGN incurs Conforming Operating Expenditure as a direct result of a Change in Law, Tax Change or Regulatory Change;
- (d) WAGN incurs Conforming Capital Expenditure or Conforming Operating Expenditure as a direct result of any Law that:
 - (i) establishes, changes or regulates the operation of, an emissions trading scheme or mechanism that has as one of its objectives the management or reduction of greenhouse gas emissions or concentrations and which includes the scheme set out in, or a scheme similar to, the scheme contemplated in the *Carbon Pollution Reduction Scheme Bill 2009* (Cth) and its associated legislation and regulations, as promulgated, supplemented or amended from time to time (**Emissions Trading Scheme**);
 - (ii) imposes a fee, penalty or Tax on greenhouse gas emissions or concentrations; or
 - (iii) establishes, changes or regulates the operation of, any renewable energy scheme, including the scheme under the *Renewable Energy (Electricity) Act 2000* (Cth) and its associated legislation and regulations, as promulgated, supplemented or amended from time to time,

and, for the avoidance of doubt, this expenditure includes:

- (iv) only direct operating costs associated with preparation for, compliance with the Laws which implement, and the participation in, an Emissions Trading Scheme; and
- (v) only liability for direct operating costs transferred to WAGN from another entity as a direct result of accordance with an Emissions Trading Scheme; or
- (e) WAGN incurs Conforming Operating Expenditure additional to the amount forecast for the purpose of determining Total Revenue for Haulage Tariffs of the Current Access Arrangement Period because there has been a change in the price of Gas purchased by WAGN to replace Unaccounted for Gas, and this change exceeds the change due to inflation, as measured by the change in All Groups, Weighted Average of Eight Capital Cities.

3.2. Variation of Haulage Tariffs

If a Cost Pass Through Event occurs, WAGN:

- (a) must notify the ERA of the relevant event; and

-
- (b) may vary one or more Haulage Tariffs to recover only direct operating costs incurred or forecast to be incurred by WAGN (or on WAGN's behalf) as a direct result of the relevant event, provided that those costs have not already been recovered by WAGN.

4. VARIATION REPORT TO BE GIVEN TO THE ERA

4.1. Variation report – reference tariff variation formula

WAGN will use its reasonable endeavours to give the ERA a variation report at least 90 Business Days before the date on which the Haulage Tariff is to be varied in accordance with the reference tariff variation formula, and that report shall contain the following information:

- (d) the proposed varied Haulage Tariff and varied Tariff Components;
- (e) the date or dates on which the varied Haulage Tariff is to come into effect;
- (f) calculations showing the derivation of the varied Haulage Contract using the formula in clause 2 of Annexure B; and
- (g) a statement of reasons for the variation of the Haulage Tariff.

4.2. Variation report – cost pass through event

WAGN will use its reasonable endeavours to give the ERA a variation report at least 90 Business Days before the date on which the Haulage Tariff is to be varied as a result of a cost pass through, and that report shall contain the following information:

- (a) a statement of reasons for the variation of the Haulage Tariff as a result of the cost pass through;
- (b) supporting calculations demonstrating consistency with the requirements of clause 3 of Annexure B;
- (c) supporting information substantiating the amount and nature of the costs proposed to be passed through by the varied Haulage Tariff; and
- (d) the date or dates on which it is proposed by WAGN that the varied Haulage Tariff shall come into effect.

4.3. ERA response to a variation report

- (a) The ERA will use its reasonable endeavours to give written notice to WAGN within 45 Business Days of the receipt of a variation report advising whether the ERA approves or does not approve the varied Haulage Tariff detailed in that variation report and providing reasons for its decision.
- (b) If WAGN gives the ERA a variation report under clause 4.2, anytime before the ERA gives notice pursuant to clause 4.3(a) of Annexure B the ERA may require WAGN to provide further substantiation of the amounts and the nature of the costs that WAGN proposes to be passed through by the varied Haulage Tariff and requiring WAGN to provide that further substantiation by a date specified in the ERA's request.
- (c) If the ERA does not approve the varied Haulage Tariff, it will not come into effect.
- (d) If the ERA approves the varied Haulage Tariff, it will come into effect on the date or dates specified in the variation report or, if the date or dates specified in the variation report have passed, then on the date or dates specified in the ERA's notice under clause 4.3(a) of Annexure B.

5. DICTIONARY FOR ANNEXURE B

Unless the contrary intention appears, in this Annexure B:

Change in Law means:

- (a) the introduction of a new Law;

- (b) an amendment to, or repeal of, an existing Law; or
- (c) a new or changed interpretation of an existing Law resulting from a decision of:
 - (i) a court;
 - (ii) a tribunal;
 - (iii) an arbitrator;
 - (iv) a Government or regulatory department, body, instrumentality, minister, commissioner, officer, agency or other authority; or
 - (v) a person or body which is the successor to the administrative responsibilities of any person or body described in paragraph (iv) of this definition;

CPI All Groups, Weighted Average of Eight Capital Cities means the Consumer Price Index All Groups Index Number for the Weighted Average of Eight Capital Cities published by the Australian Bureau of Statistics or, if applicable, an alternative index determined under clause 2.5 of this Annexure B;

Gate station means the metering equipment site associated with a Physical Gate Point (whether it comprises part of an Interconnected Pipeline or the WAGN GDS); and includes all facilities installed at the site to perform over pressure protection, reverse flow protection, excessive flow protection, gas metering and measurement and telemetry, and odorization, and all standby, emergency and safety facilities and all ancillary equipment and services;

HHV Costs means direct operating costs incurred as a result of, the management of heating value blending; including expenditure incurred in connection with the measurement, recording, auditing, facilitation or management of heating value blending for the WAGN GDS to the extent that such costs were not included in formulating Conforming Operating Expenditure for the Access Arrangement Period and it is demonstrated that the costs could not reasonably have been forecast;

Law or Laws means all:

- (a) written and unwritten laws of the Commonwealth, of Western Australia and of any other State, Territory or foreign country having jurisdiction over the subject matter of this Access Arrangement; and
- (b) judgments, determinations, decisions, rulings, directions, notices, regulations, bylaws, statutory instruments, Codes of Practice, Australian Standards or orders given or made under any of those laws or by any government agency or authority;

New Relevant Tax means any Tax affecting an amount which WAGN is or will be required to pay in relation to its supply of one or more Haulage Services;

Physical Gate Point means the flange, joint or other point which marks a physical boundary between the WAGN GDS and an Interconnected Pipeline;

Physical Gate Point Costs means all direct operating costs incurred as a direct result of operating a Physical Gate Point and associated Gate Station to the extent that such costs were not included in formulating Conforming Operating Expenditure for the Access Arrangement Period and it is demonstrated that the costs could not reasonably have been forecast;

Previous Access Arrangement Period means the Access Arrangement Period immediately preceding the Current Access Arrangement Period;

Regulatory Change means a change in, the removal of, or the imposition of, a Regulatory Obligation or Requirement (as defined in section 6 of the National Gas Access Law) imposed on WAGN and, without limiting section 6 of the National Gas Access Law, includes:

- (a) a community service obligation;
- (b) a changed, additional, or new environmental, safety, technical, accounting, operating or administrative standard or requirement;
- (c) a uniform Tariff obligation or any other restriction on the level of Tariffs;
- (d) a licensing requirement; or
- (e) a required fee or required charge paid or payable, or a change to the amount of the required fee or charge paid or payable, to the ERA for a licence or any other membership, required contribution or other direct charge required by a regulatory body or agency;

to the extent that such changes were not included in formulating Conforming Operating Expenditure for the Access Arrangement Period and it is demonstrated that the changes could not reasonably have been forecast;

Regulatory Costs means direct costs as a result of:

- (a) a Regulatory Obligation or Requirement (as defined in section 6 of the National Gas Access Law) that are demonstrated to have reasonably been excluded from forecast Conforming Operating Expenditure for the Access Arrangement Period;
- (b) WAGN's compliance with the National Gas Access (Western Australia) Legislation, its Distribution Licence, the *Energy Coordination Act 1994 (WA)*, the *Gas Standards Act 1972 (WA)*, the *Energy Operators (Powers) Act 1979 (WA)*, the *Environmental Protection Act 1986 (WA)*, and its compliance with all other applicable Laws and with the requirements of any government department, agency or authority operating in accordance with those Laws to the extent such cost can be demonstrated to have been reasonably excluded from the forecast Conforming Operating Expenditure;

Regulatory Operating Expenditure means Regulatory Costs which are Conforming Operating Expenditure incurred in relation to the WAGN GDS;

Relevant Tax means any Tax the effect of which was properly taken into account (directly or indirectly) when setting Haulage Tariffs, as affecting an amount which WAGN is or will be required to pay in relation to its supply of one or more Haulage Services;

Tariff Component means a component of a Haulage Tariff which is an amount, or the rate by, which a User is charged for a single element or attribute of a Haulage Service;

Tax includes any tax, rate, impost, levy, duty, fee, compulsory loan, tax-equivalent payment or surcharge withheld, deducted, charged, levied or imposed under any Law;

Tax Change means:

- (a) a change in the way, or the rate at which, a Relevant Tax is calculated;
- (b) the removal of a Relevant Tax; or
- (c) the imposition of a New Relevant Tax, which results from a Change in Law or a Regulatory Change;

Unaccounted for Gas means the difference between measured inflows of Gas into the WAGN GDS and measured outflows of Gas from the WAGN GDS; and

Variation Period refers to one of the following periods (as the case may be):

- (a) the year commencing 1 July 2011;
- (b) the Year commencing 1 July 2012; or
- (c) the Year commencing 1 July 2013.

Attachment 3

Section 6 of the National Gas Access Western Australia Law

6. Meaning of regulatory obligation or requirement

- (1) A regulatory obligation or requirement is—
- (a) in relation to the provision of a pipeline service by a service provider—
 - (i) a pipeline safety duty; or
 - (ii) a pipeline reliability standard; or
 - (iii) a pipeline service standard; or
 - (b) an obligation or requirement under—
 - (i) this Law or the Rules; or
 - (ii) an Act of a participating jurisdiction, or any instrument made or issued under or for the purposes of that Act, that levies or imposes a tax or other levy that is payable by a service provider; or
 - (iii) an Act of a participating jurisdiction, or any instrument made or issued under or for the purposes of that Act, that regulates the use of land in a participating jurisdiction by a service provider; or
 - (iv) an Act of a participating jurisdiction or any instrument made or issued under or for the purposes of that Act that relates to the protection of the environment; or
 - (v) an Act of a participating jurisdiction, or any instrument made or issued under or for the purposes of that Act (other than national gas legislation or an Act of a participating jurisdiction or an Act or instrument referred to in subparagraphs (ii) to (iv)), that materially affects the provision, by a service provider, of pipeline services to which an applicable access arrangement applies.
- (2) A regulatory obligation or requirement does not include an obligation or requirement to pay a fine, penalty or compensation—
- (a) for a breach of—
 - (i) a pipeline safety duty; or
 - (ii) a pipeline reliability standard; or
 - (iii) a pipeline service standard; or
 - (b) under this Law or the Rules or an Act or an instrument referred to in subsection (1)(b)(ii) to (v).

Note— See also section 24(2)(b).

Attachment 4 Confidential Appendix

Attachment 5 ERA Tariff Calculation

	Qrt	Mar-2008	Jun-2008	Sep-2008	Dec-2008	Mar-2009	Jun-2009	Sep-2009	Dec-2009	Mar-2010	Jun-2010	Sep-2010	Dec-2010	Mar-2011	Jun-11
CPI															
CPI - All groups, weighted average of eight capital cities		162.20	164.60	166.50	166.00	166.20	167.00	168.60	169.50	171.00	172.10	173.30	174.00	176.70	
AA Annexure B - clause 2.2(a):															
P(2011/12) - CPI(Mar2011) on CPI(Sep2008)															1.0613
deltaROPex(2010) - CPI(Dec2009) on CPI(Jun2010)	Factor										0.9849				0.9542
deltaROPex(2010/11) - CPI(Sep2009) on CPI(Mar2011)															
WACC	7.40%														
	Year Date	2010 1-Jan to 30-Jun-2010				2010/11	2011/12	2011/13	2013/14						
REAL	Dollar	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009
Regulatory operating expenditure															
AA annexure B - clause 2.2.(a)															
Forecast Regulatory opex	\$ million	4.092													
Expected Revenue	\$ million					5,768	6,760								
Approved Access Arrangement															
Modelled Regulatory Cost - Row 758	\$	4,091,956.86				5,767,862.98	6,759,692.15	6,529,076.47	6,974,022.69						
WAGN 16 May 2011															
Regulatory Cost in AA	\$	4,091,667.00				5,768,285.00									
WAGN 30 May 2011															
Regulatory Cost in AA	\$	4,091,667.00				5,768,285.00									
Arithmetical error or rounding issue	\$	- 333.00					285.00								
			2010	2011	2011	2011	2011								
		Jan to June	Jul to Apr	May to June	Total	Total	Total								
Nominal		Actual	Actual	Forecast	Total	Total	Total								
		\$OD	\$OD	\$OD	\$OD	\$OD	\$OD								
Proposed regulatory operating expenditure (WAGN 30 June 2010)															
Regulatory cost centre	\$	689,359.87	1,630,317.70	618,801.27											
Additional internal legal cost (WAGN 16 May 2011)	\$		106,000.00												
WAGN Total	\$				2,355,918.00										
Arithmetical check	\$	689,359.87	1,736,317.70	618,801.27	2,355,118.97										
Arithmetical error or rounding issue	\$				- 799.03										
License fees and charges	\$	1,141,542.00			2,914,477.00										
Technical and compliance cost	\$	516,698.00			1,581,646.00										
Sub-Total	\$	2,347,600.00			6,852,041.00										
Arithmetical check	\$	2,347,599.87			6,852,041.00										
Arithmetical error or rounding issue	\$	- 0.13													
Reference tariff variation formula (annexure B Clause 4.1)	\$	2,300,648.00			6,715,000.00										
Share of cost allocated to Albany and Kalgoorlie	2%														
Total (Adjustment to remove Kalgoorlie and Albany)	\$	2,300,647.87			6,715,000.18										
Arithmetical error or rounding issue	\$	- 0.13			0.18										
	Year Date	2010 1-Jan to 30-Jun-2010				2010/11	2011/12	2011/13	2013/14						
REAL		\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009
Total (Adjustment to remove Kalgoorlie and Albany)		2,265,890.84				6,407,181.84									
Variation (Actual less Approved Forecast)		- 1,826,109.16				639,181.84									
Nominal		\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD
Proposed cost pass through events															
WAGN 16 and 30 May 2011															
Occupational Safety and Health Regulations 1996 Regulation 3.143 amended 28 Nov. 2008	\$	221,437.54				280,964.00									
Environmental Protection (Clearing of Native Vegetation) Regulations 2004	\$					15,000.00									
Compliance Costs with Fair Work Act 2009	\$					17,986.00									
Assessment of Model Work, Health and Safety Regulations and Codes of Practice	\$					42,395.00									
Unaccounted for gas	\$	1,648.00				37,126.00									
REAL		\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009	\$ Dec 2009
UAFG (\$) - Approved model	\$2,009	4,869,131.95				10,361,789.89	10,642,626.61	11,032,008.41	11,305,561.83						
Nominal		\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD
WAGN @ CPI(Perth)	\$ODPerth	4,817,356.00				10,753,208.00									
Sub-Total		223,085.54				393,471.00									
Less 2% for Albany and Kalgoorlie		4,462.00				7,127.00									
Arithmetical check	\$	4,461.71				7,869.42									
Arithmetical error or rounding issue	\$	- 0.29				742.42									
Cost pass through event (annexure B Clause 4.2)	\$	218,624.00				386,345.00									
Arithmetical check	\$	218,623.83				385,601.58									
Arithmetical error or rounding issue	\$	- 0.17				743.42									
	Year Date	2010 1-Jan to 30-Jun-2010				2010/11	2011/12	2011/13	2013/14						
Nominal		\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD	\$OD
Proposed total pass through															

Total Regulatory Costs (WAGN 30 June 2011, p11)	\$	2,519,272.00		7,101,345.00
Arithmetical check	\$	2,519,271.87		7,101,345.18
Arithmetical error or rounding issue	\$	- 0.13		0.18
Total Arithmetically corrected regulatory costs	\$	2,519,271.70		7,100,601.76
Arithmetical error or rounding issue	\$	- 0.30		- 743.24

Year	2010	2010/11	2011/12	2012/13	2013/14
Date	1-Jan to				
	30-Jun-2010				

REAL	\$ Dec 2009				
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Proposed total pass through

Total Regulatory Costs 2010(1) \$December 2009 (WAGN 30 May 2011, p11) (converted at Dec 2009 CPI/June 2010 CPI)	\$	2,454,118.00		6,775,817.00
Implied conversion factor (implied Dec 2009 on Dec 2010)	Factor	0.9741	0.9741	0.9542

Annexure B conversion factor (Dec 2009 on June 2009)	Factor	0.9849		0.9542
Arithmetical error or rounding issue	Factor	0.0108		- 0.0000
Arithmetical check	\$	2,481,212.11		6,775,816.45
Arithmetical error or rounding issue	\$	27,094.11		- 0.55
Total Arithmetically corrected regulatory costs	\$	2,481,211.82		6,775,107.28
Arithmetical error or rounding issue	\$	27,093.82		- 709.72

Year	2010	2010/11	2011/12	2012/13	2013/14
Date	1-Jan to				
	30-Jun-2010				

REAL	\$ Dec 2009				
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Delta Ropex

WAGN 30 May 2011, p11	\$	1,637,548.00		1,007,532.00
Arithmetical check	\$	- 1,637,549.00		1,007,532.00
Arithmetical error or rounding issue	\$	1.00		
Total Arithmetically corrected regulatory costs	\$	1,610,788.18		1,007,107.28
Arithmetical error or rounding issue	\$	26,759.82		- 424.72
				26,335.10

Year	2010	2010/11	2011/12	2012/13	2013/14
Date	1-Jan to				
	30-Jun-2010				

Nominal	\$OD	\$OD	\$OD	\$OD	\$OD
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ERA regulatory cost adjustment

Regulatory operating expenditure	1=reduction		1=reduction	
Legal			1	340,000.00
Economic			1	55,000.00
Cost pass through event (annexure B Clause 4.2)				
Occupational Safety and Health Regulations 1996 Regulation 3.143 amended 28 Nov. 2008	1	221,437.54	1	280,964.00
Unaccounted for gas	1	1,648.00	1	37,126.00
Total reduction	\$	223,085.54		713,090.00

Year	2010	2010/11	2011/12	2012/13	2013/14
Date	1-Jan to				
	30-Jun-2010				

REAL	\$ Dec 2009				
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Total reduction	\$	219,715.28		680,401.66
Total expenditure assessed to be complying V2011/12	\$	- 1,830,503.46		326,705.62

-1.13% Note, this links to the switch in the WAGN tab at F2:G22

Year	2010	2010/11	2011/12	2012/13	2013/14
Date	1-Jan to				
	30-Jun-2010				

	\$ Dec 2009	\$OD
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Reference tariff calculation

Tariff Category	Tariff Cc	POij	P2011/12ij	Per cent incre:
Tariff A1	Fixed Charge	39,345.21	41,283.45	4.93%
Tariff A1	Demand <10kms	165.85	174.02	4.93%
Tariff A1	Demand >10km	87.29	91.59	4.93%
Tariff A1	Usage First 10 km's	0.03518	0.03691	4.93%
Tariff A1	Usage >10 km's	0.01758	0.01845	4.93%
Tariff A2	Fixed Charge	21,781.57	22,854.58	4.93%
Tariff A2	First 10 TJ	2.10	2.20	4.93%
Tariff A2	> 10 TJ's	1.13	1.19	4.93%
Tariff B1	Fixed Charge	1,092.92	1,146.76	4.93%
Tariff B1	First 5 TJ	4.20	4.41	4.93%
Tariff B1	> 5 TJ's	3.60	3.78	4.93%
Tariff B2	Fixed Charge	270.46	283.78	4.93%
Tariff B2	First 100 GJ's	6.99	7.33	4.93%
Tariff B2	> 100 GJ's	4.16	4.36	4.93%
Tariff B3	Fixed Charge	55.21	57.93	4.93%
Tariff B3	First 10 GJ's	11.74	12.32	4.93%
Tariff B3	>10 GJ's	5.07	5.32	4.93%