ATCO GAS 2025-29 REVISED PLAN

ATCO Mid-West and South-West Gas Distribution System

June 2024

ATCO

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2025-29 Revised Plan

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DOCUMENT NOTES

- All forecast and past expenditure values are expressed in real dollars as at 31 December 2023 unless otherwise stated.
- All revenue amounts are expressed in nominal dollars unless otherwise stated.
- Some tables may not add up due to rounding.
- This document should be read in conjunction with ATCO's 2025-29 Plan submitted to the Economic Regulation Authority (**ERA**) on 31 August 2023.

EXECUTIVE SUMMARY

ATCO Gas Australia (**ATCO**) owns and operates Western Australia's largest regulated natural gas network, delivering natural gas to more than 785,000 customers through nearly 14,500 km of pipelines. Our commitment for AA6 continues to be a focus on the long-term interests of customers by providing a safe, reliable, and affordable gas distribution network while supporting a competitive retail market, enabling growth for Western Australia, and building the foundation for a more sustainable energy future.

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On 31 August 2023, we submitted an access arrangement revision proposal to the ERA pursuant to Rule 52 of the National Gas Rules (**NGR**). Our AA6 proposal (the '2025-29 Plan') covered the five-year period between 1 January 2025 and 31 December 2029. The ERA reviewed our submission against the NGR and undertook further public consultation before issuing their Draft Decision on 24 April 2024.

1.1 ABOUT THE ERA'S DRAFT DECISION

The ERA's Draft Decision was not to approve the 2025-29 Plan. The Draft Decision detailed 30 required amendments before the ERA can approve the Access Arrangement. These amendments mostly affect our demand forecasts, our proposed operating and capital expenditure, and our proposal for accelerated depreciation.

This 2025-29 Revised Plan has been drafted in response to the ERA's Draft Decision pursuant to Rule 60 of the NGR. For each of the ERA's required amendments, our responses are one of three alternatives.

1. **Accept:** We accept the ERA's amendment; or
2. **Accept with modification:** We accept the ERA's amendment with a proposed modification; or
3. **Do not accept:** We do not accept the ERA's amendment and propose a revised position or maintain our original proposal from the 2025-29 Plan.

1.2 OUR REVISED 2025-29 PLAN

Our 2025-29 Revised Plan continues to seek the right balance between delivering long-term value for our customers, operating a safe and reliable network business, and navigating our energy system transformation.

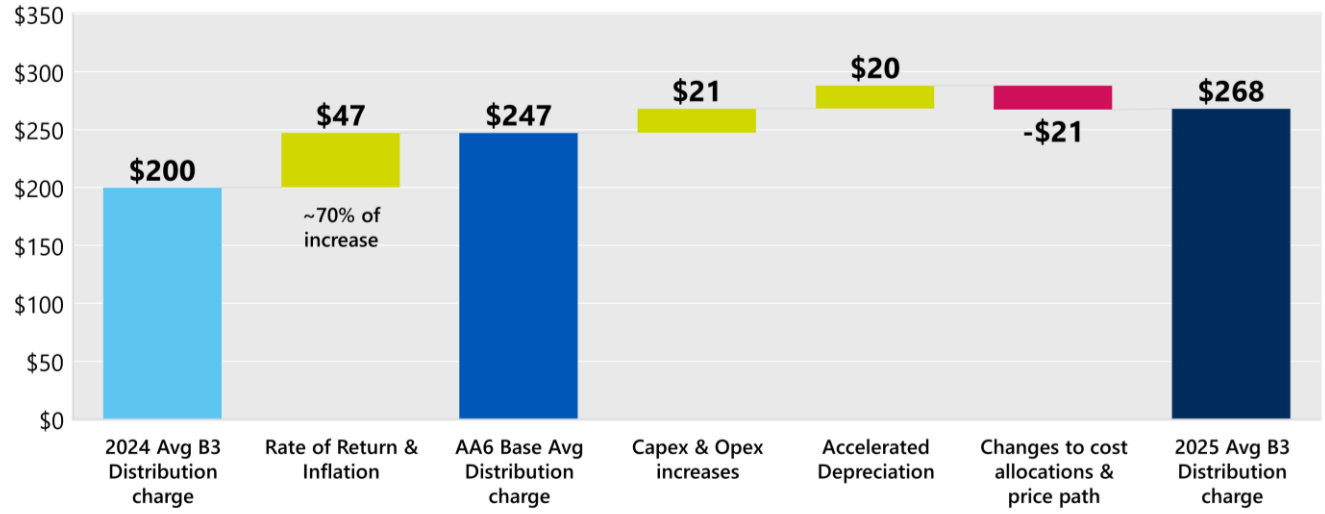
Having considered the ERA's Draft Decision and the feedback from our stakeholders during our AA6 engagement program, we have accepted some of the required amendments in full, or with a modification. However, we have also identified several amendments that we do not accept, including

the higher demand forecasts, the significant reduction in AA6 opex, and the removal of accelerated depreciation.

Our Revised Plan incorporates feedback from the ERA's Draft Decision, input from the further consultations with retailers and customers, updated actual 2023 data, and external specialist advice to support our plans. Our revised AA6 revenue requirement is $1,488 million, 22% higher than the ERA's Draft Decision. This compares to $840 million for AA5, and the increase is largely due to rising inflation, the increased regulated rate of return, our proposal for accelerated depreciation, and increases in our opex and capex.

Our revised revenue proposal and modified price path results in a lower price increase between 2024 and 2025 than originally proposed in our September submission. For an average residential (B3) customer, the average annual distribution charge will increase by $68 between 2024 and 2025 (~$1.30 per week), compared to the original proposed increase of $78. If retailers fully pass on this increase, this represents an increase of approximately 10.5% on an annual retail gas bill at the gazetted retail price. The breakdown of the price increase is shown in Figure 1.1.

Figure 1.1: 2024 to 2025 Average distribution charge increase for a B3 customer with average consumption



Changing economic and financial conditions are outside the control of both ATCO and the ERA, and yet are driving a large component of the price increases. Almost 70% of the proposed price increase in 2025 is being driven by the rate of return and inflation.

To minimise this increase, ATCO has revised the price path to adopt a smoother price path over AA6 that includes the $68 step change price in 2025, followed by a CPI + 3% increase in each of the remaining years of AA6. In addition, we have restricted price increases to the B3 tariff class in 2025 to 10% less than other tariff classes to rebalance tariff revenue and cost of service across tariff classes.

1.2.1 ERA DRAFT DECISION REQUIRED AMENDMENTS: ATCO'S RESPONSE SUMMARY

Further detail on our responses are provided in each respective chapter, and a full summary is provided in Table 1.1.

Table 1.1: ERA's Draft Decision response summary

ERA #	SUMMARY OF REQUIRED AMENDMENT	ATCO'S RESPONSE	RATIONALE
2.1	ATCO must amend its forecast haulage reference service demand to reflect the ERA's forecast demand in Table 2.20.	**Do not accept**	**ATCO is proposing a revised forecast, incorporating new information, and 2023 actual data**
2.2	ATCO must amend its forecast ancillary reference service demand to reflect the ERA's forecast demand in Table 2.21.	**Do not accept**	**ATCO is proposing a revised forecast and as a result, the forecast level of ancillary services is correlated to the new forecast**
3.1	The values for total revenue (nominal) must reflect the values as set out in Table 3.7 of this draft decision attachment.	**Do not accept**	**As the total revenue requirement is an output of the building block values, our responses to other components of the Draft Decision have determined our revised revenue proposal**
3.2	Annexure A of the proposed revised access arrangement, which details the haulage reference service tariffs, should be amended to reflect the tariffs set out in Table 3.12 of this draft decision attachment.	**Do not accept**	**Haulage reference service tariffs have been amended based on ATCO's revised demand forecast and the revised total revenue amount**
3.3	ATCO must demonstrate why usage tariffs for reference services, other than the B3 reference service, should remaining as declining block tariffs instead of moving to a flat tariff structure.	**Do not accept**	**ATCO continues to propose a declining block tariff structure primarily because the effects of change are uncertain and there has been insufficient time to consult with stakeholders on the effects of a change**
3.4	Annexure C of the proposed revised access arrangement, which details the ancillary reference service tariffs, should be amended to reflect the tariffs set out in Table 3.14 of this draft decision attachment.	**Do not accept**	**The tariffs stated by the ERA in its draft decision do not reflect current costs of providing the services**
3.5	Cost pass through event, as set out in Annexure B (clause 2.1(a)(iv)) of the proposed revised access arrangement, must be deleted.	**Do not accept**	**Clause 2.1(a)(iv) must be retained (with slight revision) as it is intended to allow ATCO to recover costs incurred as a result of an existing law**

ERA #	SUMMARY OF REQUIRED AMENDMENT	ATCO'S RESPONSE	RATIONALE
3.6	The proposed cost pass through event, as set out in Annexure B (clause 2.1(a)(v)) of the proposed revised access arrangement, must be deleted.	**Do not accept**	**ATCO has revised the cost pass through event.**
4.1	ATCO must amend its access arrangement information to revise its AA5 forecast capital expenditure to $398.1 million ($ real as at 31 December 2023).	**Do not accept**	**Revised AA5 capex forecasts have been included**
4.2	ATCO must amend its access arrangement information to revise its AA6 forecast capital expenditure to $443.1 million ($ real as at 31 December 2023).	**Do not accept**	**Revised AA6 capex forecasts have been included**
5.1	ATCO must amend its access arrangement information to revise its AA6 2022 base year operating expenditure to $50.7 million ($ real as at 31 December 2023).	**Do not accept**	**Revised base year has been included**
5.2	ATCO must amend its access arrangement information to revise its AA6 recurrent step change operating expenditure to $5.1 million ($ real as at 31 December 2023).	**Do not accept**	**Revised step change forecasts have been included**
5.3	ATCO must amend its access arrangement information to revise its AA6 non-recurrent step change operating expenditure to $9.3 million ($ real as at 31 December 2023).	**Do not accept**	**Revised step change forecasts have been included**
5.4	ATCO must amend its access arrangement information to revise its AA6 output growth escalation operating expenditure to $14.0 million ($ real as at 31 December 2023).	**Do not accept**	**Revised growth escalation forecasts have been included**

ERA #	SUMMARY OF REQUIRED AMENDMENT	ATCO'S RESPONSE	RATIONALE
5.5	ATCO must amend its access arrangement information to revise its AA6 input cost escalation operating expenditure to $4.1 million ($ real as at 31 December 2023).	**Do not accept**	**Revised cost escalation forecasts have been included**
5.6	ATCO must amend its access arrangement information to revise its AA6 unaccounted for gas operating expenditure to $31.8 million ($ real as at 31 December 2023).	**Do not accept**	**Revised UAFG forecasts have been included**
5.7	ATCO must amend its access arrangement information to revise its AA6 ancillary services operating expenditure to $19.6 million ($ real as at 31 December 2023).	**Do not accept**	**Revised ancillary services forecasts have been included**
5.8	ATCO must amend its access arrangement information to revise its AA6 return on working capital to $8.7 million ($ real as at 31 December 2023).	**Do not accept**	**Revised working capital forecasts have been included**
6.1	ATCO must amend the forecast depreciation of the capital base for AA6 to $347.3 million (real as at 31 December 2023). The yearly values for each year of the access arrangement period are set out in Table 6.5 of this draft decision attachment.	**Accept with modifications**	**ERA accepted our approach to calculate the base level of depreciation, which is consistent with our existing approach.** **ATCO has proposed a revised level of capex for the remainder of AA5 and for AA6 and depreciation has therefore changed**
6.2	ATCO to remove its proposed accelerated depreciation.	**Do not accept**	**ATCO has provided a revised methodology and proposed an amended accelerated depreciation amount**
7.1	Subject to the nomination of a final averaging period, ATCO must update its rate of return to be 7.33 per cent (vanilla nominal after-tax).	**Accept**	**Subject to the nomination of a final averaging period, and the market based rate of return parameters determined in that period, ATCO has**

ERA #	SUMMARY OF REQUIRED AMENDMENT	ATCO'S RESPONSE	RATIONALE
			updated its rate of return to be 7.33 per cent (vanilla nominal after-tax)
7.2	ATCO must amend the estimated cost of corporate income tax in accordance with Table 7.10 of this draft decision attachment.	**Do not accept**	**ATCO agrees with the ERA's method of calculating income tax including tax asset lives. However, the values of revenue and expenses included in the calculation have been amended to be consistent with values in this revised plan**
8.1	ATCO must delete fixed principle 11.5 (relating to emissions reduction and renewables) from the proposed access arrangement.	**Do not accept**	**ATCO has amended fixed principle 11.5 to apply to the renewable projects included in this 2025-29 Revised Plan**
8.2	ATCO should review its affordability key performance indicator targets in accordance with the targets calculated by the ERA and set out in Table 8.3 of this draft decision attachment.	**Accept**	**Revised affordability key performance indicator targets have been calculated**
8.3	ATCO should review its carbon emissions key performance indicator targets in accordance with the revised investment levels approved by the ERA in its draft decision.	**Accept**	**Revised carbon emissions key performance indicator targets have been calculated**
9.1	ATCO must retain the words "arrangement or understanding" in the definition for the term Interconnection Arrangement in the Template Service Agreement. That is, the definition must mean: "*a written or unwritten contract, **arrangement or understanding** in respect of an interconnection at a Physical Gate Point between the ATCO GDS and an Interconnected Pipeline (and includes a written or unwritten contract, **arrangement or understanding** for the provision of an Interconnection Service)*". [emphasis added]	**Accept**	

ERA #	SUMMARY OF REQUIRED AMENDMENT	ATCO'S RESPONSE	RATIONALE
9.2	ATCO must amend proposed new clauses 5.5(d) and 5.9 of the Template Service Agreement to require the service provider to act reasonably in imposing conditions precedent and charges. The amended drafting is set out at paragraph 50 of this draft decision attachment.	**Do not accept**	**ATCO agrees to the ERA's proposed amendment to clarify that it will include only "reasonable" conditions precedent into a specific agreement. ATCO considers the inclusion of "reasonable" in respect of determining its charges is generally unnecessary given the requirement to be "in accordance with the requirement of any applicable Law". However, ATCO acknowledges that it may not always be dealt with at law and has therefore included a reasonableness requirement for those circumstances where there is no requirement in any applicable Law**
9.3	ATCO must retain existing clause 15.1(g) (which relates to default provisions) in the Template Service Agreement.	**Accept**	
9.4	As confirmed by ATCO the words "during a month" in clause 8 of Schedule 2 in the Template Service Agreement were inserted in error. These words should therefore be deleted.	**Accept**	
9.5(a)	ATCO must review the terms and conditions set out in the Permanent Disconnection Contract to identify any improvements that can clarify and/or resolve the matters raised in submissions to the ERA with respect to the permanent disconnection service. As a minimum, the terms and conditions for the permanent disconnection service must: a. clarify the service options for disconnection (whether temporary or permanent) and clearly set out the circumstances where the permanent disconnection service is required; and	**Accept**	**ATCO has revised the Permanent Disconnection Contract taking into account the ERA's required amendments and other suggestions**

ERA #	SUMMARY OF REQUIRED AMENDMENT	ATCO'S RESPONSE	RATIONALE
9.5(b)	b. clarify the extent to which property will be repaired or reinstated with respect to disturbances to paving, concrete, bitumen and other things that form part of a property crossover/verge.	**Accept**	**ATCO has revised the Permanent Disconnection Contract taking into account the ERA's required amendments and other suggestions**

Table 1.2: ATCO AA6 Revised Plan comparison

CHAP. #	AA6 COMPONENT	ORIGINAL PLAN	ERA DRAFT DECISION	REVISED PLAN
7	**PAST PERFORMANCE** (AA5 $M real, Dec 2023)			
	Opex	**355.9**	**355.9**	**371.9**
	Capex	**413.7**	**398.1**	**400.1**
5	**DEMAND** (as at 2029)			
	Average Customer Base	**839,460**	**853,843**	**842,186**
	Demand (TJ)	**28,915**	**31,460**	**28,199**
8	**OPEX** (AA6, $M real, Dec 2023)	**455.9**	**337.4**	**441.6**
	Network / Corporate / IT	398.1	286.0	389.8
	UAFG	30.8	31.8	29.6
	Ancillary	27.1	19.6	22.2
7	**CAPEX** (AA6, $M real, Dec 2023)	**465.8**	**443.1**	**490.7**
	Network Sustaining	271.6	218.1	252.1
	Network Growth	157.4	177.9	151.0
	Information Technology	13.0	23.3	64.0
	Structures & Equipment	23.9	23.7	23.6
6	**REVENUE** (AA6, $M nominal)	**1,451.7**	**1,217.6**	**1,487.1**
6	**TARIFFS** (Avg. B3 Distribution Charge Per Year)	**278** (w/CPI increase pa)	**221** (w/CPI increase pa)	**268** (w/CPI +3% increase pa)

PART A | Introduction

ATCO

2. PURPOSE OF THIS REVISED PLAN

2.1 INTRODUCTION

ATCO submits the 2025-29 Revised Plan, pursuant to Rule 60 of the NGR, in response to the recent ERA Draft Decision. This document outlines our response to the required amendments in the Draft Decision, the revised prices we propose to charge retailers over AA6, our revised investment plans, our planned services to Western Australians for the Gas Distribution System (**GDS**), and the findings that emerged from our further customer and stakeholder engagement.

The GDS is a designated pipeline under the National Gas Access (WA) Act 2009. This means that we are required to periodically submit revisions to our access arrangement to the ERA in accordance with the requirements of the NGR.

This 2025-29 Revised Plan is also known as the access arrangement information (**AAI**) for our amended access arrangement revision proposal for the 2025-29 period. The information in this document supports the priorities for our gas network and our services for Western Australian customers.

2.2 STRUCTURE OF THIS REVISED PLAN

Our 2025-29 Revised Plan incorporates our response to the ERA's required amendments and additional supporting documents for our revisions relating to the Draft Decision. The submission of this Revised Plan includes:

- ATCO's response to the ERA's Draft Decision (Part B of this document)
- A revised Access Arrangement Information (AAI) (Chapter 14 in Part C of this document).
- A revised Access Arrangement (*see Attachment 00.00*)
- A revised Template Service Agreement (*see Attachment 00.00 Annexure F*) and Permanent Disconnection Contract (*see Attachment 00.00 Annexure G*).

2.3 REGULATORY FRAMEWORK

The regulatory regime has changed since ATCO submitted the 2025-29 Plan in September 2023 to the ERA, and since the EMCa report was issued to the ERA in early 2024.

In early 2024, the regulatory framework in Western Australia was changed to amend the National Gas Objective to incorporate an emissions reduction objective. The amended National Gas Objective is now:

> "*...to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to -*
>
> (a) *price, quality, safety, reliability and security of supply of natural gas; and*

(b) *the achievement of targets set by a participating jurisdiction -*

i. *for reducing Australia's greenhouse gas emissions; or*

ii. *that are likely to contribute to reducing Australia's greenhouse gas emissions.*

The AEMC has published the relevant targets in its targets statement[1].

The EMCa report was based on the expenditure rules that were in place in Western Australia at the time (i.e., the *old* expenditure rules), which did not reference the National Gas Objective. Since then, the updated expenditure rules in Western Australia now expressly refer to the National Gas Objective. This was also noted in the ERA's Draft Decision, with the ERA clarifying that it will apply the new expenditure rules for expenditure incurred, or forecast to be incurred, after 1 February 2024.

As a result of EMCa's review being conducted prior to the new expenditure rules coming into effect, EMCa did not consider whether our expenditure was in the long-term interests of gas consumers in respect of emissions reductions but also in respect of factors such as price, quality, safety, reliability, and security of supply.

Under the regulatory framework that now applies in Western Australia, achieving the lowest sustainable cost of delivering pipeline services is not an absolute requirement and must now be in a manner consistent with achieving the National Gas Objective.

REGULATORY FRAMEWORK ASSUMPTIONS IN OUR 2025-29 REVISED PLAN

In preparing the 2025-29 Revised Plan, the basis for our submission is as follows:

- The current regulatory framework that applies to ATCO

  PLUS

- **Gas Pipeline Regulatory Reforms** – Our expenditure proposal assumes that the gas pipeline regulatory amendments are adopted in Western Australia prior to the ERA's Final Decision on the basis that these are already in effect elsewhere in Australia.
- **Extend the regulatory framework to renewable gases** - Our expenditure proposal assumes that the renewable gas amendments are adopted in Western Australia prior to the ERA's Final Decision on the basis that these are already in effect elsewhere in Australia.
- **Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024**- This regulatory change is currently before the Australian Parliament. Given its advance progress through Parliament, our expenditure proposal for a Sustainability Reporting System assumes that this regulatory change is in place prior to the ERA's Final Decision.

EMERGING REGULATORY AMENDMENTS NOT INCORPORATED IN THIS PLAN

In addition to anticipated changes to the regulatory framework outlined above, other legislative amendments will affect the operating environment during AA6 but have not been included in our forecasts for AA6. These emerging regulatory changes include:

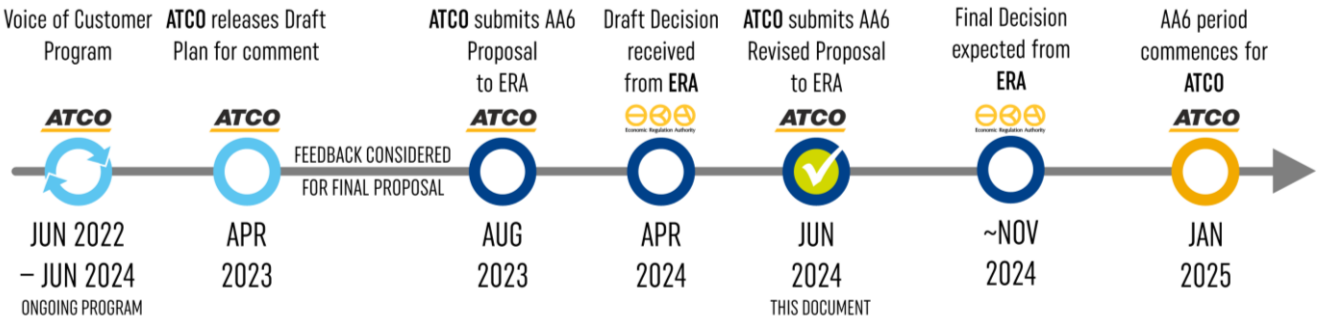
[1] See AEMC Targets Statement accessible at https://www.aemc.gov.au/regulation/targets-statement-emissions

- WA climate change legislation – The WA Government introduced the *Climate Change Bill 2023* into the WA Parliament in November 2023 to ensure accountability and transparency for the government and establishment of WA's long-term target of net zero emissions by 2050. It also provides for statutory requirements to set interim emission reduction targets and develop policies to reduce emissions and enhance climate resilience.
- Mandatory reporting frameworks – The Workplace Gender Equality Agency will publish private-sector employer gender pay gaps based on reported data from six Gender Equality Indicators. This requires proactive planning of data collection and implementation during AA6. Changes will be implemented from late 2023 to early 2025.

2.4 NEXT STEPS AND FEEDBACK OPPORTUNITIES

Our lodgement of this AA6 revisions proposal to the ERA marks the formal commencement of the second stage of the ERA's review process. We encourage customers and stakeholders to continue to engage with the ERA's public consultation process through the ERA's website here. Submissions close 4:00pm (WST), 9 July 2024, see Figure 2.1.

Figure 2.1: ATCO's AA6 submission timeline



If you have any questions or would like any assistance in relation to our 2025-29 Revised Plan during the ERA's public consultation process, please contact us by sending an email to: haveyoursay@atco.com.

3. CUSTOMER & STAKEHOLDER ENGAGEMENT

CHAPTER HIGHLIGHTS

1. The insights from our AA6 Engagement Program (customer and stakeholder engagement) continue to underpin our 2025-29 Revised Plan.
2. Since submitting our Plan in September 2023, we have continued to engage with Retailers and other selected stakeholders to seek further insights and clarity on their preferences and feedback on our Plan.
3. The ERA received 12 stakeholder submissions on our Plan as part of its consultation process in November 2023. We have sought to address this feedback where appropriate.
4. The ERA engaged Patterson Research Group to conduct a survey to understand the views of residential gas customers. We note the results of the Patterson Research Group survey confirm continued consumer preference for using natural gas in the home and support for renewable gas as an energy option.
5. Our revised stakeholder engagement program will build on our current learning and ensure our future business decisions remain reliable and customer centric.

3.1 INTRODUCTION

As the National Gas Objective (NGO), which is set out in Section 23 of the National Gas Law (NGL), states, ATCO has a responsibility as the operator of the gas distribution network in Western Australia, to efficiently operate and invest in "natural gas services for the long-term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas."

In performing this work, we embrace a long-range outlook that builds future prosperity – value for our customers, employees, and Indigenous and community partners.

In Western Australia, ATCO has proudly built a reputation as a customer-focused business. Our success hinges on the relationships we have built through genuine and meaningful engagement with our customers, and we are committed to maintaining ties with the communities in which we live and operate.

Furthermore, we deeply value the insights of our customers and the community that was provided through the AA6 process whether it be directly to ATCO or in response to the ERA's consultation processes.

3.2 OUR ENGAGEMENT PROCESS

Since submitting our 2025-29 Plan in September 2023, we have engaged further with our stakeholders to better understand their feedback on our proposal and to build on the valuable learnings from previous engagement programs.

3.2.1 ENGAGEMENT AFTER INITIAL SUBMISSION

Following the release of our 2025-29 Plan, we have continued to engage directly with a sample of key stakeholders, including retailers and industrial customers, to provide more information on our submission and to deepen our understanding of their unique perspectives on our Plan.

The release of ERA's Issues Paper in November 2023 provided a valuable opportunity to address specific concerns held by our stakeholders across nine key areas of our submission, with a total of 12 stakeholders formally submitting feedback as part of the ERA's consultation process. A summary of these submissions and how we have sought to address this feedback is presented in the relevant topic chapters throughout our Revised Plan.

Since the submission (and prior to the release of the Draft Decision) we have focused our engagement efforts on working directly with retailers to further understand their views on our plan and address their concerns through a series of one-on-one interviews.

Four of the 12 submissions received by the ERA on the Issues Paper were made by retailers, these being Kleenheat, Alinta, AGL and Origin. We invited each of the retailers to meet with us individually for a discussion in April 2024, with the intention to address the various issues raised in their respective submissions and provide an opportunity for feedback ahead of our Draft Decision Response. The topics included:

- Pricing step change – retailers highlighted that our proposed step change may reduce discounts offered to customers and asked whether we can moderate the step.
- Accelerated deprecation – the retailers sought context on how we arrived at $80 million for accelerated depreciation and whether we had firmed this figure up or if it was likely to be reduced.
- Legislative framework – Confirming we should be clear on what legislative framework we are applying, and how we will approach it if the changes aren't made in time.
- Customer sentiment – we discussed customer sentiment towards gas in WA and whether there will be changes in the short/medium term.

Between April and May 2024, we also conducted a short online survey of some of our largest industrial end users (A1 and A2 customers) to ascertain levels of market readiness and support for investment to enable the delivery of renewable gases. 12 stakeholders were invited to complete the survey, and eight responded, collectively representing approximately 17% of annual throughput. Respondents were asked to provide information on their plans to address carbon emissions, whether it be through alternative options or otherwise, and their levels of interest and willingness to invest in capital infrastructure to access renewable gas to assist in reducing their greenhouse gas emissions.

The survey responses indicate strong levels of interest in such a program, and we will be engaging with the respondents over the coming months to further explore how the program might be of benefit to businesses looking for ways to reduce their carbon emissions.

3.2.2 ENGAGEMENT SINCE DRAFT DECISION

In developing the Draft Decision, the ERA engaged an independent consultant (Patterson Research Group) to undertake a review of ATCO's customer engagement activities along with a survey of residential customers to capture consumer insights on topics such as emissions reduction expenditure, price and future gas use and demand.

While many of the insights from Patterson's research were aligned to insights gathered in our own research and indeed validated elements of our proposal, (e.g., residential appetite for gas connections and support for investments in safety and reliability), Patterson's questioned the validity of ATCO's findings. Patterson's main concerns were that participants 'did not have a sufficient understanding of the implications of many investment strategies' and that they were 'ill equipped to make the judgements they were subsequently asked to make'.

Considering this feedback, the limited time between the release of the Draft Decision and our response has presented a challenge to undertake further meaningful consultation with our stakeholders, particularly on complex issues such as accelerated depreciation. As such we have opted not to engage residents further over this period and have instead committed to developing an ongoing strategic stakeholder engagement program to shape our business plans and decisions going forward (see 3.4 Ongoing Engagement).

That said, we have continued to engage with our commercial and industrial customers who are in a position to provide informed feedback, to gauge levels of demand for renewable gas (biomethane) to reduce scope 1 greenhouse gas emissions, with the findings of this engagement used in the development of our Renewable Gas Injection business case (*see Attachment 07.106.00*)

3.2.3 PLANNED ENGAGEMENT AFTER DRAFT DECISION RESPONSE

After lodging our submission with the ERA, the ERA will run a further four-week public consultation process to seek stakeholders feedback on our 2025-29 Revised Plan.

We will continue to engage with our stakeholders during this period and encourage them to make a submission to the ERA. Immediately following the submission of our 2025-29 Revised Plan we are planning to:

- Directly notify and offer to meet with our key stakeholders
- Host an online workshop with retailers to communicate the key changes in our response.

If you have any questions or would like any assistance in relation to our 2025-29 Revised Plan during the ERA's public consultation process, please contact us by sending an email to: haveyoursay@atco.com

3.3 PATTERSON RESEARCH GROUP FINDINGS

The ERA engaged Patterson Research Group to undertake an independent review of ATCO's AA6 engagement program, including the interpretation and use of the consultation in support of our proposal. The overarching objective of this review was to determine:

1. The level of confidence the ERA could have that ATCO's AA6 engagement findings meaningfully reflected the views of customers, and
2. the validity of any stakeholder sentiment on qualitative and quantitative analysis used in support of ATCO's expenditure and investment programs, given the level of information and the timing of ATCO's specific engagements with various stakeholders.

Patterson Research Group's review found that the ERA should have confidence in ATCO's engagement processes, and indeed commented that the survey was 'well-constructed overall' and 'conducted at industry standards'.

The results of Patterson Research Group's survey (which seeks to explore alternative options) are aligned with ATCO's findings that show there is strong residential demand for natural gas into the immediate future, with 76% of respondents considering having a gas mains connection as being 'at least quite important', and 68% reporting a preference to retain a gas cooktop over replacing with another energy source. The ERA reinforce this view, suggesting that 'any new home development that does not have reticulated gas connections would be at a significant marketing disadvantage.'

Section 2.5 of the Patterson's Research Group survey also indicates strong support for ATCO's strategies to reduce greenhouse gas emissions, with almost 9 in 10 respondents supporting the replacement of pipes to reduce leaks, and 73% of all respondents willing to pay more to support the strategy.

However, Patterson Research Group challenged ATCO's interpretation of the engagement findings, with the following shortfalls identified:

- **Uninformed respondents**: ERA considers there was a 'lack of clarity in presenting emission reduction options to consumers, which may have hindered their understanding and responses.'

  Our engagement program represented a sincere attempt to sufficiently inform our stakeholders and customers of the various challenges facing the network and considerations with respect to the decisions being progressed to deliver a safe, reliable, affordable, and sustainable network. However, we acknowledge the unique challenge that presents when engaging with and seeking feedback from stakeholders and customers with low levels of interest in energy network issues or a lack of 'energy literacy'. This is particularly so with respect to capturing customer sentiment about the impacts of decisions pertaining to the complexities and evolving nature of the energy industry. Having reviewed the outcomes of the Patterson Research Group survey we stand by the research and engagement we have previously had undertaken by Kantar and will continue to build on these insights through our ongoing strategic engagement program (see Section 3.4) to provide our customers with a clear understanding of initiatives to reduce greenhouse gas emissions.

  We accept many customers would lack awareness of issues associated with the research undertaken by Kantar. While Patterson Research Group's report noted one customer quote:

"I am unsure because I don't know if other gases are better or not. If I knew more, then I'd be confident in an answer."

There were many other quotes that showed different levels of awareness, and the selective quote referenced by Patterson Research Group should not be seen as representative of the whole sample, but an indication that many customers have little to no background in such issues and lack a willingness to invest time to understand them.

The ERA also submitted there was 'limited research on customer sentiment towards alternative technologies, indicating a potential disconnect between consumer preferences and the proposed solutions.' ATCO contends that its research did canvas other solutions for customers utilising the gas network but did not explore alternative options beyond specific AA6 issues. Nevertheless, ATCO does engage in research outside the AA6 process, and is informed by research from industry[2] and other energy providers that indicates a strong preference for gas by most households.

- **Scale interpretation**: Patterson Research Group submitted to the ERA that "the survey rating scale provided to respondents lacked detailed labelling beyond the two extremes (e.g. "not important" and "extremely important") and suggested this "may have potentially caused confusion and misinterpretation of responses". ATCO believes this is an unreasonable conclusion and that such an assertion underestimates the intelligence of respondents, particularly when the question has been preceded with, "using the scale where 0 is not at all important and 100 is 'extremely important'. We are confident respondents to the survey well understand the variances from not at all important and extremely important when asked to provide a rating. Moreover, due to the propensity of market research, surveys and opinion polls being undertaken in the community, such a rating scale would be common for respondents to surveys to understand.
- **Willingness to Pay (WTP) shortfalls**: The ERA also provided feedback indicating the strength of consumer investment priority 'was not reflective of actual WTP for ATCO's proposals' and that 'lower price estimates were presented during the customer engagement compared to ATCO's final proposal.' ATCO believes Patterson's Research Group would not have elicited any additional feedback from the survey it conducted, taking into consideration the fact that the majority of the proposed increase for the average B3 customer was made up of the effects of inflation and the regulatory rate of return. Accordingly, the remainder of the increase represents an increase of eight cents a day – if presented with that value proposition in return for initiatives to reduce greenhouse gas emissions, it is likely the customers' willingness to pay may increase. That said, ATCO acknowledges customers may have lacked an understanding of the various initiatives to reduce greenhouse gas emissions, and subsequently their willingness to pay for them, and proposes an ongoing customer engagement program during AA6 to address this.

ATCO plans to commence an ongoing customer engagement program with our residential customers over the course of AA6, which will provide informed feedback to our AA7 deliberations. We will incorporate the feedback provided by the Patterson Research Group into the design of the program. This will ensure that as the ever-evolving energy landscape changes, and new innovations and

[2] https://www.energynetworks.com.au/resources/fact-sheets/reliable-and-clean-gas-for-australian-homes-2/

technologies enter the market, there will be an informed representative sample of customers with whom we can consult on issues that will need to be addressed for AA7.

3.4 ONGOING ENGAGEMENT

Our customers are at the heart of what we do at ATCO. We are committed to providing a safe, reliable, affordable, and sustainable energy future for Western Australians, and our aim is to operate our gas network in a manner that represents the long-term interests of the community.

In developing our engagement program for our 2025-29 Plan, we identified the importance of adopting an enduring approach to engagement to facilitate ongoing and transparent communication between ATCO and our stakeholders that extends beyond the prevailing Access Arrangement period.

Effective engagement with stakeholders is essential for ATCO to understand and operate our natural gas distribution system in a way that reflects the long-term interests of consumers. To achieve this, we will continue to engage, adequately inform, and actively seek the insights of our customers and stakeholders outside of the regulatory process to ensure we stay up to speed with their evolving preferences as we navigate the rapidly changing energy landscape together.

We are now developing a strategic stakeholder engagement program that builds on our current learning and will generate meaningful insights into what stakeholders value. This program will ensure that our future engagement is not only outcomes-focussed, but aimed at developing robust, reliable customer-centric evidence to support our business planning.

Some of the engagement activities delivered through the new program may include:

- Stakeholder Advisory Panel
- Energy Consumer Reference Group
- Digital Engagement platform
- Ad-hoc consumer behaviour and sentiment surveys

We encourage customers and stakeholders to engage with the ERA's second public consultation process, to which submissions are due by Tuesday 9 July 2024, to ensure that their feedback is incorporated into the ERA's Final Decision.

PART B |
Our Draft Decision Response

ATCO

4. ACCESS ARRANGEMENT AND SERVICES

OUR RESPONSE

The ERA's Draft Decision approved the elements of the Access Arrangement related to the identification of the pipeline, the review and commencement dates, and reference services (our response to the Draft Decision on the proposed terms and conditions is detailed in Chapter 12) and no further amendments have been identified.

In summary in our access arrangement proposal, we:

1. Identified the pipeline to which the access arrangement relates as the Mid-West and South-West Gas Distribution Systems, with a detailed description of the pipeline available on ATCO's website.
2. Specified the access arrangement review submission date and revision commencement date as 1 September 2028 and 1 January 2030, respectively.
3. Specified a total of 12 reference services to be offered under the access arrangement (five haulage reference services and seven ancillary reference services), which are consistent with the reference services approved in ATCO's reference service proposal.
4. Proposed amendments to identify the types of gas that the GDS may transport, including blends of natural gas, biomethane, and hydrogen.
5. Proposed to include our supplier curtailment methodology for use if the regulatory framework is amended for renewable gases.

ATCO has made no further changes in response to these elements of the access arrangement.

5. DEMAND

CHAPTER HIGHLIGHTS

1. The ERA did not approve ATCO's AA6 demand forecast. The ERA has proposed alternative demand forecasts:
   a) Haulage Reference Services demand (156,701 TJ compared to 147,055 TJ in our submission)
   b) Average Customer numbers (830,193 compared to 819,981 in our submission)
   c) Ancillary Reference Services should revert to pre-COVID-19 levels from 2024.
2. ATCO does not accept the ERA's Draft Decision and has updated the forecasts to include 2023 actual data. ATCO's consultant CORE has considered the comments made by the ERA, the ERA's consultant National Institute of Economic and Industry Research (**NIEIR**), and stakeholder feedback and has addressed these in its updated Gas Demand Forecast Report.
3. In summary, ATCO submits that the ERA calculation is overestimated, mainly due to:
   a) The use of econometric variables to forecast customer numbers and gas consumptions for industrial (A1 and A2 tariff class) and commercial (B1 and B2 tariff class) customers.
   b) Weather normalising demand forecast for A1 and A2 tariff classes.
   c) The use of a higher penetration rate to forecast B3 gross connections.

   ATCO, based on expert advice from CORE, has not identified any material reason to change its methodology or approach in developing a revised demand forecast for AA6.[3]
4. During AA6, the number of customers is forecast to grow at an annual rate of 1.1%. Consumption per customer during AA6 is forecast to increase, resulting in an overall forecast consumption increasing at 0.4% pa.

5.1 INTRODUCTION

This chapter outlines the ERA's Draft Decision on ATCO's AA6 forecast demand, our response, and our revised forecasts. These forecasts inform our capex, opex, and reference tariffs for AA6.

ATCO engaged Core Energy Group (**CORE**) to prepare an independent AA6 demand forecast. The forecasting approach used by CORE for AA6 is similar to the methodology used in AA5, noting that no significant concerns were raised by the ERA and its consultant EMCa for AA5.

Our forecast has been compared and validated against the most recent Gas Statement of Opportunities (**GSOO**) gas forecast released by Australian Energy Market Operator (AEMO) in December 2023, which includes a specific forecast of gas demand for the WA gas distribution network. In broad terms, we note that a major difference between the ERA's Draft Decision and the CORE forecast relates to the impact of future electrification on all tariff classes between 2025 to 2029.

[3] CORE Revised Gas Demand Forecast p. 21

We note further that the ERA Draft Decision varies materially from the "Expected Scenario" forecast undertaken by the WA gas market operator AEMO within its 2023 GSOO (December 2023).[4]

Our demand forecasts have now been updated using actual consumption and connection information up to December 2023. The AA6 revised demand forecast is based on expert advice from CORE with the following changes:

- Updating weather normalisation data for B1, B2, and B3 tariff classes.
- Reviewing the outlook for A1 and A2 customers specifically to ensure CORE's forecast was up to date and customer projections were accurate.
- Incorporating a more recent Housing Industry Association (**HIA**) report as a basis for updating connection forecasts for B3 tariff class customers.
- Updating analysis of macro-economic factors and micro factors impacting future customer connection and demand across all tariff classes.

CORE has compared and validated their revised demand forecast against the GSOO "*Expected Scenario*" released by the AEMO in December 2023.[5] ATCO considers that CORE's forecast is reasonable and has taken a more conservative approach than AEMO in forecasting the reduction in gas demand attributable to electrification and other drivers.

Our forecast for AA5 gross connections is approximately 58,500 (based on results achieved to 2023). This is 11,000 connections below the 69,600 contained in the ERA's AA5 Final Decision. For AA6, we forecast 66,000 gross connections (a 12.8% increase from AA5). While this is an optimistic projection, independent data used by CORE supports its achievability.

5.2 STAKEHOLDER FEEDBACK

Table 5.1 summarises the feedback received from stakeholders and our respective responses. ATCO thanks all our stakeholders for their feedback and comments in relation to our demand forecasts.

Table 5.1: Consideration of stakeholder feedback on the Demand Forecast

STAKEHOLDER FEEDBACK	OUR RESPONSE
AGL in their submission to the ERA noted: "…the highly probably (sic) reduction in network volumes and users"[6] "The ATCO consumption forecasts are consistent with the AEMO forecasts."[7]	ATCO forecasts an increasing total demand (Volumes) and users which is consistent with what has been experienced since 2008. ATCO agrees with AGL and forecasts gas connections and total demand (consumption) to grow.

4 CORE Revised Gas Demand Forecast p. 5

5 CORE Revised Gas Demand Forecast p. 71

6 AGL Energy, Submission on ATCO proposal and ERA issues paper, 27 November 2023, p.1.

7 AGL Energy, Submission on ATCO proposal and ERA issues paper, 27 November 2023, p.2.

STAKEHOLDER FEEDBACK	OUR RESPONSE
"…AGL would expect gas connections and consumption to continue to grow."[8]	
Alinta Energy (Alinta) in their submission to the ERA noted: "…we anticipate only a marginal decline in B3 demand (per customer) over AA6…"[9] "…AEMO anticipates a growth in residential and small business connections at an average annual rate of 0.8%"[10] "…ATCO has used a range of historical data in its demand forecast, including weather, disconnection numbers and demand per connection. In its approach, ATCO has also taken all access arrangement draft and final decisions, future network reach/penetration, retailers' plans and other third-party data sets into account to adjust its forecasts…". "We agree that using historical data to forecast future gas demand is an appropriate approach… some further considerations should be taken into account regarding upcoming uncertainties in the market"[11]	ATCO forecasts an average decline in B3 demand per connection over AA6 of 0.37GJ per annum, which is marginally optimistic compared to the actual average decline across all retailers' B3 customers between 2008 and 2019 (Pre COVID-19) of 0.38GJ per annum. ATCO forecasts an increase in B3 gross connections at an average annual rate of 2%, which is consistent with what has been experienced since 2008.
The Expert Consumer Panel in their submission to the ERA noted: "…ATCO's forecast of its customer base from 2025 to 2029, and in particular, its forecasts of new connections to and disconnections from the network, are overly optimistic… connections and disconnections are more likely to follow those seen historically than to begin to plateau"[12] "…Our view is that the forecast trend in the network penetration rate should instead follow a declining trend."[13] "…we expect the rate of new connections to slow further and disconnections to continue to accelerate, relative to historical trends."[14]	ATCO forecasts an increase in gross connections at an average annual rate of 2%, which is consistent with what has been experienced since 2008. ATCO forecasts an average disconnection rate of 0.6% across AA6. ATCO forecasts contain a flat penetration rate across AA6 for B3 gross connections and acknowledge that the penetration rate has declined since 2008. ATCO forecasts contain a flat disconnection rate across AA6 for B3 connections and acknowledge that the disconnection rate has increased since 2008.

8 AGL Energy, Submission on ATCO proposal and ERA issues paper, 27 November 2023, p.3.

9 Alinta Energy, submission on ATCO proposal and ERA issues paper, 30 November 2023, p. 4.

10 Alinta Energy, submission on ATCO proposal and ERA issues paper, 30 November 2023, p. 7.

11 Alinta Energy, submission on ATCO proposal and ERA issues paper, 30 November 2023, p. 8.

12 The Expert Consumer Panel, submission on ATCO proposal and ERA issues paper, November 2023, p. 3.

13 The Expert Consumer Panel, submission on ATCO proposal and ERA issues paper, November 2023, p. 7.

14 The Expert Consumer Panel, submission on ATCO proposal and ERA issues paper, November 2023, p. 8.

STAKEHOLDER FEEDBACK	OUR RESPONSE
The Housing Industry Association of Australia WA noted: "The international pricing pressures for gas in WA is somewhat shielded with the Domestic Gas Policy. WA's forward demand for gas in manufacturing is therefore more favourable to use than coal-fired or diesel plant power generation; and with gas evolving as a genuine transitional option for WA's energy policy, means its future use and need is more certain than not"[15]	ATCO thanks the Housing Industry Association of Australia WA for their feedback and comments.
Kleenheat noted that our submission contained a forecast decline in B3 demand per connection at a rate of 2.8%, which was not consistent with the current trend of Kleenheat active customers, "…which is declining at around half of the rate of that…".[16]	ATCO forecasts an average decline in B3 demand per connection over AA6 of 0.37GJ per annum, which is marginally optimistic compared to the actual average decline across all retailers' B3 customers between 2008 and 2019 (Pre-COVID-19) of 0.38GJ per annum.
Origin Energy noted: "we consider it reasonable to rely on historic trends to develop forecasts of gas customer consumption and connections for the forthcoming regulatory period"[17]	ATCO thanks Origin Energy for accepting our forecast approach. ATCO has continued to rely on historical trends as a basis for developing the forecasts in this 2025-29 Revised Plan with appropriate adjustments for any future events which are expected to depart from historical trends.
Synergy supported the ERA's view in the issues paper "in relation to the long-term market decline for natural gas" and requested the ERA "to review the proposed 0.8% decline in gas usage rate for B3 customers …and whether it should be greater over the AA6 period"[18]	ATCO forecasts an average decline in B3 demand per connection over AA6 of 0.37GJ per annum, which is marginally optimistic compared to the actual average decline across all retailers' B3 customers between 2008 and 2019 (Pre-COVID-19) of 0.38GJ per annum.
The Urban Development Institute of Australia WA noted: "Whilst we anticipate that gas reticulation, overall, will continue to be installed in new land developments this may not necessarily equate to ongoing demand from residential customers in the same way as would have been the case during earlier years of the WA Domestic Gas Policy due to	ATCO forecasts contain a flat penetration rate across AA6 for B3 gross connections and acknowledge that the penetration rate has declined since 2008, which could be seen as reflective of UDIA's comments regarding electrification, (land) developer and consumer attitudes.

15 Housing Industry Association, submission on ATCO proposal and ERA issues Paper, 27 November 2023, p. 2.

16 Kleenheat, submission on ATCO proposal and ERA issues paper, 24 November 2023, p. 3.

17 Origin Energy, submission on ATCO proposal and ERA issues paper, 27 November 2023, p. 2.

18 Synergy, submission on ATCO proposal and ERA issues paper, 27 November 2023, p. 2.

STAKEHOLDER FEEDBACK	OUR RESPONSE
an increasing movement towards electrification of households."[19] "national developers with operations in Western Australia are increasingly considering not including gas reticulation within developments across all of Australia, including Western Australia"[20] "Consumer demands and attitudes towards gas appliances and gas more broadly, are shifting, however for cost sensitive buyers on the urban fringe in new land developments, it is likely that gas and appliances that use gas will continue to be in demand whilst the price remains comparatively cheaper than the alternative."[21]	
More detail was requested about our forecast demand, including *"Which of the four future scenarios ATCO Gas used to build its demand forecasts."*	The four Future of Gas scenarios were developed for longer-term planning. We have not chosen a *preferred* scenario but rather a 'path of least regret' in the short to medium term based on plausible possible futures. Although in the short-term, the scenarios are relatively consistent with the forecasts for AA6, they were not part of the Demand Forecast Scope for AA6.

5.3 SUMMARY OF THE ERA'S DRAFT DECISION

The ERA did not approve ATCO's AA6 demand forecasts for haulage reference services and ancillary reference services. In their Draft Decision, the ERA proposed a forecast that includes a higher total demand for the period, a higher average customer base at the end of AA6, and a corresponding higher demand for ancillary reference services. Table 5.2 and Table 5.3 show a comparison of the ERA's Draft Decision and ATCO's original proposal for haulage and ancillary reference services respectively.

The ERA's examination of ATCO's forecast considered historical trends, qualitative observations, survey data, and stakeholder feedback, alongside government policies and announcements regarding emission reduction. The ERA engaged NIEIR to review ATCO's proposal and provide an independent demand forecast. Additionally, the ERA engaged Patterson Research Group to conduct a customer survey targeting residential gas customers in the B3 tariff class.

The ERA proposes a higher forecast based upon the following assumptions and inputs:

- **Econometric variables**: The demand forecast for A1, A2, B1, and B2 tariff classes should be based on econometric variables, considering the demand profile of industrial and commercial customers.

[19] Urban Development Institute of Australia, submission on ATCO proposal and ERA issues paper, 27 November 2023, p. 2.

[20] Urban Development Institute of Australia, submission on ATCO proposal and ERA issues paper, 27 November 2023, p. 2.

[21] Urban Development Institute of Australia, submission on ATCO proposal and ERA issues paper, 27 November 2023, p. 2.

- **Customer demand survey**: The demand forecast for A1 and A2 tariff classes should be updated with a more recent customer demand survey result reflecting a revised gas consumption expectation.
- **Weather normalisation** should be incorporated into the forecast for A1 and A2 tariff classes.
- **Use of actual dwelling completion and historical trends**: The demand forecast for new B3 customers should use the historical trend of actual dwelling completions, and connection penetration should be based on historical trends between 2014 and 2021. ATCO needs to provide evidence if it considers that the decline in the connection forecast is faster than the historical trend.
- **Permanent and temporary disconnections**: For B3 tariff class, the effect of permanent disconnections and temporary disconnections on the disconnection forecast should be assessed, and a robust trend analysis including, but not limited to, a separate forecast for legacy customer connections and new customer connections.
- **Legacy and new customers**: For B3 tariff class, a robust trend analysis is required to forecast consumption separately for legacy and new customers, and econometric variables such as household disposable income and gas price elasticity should be incorporated into the consumption forecast.
- **Ancillary Services to pre-COVID-19 levels**: The ERA considers that the level of ancillary reference services should revert to pre-COVID-19 levels from 2024. The AA6 forecast should use the average service rate between 2015 and 2019.[22]

DRAFT DECISION AMENDMENTS

In their Draft Decision, the ERA proposed the following amendments:

AMENDMENT 2.1: ATCO must amend its forecast haulage reference service demand to reflect the ERA's forecast demand in [Table 5.2].

Table 5.2: ERA Draft Decision comparison to ATCO's AA6 proposal – Haulage Reference Services

TARIFF CLASS	ATCO PROPOSAL	ERA DRAFT DECISION	VARIANCE	VARIANCE (%)
A1 – Major industrial > 35 TJ				
Average customer base (2029)	76	77	1	1.32%
Demand (AA6 total TJ)	74,868	76,331	1,463	1.95%
A2 – Large customers 10 to 35TJ				
Average customer base (2029)	105	107	2	1.90%
Demand (AA6 total TJ)	9,586	10,492	906	9.45%
B1 – Medium customers < 10TJ				
Average customer base (2029)	2,370	2,082	-288	-12.15%

[22] Economic Regulation Authority, Draft Decision Attachment 2: Demand, p. 17

TARIFF CLASS	ATCO PROPOSAL	ERA DRAFT DECISION	VARIANCE	VARIANCE (%)
Demand (AA6 total TJ)	10,051	11,396	1,345	13.38%
B2 – Small-use commercial or large residential				
Average customer base (2029)	14,173	13,702	-471	-3.32%
Demand (AA6 total TJ)	6,327	6,800	473	7.48%
B3 – Small use customers				
Average customer base (2029)	822,736	837,875	15,139	1.84%
Demand (AA6 total TJ)	46,221	51,682	5,461	11.81%
TOTAL				
Average customer base (2029)	**839,460**	**853,843**	**14,383**	**1.71%**
Demand (AA6 total TJ)	**147,053**	**156,701**	**9,648**	**6.56%**

AMENDMENT 2.2: ATCO must amend its forecast ancillary reference service demand to reflect the ERA's forecast demand in [Table 5.3].

Table 5.3: ERA Draft Decision comparison to ATCO's AA6 proposal – Ancillary Reference Services

TARIFF CLASS	ATCO PROPOSAL	ERA DRAFT DECISION	VARIANCE	VARIANCE (%)
Applying a Meter Lock	44,215	50,620	6,405	14.5%
Removing a Meter Lock	43,249	43,525	276	0.6%
Deregistering a delivery point	17,927	18,177	250	1.4%
Disconnecting a delivery point	18,892	19,641	749	4.0%
Reconnection a delivery point	15,676	15,684	8	0.1%
Permanent disconnection	10,235	10,152	-83	-0.8%
Special meter reads	522,539	555,455	32,916	**6.3%**

5.4 ATCO'S RESPONSE TO THE DRAFT DECISION

5.4.1 ERA REQUIRED AMENDMENT 2.1

> **ERA REQUIRED AMENDMENT 2.1:**
>
> ATCO must amend its forecast haulage reference service demand to reflect the ERA's forecast demand in Table 2.20.

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

ATCO proposes a revised demand forecast, which incorporates new information including 2023 actual demand, which was not available at time of our September 2023 submission.

5.4.2 BACKGROUND

Our AA6 demand forecast has been revised based on expert advice from CORE Energy[23]. This includes updating forecasts to include 2023 actual data for both demand and ancillary services forecast. For the detailed reasons set out in this chapter and in the Revised Gas Demand Forecast, our revised forecast represents the best forecast or estimate possible in the circumstances, as required by NGR 74(2)(b).

For a detailed description of the method adopted for each tariff class, refer to the CORE Revised Gas Demand Forecast in (*see Attachment 05.101*).

ATCO's response to the specific points of concern (outlined in paragraph 56 of Attachment 2 of the Draft Decision) in the ERA's Draft Decision is discussed further in the sections below. These points are summarised in Section 5.1 above and are addressed individually in the following sections.

5.4.3 DETAILED RESPONSE: ECONOMETRIC VARIABLES

ATCO has not amended the demand forecast for A1, A2, B1 and B2 tariff classes to be based on econometric variables. ATCO's demand forecast for A1 and A2 is informed by customer surveys and the forecast for B1 and B2 continues to be based on an analysis of historical trends and then adjusted for factors that were expected to give rise to a variance in future trend.

A1 and A2 Forecast

While ATCO has considered economic activity and a range of other factors in developing its demand forecast, we believe that relying solely on econometric variables carries a high level of risk. Historically, such reliance has consistently delivered poor results because these variables do not adequately account for structural and operational changes, which are often the primary drivers of demand.

Examples of this include the recently announced shutdown of Alcoa's Kwinana Aluminium refinery, the major reduction in the CITIC iron operation and expansions in goldfields operations. ATCO believes that if using econometric variables alone, such as GDP and GSP, these examples would not have been forecasted accurately. To further illustrate this, in 2022, a significant reduction in volume was observed from one of our largest customers due to a loss of contract. Econometric variables would have more likely forecast continued operations and an overall increase in industrial connections and consumption. Additionally, in 2023 a significant uplift in volume (1.2 PJ) was observed from one industrial customer due its fuel switch program. These movements can only be identified by direct survey or specific company operations analysis and not a mere application of economic activity or price elasticity factors.

ATCO's analysis has not identified a significant relationship between price movements or economic activity and demand fluctuations in industrial consumption (A1 and A2) but has observed that major

[23] Attachment 05.101- CORE Energy Gas Demand Forecast Report - Revised

changes were more likely to be attributable to operational factors as highlighted above, rather than price movements or economic activity.

CORE analysed the relationship between WA GSP and A1 and A2 volume and connections and the results are illustrated in the charts below. A correlation coefficient (r) of 0.04 for A1, and 0.10 for A2 was observed for volume and a correlation coefficient (r) of 0.04 and -0.5 was observed for new connections, indicating a weak or no relationship statistically. The weak relationship between WA GSP and volume is primarily due to the fact that fluctuations in WA GSP are influenced by activities beyond the Perth metropolitan area, particularly the extraction and processing of minerals, which take place outside of this region and thus do not directly affect the Gas Distribution Network.

Figure 5.1: Relationship between WA GSP and A1 and A2 Volume % movement

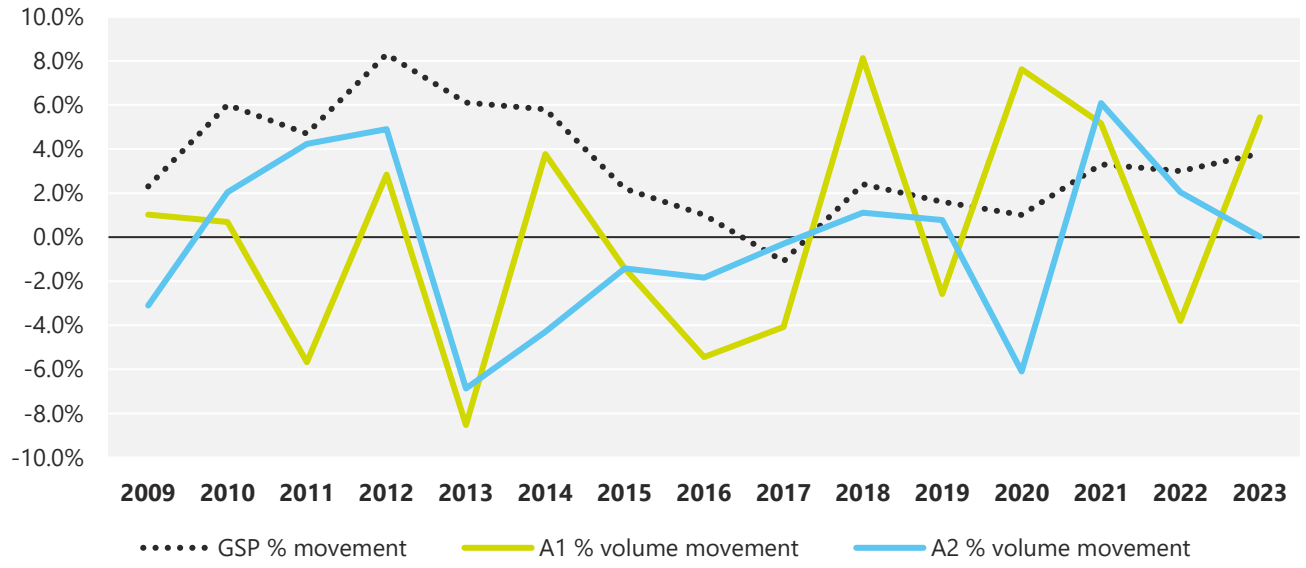
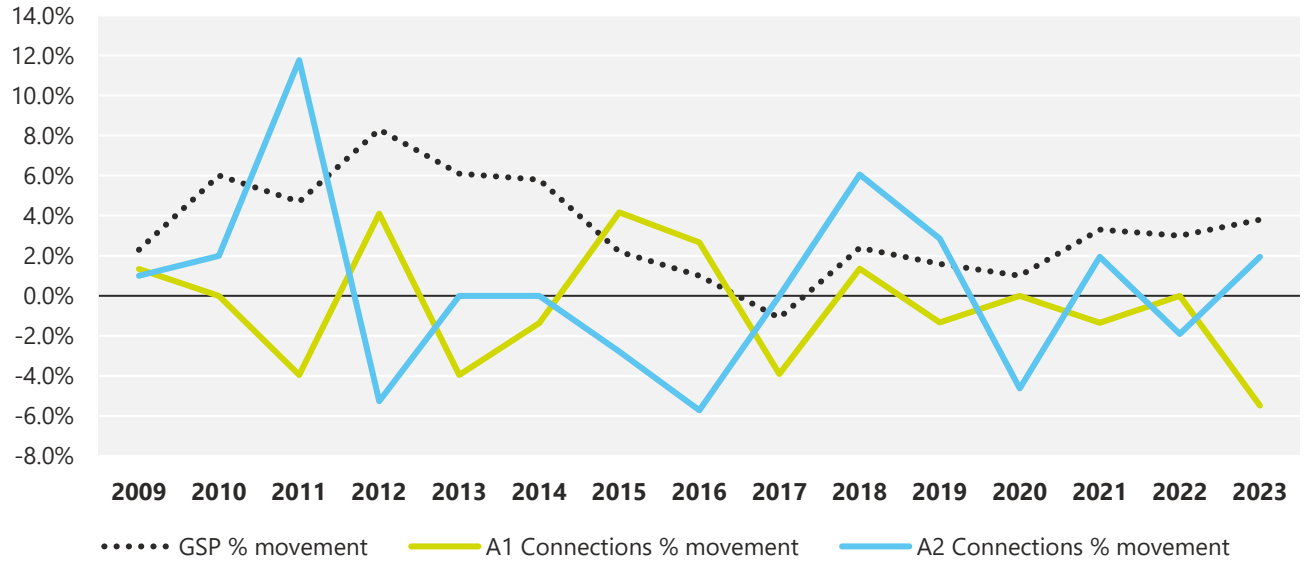


Figure 5.2: Relationship between WA GSP and A1 and A2 Connections % movement



For the reasons stated above we do not believe that the use of econometric variables alone provides the best estimate as required by the NGR. ATCO agrees with CORE that the use of econometric variables alone lacks rigour in terms of addressing the underlying demand drivers of specific large customers and is expected to deliver a less accurate forecast than the more rigorous approach used by CORE.

ATCO believes the expanded customer survey conducted for AA6 of A1 and A2 customers (our AA5 survey only included A1 customers) provided the necessary information to understand the planned future demand for industrial customers and subsequently derived a better estimation of industrial gas consumption for AA6 than relying solely on econometric variables.

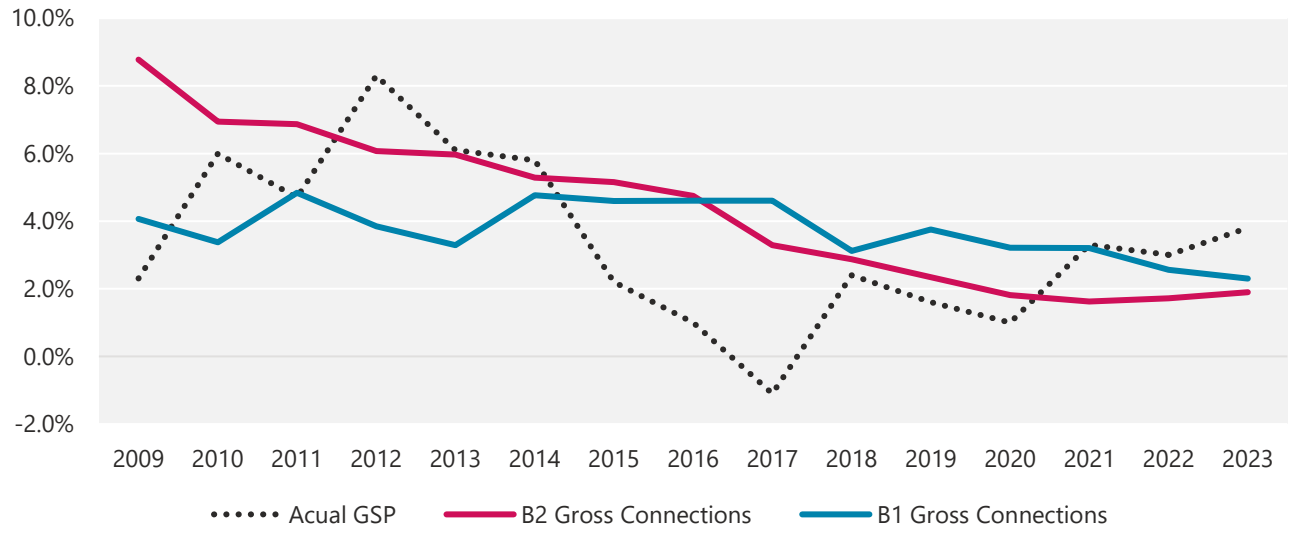
B1 and B2 Forecast

CORE analysed demand along with a range of macroeconomic factors but was unable to identify a statistical relationship that would provide a reliable basis for developing a forecast that meets the requirements of the NGR.[24]

As part of its analysis, CORE considered growth in economic activities as represented by WA Gross State Product (**GSP**). Correlation analysis indicates the absence of a statistically robust relationship which can be relied upon for forecasting purposes (the B1 coefficient is low and B2 is modestly negative, which is counter intuitive).[25]

The following figure extracted from CORE's Revised Demand Forecast illustrates the historical annual percentage movement in WA GSP and annual percentage movement in B1 and B2 connections indicating the variation in relationship between years. As illustrated, there is an absence of a relationship that can be relied upon for forecasting.

Figure 5.3: Relationship between GSP and B1 and B2 Gross Connections



CORE has therefore favoured an approach that commenced with analysis of historical trends and then adjusted for factors that were expected to give rise to a variance in future trend. The latter variance

[24] CORE Revised Gas Demand Forecast p.30.

[25] CORE Revised Gas Demand Forecast p.54.

was determined following careful analysis of a range of factors including customer mix and demand concentration, industry classes and weighting, number of customers per class, literature research and analysis, macroeconomic outlook, and electrification scenario analysis (including consideration of AEMO GSOO analysis).

B3 Forecast

We have not forecast B3 demand using econometric variables, as ATCO and the ERA has recognised that using econometric (top-down) methodology does not allow for best forecast to be derived[26].

5.4.4 DETAILED RESPONSE: CUSTOMER DEMAND SURVEY

ATCO Response: Do Not Accept

ATCO has not undertaken a more recent customer demand survey for the A1 and A2 tariff classes within the 6 weeks provided for our response to the Draft Decision. However, we have revised our forecasts to take into account actual demand in 2023 and the latest customer connection information.

The initial survey was completed in December 2022, nine months prior to the submission. While the economic environment continues to change, ATCO believes there is no strong relationship between demand and economic variables that could be relied upon for forecasting purposes. This is demonstrated by the analysis performed by CORE between WA GSP and demand as addressed in Section 5.4.3 above. Furthermore, as recognised by the ERA the WA gas policy has not changed[27] over the intervening period.

ATCO has updated its demand forecast since the initial submission for A1 and A2 tariff customers to include actual gas demand for 2023. We have also reviewed the A1 and A2 customer list as at April 2024 and removed forecast gas usage for customers who have recently disconnected, added any new customers, and delayed the start of 2 new connections expected to occur during AA6 based on recent customer information.

Forecast consumption from the A1 and A2 customer survey for 2024 (including ATCO projections for customers who did not respond) is currently 6% above actual consumption on a year-to-date basis.

Based on the high degree of accuracy of current projections, the fact that the projections are optimistic (having the potential to reduce future price impact to customers), the short 6-week window to re-survey customers and to minimise the cost impact on customer tariffs of having to re-survey, ATCO has not considered it appropriate to conduct another survey.

5.4.5 DETAILED RESPONSE: WEATHER NORMALISATION

ATCO hasn't amended the demand forecast to incorporate weather normalisation into the forecast for A1 and A2 tariff classes because there is no relationship between annual movement in demand for these tariff classes and weather.

CORE analysed A1 and A2 historical demand and Effective Degree Days (EDD) and concluded that no (or a very weak) statistical relationship existed between customer demand and weather, with a

[26] ERA Draft Decision Attachment 2:Demand, p. 13. Para 46

[27] ERA Draft Decision Attachment 2:Demand, p. iii

correlation coefficient (r) of 0.02 for A1, and 0.10 for A2. A correlation coefficient between 0.0 and 0.2 indicates no association or a very weak association[28] between the variables (Weather and A1 and A2 demand in this case).

On that basis, CORE determined it was not appropriate to apply weather normalisation to the aggregate of the A1 customer class.[29]

The following figures extracted from CORE's Revised Demand Forecast emphasise that there is no relationship between annual movement in A1 or A2 demand and weather (represented by EDDs).

Figure 5.4: A1 annual movement in demand and weather (EDD)

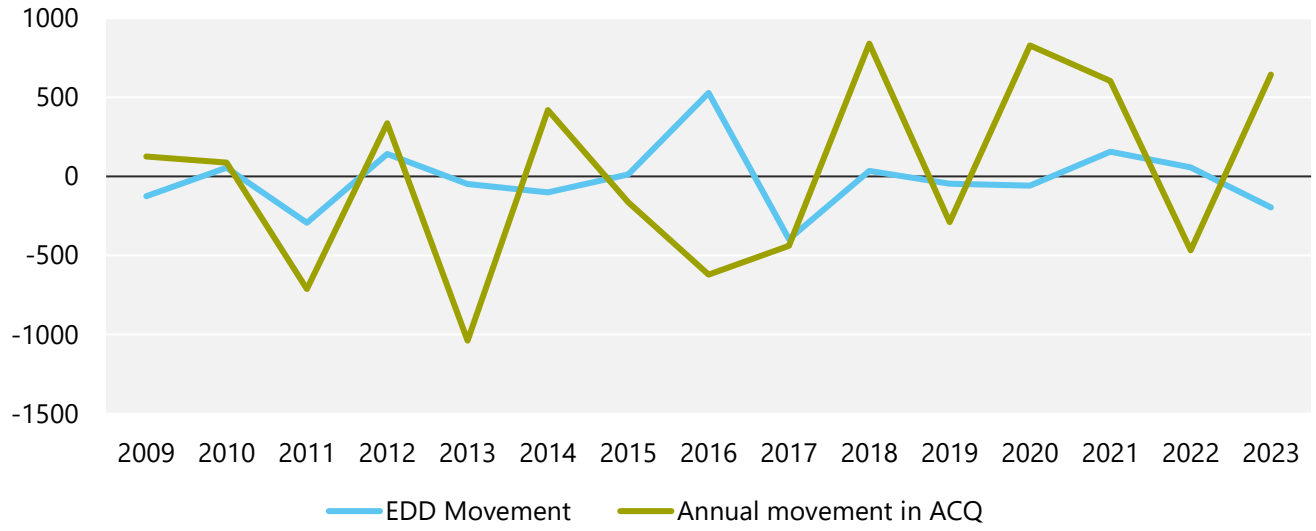
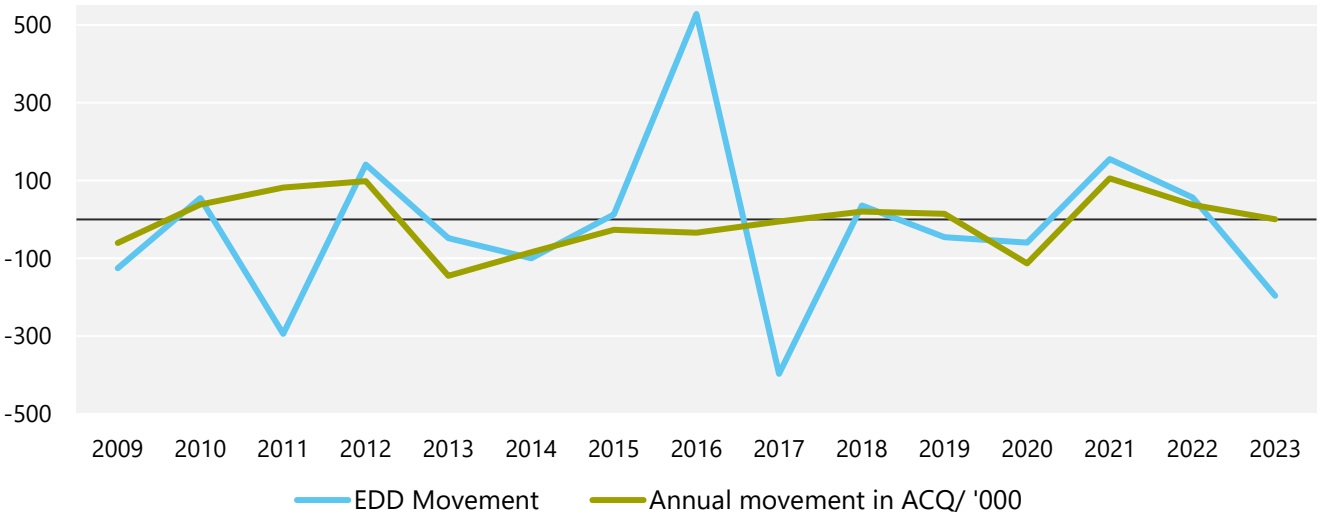


Figure 5.5: A2 annual movement in demand and weather (EDD)



[28] Boston University, School of Public Health, LaMorte W, 2021 The Correlation Coefficient (r), Available at https://sphweb.bumc.bu.edu/otlt/MPH-Modules/PH717-QuantCore/PH717-Module9-Correlation-Regression/PH717-Module9-Correlation-Regression4.html

[29] CORE Revised Gas Demand Forecast p. 26.

CORE note that the lack of correlation is due to significant changes over time that are independent of weather and economic activity. Instead, these changes are driven by major operational shifts in activities of specific customers such as closures, expansions, or contractions in their operational and energy usage.[30]

CORE argued that NIEIR's approach of aggregating and groupings of A1, A2, B1, and B2 demand to analyse relationships between weather and demand differs from the method used by major gas distribution networks in Australia for weather normalisation analysis purposes.[31]

According to CORE, if B1 and B2 data was removed from NIEIR's analysis, it is highly unlikely that a statistically significant relationship would be observed. On this basis, CORE considered this grouping to be invalid as a dataset for assessing weather normalisation of industrial customers.

Therefore, based on the information above, ATCO proposes to keep the same methodology used in our original submission and previously accepted access arrangements.

5.4.6 DETAILED RESPONSE: USE OF ACTUAL DWELLING COMPLETION AND HISTORICAL TRENDS

ATCO has not amended the demand forecast for new B3 customers to use the historical trend of actual dwelling completions, or to amend connection penetration to be based on historical trends between 2014 and 2021.

Instead, ATCO has:

- used dwelling completions (based on forecasted housing commencements in WA) independently developed by the HIA
- adopted five-year averages from 2014 to 2023 to best capture current trends.

ATCO has used dwelling completions (based on forecasted housing commencements in WA) independently developed by the HIA. A lag factor has been applied to these forecasted housing commencements to derive dwelling completions. Historical trends do not capture the current new housing market and the challenges that builders are facing in Western Australia due to increasing costs. This is evident in the most recent Australian Bureau of Statistics data that shows Western Australia had the second lowest quarterly level of new housing starts in the December 2023 quarter since records began in 1984.[32]

This method has been historically used for all gas distribution networks throughout Australia and accepted by regulatory authorities as meeting NGR requirements. This is evidenced in the latest access arrangement demand forecast in the Eastern States for the JGN, Multinet, ABG and AGN[33] .

30 CORE Revised Gas Demand Forecast p. 26.

31 CORE Revised Gas Demand Forecast p. 27.

32 ABS, Building Activity (December 2023), Series A83801560L, Available from: https://www.abs.gov.au/statistics/industry/building-and-construction/building-activity-australia/dec-2023

33 CORE Revised Gas Demand Forecast p. 27.

It is noted that ERA ultimately adopted CORE's completion estimate as a basis for its Draft Decision (paragraph 49).[34]

In deriving its forecast penetration rates, ATCO analysed penetration rates from 2009 and noted that penetration rates had significantly decreased since 2016. CORE's report clearly sets this out. There is a 6.6% decline between the average (87%) of 2009-2016 and the average (80%) of 2016 -2019.

During a period marked by a strong push towards decarbonisation and electrification, ATCO considers that the eight year average from 2014 to 2021 provides a limited perspective into the future. ATCO believes it is more prudent to use five-year averages from 2014 to 2023 to best capture current trends given the evidence that penetration rates have reduced significantly in the past. Using the five year average from 2014-2018 and then from 2019 to 2023, the rate of decline in penetration is 1% pa. We continued the 1% decline per year into AA6, averaging 71% over AA6. In addition, ATCO's approach accounts for anticipated future demand drivers that are not reflected in historical data or trends.

Key points to note in relation to the penetration rate are as follows:

1. It averaged 84.2% between 2014 to 2018.
2. It fell to 75.8% during 2019-2023.
3. The low rate in 2022 was due to COVID-19 related resourcing challenges and construction delays, with 2022 projects expected to be completed in 2023

The decline is mainly due to an increase of 100% electrified homes and a growth in dwelling activity in areas outside our network area.[35]

ATCO would like to reference feedback received from The Urban Development Institute of Australia WA, which supports the declining forecast in penetration rate.

> *"Whilst we anticipate that gas reticulation, overall, will continue to be installed in new land developments this may not necessarily equate to ongoing demand from residential customers in the same way as would have been the case during earlier years of the WA Domestic Gas Policy due to an increasing movement towards electrification of households."*[36]
>
> *"national developers with operations in Western Australia are increasingly considering not including gas reticulation within developments across all of Australia, including Western Australia"*[37]
>
> *"Consumer demands and attitudes towards gas appliances and gas more broadly, are shifting, however for cost sensitive buyers on the urban fringe in new land*

34 Draft decision on revision to the access arrangement for the Mid-West and South-West Gas Distribution Systems Attachment 2: Demand p.14

35 CORE Revised Gas Demand Forecast p. 42

36 Urban Development Institute of Australia, submission on ATCO proposal and ERA issues paper, 27 November 2023, p. 2.

37 Urban Development Institute of Australia, submission on ATCO proposal and ERA issues paper, 27 November 2023, p. 2.

> *developments, it is likely that gas and appliances that use gas will continue to be in demand whilst the price remains comparatively cheaper than the alternative."*[38]

One of WA's largest developers Stockland, is, according to their Climate Transition Action Plan 2023, expediting the achievement of their net zero for Scope 1 and 2. They are aiming for the year 2025, three years ahead of their previous target.

> *"Scope 1 and 2 are emissions where we have direct control, via investment, procurement or building design. For example, we can include energy saving features in all our property developments as standard, install rooftop solar on assets we own and operate and transition towards all electric developments."… To reach net zero we are seeking to install 32MW of solar PV, in addition to our existing 18MW capacity to deliver 100% renewable energy to our operations, and absolute reductions of more than 90% of our Scope 1 and 2 emissions, in line with our SBTi requirements. Offsetting of any residual Scope 1 emissions will commence in 2025 (see offsetting section page 17. In addition, we plan to include energy saving features in all our property developments as standard and accelerate our transition towards all electric developments – removing gas where possible from new developments and existing commercial assets."*[39]

In its November 2023 media release, Stockland expressed their desire for all electric developments moving forward through the launch of their first all-electric community, Wildflower in Piara Waters.

> *"Stockland is encouraging homeowners and building partners to consider constructing all-electric homes. We're keen to see the community to move towards renewable energy sources and more energy-efficient homes,"*
> *"Following the recent launch of our first all-electric community Wildflower in Piara Waters, Illyarrie is another significant step in Stockland's journey as we explore how we can further boost ours and our residents' own paths to decarbonisation."*[40]

Among the other major developers, Hesperia are also moving toward zero gas. They are currently developing Rivermark in Viveash, which will not have gas.

ATCO would also like to reference Development WA net zero road map, which outlines that by next year, they will cease planning communities that rely on fossil fuels.[41] Currently they have the OneOneFive development in Hamilton Hill, which will not have gas reticulated[42].

Additionally Development WA and Lendlease are providing incentive to home buyers to build all electric homes.[43]

Furthermore, the latest data released from the Urban Development Institute of Australia shows that the number of lots (617) on the market in Q1 2024 is at a 5-year low and the lowest since 2006[44].

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38 Urban Development Institute of Australia, submission on ATCO proposal and ERA issues paper, 27 November 2023, p. 2.

39 Stockland climate-transition-action- plan 2023 p.16.

40 November 2023 media release Stockland launches $171million community in Perth North.

41 Net Zero Roadmap Development https://developmentwa.com.au/component/edocman/1543-roadmap-to-net-zero-developmentwa/viewdocument/1543

42 Enviro Development, accessed June 2024, https://envirodevelopment.com.au/projects/oneonefive-hamilton-hill/#:~:text=A%20gas%20free%20development%20and,homes%20supported%20by%20Design%20Guidelines.

43 https://communities.lendlease.com/western-australia/alkimos-beach/living-in-alkimos-beach/sustainability/

44 Urban Development Index Q1 2024

Given the introduction of the new National Construction Code and an increasing focus by consumers on emissions reduction and whether to convert their homes to electricity only, we expect the rate of new connections to slow further.

Additionally, validation performed by CORE against the latest GSOO shows that CORE's forecast is more conservative than AEMO regarding the reduction in gas demand that is attributable to electrification and other drivers.[45]

5.4.7 DETAILED RESPONSE: PERMANENT AND TEMPORARY DISCONNECTIONS

For the B3 tariff class, ATCO has considered the effect of permanent disconnections and temporary disconnections on the disconnection forecast through an analysis of historical disconnections.

CORE has undertaken an analysis of historical disconnections in total as a percentage of opening connections (for the 2009-2019 and 2009-2023 periods) to arrive at a base level of forecast disconnections during 2024 and AA6 of 0.36%. CORE has then undertaken scenario analysis to determine the expected impact of electrification trends on future disconnection rates, to arrive at an estimated smoother average disconnection rate of 0.46% between 2024-2029. ATCO confirms that the disconnection forecast are permanent disconnections.

5.4.8 DETAILED RESPONSE: SEPARATE FORECAST FOR LEGACY AND NEW CUSTOMERS

For B3 tariff class, ATCO has considered the different usage of legacy customer connections and new customer connections. ATCO analysed econometric variables such as household disposable income and gas price elasticity. However, these were not incorporated into the consumption forecast as it was observed the impact was not large if most price sensitive customers receive Government support.

ATCO's analysis for the B3 tariff class demand includes a combination of existing (legacy) customers and new customers up to 2023. The average consumption for B3 customers is a weighted average between legacy and new customers.

Our forecast accounts for the consumption ramp up of new customers over time, partially reduced by an applied decline rate. This resulted in a net increase in demand per new customer (i.e., the ramp up rate used for new completions is higher than the rate of decline in consumption/completion).[46]

5.4.9 ATCO REVISED PROPOSAL

Table 5.4: Overall AA6 average customer base and demand forecasts

TARIFF CLASS	2025	2026	2027	2028	2029	CAGR*
A1 TARIFF						
Average Customer Base	66	66	65	64	63	-1.53%
Demand (TJ's)	13,178	13,379	13,877	13,855	13,821	2.61%
A2 TARIFF						

[45] CORE's Revised Gas Demand Forecast p.71.

[46] CORE Revised Gas Demand Forecast p.32

TARIFF CLASS	2025	2026	2027	2028	2029	CAGR*
Average Customer Base	104	104	104	104	104	-0.10%
Demand (TJ's)	1,900	1,886	1,882	1,877	1,873	-0.27%
B1 TARIFF						
Average Customer Base	2,095	2,145	2,196	2,249	2,303	2.40%
Demand (TJ's)	2,154	2,143	2,132	2,122	2,111	-0.50%
B2 TARIFF						
Average Customer Base	13,009	13,202	13,397	13,631	13,903	1.64%
Demand (TJ's)	1,301	1,292	1,282	1,276	1,274	-0.56%
B3 TARIFF						
Average Customer Base	788,369	796,364	805,627	815,553	825,813	1.11%
Demand (TJ's)	9,806	9,599	9,420	9,262	9,120	-1.96%
TOTAL						
Average Customer Base	**803,643**	**811,880**	**821,389**	**831,600**	**842,186**	**1.12%**
Demand (TJ's)	**28,340**	**28,299**	**28,594**	**28,392**	**28,199**	**0.44%**

*Compound Annual Growth Rate from 2024 to 2029

Table 5.5: ATCO's AA6 revised proposal comparison to ERA Draft Decision

TARIFF CLASS	ATCO REVISED PROPOSAL	ERA DRAFT DECISION	VARIANCE	VARIANCE (%)
A1 – Major industrial > 35 TJ				
Average customer base (2029)	63	77	-15	-18.8%
Demand (AA6 total TJ)	68,110	76,331	-8,221	-10.8%
A2 – Large customers 10 to 35TJ				
Average customer base (2029)	104	107	-3	-2.8%
Demand (AA6 total TJ)	9,418	10,492	-1,074	-10.2%
B1 – Medium customers < 10TJ				
Average customer base (2029)	2,303	2,082	221	10.6%
Demand (AA6 total TJ)	10,662	11,396	-740	-6.5%
B2 – Small-use commercial or large residential				
Average customer base (2029)	13,903	13,702	-201	-1.5%
Demand (AA6 total TJ)	6,425	6,800	-375	-5.5%

TARIFF CLASS	ATCO REVISED PROPOSAL	ERA DRAFT DECISION	VARIANCE	VARIANCE (%)
B3 – Small use customers				
Average customer base (2029)	825,813	837,875	-12,062	-1.4%
Demand (AA6 total TJ)	47,207	51,682	-4,475	-8.7%
TOTAL				
Average customer base (2029)	**842,186**	**853,843**	**-11,657**	**1.7%**
Demand (AA6 total TJ)	**141,822**	**156,701**	**-14,885**	**-9.5%**

5.4.10 ERA REQUIRED AMENDMENT 2.2

ERA REQUIRED AMENDMENT 2.2:

ATCO must amend its forecast ancillary reference service demand to reflect the ERA's forecast demand in Table 2.21.

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

The ERA agrees with ATCO that ancillary reference services are correlated with B3 tariff class customer connections. ATCO proposes a revised forecast growth in B3 customers and as a result, the forecast level of ancillary services is correlated to the forecast growth in B3 tariff class customers that ATCO has put forward in our response.

SUMMARY ARGUMENTS

ATCO has adopted a revised ancillary services demand forecast that incorporates the most recent 2023 data.

ATCO highlights the ERA's general acceptance of CORE's approach to forecast Ancillary Services. ATCO notes that the main difference between CORE's and ERA's forecast is primarily driven by the variance in the underlying forecast growth in B3 customers, along with the variation in the ancillary proportion rate they each applied from 2025 to 2029.

While ATCO has maintained the same forecasting approach, we have revised the proportion rate applied for each ancillary service, incorporating 2023 actual data. This has resulted in an AA6 forecasted demand higher than the average service between 2015 and 2019 in absolute terms except for the Deregistration service.

The service rate applied by CORE for each ancillary service is addressed below.

DETAILED RESPONSE

- **Meter Lock Applications**: CORE considered that the best estimate of future applications is a continuation of the 2023 % of B3, on the basis that 2023 has returned to pre-COVID-19 levels.[47]

[47] CORE Revised Gas Demand Forecast p. 66

- **Meter Lock Removals**: CORE considered that the best estimate of future removals is a continuation of the 2023 % of B3 in 2024 before increasing to pre-COVID-19 levels from 2025.
- **Deregistrations:** CORE considered that the best estimate of Deregistrations in AA6 is based on the forecasted increase in 2024 applied rate to 0.26%remaining flat thereafter. The forecasted rate of 0.26% is below the historical average based on the low rate observed in 2023.
- **Regulator Removal**: CORE considered that the best estimate of future removals is an increase to B3% levels of 0.4% in 2024, with that level remaining flat thereafter. The 0.4% is below historical average based on the low rate observed in 2023.
- **Regulator Reinstallations:** CORE considers that the best estimate of future reinstalls is a further growth in B3 % levels in 2024 to 0.21% before reaching an average annual rate of 0.39%.
- **Special Meter Reads:** CORE considered that the best estimate of future reads is a small increase in 2024 to 0.13% of B3 connections, based on historical average rates but reduced due to the lower actual levels observed in 2023 relative to all years since the service matured in 2017. We note that the lower levels in 2023 are driven by a combination of factors; the market has matured and there is less customer churn due to retailers generally not promoting discounts and incentives. Additionally, the continuation of 'work from home' arrangements means more customers are at home and therefore providing access for normal schedule readings.[48]
- **Permanent Disconnections (previously called Cut and Cap):** CORE considered that the best estimate of future disconnections is a slight increase in B3 % to 0.168% and remaining flat thereafter on the basis that this is the average of service in the 2022-23 post-COVID-19 period and were the lowest levels observed since 2015.

ATCO REVISED PROPOSAL

Table 5.6: ATCO's revised AA6 Forecast - Ancillary Services

ANCILLARY SERVICE	2025	2026	2027	2028	2029	CAGR*
Applying a Meter Lock	9,409	9,504	9,615	9,733	9,855	1.1%
Removing a Meter Lock	8,474	8,568	8,672	8,781	8,892	7.3%
Deregistering a delivery point	2,050	2,071	2,095	2,120	2,147	1.1%
Disconnecting a Delivery Point	3,153	3,185	3,223	3,262	3,303	6.4%
Reconnecting a Delivery Point	3,075	3,106	3,142	3,181	3,221	13.9%
Permanent Disconnection	1,323	1,337	1,352	1,369	1,386	0.9%
Special meter reads	102,488	103,527	104,731	106,022	107,356	1.1%

[48] RIN 2023

6. REVENUE & TARIFFS

CHAPTER HIGHLIGHTS

1. The ERA did not approve ATCO's AA6 Revenue proposal for $1,451.7 million and proposed a lower amount of $1,217.6 million. This lower amount is due to the ERA's required amendments to demand, opex, capex, and accelerated depreciation.
2. Our revised AA6 revenue requirement is $1,487.1 million, 22% higher than the ERA's Draft Decision. This compares to $840.3 million (nominal) for AA5. This increase is largely due to rising inflation, the increased regulated rate of return, and accelerated depreciation.
3. ATCO has maintained its proposed tariff structures and a one-off increase in tariffs in the first year of the access arrangement, with a 3% real increase for each remaining year of AA6.

6.1 INTRODUCTION

This chapter outlines ATCO's response to the ERA's Draft Decision on ATCO's revenue and tariffs.

ATCO's forecast revenue consists of 'building blocks' that are summed to determine the total revenue in each year of AA6. These building blocks include the return on capital, depreciation, opex, and other components such as taxes. Table 6.1 provides cross-references to the sections of this document that discuss and justify our responses and revised proposal for each building block.

Table 6.1: Cross-references to 'building block' related responses in this document

REVENUE BUILDING BLOCK	SECTION OF THIS DOCUMENT
Return on the projected capital base	Chapter 11
Return of the projected capital base	Chapter 10
Return on working capital	Chapter 9
Forecast opex	Chapter 8
Estimated cost of corporate income tax	Chapter 11

6.2 SUMMARY OF THE ERA'S DRAFT DECISION

The ERA did not approve ATCO's AA6 Revenue and Tariff proposal. In their Draft Decision, the ERA has proposed amendments to reduce our AA6 revenue requirement from $1,451.7 million to $1,217.6 million ($ nominal), adjust our reference tariffs (including justifying our proposed tariff structure), and the removal of two cost pass through events from our access arrangement.

Most of the ERA revenue reduction is driven by the rejection of accelerated depreciation and the reduction of forecast opex and capex. The ERA has also increased the demand forecast for AA6, leading to lower tariff increases than our original submission. The ERA also advocates for a one-off

tariff increase in the first year followed by inflation adjustments for subsequent years, contingent upon the Final Decision numbers. This was consistent with our original submission.

ERA DRAFT DECISION AMENDMENTS

The ERA proposed the following amendments in their Draft Decision:

REQUIRED AMENDMENT 3.1 The values for total revenue (nominal) must reflect the values in [Table 6.2].

Table 6.2: ERA's Draft Decision re: total building blocks for AA6[49] ($M nominal)

BUILDING BLOCK	2025	2026	2027	2028	2029	TOTAL
Regulatory operating expenditure	**68.2**	**72.1**	**77.3**	**81.9**	**85.3**	**384.8**
Operating expenditure	66.5	69.9	74.8	79.4	82.7	373.3
Return on working capital	1.7	2.2	2.4	2.6	2.7	11.6
Return on capital base	**119.5**	**124.3**	**129.2**	**134.3**	**138.8**	**646.1**
Regulatory depreciation	**22.8**	**32.8**	**34.9**	**36.5**	**36.5**	**163.4**
Depreciation	63.7	75.4	79.1	82.5	84.0	384.5
Accelerated depreciation	-	-	-	-	-	-
Inflationary gain	-40.9	-42.6	-44.2	-46.0	-47.5	-221.1
Regulatory corporate income tax	**3.1**	**4.7**	**5.0**	**5.2**	**5.4**	**23.3**
Corporate income tax	6.1	9.5	9.9	10.3	10.9	46.7
Imputation credits	-3.1	-4.7	-5.0	-5.2	-5.4	-23.3
TOTAL REVENUE (UNSMOOTHED)	**213.54**	**234.0**	**246.2**	**257.9**	**266.0**	**1217.6**

[49] ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 3 : Revenue and tariffs, table 3.7 page 13.

REQUIRED AMENDMENT 3.2 Haulage reference service tariffs should be amended to reflect the tariffs in [Table 6.3].

Table 6.3: ERA's Draft Decision AA6[50] haulage reference service tariffs ($ nominal, ex-GST) – indicative only

CHARGING PARAMETER	2025	2026	2027	2028	2029
Reference tariff A1					
Standing charge	46,236.05	47,396.57	48,586.23	49,805.74	51,055.86
Demand charge					
First 10 km	194.88	199.77	204.78	209.92	215.19
Distance > 10 km	102.58	105.16	107.80	110.50	113.28
Usage charge					
First 10 km	0.04121	0.04225	0.04331	0.04440	0.04551
Distance > 10 km	0.02076	0.02129	0.02182	0.02237	0.02293
Reference tariff A2					
Standing charge	25,570.25	26,212.06	26,869.98	27,544.42	28,235.78
First 10 TJ	2.49	2.55	2.62	2.68	2.75
Volume > 10 TJ	1.31	1.35	1.38	1.41	1.45
Reference tariff B1					
Standing charge	1,293.46	1,325.92	1,359.20	1,393.32	1,428.29
First 5 TJ	4.92	5.04	5.17	5.30	5.43
Volume > 5 TJ	4.22	4.33	4.44	4.55	4.66
Reference tariff B2					
Standing charge	324.60	332.75	341.10	349.66	358.44
First 100 GJ	8.23	8.43	8.65	8.86	9.09
Volume > 100 GJ	4.91	5.03	5.16	5.29	5.42
Reference tariff B3					
Standing charge	174.11	178.48	182.96	187.55	192.26
First 9.855 GJ	4.09	4.19	4.30	4.40	4.51
Volume > 9.855 GJ	4.09	4.19	4.30	4.40	4.51

[50] ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 3 : Revenue and tariffs, table 3.12 page 22

REQUIRED AMENDMENT 3.3 ATCO must demonstrate why usage tariffs for reference services, other than the B3 reference service, should remain as declining block tariffs, instead of moving to a flat tariff structure.

REQUIRED AMENDMENT 3.4 Ancillary reference service tariffs should be amended to reflect the tariffs in [Table 6.4].

Table 6.4: ERA's Draft Decision AA6[51] ancillary reference service tariffs ($ real as at 31 December 2023, ex-GST) – indicative only

ANCILLARY SERVICE	2025	2026	2027	2028	2029
Applying a meter lock	28.73	29.45	30.19	30.95	31.73
Removing a meter lock	15.80	16.20	16.60	17.02	17.45
Deregistering a delivery point	115.23	118.12	121.08	124.12	127.24
Disconnecting a delivery point	71.00	72.78	74.61	76.48	78.40
Reconnecting a delivery point	71.58	73.38	75.22	77.11	79.05
Permanent disconnection	1,003.41	1,028.59	1,054.41	1,080.87	1,108.00
Special meter reading	6.52	6.68	6.85	7.02	7.20

REQUIRED AMENDMENT 3.5 Cost pass through event, as set out in Annexure B (clause 2.1(a)(iv)) of the proposed revised access arrangement, must be deleted.

REQUIRED AMENDMENT 3.6 The proposed cost pass through event, as set out in Annexure B (clause 2.1(a)(v)) of the proposed revised access arrangement, must be deleted.

6.3 ATCO'S RESPONSE: ERA REQUIRED AMENDMENT 3.1

ERA REQUIRED AMENDMENT 3.1:

The values for total revenue (nominal) must reflect the values as set out in Table 3.7 [*renumbered as Table 6.2 in this document*] of this draft decision attachment.

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

The total revenue requirement is an output of the building block values. Therefore, our responses to other components of the Draft Decision have determined our revised revenue proposal. The calculation of total revenue has been amended to be consistent with the building block values in this revised proposal.

[51] ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 3 : Revenue and tariffs, table 3.14 page 24

6.3.1 BACKGROUND

ATCO has amended the calculation of total revenue to be consistent with the other elements of our revised proposal. Table 6.1 provides cross-references to the sections of this document that discuss and justify our responses and revised proposal for each building block.

6.3.2 ATCO REVISED TOTAL REVENUE PROPOSAL

ATCO's revised building blocks of total revenue are shown in Table 6.5.

Table 6.5: ATCO's revised total building blocks for AA6[52] ($ millions nominal)

BUILDING BLOCK	2025	2026	2027	2028	2029	TOTAL
Forecast opex	87.4	92.9	97.9	107.4	109.3	**494.9**
Return of the projected capital base	64.1	79.5	87.7	91.4	94.0	**416.5**
Less inflationary gain in return on assets	-41.3	-42.7	-44.4	-45.6	-46.6	**-220.6**
Accelerated depreciation	26.5	18.6	18.4	16.3	17.2	**97.0**
Return on the projected capital base	120.6	124.7	129.8	133.1	136.3	**644.5**
Return on working capital	1.7	2.8	2.9	3.1	3.3	**13.8**
Tax payable	15.6	16.3	16.7	16.3	17.2	**82.1**
Less value of imputation credits	-7.8	-8.2	-8.4	-8.2	-8.6	**-41.1**
TOTAL REVENUE (unsmoothed)	**266.7**	**283.9**	**300.6**	**313.8**	**322.0**	**1,487.1**

6.4 ATCO'S RESPONSE: ERA REQUIRED AMENDMENT 3.2

ERA REQUIRED AMENDMENT 3.2:

Annexure A of the proposed revised access arrangement, which details the haulage reference service tariffs, should be amended to reflect the tariffs set out in Table 3.12 [*renumbered as Table 6.3 in this document*] of this draft decision attachment.

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

Haulage reference service tariffs have been amended based on ATCO's revised demand forecast and the revised total revenue amount, such that the net present value of the revenue building blocks equals the net present value of forecast haulage reference service revenue. ATCO has maintained its declining block tariff structure.

[52] ERA, Draft Decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 3 : Revenue and tariffs, table 3.7 page 13.

6.4.1 BACKGROUND

Our response is structured into two areas, aligning with the material components of the ERA's Required Amendment 3.2:

- **Price Path**. We have amended the price path to help reduce the initial step up in tariffs by applying a 3% real increase in each year from 2026 to 2029. This maintains the tariff revenue and costs of service within approximately 3% of each other in the final year of AA6 and brings cost of service and tariff revenue closer in 2025.
- **Tariff Structures**. We have retained a declining block usage charge tariff structure for AA6, due to the uncertain effect flat tariff charges would have on both our customers and their emissions, as well as the need to maintain relative stability in the pricing structure.

These responses are further detailed in the following sections.

6.4.2 ATCO'S RESPONSE: PRICE PATH

The AA6 price path is the real dollar price increases from 2024, the last year of AA5, to 2029 the last year of AA6. Our revised price increases by tariff band are shown in Table 6.6 below. ATCO has revised the price path to adopt a smoother price path over AA6 that includes a step change price in 2025, followed by a CPI + 3% increase in each of the remaining years of AA6.

In addition, we have restricted price increases to the B3 tariff class in 2025 to 10% less than other tariff classes to rebalance tariff revenue and the cost of service across tariff classes. We have also restricted increases in B2 tariff class usage charges to better align usage charges to the usage of the tariff class.

In setting the AA6 price path, we have balanced the longer-term interests of consumers with the short-term price changes. This has been achieved through the following principles:

- Building block costs and tariff revenue should be equalised in net present value terms.
- Proposed tariffs should reflect their underlying efficient costs.
- Proposed tariffs should minimise tariff variability between each year of AA6.
- Proposed tariffs should minimise the likelihood of tariff variability at the start of AA7.

The advantage of this price path is to better match costs and revenues to ensure efficient use of and investment in the gas network.

STAKEHOLDER FEEDBACK

ATCO has considered stakeholder feedback on the price path as well as the impact on small use customers and retailers, as detailed in section 7 of the *National Gas Access (WA) (Local Provisions) Regulations 2009*.

Relevant to the impact on small use customers is the ERA's research on this matter. The ERA engaged Patterson Research Group to help conduct engagement with residential gas customers. A survey of

1,000 small use gas customers was conducted in March 2024. One of the questions asked in the survey tested the views of gas users to tariff path options[53]. The results of the survey were:

- When faced with inevitable price increases, such as those driven by higher interest rates increasing the building block revenue requirement, consumers preferred a one-off increase in the first year followed by inflation increases only
- A one off increase up to 11% may be reasonable.

Additionally, several retailers made submissions to the ERA in response to our proposed 2025-29 Plan. Retailers preferred a smoothed price path to allow a longer period transition to higher prices.

REVISED PRICE PATH

In light of the stakeholder feedback and the impact of interest rates and inflation on prices, we have revised the price to include a step change prices in 2025 followed by a CPI + 3% increase in each of the remaining years of AA6.

We have sought to balance the competing views of customers and retailers on our proposed overall price path:

- Customers: A strong preference of many of our customers is stability in pricing, i.e., a step change in 2025 followed by inflation increases.
- Retailers: Feedback on the 2025-29 Plan indicated a clear preference by retailers to smooth the transition from AA5 tariffs to AA6 tariffs with equal increases from 2025 to 2029.

Furthermore, in adopting this price path we have sought to provide economically efficient price signals by setting a price path that:

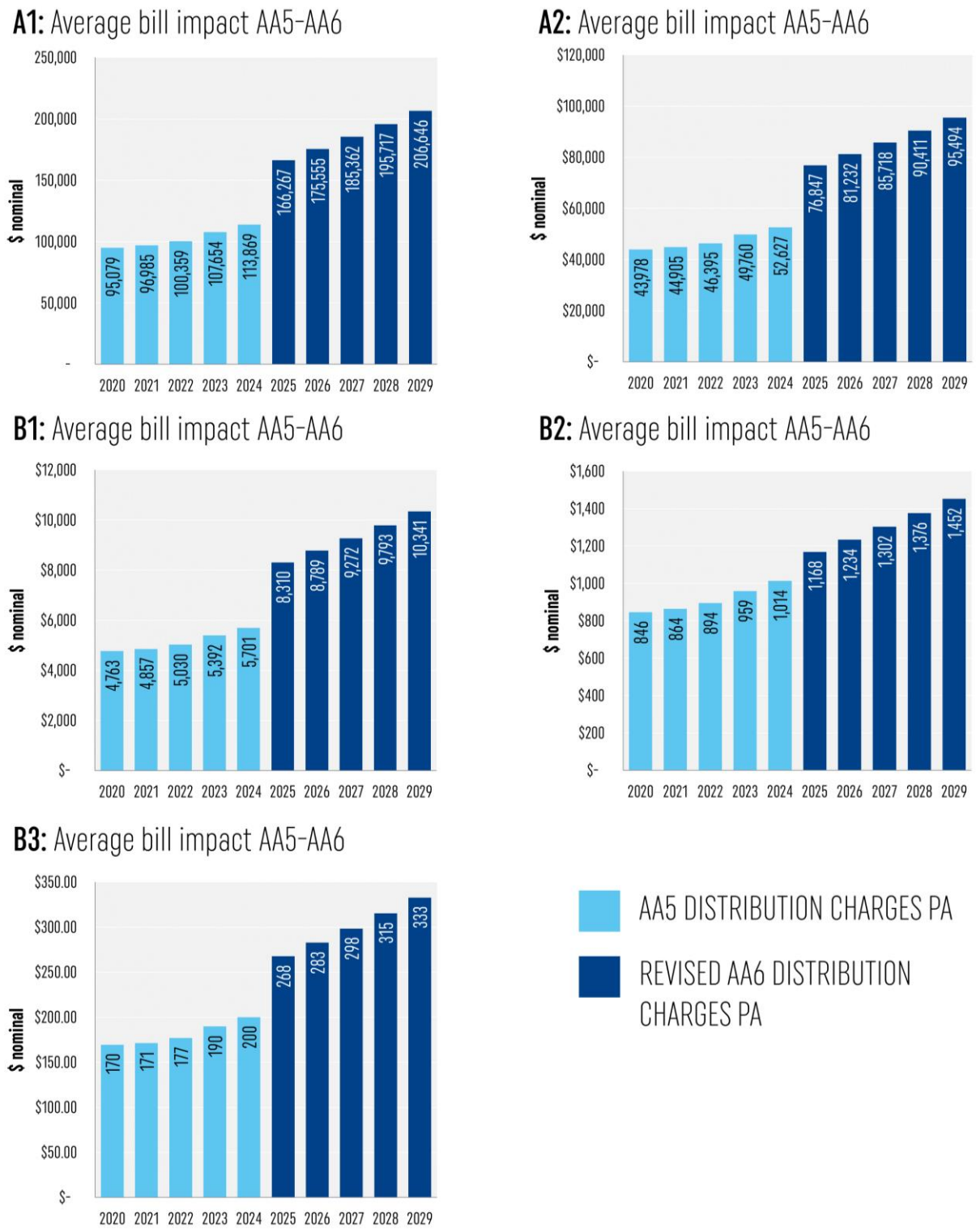
- Reduces the absolute value of the sum of the differences between the cost of service and tariff revenue from $36.0 million to $18.1 million ($ real 2023) over AA6.
- Minimises tariff variability between access arrangement periods by setting the 2029 cost of service within approximately 3% of the expected tariff revenue[54].

ATCO has estimated the increase in the average retail bill from 2024 to 2025 to be 10%. Followed by annual increases of approximately 2.1% to 2.3%. Average distribution charges in AA6 compared to AA5 are shown in Figure 6.1.

[53] ERA, Draft Decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 3 : Revenue and tariffs, page 18.

[54] This is consistent with the approach applied to other gas distribution networks by the Australian Energy Regulator

Figure 6.1: Average customer distribution charge summary



6.4.3 ATCO'S RESPONSE: TARIFF STRUCTURES

ATCO's tariff structures reflect the fixed and variable components for the reference tariffs. The ERA's Draft Decision makes two adjustments to the structure of the B3 tariff class:

- The fixed charge has been adjusted in line with the ERA's estimate of fixed costs including a reduction in the mains asset life used in the calculation from 60 to 25 years.
- The ERA changed the tariff structure to a flat usage tariff structure, from ATCO's proposed declining block structure.

Our response to these two changes is set out below.

6.4.3.1 FIXED CHARGE AMENDMENTS RESPONSE

The ERA's Draft Decision reduced total revenue and increased customer numbers and gas haulage volume thus moderating necessary tariff increases. In turn, this allowed the ERA to increase the fixed charge to a level that recovered fixed costs, while lowering the usage charge to be closer to the cost of providing incremental gas haulage volume.

ATCO agrees in principle the fixed charge should ideally reflect the fixed costs of providing the B3 service and that the usage charge at the margin should reflect the incremental cost of incremental gas haulage volume. However, theoretical perfection in charges is tempered by practical considerations of maintaining stability in pricing for consumers and retailers such that unforeseen changes do not have unintended consequences.

In our initial proposal, we conducted a "reasonableness" test to assess the fixed costs of providing the service. However, the resulting standing charge did not recover all fixed costs but was rather designed to recover the additional fixed costs associated with a new connection. It did not recover total network fixed costs such as those associated with provision of necessary network support services of finance, IT, or health and safety departments.

ATCO has reviewed the B3 fixed cost calculation. Including an annual repayment of the capital cost to connect a new customer, and the incremental operating cost of a new customer, results in a fixed charge of approximately $188 per year. This compares to the proposed fixed charge of $178 in 2025 in our response.

We are conscious of the effect of increased costs on vulnerable customers who may be relatively small users of gas. Putting all fixed costs into the fixed charge, rather than incremental fixed costs, would likely result in a standing charge of over $200. Recovering some of the fixed costs via the first block of usage charges facilitates equitably recovering those costs from customers according to the value they place on the gas supply indicated by their usage.

ATCO is required to consider the impact on retailers, as detailed in section 7 of the *National Gas Access (WA) (Local Provisions) Regulations 2009*. The current gazetted retail fixed charge is $95, substantially below the gas distribution fixed charge. Any additional increases in the fixed charge will elevate the risk to retailers of not recovering costs from low users of gas.

ATCO is proposing a fixed charge of $178 in our response, which we believe balances the impact on consumers and retailers, along with the need for fixed charges to reflect fixed costs.

6.4.3.2 FLAT USAGE TARIFF STRUCTURE RESPONSE

ATCO does not accept adopting a flat tariff structure due to the uncertain outcome of the change and the need for stakeholder consultation before making such a change. We propose to retain a declining block tariff structure for AA6, and we will continue to work with the ERA as we consider long-term implications for our business and for our customers.

The ERA's Draft Decision implements a flat usage tariff structure for B3 tariff class customers based on two factors:

- To better reflect the cost drivers of ATCO.
- To remove price signals to customers that encourage increased gas usage - aiming to be consistent with the amended National Gas Objective to help achieve Australia's emissions reduction targets.

ATCO has maintained the B3 tariff structure to include a **fixed charge** and a **variable two-usage band declining block tariff structure** commonly used by gas distribution service providers. This structure allows:

- Fixed charges to be, as far as reasonable, set to recover fixed costs while considering the impact on:
  - New connections
  - Retail fixed charges and the relativity to them
  - Low use, and possibly vulnerable, customers.
- The balance of fixed costs to be recovered by the first usage band tariff.
- The second usage band tariff to approximate the cost of incremental gas hauled.
- Reduced revenue volatility for service providers at the margin, due to weather variability.

ATCO has maintained the declining block tariff structure for AA6. In reaching this conclusion we have considered the approach of other networks, the impact on customers, including vulnerable customers, and emissions reduction.

ATCO is wary of adopting a flat usage tariff structure without adequate customer consultation or investigation into the effects on different customer groups. We have not had sufficient opportunity to undertake substantive stakeholder consultation in the six weeks allowed to respond to the ERA's Draft Decision to take an informed view from stakeholders. Without proper consultation, we believe that moving away from declining block tariffs at this point is too pre-emptive. We have also considered feedback in response to the ERA's Issues Paper, where Alinta noted that any move away from declining block tariffs would not serve any purpose given that retail gas tariffs are separately set by the Western Australian State Government.

The AER has reviewed declining block compared to flat usage tariff structures making its final decision in October 2023[55]. The AER's decision recognised the need to undertake "substantive stakeholder consultation" to inform tariff structure proposals.

[55] AER, Review of gas distribution network reference tariff variation mechanism and declining block tariffs, Final decision, October 2023

Assuming the flat usage tariff was passed on by retailers, the issues raised during the AER's review included:

- **Disruptive impact on customers:** Several stakeholders expressed concern about the potential disruptive impact on customers of changing to flat tariffs.
- **Effect on vulnerable customers:** Residential customers consuming larger volumes of gas in winter and with limited ability to reduce their gas reliance, were raised as a customer cohort experiencing vulnerability.
- **Cost recovery:** Some stakeholders commented that declining block tariffs are efficient for gas distribution networks where most costs are fixed. In this view, high charges for early blocks of consumption are equivalent to high fixed charges that reflect in price signals the way gas networks incur their costs in practice. These stakeholders considered that alternative tariff structures would be a step away from cost reflectivity in respect of tariff design.
- **Uncertain price response:** While in principle, assuming retailer pass through, moving from declining to flat would lower prices for small gas volume customers and raise prices for large volume customers, customer demand may be less responsive to tariff structure changes than a pure economic analysis would suggest. Small customers may respond to lower prices in general by increasing their gas consumption, rather than in response to a change in the structure of their retail tariff. Any such increase in consumption by customers with small consumption profiles may be larger than any reduction in gas consumption by large customers who would face higher prices under flat or inclining tariff structures. Demand elasticities of the two market segments, and the volume of gas consumed by those segments, require assessment to inform expectations of environmental outcomes from tariff changes. Approximately 45% of ATCO's B3 customers use up to 9.855GJ per year on the first usage band. Moving to a flat tariff would incentivise these customers to use more gas.

Furthermore, we propose there will be administrative costs to both ATCO and stakeholders to implement the change. These additional costs have not been quantified given the limited time in the response period.

In summary, while we acknowledge the sentiment to reduce emissions, a premature move to flat usage tariffs without more extensive stakeholder consultation will have unintended consequences. The declining block tariff has been accepted by the ERA as meeting the National Gas Objective in prior Access Arrangement periods.

ATCO REVISED PROPOSAL

Table 6.6: ATCO Revised proposal compared to ERA Draft Decision tariff path - real annual percentage change in tariffs (%)

	PRICE CHANGE % ON 1 JAN 2025		SUBSEQ. PRICE CHANGE % PA.	
	ERA DECISION	ATCO REVISED	ERA DECISION	ATCO REVISED
A1, A2, B1	12.5	42.4	0	3
B2 standing charge	1.5	42.4		3
B2 volume up to 100 GJ	12.5	0		3
B2 volume above 100 GJ	12.5	32.5		3
B3 standing charge	21.9	32.4	0	3
B3 volume up to 9.855 GJ	-21.1	32.4	0	3
B3 volume above 9.855GJ	-9.0	32.5	0	3

ATCO continues to propose a two-usage band declining block tariff for the B3 tariff class for the following reasons.

- There has been insufficient time to consult on this matter with stakeholders to understand the effect on consumers.
- There may be undesired and unintended effects on vulnerable customers.
- The desired ERA outcome of reducing overall gas consumption to reduce emissions is uncertain given the proportion of customers who use less than 9.855 GJ of gas per annum and will actually experience a reduction in gas charges assuming the lower tariff is passed through by retailers.
- Changing to a flat usage tariff at the distribution level is ineffective unless retailers pass through the change.
- The ERA has made no amendment to reduce its demand forecast to reflect the flat tariff structure highlighting the difficulty forecasting its effect.

ATCO's haulage reference service tariffs continue to be calculated so that they operate so as to recover the costs associated with the provision of those services in NPV terms over the access arrangement period. We have maintained our cost allocation approach to the haulage reference tariffs. This method is described in the "Tariff Setting Method" document submitted as Attachment 16.002 with ATCO's original proposal.

For tariffs to reflect the costs of providing services the revenue received from a tariff class should reflect the costs of providing services to that tariff class. We have rebalanced revenue to better approximate the costs of serving each tariff class by limiting the tariff increase to the B3 tariff class in 2025.

The B2 usage charge for the first usage band up to 100GJ has been constrained in 2025 to equal the 2024 price. The B2 usage tariff for the second usage band over 100 GJ has been constrained to 10% less than increase for other mainly business-related tariff classes. This action has been taken to move

the B2 usage tariffs closer to or lower than the B3 usage tariff so that tariffs better reflect the lower unit costs of providing larger volumes of gas.

ATCO has amended its forecast of customers and volume of gas hauled as described in Chapter 5. ATCO's forecast is for fewer customers and less gas hauled than the ERA's Draft Decision. The effect of our amended forecast is to increase the value of individual tariff charging parameters because more cost must be recovered from each customer either as a fixed charge or per unit of gas hauled.

ATCO's proposed haulage reference service tariffs are listed in Table 6.7 below.

Table 6.7: Proposed haulage reference service tariffs – Indicative ($ nominal ex GST)

CHARGING PARAMETER	2025	2026	2027	2028	2029
REFERENCE TARIFF A1					
Standing charge	58,556.25	61,826.80	65,280.01	68,926.10	72,775.83
Demand charge					
First 10 km	246.80	260.58	275.14	290.51	306.73
Distance > 10 km	129.91	137.16	144.82	152.92	161.45
Usage charge					
First 10 km	0.05220	0.05512	0.05820	0.06145	0.06488
Distance > 10 km	0.02629	0.02776	0.02931	0.03095	0.03268
REFERENCE TARIFF A2					
Standing charge	32,383.78	34,192.51	36,102.26	38,118.67	40,247.71
First 10 TJ	3.15	3.33	3.51	3.70	3.91
Volume > 10 TJ	1.67	1.77	1.87	1.97	2.08
REFERENCE TARIFF B1					
Standing charge	1,635.29	1,726.63	1,823.07	1,924.89	2,032.40
First 5 TJ	6.21	6.57	6.93	7.32	7.73
Volume > 5 TJ	5.35	5.65	5.97	6.30	6.66
REFERENCE TARIFF B2					
Standing charge	411.09	434.05	458.29	483.89	510.93
First 100 GJ	7.31	7.72	8.15	8.61	9.09
Volume > 100 GJ	5.77	6.09	6.43	6.79	7.17
REFERENCE TARIFF B3					
Standing charge	189.09	199.65	210.80	222.58	235.02
First 9.855 GJ	6.86	7.24	7.65	8.08	8.53
Volume > 9.855 GJ	5.95	6.28	6.63	7.00	7.39

ATCO has confirmed the proposed tariffs meet the requirements of the NGR. The revenue expected to be recovered lies on or between:

- an upper bound of the stand-alone cost of providing the reference service to customers of the tariff class
- a lower bound of the avoidable costs of not providing the reference service to those customers.

We have also tested that the expected revenue to be recovered approximates the total revenue building block costs for the tariff classes. The results of those tests are shown in Table 6.8.

Table 6.8: Expected revenue cost allocation (Present value $million real as at 31 December 2023)

DATA UNDER REVIEW	TOTAL COSTS ALLOCATED	STAND-ALONE COSTS	EXPECTED REVENUE	AVOIDABLE COSTS
A1	49.3	259.3	43.7	2.7
A2	31.9	378.0	33.6	0.6
B1	74.9	560.2	72.4	8.6
B2	57.3	565.4	59.6	7.6
B3	923.0	1,146.4	927.8	141.9
Ancillary services	20.1	20.1	19.4	17.5
TOTAL REVENUE	**1,156.6**		**1,156.6**	

6.5 ATCO'S RESPONSE: ERA REQUIRED AMENDMENT 3.3

ERA REQUIRED AMENDMENT 3.3:

ATCO must demonstrate why usage tariffs for reference services, other than the B3 reference service, should remain as declining block tariffs instead of moving to a flat tariff structure.

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

ATCO continues to propose a declining block tariff structure primarily because the effects of change are uncertain and there has been insufficient time to consult with stakeholders on the effects of a change. Additionally, any change is ineffective unless passed on by retailers. Large end users in particular may have contracts with retailers based on the current tariff structure.

ATCO'S RESPONSE

The reasons to maintain a declining block tariff structure for tariff classes A1, A2, B1, and B2 are similar to those for the B3 tariff class discussed in our response to Amendment 3.2. However, there are additional commercial considerations for these tariff classes.

The A1 and A2 tariff classes may have contracts with retailers based on the current tariff structure. Unforeseen changes to the tariff structure will create a mismatch between the charges to the retailer and the revenue from the end user, which cannot be realigned because of the binding terms and committed duration of the contracts in place.

Demand and usage charges for A1 customers are at different rates depending on the distance of the customer from the transmission pipeline. These different rates reflect the fixed cost of creating capacity for an industrial user, which will fall as they are spread over a longer pipeline from the transmission pipeline to the end user.

Across the B1 and B2 customer classes, commercial decisions have been made to adopt gas as an energy source based on the prevailing tariff structures. Changes to the tariff structures may have a material impact on the input energy costs to these businesses that must be considered carefully before making any changes.

The ERA's Draft Decision considers that a flat tariff structure may reduce the incentive for additional gas use and support the reduction of greenhouse gas emissions, however the ERA has not considered the perverse incentive that changing tariff structures may make to increase emissions if end users adopt alternate energy sources such as diesel or LPG. Gas use can decrease emissions where it is a lower emissions fuel source than the alternative. ATCO has transferred customers from higher use fuels such as diesel and LPG, increasing utilisation of the network by over 2 petajoules, while also reducing emissions by 80,000 tonnes per year[56].

Changing tariffs structures now will create uncertainty and mean that other users of higher emission fuels such as diesel or LPG won't be incentivised to take advantage of switching energy sources to lower emitting natural gas.

ATCO reiterates the need for extensive stakeholder consultation to avoid any unknown and unintended consequences before making changes to the tariff structures. This has not been possible within the short period available to prepare this response.

[56] Source files for the carbon savings conversion https://www.dcceew.gov.au/climate-change/publications/national-greenhouse-accounts-factors-2023

6.6 ATCO'S RESPONSE: ERA REQUIRED AMENDMENT 3.4

ERA REQUIRED AMENDMENT 3.4:

Annexure C of the proposed revised access arrangement, which details the ancillary reference service tariffs, should be amended to reflect the tariffs set out in Table 3.14 of this draft decision attachment.

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

The tariffs stated by the ERA in its draft decision do not reflect current costs of providing the services.

ATCO'S RESPONSE

ATCO has revised the ancillary reference service tariffs based on the latest AA6 cost forecast using the ancillary services costs reported in the 2023 Regulatory Information Notice (**RIN**) as a starting point.

ATCO has recalculated the unit rate costs of ancillary services based on the 2023 ancillary services costs provided to the ERA in the 2023 RIN data. These costs include:

- Direct costs of operations personnel and contractors providing the services.
- An allocation of the cost of the Commercial Services, who provide liaison with retailers.
- The cost of locking devices for the apply meter lock service.
- An allocation of overheads at the rate of 15%. Overheads were applied to direct costs, including the Commercial Services team costs, which were to cover management, scheduling, and other infrastructure costs (such as IT and vehicle running not directly attributed to the services). Note, these costs in the 2023 RIN were reallocated to ancillary services costs from other areas of opex in the 2023 RIN data.
- Known real cost increases due to contract renegotiation.

ATCO has provided the recalculation of these unit rates to the ERA [redacted] The proposed ancillary services tariffs are shown in Table 6.9.

Table 6.9: Ancillary services tariffs – Indicative ($ nominal ex-GST)

ANCILLARY SERVICE	2025	2026	2027	2028	2029
Apply Meter Lock	43.36	44.45	45.56	46.71	47.88
Remove Meter Lock	29.56	30.31	31.07	31.85	32.64
Deregistration Request	161.03	165.07	169.22	173.47	177.82
Disconnect Service	100.33	102.85	105.43	108.07	110.79
Reconnect Service	213.10	218.44	223.93	229.55	235.31
Permanent Disconnection	1,208.88	1,239.22	1,270.33	1,302.21	1,334.90
Special meter reading	10.38	10.64	10.91	11.18	11.47

6.7 ATCO'S RESPONSE: ERA REQUIRED AMENDMENT 3.5

ERA REQUIRED AMENDMENT 3.5:

Cost pass through event, as set out in Annexure B (clause 2.1(a)(iv)) of the proposed revised access arrangement, must be deleted.

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

Clause 2.1(a)(iv) must be retained as it covers scenarios that may not be captured by clause 2.1(a)(iii). This cost pass through event is intended to allow ATCO to recover costs incurred as a result of an existing law, e.g., as a result of a change in ATCO's operations or factors outside of its control that do not fall within the definition of a Tax Change.

ATCO'S RESPONSE

Clause 2.1(a)(iv) of our proposed revised access arrangement reads:

> *"For the Current Access Arrangement Period, each of the following is a "Cost Pass Through Event":*
>
> *iv) ATCO incurs Conforming Capital Expenditure or Conforming Operating Expenditure which consists of, or is undertaken to avoid or mitigate the amount of, a fee, or Tax or other penalty imposed under an Emissions Control Law (including originally imposed upon another entity but then transferred to ATCO pursuant to Law or a contract) or incurs Conforming Capital Expenditure or Conforming Operating Expenditure to comply with the requirements of an Emissions Control Law"*

Clause 2.1(a)(iv) is required to be retained as it is intended to capture events that may not be captured by clause 2.1(a)(iii).

Clause 2.1(a)(iv) is intended to capture situations where ATCO is subject to unforeseen costs because of an existing (not necessarily new or changed) law that also does not fall within the scope of a Tax Change. This could occur if there was a change in ATCO's circumstances or operations that result in a charge or costs borne by ATCO to comply with, or to avoid the imposition of a financial penalty under, existing legislation. This may arise in circumstances that are not captured by a Change in Law (as defined in the Access Arrangement) – because the charge or costs do not result from the introduction, amendment or repeal of a law or any revised interpretation of a law – or a Tax Change.

For example, if the amount of ATCO's UAFG significantly increased as a result of a factor unforeseen and outside of ATCO's control, then ATCO may become subject to the (existing) Safeguard Mechanism (if the increased UAFG resulted in ATCO's emissions exceeding the Safeguard Mechanism baseline threshold).

This could arise, for example, as a result of:

- a miscalculation of ATCO's UAFG by AEMO under the Retail Market Procedures; or
- a significantly colder winter coupled with an expanded network leading to a greater amount of UAFG.

If ATCO becomes subject to the Safeguard Mechanism, it will have to either take steps to reduce its emissions to comply or offset its emissions by buying Australian carbon credit units (ACCUs) or Safeguard Mechanism Credit Units (SMCUs). Each of these options would involve ATCO incurring costs that would be unavoidable but unforeseen at the time of this submission.

By reference to the definition of "Tax Change" in the Access Arrangement, such costs would not result from the change in the way a Relevant Tax is calculated (paragraph (a) of that definition), the removal of a Relevant Tax (paragraph (b)), or the imposition of a New Relevant Tax resulting from a Change in Law (the first limb paragraph (c)). While it is arguable that the costs arise as a result of the imposition of a New Relevant Tax resulting from a Regulatory Change (the second limb of paragraph (c)), ATCO seeks to avoid any argument that the cost pass through in clause 2.1(a)(iii) does not apply because the costs are not strictly a "tax or other levy" within the meaning of section 6(1)(b) of the National Gas Access Law.

This cost pass through event would also allow recovery of a cost that is borne by another party (e.g., a related body corporate of ATCO) and passed through to ATCO.

ATCO REVISED PROPOSAL

ATCO has maintained Annexure B Clause 2.1 (a)(iv) of the access arrangement as drafted in its originally submitted access arrangement with a minor amendment as incorporated above.

6.8 ATCO'S RESPONSE: ERA REQUIRED AMENDMENT 3.6

> **ERA REQUIRED AMENDMENT 3.6:**
>
> The proposed cost pass through event, as set out in Annexure B (clause 2.1(a)(v)) of the proposed revised access arrangement, must be deleted.
>
> **ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT**
>
> ATCO does not accept the deletion of Annexure B (clause 2.1(a)(v)) of the proposed revised access arrangement. ATCO has revised the cost pass through event.

ATCO'S RESPONSE

ATCO does not accept the deletion of Annexure B (clause 2.1(a)(v)) of the proposed revised access arrangement.

As previously set out, the National Gas Objective as it applies in WA has recently been revised to incorporate an emissions reduction element. The expenditure rules in WA have similarly been revised to expressly refer to the National Gas Objective thereby also incorporating an emissions reduction element. While further amendments have been made elsewhere in Australia to incorporate renewable gases such as biomethane and renewable hydrogen into the economic regulatory framework, these amendments have not yet been implemented in WA. While ATCO is confident that these amendments will be implemented prior to the ERA's Final Decision, ATCO submits that this cost pass through event

(with revisions) is required in the event they are not (and the relevant expenditure is rejected by the ERA on that basis).

The costs that would be captured by this pass-through event are the costs that ATCO has proposed in its business cases relating to renewable gases[57] and which have been disallowed by the ERA in its Draft Decision on the basis that they are not supported by an existing regulatory obligation (assuming that position is replicated in the ERA's final decision). In the event that the legislation is amended after the ERA's Final Decision, and those costs become justifiable under the amended regulatory framework, ATCO is not aware of any other effective mechanism available to it for recovery of such (capital and operating) costs other than seeking to re-open the Access Arrangement for AA6 under NGR 65.

ATCO seeks to avoid this inefficient outcome through the inclusion of the cost pass through event. Requiring a re-opening of the Access Arrangement so soon after its commencement would incur unnecessary costs, and would not be in the interest of consumers, in circumstances where the relevant costs can be (provisionally) assessed and approved by the ERA as part of the current process.

Further, not allowing a mechanism for ATCO to recover these costs means that ATCO will have a financial incentive not to take any action (or incur any expenditure) in relation to Other Gases, even when the legislation is amended, as ATCO will have no ability to recover that expenditure (absent of seeking a variation of the Access Arrangement).

ATCO notes the particular uniqueness of this situation given that there is relative clarity as to the nature of the specific amendments that will likely be implemented in WA (given they are already implemented elsewhere in Australia), but uncertainty regarding the timing. If the amendments are not in place before the ERA's Final Decision, we expect it is likely to be only shortly after. That is, the amendments will be implemented in early AA6.

ATCO also acknowledges the ERA's concern regarding complex cost assessments and the need for such costs to be carefully scrutinised before there is a tariff variation. As set out in Chapters 7 (capex) and 8 (opex) and referred to above, ATCO has provided business cases as part of this submission relating to its proposed expenditure for renewable gases. These business cases document the proposed expenditure and demonstrate compliance with NGRs 79 and 91 respectively. ATCO will also still be required to submit a variation report for the ERA's approval under clause 3 of Annexure B.

ATCO acknowledges that the cost pass through mechanism should only capture costs incurred once the amendments to incorporate renewable gases have been implemented and if the costs are conforming expenditure in accordance with those amendments. ATCO also acknowledges that the cost pass through event no longer needs to refer to amendments to emissions reduction objectives given that these amendments have now already been implemented in WA.

ATCO proposes a revised cost pass through event as follows:

> "ATCO incurs Conforming Capital Expenditure or Conforming Operating Expenditure ~~due to, or in anticipation of,~~ *following* amendments to the National Gas Law or National Gas Rules ~~to~~

[57] ATCO's Renewable Fuel Gate Station UAFG Business Case attachment 07.105.00, and Renewable Fuel Gate Station Community Access Business Case attachment 07.106.00

~~incorporate emissions reduction objectives or~~ to extend the regulatory environment in that Law or Rules to some or all Other Gases or Gas Blends where that expenditure:

(i) is conforming expenditure pursuant to those amendments; and

(ii) is the subject of a business case submitted by ATCO and provisionally approved by the ERA in the AA6 access arrangement revision process; and

(iii) is consistent with (or less than) the relevant amount provisionally approved by the ERA."

7. REGULATORY CAPITAL BASE

CHAPTER HIGHLIGHTS

1. The ERA did not approve ATCO's AA5 Forecast Capex proposal for $413.7 million, and proposed a lower amount of $398.1 million. This lower amount is due to the removal of capex associated with the CEIH and the blending project over 2020, 2021, and 2022, and removal of capex for 2023 and 2024 that the ERA considered non-conforming.
2. The ERA did not approve ATCO's AA6 Forecast Capex proposal for $465.8 million and proposed a lower amount of $443.1 million. This lower amount is primarily due to the removal of contingency cost allocation and renewable gas capex. It also involves scaling back information technology (IT) and network sustaining capex. These decreases were offset by the ERA's proposed increase in demand forecasts, which resulted in higher growth capex in the draft decision.
3. ATCO does not accept the ERA's Draft Decision for AA5 and AA6 capex and submits a revised proposal of $400.1 million and $490.7 million respectively.

7.1 INTRODUCTION

Capital expenditure (**capex**) is incurred to connect new customers to the network and to support the ongoing safe and reliable natural gas supply to our customers to comply with ATCO's distribution licence, applicable legislative and regulatory obligations, and to meet the National Gas Objective. This chapter outlines the ERA's Draft Decision on AA5 and AA6 capex proposals, our response, and our revised capex related forecasts.

7.2 STAKEHOLDER FEEDBACK

Table 7.1 summarises the feedback received from our stakeholders and our respective responses.

Table 7.1: Consideration of stakeholder feedback on the Demand Forecast

STAKEHOLDER FEEDBACK	OUR RESPONSE
Alinta considers that ATCO's investments in renewable gases: • Are not consistent with the NGO and will not be consistent with the revised NGO when this takes effect in WA; • Do not satisfy the current criteria applying to capital and operating expenditure under the NGR; • Are not in the long-term interests of consumers.	ATCO understands Alinta's position regarding the constraints of legislative and regulatory frameworks, however , these changes are due for approval imminently. With the submitted business cases, ATCO outlines how the capital and operational expenditure provides long-term benefits for end-users and ATCO. ATCO notes that the expenditure rules referenced by Alinta have since been revised and now incorporate an emissions reduction element.

STAKEHOLDER FEEDBACK	OUR RESPONSE
Building and Energy • Blending low concentrations of renewable gases in Gas Distribution Systems (GDS) is one of the four areas of focus outlined in the 'WA Renewable Hydrogen Roadmap' to partially decarbonise the State's gas sector. • In the transition to increase the use of renewable gases, consideration of safety implications is crucial. This requires that network operators identify the risks associated with supplying alternative gases and gas mixes through their GDS and to develop and implement controls to mitigate these risks to ALARP. • Building and Energy supports in principle the safety aspects outlined in ATCO's proposed work program, encompassing the integration of safety control measures at injection gas plants and subsequent GDS. It is important to note that any alterations to gas quality supplied through a GDS, commissioning of new facilities or adjustments to GDS operating parameters will require amendments to ATCO's safety case, which will need to be assessed by Building and Energy before implementation.	ATCO will continue to maintain our assets to ensure the safety of the gas supply and compliance with relevant standards when introducing renewable gases into the gas distribution network. ATCO has included an opex step to amend the GDS Safety Case for each renewable gas injection point.
• ECP - The Panel considers that the proposed capital expenditure is not conforming capital expenditure, and that and do not agree that consumers should bear the costs irrespective of whether the project delivers the uncertain benefits it is hoped to deliver,.	We have submitted the supporting business cases for enabling renewable gas that demonstrate the prudency of this expenditure for the benefit of customers.
• Kleenheat - The proposed capital expenditure (Capex) of $466 million is $17 million lower than the AA5 Final Decision, however, it is $52 million higher than the actual spend in AA5. Kleenheat notes that $19 million of Capex is carried over from AA5 and encourages the ERA to review the proposed Capex and ensure that ATCO can undertake the level of work proposed. Kleenheat is concerned that the history of over-estimation of Opex and Capex has resulted in ATCO receiving excessive returns over the previous Access Arrangement as outlined below, which is at the detriment of the customers of the GDS. The National Gas Rules,	Our actual AA5 capex was lower than the AA5 Final Decision. This was largely due to the COVID-19 pandemic and industry resource constraints. However, we have delivered strongly on the investment programs necessary to maintain the safe and efficient operation of our network and facilitate growth. We have also found efficiencies during delivery of the works. The learning from these efficiencies has been taken in account in building up our AA6 forecast. As part of our initial submission and this response, we have provided the ERA with detailed explanations of material variances in actuals against the AA5 Final Decision through our supporting documentation.

STAKEHOLDER FEEDBACK	OUR RESPONSE
Rule 77(2) appears to have some mechanism to remove any benefit associated with any difference between estimated and actual expenditure.	
• Origin believes there are considerable uncertainties associated with the policy framework and Origin has concerns regarding the supply availability and cost of renewable gases at this time. Origin also comments that it is unclear if the WA Government will promote the use of gas (or renewables) or move towards electrification. Further, the supply availability of alternative gas fuels such as biomethane and hydrogen, and the technical requirements and cost effectiveness remains uncertain.	ERA addresses and accepts the uncertainty of the upcoming legislation for renewable fuels in their draft decision. We have submitted supporting business cases for enabling renewable gas that demonstrate the viability of the supply availability and the prudency of this expenditure for the benefit of customers. ATCO considers that renewable fuels are not in competition with electrification but are working in conjunction to achieve the optimised economic and energy outcome for the community.
• WACOSS is concerned about 'unnecessary and inefficient costs' being passed on to customers, and claims that electrification is the 'only plausible direction away from using fossil gas in homes'. Running electric appliances is four times cheaper than using biomethane, and more than ten times cheaper than using hydrogen.	

7.3 SUMMARY OF THE ERA'S DRAFT DECISION

The ERA did not approve ATCO's proposed capex for AA5 and AA6 and require the following amendments.

REQUIRED AMENDMENT 4.1: ATCO must amend its access arrangement information to revise its AA5 forecast capital expenditure to $398.1 million ($ real as at 31 December 2023). See Table 7.2.

Table 7.2: ERA Draft Decision comparison to ATCO's AA5 proposal – Capex by category

PROJECT CATEGORY	ATCO'S AA5 CAPEX (A)	NON-CONFORMING CAPEX (B)	CONFORMING AA5 CAPEX (A-B)
Network sustaining	214.4	8.9	205.5
Network growth	143.0	1.3	141.7
Structures and equipment	21.6	1.8	19.8
Information technology	34.6	3.6	31.0
TOTAL	**413.7**	**15.5**	**398.1**

REQUIRED AMENDMENT 4.2 ATCO must amend its access arrangement information to revise its AA6 forecast capital expenditure to $443.1 million ($ real as at 31 December 2023). See Table 7.3.

Table 7.3: ERA Draft Decision comparison to ATCO's AA6 proposal – Capex by category

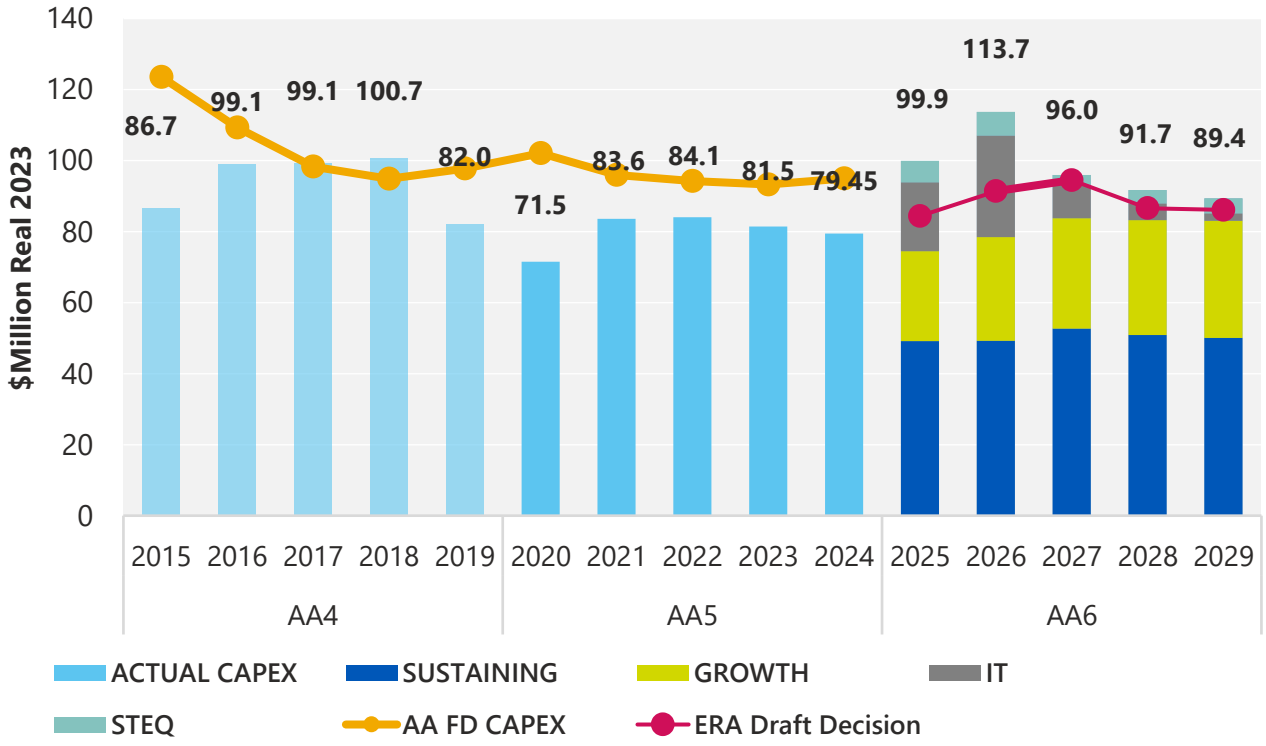
CATEGORY	ORIGINAL PROPOSAL	DRAFT DECISION	DIFFERENCE (%)	DRAFT DECISION SUMMARY COMMENTS
Network sustaining	**271.6**	**218.1**	**21.9%**	
Asset Replacement	214.0	196.0	**8.8%**	The addition of individual project contingencies results in an over-estimation and hence IS considered non-conforming.
Asset Performance and Safety	57.6	22.1	**89.1%**	ATCO proposed $26.4M for carbon emissions reduction - not feasible under the current economic regulatory framework and insufficient justification that the expenditure is the most cost-efficient solution. The planned inline inspection expenditure for the Bunbury pipelines was considered by ATCO as requiring more work to finalise.
Network growth (customer initiated)	**157.4**	**177.9**	**12.2%**	Increased growth expenditure due to the higher demand forecast in the Draft Decision. The ERA has used the average connection costs for mains, meters, and feeders to estimate the additional growth capex.
Information technology	**13.0**	**23.3**	**56.7%**	IT capex was higher in the Draft Decision, however, this was primarily driven by a movement in SaaS expenditure from ATCO's original proposal of opex, into capex.
Structures and equipment	**23.9**	**23.7**	**0.8%**	Property and Plant capex has been modified to remove "time-sheeting loading".
Total	**465.8**	**443.1**	**5.0%**	

7.4 ATCO'S SUMMARY RESPONSE TO THE DRAFT DECISION

ATCO does not accept the ERA's Draft Decision related to capex. We have updated our opening capital base and AA6 capex forecast, considering the stakeholder feedback and the ERA's Draft Decision, and are proposing an opening capital base of $1,584.1 million and a revised AA5 and AA6 capex forecast of **$400.1 million** and **$490.7 million** respectively.

The opening capital base we have updated to reflect actual 2023 expenditures and a revised forecast of 2024 capex.

Figure 7.1: Revised AA6 capex forecast v ERA Draft Decision ($M real as at 31 December 2023)



7.5 ATCO'S RESPONSE: OPENING CAPITAL BASE

ERA REQUIRED AMENDMENT 4.1:

ATCO must amend its access arrangement information to revise its AA5 forecast capital expenditure to $398.1 million ($ real as at 31 December 2023).

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

ATCO has provided a revised AA5 forecast capital expenditure of $400.1 million ($ real as at 31 December 2023).

Our revised forecast includes:

- Removal of 2020-2022 actual capex that was deemed as non-conforming by the ERA in the Draft Decision
- Replacement of the previous 2023 forecast with actual expenditure.
- Provision of a revised 2024 forecast

ATCO does not accept the ERA's Draft Decision to reduce AA5 capex by $15.6 million. We are proposing a revised AA5 forecast capex of **$400.1 million**, $13.6 million lower than our original proposal for AA5 capex (all values $ real as at 31 December 2023).

The changes included in this revised forecast of the opening capital base are:

- 2019 (AA4): ATCO revised the 2019 capex to remove actual expenditure in 2019 that was deemed as non-conforming by the ERA in their assessment of our AA5 capex forecast. Further details are provided in Table 7.5 and the proceeding sections.
- 2020-2022: ATCO has accepted the removal of actual capex in 2020-2022 that was deemed as non-conforming by the ERA. Further details are provided in the following sections.
- 2023: Updated actual capex for 2023 has now been provided. In the original submission this was a forecast.
- 2024: A revised 2024 forecast has been provided. To give more accuracy in this forecast, this includes actuals for Q1 2024.

See Table 7.4 for a summary of our revised AA5 capex forecast and Table 14.6 for the derivation of our opening capital base. Our opening capital base for AA6 is $1,584.1 million ($ real as at 31 December 2023).

Table 7.4: ATCO's Response: Total AA5 Capex Forecast by Asset Class ($M real as at 31 December 2023)

ASSET CLASS	ATCO SEP 23 SUB^{N} (A)	ERA DRAFT DECISION (B)	ATCO RESPONSE (C)	$VAR. (C-A)
High Pressure Mains – Steel	20.8	18.3	18.6	*-2.2*
High Pressure Mains – PE	0.5	0.5	0.5	*0.0*
Medium Pressure Mains	0.0	0.0	0.0	*0.0*
Medium / Low Pressure Mains	181.2	178.8	180.9	*-0.3*
Low Pressure Mains	0.0	0.0	0.0	*0.0*
Regulators	10.0	8.4	8.1	*-1.9*
Secondary Gate Stations	1.7	0.4	0.5	*-1.2*
Buildings	4.2	2.8	2.0	*-2.2*
Meter and Services Pipes	138.6	136.1	137.3	*-1.3*
Equipment & Vehicles	4.9	4.9	4.6	*-0.3*
Vehicle	12.5	12.4	11.9	*-0.6*
Information Technology	34.6	31.0	31.6	*-3.0*
Telemetry and Monitoring	4.6	4.5	4.1	*-0.5*
FRC	0.0	0.0	0.0	*0.0*
Land	0.0	0.0	0.0	*0.0*
Equity Raising Cost	0.0	0.0	0.0	*0.0*
TOTAL	**413.7**	**398.1**	**400.1**	***-13.6***

Table 7.5: ATCO's Response: 2019 Capex by Asset Class ($M real as at 31 December 2023)

ASSET CLASS	ATCO SEP 23 SUB[N] (A)	ERA DRAFT DECISION (B)	ATCO RESPONSE (C)	$VAR. (C-A)
High Pressure Mains - Steel	2.8	2.8	2.8	*0.0*
High Pressure Mains - PE	-0.1	-0.1	-0.1	*0.0*
Medium Pressure Mains	0.0	0.0	0.0	*0.0*
Medium / Low Pressure Mains	32.5	32.5	32.5	*0.0*
Low Pressure Mains	0.0	0.0	0.0	*0.0*
Regulators	0.6	0.6	0.6	*0.0*
Secondary Gate Stations	0.2	0.2	0.2	*0.0*
Buildings	4.1	4.1	1.9	*-2.2*
Meter and Services Pipes	34.1	34.1	34.1	*0.0*
Equipment & Vehicles	0.7	0.7	0.7	*0.0*
Vehicle	3.8	3.8	3.8	*0.0*
Information Technology	1.4	1.4	1.4	*0.0*
Telemetry and Monitoring	1.0	1.0	1.0	*0.0*
FRC	0.0	0.0	0.0	*0.0*
Land	2.4	2.4	2.4	*0.0*
Equity Raising Cost	0.8	0.8	0.8	*0.0*
TOTAL	**84.3**	**84.3**	**82.0**	***-2.2***

7.5.1 ATCO'S RESPONSE: AA5 NETWORK SUSTAINING

Table 7.6 summarises our response to the ERA Draft Decision's adjusted items for AA5 Network Sustaining capex. The table shows our original submission, the ERA's amended figure, and our revised response. The following section provides further detail on our response, with links to supporting attachments where appropriate.

Table 7.6: ATCO's Response: Network Sustaining Adjustments ($M real as at 31 December 2023)

PROJECT/PROGRAM	SECTION	ATCO SEP 23 SUB[N] (A)	DRAFT DECISION (B)	ATCO RESPONSE (C)	$VAR. (C-A)
Asset Monitoring (duplication)	7.5.1.1	0.2	0.1	0.1	*-0.1*
Confined space	7.5.1.2	0.4	0.0	0.0	*-0.4*
ESG Projects	7.5.1.3	1.4	0.0	0.0	*-1.4*

PROJECT/PROGRAM	SECTION	ATCO SEP 23 SUB[N] (A)	DRAFT DECISION (B)	ATCO RESPONSE (C)	$VAR. (C-A)
Network Reinforcement - Secret Harbour	7.5.1.4	0.5	0.0	0.0	*-0.5*
Network Reinforcement - Atwell	7.5.1.4	0.5	0.0	0.3	*-0.2*
Pigging Infrastructure	7.5.1.5	7.6	6.2	5.9	*-1.6*
EOL Replacement - Pressure Vessels	7.5.1.6	1.2	1.2	1.1	*-0.1*
Vehicle Protection	7.5.1.7	0.4	0.3	0.4	*0.0*
EOL Replacement - Anodes	7.5.1.8	0.4	0.3	0.4	*0.0*
EOL Replacement - MPR	7.5.1.9	1.5	1.4	1.5	*0.0*
EOL Replacement - Billing Meters	7.5.1.10	0.9	0.6	0.9	*0.1*
EOL Replacement - Meter Facilities	7.5.1.11	1.1	0.9	0.8	*-0.3*
2023 Contingency adjustment	7.5.1.12	42.7	40.9	39.4	*-3.3*
2024 Contingency adjustment	7.5.1.12	48.4	46.6	42.6	*-5.8*
TOTAL		**107.2**	**98.4**	**93.4**	***-13.8***

7.5.1.1 ATCO'S RESPONSE: ASSET MONITORING

ATCO accepts the ERA's Draft Decision regarding the duplication of the Facility Upgrade - Asset Monitoring project in the AA5 Capex model. Although the error was present in the AA5 Capex model, this duplicated capex amount was not included in the total AA5 conforming capex forecast represented in our September submission, (ATCO, 2025-29 Plan, 1 September 2023, p 56, Table 5.6). This error has now been corrected in the AA5 Capex model (*see Attachment 7.119*), but no deduction is required to the total AA5 capex for the Telemetry and Monitoring asset category.

7.5.1.2 ATCO'S RESPONSE: CONFINED SPACE PROJECT

ATCO accepts the ERA's Draft Decision to remove this forecast expenditure from AA5.

7.5.1.3 ATCO'S RESPONSE: ESG RELATED PROJECTS

ATCO accepts the ERA's Draft Decision to remove the forecast expenditure related to these projects (namely the Facility Upgrade - Blending network control systems and Facility Upgrade - Renewable gas injection points projects) from AA5.

Please see 7.6.1.5 for our AA6 ESG projects.

7.5.1.4 ATCO'S RESPONSE: NETWORK REINFORCEMENT PROJECTS

REINFORCEMENT SECRET HARBOUR

ATCO accepts the ERA's Draft Decision to remove the Secret Harbour Reinforcement project capex from the AA5 forecast. We have removed this project from both our forecast AA5 and AA6 programs.

The driver for this project was to reinforce the gas distribution network in the Secret Harbour area to manage network pressures above the system minimum of 15kPa. Additionally, this will provide security of supply for the Secret Harbour area.

Currently, the network pressure drops from 40kPa to 18kPa during peak gas demand periods. The network is supplied by a single regulator set and is not back-gassed.

The surrounding networks are growing, and it is forecast the Secret Harbour network will interlink and merge with another network within the next couple of years. This will improve the pressures in the network during peak gas demand periods and provide additional gas supply sources. Based on the current modelling forecasting the merging of the two networks, the pressures in the Secret Harbour area is forecast to be maintained above 20kPa over the next five years.

For these reasons, ATCO has removed the project from our 5-year forecast and will continue to monitor the network pressures via our Pressure Monitoring Devices (PMDs) and model network capacity on an annual basis.

REINFORCEMENT ATWELL

ATCO does not accept the ERA's Draft Decision to defer the Atwell Reinforcement project. This project will commence in 2024 and be completed in 2025. This has been included in our revised forecast.

This project is necessary to maintain the asset integrity and reliability. Further details regarding this project can be found in the draft business case (*see Attachment 07.111.00*). The key investment driver is to maintain the integrity of the pipeline and the expenditure is conforming, and as summarised below.

Investment Driver:

The forecast hydraulic model of the Atwell MAOP 350kPa network identified an increase in gas demands in the south of the network in suburbs of Wandi, Anketell, Hammond Park and Mandogalup. This increase in gas demands has resulted in a significant (~47%) pressure drop across the Atwell MAOP 700kPa pipeline. This is an indication that the pipeline is reaching its capacity limits. This constraint can be alleviated by installing an additional high-pressure regulator (HPR) to increase the operating pressure of the pipeline.

The installation of the new HPR will also assist in maintaining the integrity of the Atwell MAOP 700kPa pipeline by reducing the velocity and managing the network capacity demands by bringing the supply closer to the network.

Conforming Capex Justification:

NGR 79(1)(a) is met through our internal governance process (namely our Business Case process), which ensures ATCO choses the most cost-effective solution to maintain the asset integrity and reliability. Furthermore, the project will be delivered in adherence to procurement policies.

NGR 79(2)(c)(ii) and (iii): This project is necessary to alleviate capacity constraints on the pipeline. Capacity management is one of the functional requirements as specified in AS/NZS 4645 to maintain the integrity of a network.

7.5.1.5 ATCO'S RESPONSE: PIGGING INFRASTRUCTURE

ATCO accepts the ERA's Draft Decision to reduce capex related to the Facility Upgrade – Pigging Infrastructure.

As the actual expenditure in 2023 was lower (-$0.2 million $2023) than forecast, we are revising the reduction to the total AA5 forecast to -$1.6 million.

7.5.1.6 ATCO'S RESPONSE: PRESSURE VESSELS

ATCO accepts the ERA's Draft Decision to remove capex related to non-regulated assets. ATCO has accounted for this deduction in our revised AA5 Capex forecast as a reduction in 2024.

7.5.1.7 ATCO'S RESPONSE: VEHICLE PROTECTION PROGRAM

ATCO does not accept the ERA's Draft Decision to reduce capex for the Vehicle Protection program in AA5.

The ERA's reduction to the forecast expenditure was made based on historical (2022) expenditure. ATCO has provided actual expenditure for 2023 and a revised forecast for 2024 as part of our response. The justification for the higher expenditures in 2023 and 2024 compared to prior years is an increase in material cost and internal drafting resource requirements to develop design packs and update mechanical drawings upon project completion. Further details can be found in our updated Compliance Summary 07.05.002.00.

7.5.1.8 ATCO'S RESPONSE: EOL REPLACEMENT ANODES (CORROSION PROTECTION)

ATCO does not accept the ERA's Draft Decision to reduce capex for the EOL Replacement Anodes program in AA5.

The ERA's reduction to the forecast expenditure was made based on historical averages. ATCO submits this cannot be applied to this program due to the increase in scope from 2022 onwards. During AA5, it was found that the number of depleted anodes identified through routine inspection was increasing. In response to this, the scope of this program increased (increased to 25 anodes per annum, compared to 15 anodes per annum in prior years). ATCO has provided actual expenditure for 2023 and a revised forecast for 2024 as part of our response. Further details can be found in our updated Compliance Summary (*see Attachment 07.05.001.00*).

7.5.1.9 ATCO'S RESPONSE: EOL REPLACEMENT MEDIUM PRESSURE REGULATORS (MPR)

ATCO does not accept the ERA's Draft Decision regarding the reduction in capex for the EOL Replacement MPRs program in AA5.

The ERA's reduction to the forecast expenditure was made based on historical average expenditures. ATCO submits this cannot be applied to this program due to the annual changes in scope (number of MPRs replaced). ATCO has provided actual expenditure for 2023 and a revised forecast for 2024 as part of our response. ATCO is confident in the delivery of this program. Further details can be found in our updated Compliance Summary 07.05.006.00.

7.5.1.10 ATCO'S RESPONSE: EOL REPLACEMENT BILLING METERS

ATCO does not accept the ERA's Draft Decision to reduce capex for the EOL Replacement Billing Meters program in AA5.

The ERA's reduction to the forecast expenditure was made based on historical averages. ATCO submits this cannot be applied to this program due to the annual changes in scope (number of meters to be replaced). In 2020 and 2021, ATCO did not undertake any works on this program. As this driver of this project is not safety related, it was possible to de-prioritise this program in response to government advice regarding social distancing during the COVID-19 pandemic. To ensure ATCO continued to meet compliance with regulatory obligations (Gas Standards (Gas Supply and System Safety) Regulations (GSSSR) 2000), the program was condensed into the remaining years of AA5; resulting in the 2023 and 2024 projects having a higher number of meters planned for replacement than prior years.

ATCO has provided actual expenditure for 2023 and a revised forecast for 2024 as part of our response. While there was a delay in the program delivery in 2023 caused by materials (meters) sourcing issues, ATCO has sourced alternative meters and is on track to complete the outstanding works as per our revised forecast.

Further details can be found in our updated Compliance Summary 07.05.005.00.

7.5.1.11 ATCO'S RESPONSE: EOL REPLACEMENT METER FACILITIES

ATCO does not accept the ERA's Draft Decision to reduce capex for the EOL Replacement Meter Facilities (Metersets) program in AA5.

The ERA's reduction to the forecast expenditure was made based on historical averages. This cannot be applied to this program due to the annual changes in scope (number of metersets to be replaced).

The condition of metersets is monitored through regular inspection and maintenance. The scope of the program is reviewed annually. The 2023 and 2024 projects had a higher number of metersets identified as meeting the criteria for replacement than prior years. ATCO has provided actual expenditure for 2023 and a revised forecast for 2024 as part of our response. While there was a delay in the program delivery in 2023 caused by materials (meters) sourcing issues, ATCO has sourced alternative meters and is on track to complete the outstanding works as per our revised forecast. Our

forecast includes the carry-over of works on two sites to 2025; this is due to customer and site requirements. Further details are in our updated Compliance Summary 07.05.005.00.

7.5.1.12 ATCO'S RESPONSE: CONTINGENCY ADJUSTMENT

2023

The ERA proposed adjustment is no longer relevant for the 2023 expenditure as our previous forecast has now been replaced by actual expenditure for 2023.

2024

ATCO does not accept the ERA's Draft Decision to remove contingency in the 2024 forecast.

ATCO has provided a revised forecast for the 2024 expenditure. To give more accuracy in this forecast, this includes actual expenditure for Q1 2024. There is a level of contingency included in some of our Sustaining projects' forecast. The list of these projects, and the value of their contingency inclusion, is given in Table 7.7. Contingency has been included in forecasts for:

- projects that have not yet commenced at the time of this response and refined forecasts cannot be provided, and,
- projects where there are expected additional costs to be incurred due to site or project conditions.

Further details on the justification for the contingency inclusion in specific projects are detailed in the following sections.

All other projects' forecasts do not include any contingency.

Total contingency within the 2024 forecast accounts for 2.6% of the total annual Sustaining forecast expenditure.

Table 7.7: ATCO's Response: 2024 Contingency inclusion in forecast ($M real as at 31 December 2023)

PROJECT NAME	2024 TOTAL FORECAST[58]*	2024 CONTINGENCY[59]
2024 - EOL Replacement - PVC mains - Fremantle	5.5	0.24
2024 - EOL Replacement -Metallic Mains (Railways)	1.6	0.18
2024 - Facility Upgrade - Step Touch Mitigation	1.3	0.11
Routine Meter Change (Domestic)	3.9	0.07
2024 - Asset Replacement - Mechanical Fittings	0.7	0.06
2024 - EOL Replacement – CBD	0.7	0.06
Greenfield Bridge Replacement & Queens Park Reinforcement	0.7	0.06
2023 & 2024 - EOL Replacement - Billing Commercial Meters	0.6	0.04

[58] Including overheads and contingency

[59] Overhead capitalisation removed (at rate of 16%)

PROJECT NAME	2024 TOTAL FORECAST[58]*	2024 CONTINGENCY[59]
2024 - Facility Upgrade - Meter Compliance	0.4	0.03
2024 - EOL Replacement – Telemetry	0.4	0.03
2024 – Reinforcement Atwell	0.3	0.03
2024 - EOL Replacement - Meter Facilities	0.3	0.03
2024 - EOL Replacement – MPR	0.3	0.03
2024 - EOL Replacement - Regulator Set Lids	0.3	0.02
2023 - EOL Replacement - Meter Facilities	0.2	0.02
2024 - EOL Replacement - Isolation Valves	0.2	0.02
2024 - EOL Replacement – HPR (Preliminary CEAR)	0.2	0.01
2024 - EOL Replacement - Facility Equipment	0.1	0.01
2024 - Facility Upgrade - HPR Vehicle Protection	0.1	0.01
2024 - EOL Replacement - Anodes	0.1	0.01
2024 - Asset Performance - New PMD installation	0.1	0.01
2024 - Facility Upgrade - Insulation Joints & Surge Protectors	0.1	0.01
2024 - EOL Replacement - Warning Signs	0.1	0.01
2024 - Facility Upgrade - Corrosion Probes	0.05	0.004
2024 - Facility Upgrade - CP Test Points	0.05	0.004
All other Sustaining projects forecasts	24.3	0.00
TOTAL	**42.6**	**1.10**

EOL REPLACEMENT - PVC MAINS REPLACEMENT (FREMANTLE)

The 2024 forecast includes a 5% ($0.24 million) contingency. This has been included as these project works are being undertaken in heritage areas (both European and Aboriginal heritage). The contingency has been included to allow for likely additional costs associated with heritage surveys, consultant (archaeologist) costs and heritage monitoring.

Supporting documentation for this project has been provided in the revised Compliance Summary 07.05.004.

EOL REPLACEMENT - METALLIC MAINS (RAILWAYS)

The 2024 project scope is for the replacement of 3 railway crossings and the decommissioning without replacement of 1 site. The 2024 forecast includes $0.18 million contingency to allow for likely additional costs due to:

- Potential increase in scope due to rail authority requirements (1 site)

- Costs associated with working within an Aboriginal heritage area such as heritage survey and heritage monitoring costs (1 site)
- Supporting documentation for this project has been provided in the revised Compliance Summary 07.05.003.

STEP TOUCH MITIGATION

A 10% ($0.11 million) contingency has been included in the forecast for the 2024 Step Touch project. The project estimate has been based on historical data, however at the time of this response, the detailed site designs are being finalised and the project team expect utilisation of this contingency due to variability in the site conditions (contractor costs) and potential requirement for additional ATCO supervision time (internal costs).

ROUTINE METER CHANGE PROGRAM

The Routine Meter Change program estimate was based on historical unit rates. The Q2-Q4 forecast includes $0.07 million contingency to account for a known increase in material (meter) costs, which would not have been evident in the historical unit rates.

MECHANICAL FITTINGS REPLACEMENT

The 2024 forecast includes contingency to account for the variability in both volume and site conditions. Despite this contingency inclusion, the 2024 forecast expenditure is conservative compared to prior years' expenditure (see AA5 Capex Model 07.119)

EOL REPLACEMENT CBD

This project involves replacement of unprotected metallic mains within the Perth CBD. The project Capital Expenditure Appropriation Request (CEAR) has been approved internally but has not commenced. The forecast and approved budget includes a 10% contingency ($0.06 million). ATCO considers it reasonable to include contingency due to foreseeable complexities with working within the Perth CBD, which are likely to increase costs, such as:

- changes to project duration and working times to meet the requirements of stakeholders, local government events and traffic volumes;
- local government reinstatement requirements, which cannot be confirmed until the available alignment for the new gas mains are identified;
- Changes in design due to congestion of underground utilities and inaccuracy of historical records for all utilities.
- Further details on can be found in the approved Business Case (*see Attachment 07.128.00*)

GREENFIELD ST BRIDGE REPLACEMENT AND QUEENS PARK REINFORCEMENT

The Queens Park Reinforcement and Greenfield Bridge replacement projects are to be delivered as a single project, resulting in cost efficiency, management of project scheduling dependencies, and timely execution. As these reinforcement projects impact two adjacent and interconnecting networks, the delivery of scope will be sequenced accordingly to ensure security of supply to networks.

This project has been estimated but has not commenced yet. The estimated cost includes $0.06 million contingency. The project has a number of deliverables (namely; installation of a HPR, installation of a MPR, mains extensions at 4 different locations, rationalisation (pressure increase) of ~90 customers, decommissioning of a HPR, MPR and a bridge crossing). There is variability in all of the deliverables due to site conditions and third party approvals (local government). There may also be unforeseen costs associated with the bridge crossing removal as this is close to an environmentally sensitive area. Taking these factors into consideration, the level of contingency included in the forecast is reasonable and realistic and reflects ATCO's expected increase in costs. Further details on this project can be found in the approved Business Case (*see Attachment 07.130.00*)

OTHER SUSTAINING PROJECTS WITH CONTINGENCY INCLUSION

There is $0.3 million of contingency included in the other asset replacement and performance projects listed in Table 7.7. This has been included in projects which are still in early commencement phases and involve works across multiple sites. A level of contingency is reasonable and prudent due to variability in site conditions and project duration (internal time). There are also known changes in the industry stipulated by road authorities (Main Roads WA) that will be coming into effect in July 2024, which will result in an increase in traffic management costs.

7.5.2 ATCO'S RESPONSE: AA5 GROWTH

7.5.2.1 ATCO'S RESPONSE: COMMERCIAL AND INDUSTRIAL METERSETS

ATCO accepts the ERA's Draft Decision to remove the forecast expenditure associated with the meterset for [redacted] however the reduction amount has been modified.

Our revised expenditure now has 2023 actuals and revised 2024 forecasts, including removal of the [redacted] meterset). The expenditure profiles are given in Table 7.7.

Table 7.7: ATCO's Response: CIC Metersets capex ($M real as at 31 December 2023)

	2020	2021	2022	2023	2024	AA5 TOTAL
ATCO Submission (A)	0.8 (A)	1.5 (A)	1.2 (A)	2.1 (F)	1.7 (F)	**7.4**
Draft Decision (B)	0.8 (A)	1.5 (A)	1.2 (A)	1.2 (F)	1.2 (F)	**6.1**
ATCO Response (C)	0.8 (A)	1.5 (A)	1.2 (A)	0.8 (A)	1.2 (F)	**5.6**
$Var. (C-A)	-	-	-	*-1.3* (A)	*-0.4 (F)*	***-1.8***

7.5.3 ATCO'S RESPONSE: AA5 STRUCTURES & EQUIPMENT (STEQ)

The STEQ projects adjusted by the ERA in the Draft Decision and the changes accepted by ATCO are given in Table 7.8.

Table 7.8: ATCO's Response: AA5 STEQ Projects capex ($M real as at 31 December 2023)

STEQ PROJECT	ATCO SUB[N] (A)	DRAFT DECISION (B)	ATCO RESPONSE (C)	$VAR. (C-A)
Minor Depot works	1.8	1.4	1.5	*-0.3*
Jandakot Redevelopment	1.1	0.2	0.1	*-1.0*
Malaga Depot Building	0.2	0.3	0.3	*0.1*
ESG Projects (Blending and CEIH)	0.6	0.0	0.0	*-0.6*
TOTAL	**3.7**	**2.0**	**2.0**	***-1.7***

7.5.3.1 ATCO'S RESPONSE: DEPOTS AND OTHER BUILDING WORKS

MINOR DEPOT WORKS

ATCO accepts the ERA's Draft Decision to reduce 2023 and 2024 expenditure. The reduction amount has been modified marginally with the updated 2023 actual expenditures.

JANDAKOT REDEVELOPMENT PHASE 3

ATCO accepts the ERA's Draft Decision to reduce 2023 and 2024 expenditure. The reduction amount has been modified with the updated 2023 actual expenditure.

MALAGA DEPOT BUILDING

ATCO accepts the ERA's Draft Decision regarding the increase in expenditure on the Malaga Depot Building in 2023. This has been reflected in the updated 2023 actual expenditure.

7.5.3.2 ATCO'S RESPONSE: ESG PROJECTS (BLENDING AND CEIH)

ATCO accepts the ERA's Draft Decision to remove the expenditure related to these projects from AA5.

The relevant projects that have been removed are the Hydrogen Blending Project and the Clean Energy Innovation Hub (CEIH).

ATCO has also identified that there was expenditure related to the CEIH in our 2019 expenditure. While not directed by the ERA, ATCO has removed this project expenditure from 2019 also (-$2.2M ($2023) reduction).

7.5.4 ATCO'S RESPONSE: INFORMATION TECHNOLOGY

Table 7.9 summarises our response to the ERA Draft Decision's adjusted items for AA5 IT capex. The table shows our original submission, the ERA's amended figure, and our revised response. The following section provides further detail on our response, with links to supporting attachments where appropriate.

Table 7.9: ATCO's Response: AA5 IT Actuals and Forecast ($M real as at 31 December 2023)

PROGRAM	2020 (A)	2021 (A)	2022 (A)	2023 (A)	2024 (A+F)	AA5 TOTAL
ATCO Submission	2.9	8.2	7.6	9.5	6.4	34.6
ATCO Submission (Dec 2023)	2.9	8.2	7.6	7.3	7.5	33.5
ERA Draft Decision	2.9	8.2	7.6	7.4	4.9	31.0
ATCO's Draft Decision Response	2.9	8.2	7.6	7.3	5.7	31.6

7.5.4.1 APPLICATION RENEWAL PROGRAM - $1.1M

ATCO does not accept the ERA's Draft Decision to remove **$1.1 million** from the IT Application renewal program. A revised forecast has been provided for the 2024 IT expenditure. This now incorporates actual expenditure data from Q1 2024 to enhance accuracy.

2023 APPLICATION RENEWAL

The ERA proposed adjustment is no longer relevant for the 2023 expenditure because we have replaced our previous IT forecast with actual IT expenditure.

2024 APPLICATION RENEWAL

ATCO does not accept the ERA's decision to reduce AA5 IT capex of **$1.1 million** from our 2024 Application renewal program**.** This expenditure was to implement bespoke business applications, including Meter Data Management, Forecasting and Accruals, and Metering Tools. While we recognise the ERA's view that these are time consuming projects that may not be delivered in 2024, we are confident these projects will be implemented by the end of 2024 (on time and budget). Our revised AA5 IT Compliance Summary, see attachment 07.05.016.00 - IT Compliance Summary demonstrates the need for these projects.

7.5.4.2 NETWORK DIGITISATION & INTELLIGENCE PROGRAM - $1.8M

ATCO does not accept the ERA's Draft Decision to reduce **$1.8 million** from the IT Network digitisation and Intelligence program.

While the plan is to re-allocate the $1.8 million forecast for the Agile BI Program (Program of Digital Work), only **$0.8 million** was invested in the following scope items, as provided in the AA5 Compliance summary.

- Program of Digital works, BC 07.05.016.01 - Program of Digital Works - Business Case
- Program of Digital Works Original CEAR 2022 - CEAR - Program of Digital Work (AGA) 07.05.016.02 - Program of Digital Works - CEAR - 2022
- Program of digital works CEAR 2– 07.05.016.03 - Program of Digital Works - CEAR - 2023

A technology risk assessment identified significant risk and issues that required higher priority attention. Full details of this risk assessment is provided in Section 5.5 of the submitted IT Strategic Plan (*see Attachment 07.09.004*).

In response to the findings outlined in Current State Review detailed in the IT Strategic Plan, the following projects were identified and prioritised:

- AGA - Technology Enhancement Project - Business Case - Approved (07.126.00 - Technology Enhancement - Business Case)
- AGA - Technology Enhancements - CEAR - Approved (07.126.01 - Technology Enhancement – CEAR)
- GET FIT - Business Case – (07.129.00 - Get Fit - Business Case)
- GET FIT - CEAR - Approved – (07.129.01 - Get Fit - Cost Estimate - Option 2 – Shared)

An updated IT Compliance Summary (*see Attachment 07.05.016.00*) provides further detail on the initiatives delivered under this program.

7.5.4.3 PROJECT CONTINGENCY EXPENDITURE

ATCO does not accept the ERA's Draft Decision to remove contingency from our AA5 IT forecasts (with an aggregate adjustment of 5% per year). ATCO has provided a revised forecast for the 2024 IT expenditure, now incorporating actual expenditure data from Q1 2024 to enhance accuracy.

2023 CONTINGENCY

The ERA proposed adjustment is no longer relevant for the 2023 expenditure as our previous IT forecast has now been replaced by actual IT expenditure.

2024 CONTINGENCY

For IT programs planned for 2024, we have included a contingency. This is because IT projects experience cost pressures and price volatility due to complexity, resource availability, support arrangements, and license cost variation. For this reason, we do not consider that including contingency amounts for these technology programs leads to an over-estimation of the level of required expenditure to deliver a sustainable business outcome.

7.6 ATCO'S RESPONSE: FORECAST CAPITAL BASE

ERA REQUIRED AMENDMENT 4.2:

ATCO must amend its access arrangement information to revise its AA6 forecast capital expenditure to $443.1 million ($ real as at 31 December 2023).

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

ATCO does not accept the ERA's Draft Decision to reduce AA6 capex by $22.7 million. We propose a revised AA6 forecast capex of $490.7 million, $24.9 million higher than our original 2025-29 Plan. See Table 7.10 for a summary of our revised AA6 capex forecast.

Table 7.10: ATCO's Revised AA6 Forecast capex ($million real as at 31 December 2023)

	2025	2026	2027	2028	2029	TOTAL
Network Sustaining	**49.1**	**49.3**	**52.7**	**50.9**	**50.0**	**252.1**
Asset Replacement	44.9	42.0	43.6	42.0	41.2	**213.8**
Asset Performance and Safety	4.2	7.3	9.1	8.9	8.8	**38.3**
Network Growth	**25.4**	**29.2**	**31.0**	**32.3**	**33.0**	**151.0**
Customer Initiated	25.4	29.2	31.0	32.3	33.0	**151.0**
Demand Related	-	-	-	-	-	-
Information Technology	**19.3**	**28.5**	**9.4**	**4.7**	**2.1**	**64.0**
Structures and Equipment	**6.1**	**6.7**	**2.8**	**3.8**	**4.2**	**23.6**
Total	**99.9**	**113.7**	**96.0**	**91.7**	**89.4**	**490.7**

7.6.1 ATCO'S RESPONSE: AA6 NETWORK SUSTAINING

ATCO has revised its AA6 network sustaining capex forecast, increasing from the Draft Decision of $218.1 million to $252.1 million. The main factors influencing our revised forecast are:

- Removal of contingencies from forecast projects at the portfolio level
- Inclusion of expected increases in contractor rates
- Removal of the requirement to conduct inline inspection of Bunbury pipelines in this access arrangement period
- Adjusted scope for Enabling Renewable Gases, Network Reinforcement, Vehicle Protection and PMDs
- Addition of new EOL Replacement programs – HPR and Meter Compliance.

7.6.1.1 ATCO'S RESPONSE: CONTINGENCY REMOVAL IN SUSTAINING CAPEX PROGRAMS

The forecast capex in ATCO's initial submission included contingency. The revised forecast has removed contingency from the sustaining capex program for work that has been completed in the past and that ATCO has a high level of confidence in its cost estimates to build up the forecast. However, the forecast retains anticipated cost increases to reflect expected changes in market conditions. This is to ensure that budget estimates align with realistic cost expectations for supporting multiple programs across the sustaining capex portfolio.

These increases are summarised below.

- [redacted] increase in mains and services contractor rates, meter replacement contractor rates and fabrication costs for metersets and regulator sets. We have long term contracts that support the delivery of the sustaining capex program. All of these contracts are undergoing a competitive tender in 2024 to update the rates for the next 3 – 5 years. The [redacted] increases are based on historical observations from past rate reviews.
- 5% increase in material costs for meter replacement programs. There has been an increase in the cost of gas meters as of December 2023. The price revision was triggered by increased component costs for our suppliers. The price revision includes 5% increase for domestic meters and an average 10% increase for commercial meters. The material cost increase is included in the forecast expenditure.
- [redacted] increase in traffic management. An increase in traffic management costs is anticipated starting July 2024 due to industry changes stipulated by Mains Road WA[60].
- [redacted] increase in reinstatement costs. Reinstatement of a site is a contractor activity, and the current contractor's rates will be up for review and renewal in 2027. We are anticipating a [redacted] increase in 2027 and beyond.

The anticipated cost increases are supported by historical data and align to supplier and industry trends. Please refer to 07.101 Sustaining Capex – Contingencies vs Anticipated Contractor Rates for more information.

The inclusion of the anticipated cost increases demonstrates transparent and realistic forecasting and represents the best expenditure forecast to meet NGR 74.

7.6.1.2 ATCO'S RESPONSE: MAINS REPLACEMENT PROGRAM

ATCO has amended the forecasts for the mains replacement program in this 2025-29 Revised Plan. We have reforecast Mains Replacement capex to increase from the Draft Decision sum of $132.8M to $141.2M.

Our revised forecast expenditure is derived from actual costs and includes an anticipated increase in contractor rates to ensure the effective deliverability of the program. ATCO accepts the ERA's amendment to remove contingency from the mains replacement program.

The revised forecast for the mains replacement program is $141.2M, comprising the following programs:

- 2025-29 EOL Replacement – PVC mains ($138.8M): The forecast expenditure is based on actual costs and projection of contractor rates,
- 2025-29 EOL Replacement – PVC ad-hoc ($1.6M): The planned activity and forecast expenditure did not change from the Draft Decision and does not include contingency,
- 2024 EOL Replacement – PVC mains ($0.8M): This project started in 2024 and will carry over into 2025. The planned activity is based on the approved scope and forecast expenditure is based on forecast to completion as of April 2024 and does not include contingency.

[60] https://www.mainroads.wa.gov.au/globalassets/technical-commercial/working-on-roads/newsletter-1-state-road-traffic-management-company-registration-scheme.pdf?v=4a9867

The mains replacement program is predominantly delivered by external contractors. The contractor rates are established under the Mains and Services Contract, which will be going through a competitive tender in 2024, with new rates planned to be effective as of May 2025. Historical rate reviews have resulted in a [redacted] increase above inflation and labour escalation rates.

The expenditure forecast, including the anticipated cost increase, meets NGR 79(1) as the contractor rates are established through a competitive tender process in accordance with accepted good industry practice. The anticipated cost increase is supported by historical data. The revised unit rates will be set for three years, with the option to extend for two years, to achieve a stable and sustainable cost for the mains replacement program. The expenditure is necessary to maintain and improve the safety and integrity of services.

PLANNED ACTIVITY

There has been no change in the planned activity for the program. The program has identified 290 km of mains to be replaced in AA6, with an average of 58 km of mains replaced per year. Table 7.11 outlines the total length of mains to be replaced annually in AA6.

Table 7.11: Mains length to be replaced in AA6 (km)

PROGRAMS	2025	2026	2027	2028	2029	TOTAL
Mains Replacement[61]	54	56	61	60	59	290

FORECAST EXPENDITURE

A revised $141.2 million of network sustaining capex relating to Mains Replacement is $0.5 million lower than our initial submission. The revised forecast for the Mains Replacement Program for AA6, is summarised in Table 7.12.

The project cost is calculated using unit rates for each mains type and an assessment of the costs resulting from the geographical characteristics of the mains' location. Our forecast unit rates are based on the outcomes of our competitive tender processes. We also considered bundled efficiency, new delivery methods (such as the insertion method), mobilisation, disruption, and third-party combined works opportunities. Our revised forecast capex is based on current unit rates with projected increase on contractor rates.

Table 7.12: Mains Replacement Program, Revised AA6 Forecast Capex ($M real as at 31 December 2023)

PROGRAMS	2025	2026	2027	2028	2029	TOTAL
Mains Replacement Program	27.3	28.2	29.8	28.2	27.6	**141.2**

[61] This is subject to change due to continuous refining of the Mains Replacement Prioritisation model.

7.6.1.3 ATCO'S RESPONSE: METER REPLACEMENT PROGRAM

ATCO has amended the forecasts for the meter replacement program in this 2025-29 Revised Plan. Our revised forecast for Meter Replacement capex increases from the Draft Decision of $25.7 million to $27.7 million.

Our revised forecast for routine meter change is based on historical unit rates and is adjusted for anticipated increases in contractor rates and material costs. ATCO accepts the ERA's amendment to remove contingency from this program.

Our revised forecast comprises the following programs:

- Routine Meter Change ($26.2M),
  - The majority of the Routine Meter Change program is delivered by external contractors. The contractor rates are established under the Meter and Regulator contract, which is currently out for competitive tender, with new rates planned to be effective as of May 2025. Current contractors have faced resource constraints causing instability in the delivery of the program. Following the tender process, we expect the contractor rates to increase to attract and retain personnel and meet equivalent industry remuneration levels. The forecast expenditure for the Routine Meter Change Program includes 10% anticipated increase in contractor costs and includes 5% increase on material costs based on recent price revisions in December 2023.
- 2025-29 EOL Replacement – Billing commercial meters ($1.5M),
  - There has been an increase in the cost of gas meters, with material price revisions effective as of December 2023. The 3-year historical unit rates (2021 - 2023) for Routine Meter Change do not include this material cost increase. The forecast expenditure includes the expected increases in both contractor and material rates, ensuring the effective delivery of the program.
  - The billing commercial meter replacement program includes a 10% increase on material costs based on recent price revisions in December 2023.

The expenditure forecast meets NGR 79, as the contractor rates are established through a competitive tender process in accordance with accepted good industry practice and the expenditure is necessary to maintain and improve the safety and integrity of services. The unit rates are set for three years, with the option to extend for two years, to achieve a stable and sustainable cost for the meter replacement program. The inclusion of the expected contractor rate increase and updated material costs meets NGR 74 and reflects the best estimate possible under the circumstances.

PLANNED ACTIVITY

The volume of activity remains the same as our initial submission. The replacement year is calculated based on installation dates. In AA6, we forecast approximately 110,116 domestic meters and 64 commercial meter replacements. Table 7 shows the replacement volumes for each year of AA6.

Table 7.13: Meter Replacement Program, AA6 volume

PROGRAMS	2025	2026	2027	2028	2029	TOTAL
Meter Replacement - Domestic	24,865	23,120	22,013	21,824	18,294	**110,116**
Meter Replacement - Commercial	9	16	10	10	19	**64**
TOTAL	**24,874**	**23,136**	**22,023**	**21,834**	**18,313**	**110,180**

FORECAST EXPENDITURE

Applying the domestic and commercial meter replacement unit rates to the forecast set out above, we have estimated that the meter replacement program will cost $27.7 million over AA6. This is $1.4 million lower than our initial submission. Table 7 shows the meter replacement forecast capex for each year of AA6.

Table 7.14: Meter Replacement Program, AA6 Forecast Capex ($million real as at 31 December 2023)

PROGRAMS	2025	2026	2027	2028	2029	TOTAL
Meter Replacement - Domestic	5.9	5.5	5.2	5.2	4.4	**26.2**
Meter Replacement - Commercial	0.2	0.3	0.2	0.3	0.5	**1.5**
TOTAL	**6.1**	**5.8**	**5.5**	**5.5**	**4.9**	**27.7**

7.6.1.4 ATCO'S RESPONSE: OTHER ASSET REPLACEMENT PROGRAM

We have reforecast and our Other Asset Replacement capex increased from the Draft Decision from $37.5 million to $42.8 million. ATCO accepts the ERA's amendment to remove contingency from this program.

The revised forecast comprises the following programs:

- Riser and Services ($16.8M)
- Regulator sets and metering facilities ($10.3M)
- Telemetry equipment ($5.4M)
- Mechanical fittings ($5.2M)
- Metallic Mains ($1.0M)
- Isolation Valves ($1.4M)
- Warning Signs ($0.4M)
- Carried over project scopes from 2024 ($2.4M)

RISER AND SERVICES

The ERA's Draft Decision removes contingency applied to the forecast volume from the riser and services replacement program.

ATCO has removed the contingency for the forecast volume in our revised proposal. The revised forecast is based on historical unit rates determined from the average unit rate over the period 2021 to 2023. The volume of replacement has been revised to a 3-year average.

REGULATOR SETS AND METERING FACILITIES

The ERA's Draft Decision removes contingency from the regulator sets and metering facilities replacement program. There are no changes to the scope, but ATCO has revised the expenditure forecast for regulator sets and metering facilities replacement program. The expenditure forecast for end-of-life replacement of MPR and metering facilities have been updated to:

- reflect the historical unit costs;
- include the anticipated increase in contractor rates for fabrication, traffic management and reinstatement; and
- exclude contingency

Replacement of facility equipment is part of this program; however, it is not impacted by the anticipated contractor rate increases and the revised forecast also does not include contingency.

TELEMETRY EQUIPMENT

The ERA's Draft Decision removes contingency from the telemetry replacement program.

There are no changes to the scope of proactively replacing 3,403 pieces of telemetry equipment that are approaching end-of-life. The forecast expenditure has been derived from a bottom-up cost estimate using the most recent component costs from suppliers, labours hours from previous installation work, the forecast volume based on asset age and exclude contingency.

MECHANICAL FITTINGS

The ERA's Draft Decision removes contingency from the replacement of mechanical fittings program.

ATCO has revised the scope and expenditure forecast for the replacement of mechanical fittings. The revised forecast is based on historical unit rates determined from the average unit rate over the period 2021 to 2023. The volume of replacement also based on a 3-year average. The revised expenditure for this program does not include contingency.

Table 7.15: Updated 3-year averages used for scope and expenditure forecast

	INITIAL SUBMISSION	REVISED PROPOSAL
Analysis Period	2020 - 2022	2021 -2023
Units	176	184
Unit Rate (2023$)	[redacted]	[redacted]

ISOLATION VALVES

The ERA's Draft Decision removes contingency from the end-of-life replacement of isolation valve program.

There are no changes to the scope and the revised expenditure forecast for the replacement of six isolation valves that have reached end of life aligns to historical unit rates. The revised forecast expenditure does not include contingency.

WARNING SIGNS

The ERA's Draft Decision removes contingency from the warning signs replacement program.

There are no changes to the scope. ATCO has removed contingency from the forecast expenditure for this program.

CARRY OVER PROGRAMS

ATCO's revised proposal includes our updated expenditure forecast for 2024 projects. The latest forecast expects $2.4M to carry over into 2025. The forecast expenditure for these six programs includes contingency. Please see section 07.101 Sustaining Capex – Contingencies vs Anticipated Contractor Rates for more detail regarding the inclusion of contingency for these programs The majority of the carry over relates to timing of the expenditure.

Table 7.16: Carry Over Programs

PROGRAMS	EXPENDITURE	COMMENTS
2024 Replacement of Mechanical Fittings	$0.2M	There is no scope carried over from 2024 to 2025. The expenditure is related to project closeout cost.
2024 Replacement of un-protected mains in the CBD	$0.8M	This project involves working with the Perth CBD. A longer planning and construction period is required to address challenging factors such as dense infrastructure, space constraints, high traffic management. The project is forecast for 17months starting in July 2024.
2024 Replacement of Meter Facilities	$0.2M	This deferment of expenditure is due to work delayed on two sites to accommodate customer and site requirements.
2024 Warning Signs	$0.004M	Minor expenditure relating to project close out.
2024 Replacement of Greenfield Bridge	$0.8M	This project is planned to commence in September 2024 and to be completed in March 2025.
2024 Replacement of EOL HPR	$0.3M	A longer planning and design period is required due to limited suitable location, complex site (next to a railway) and long lead items. The project is forecast over 13 months starting in February 2024.
TOTAL	**$2.4M**	

REVISED PROPOSAL: OTHER ASSET REPLACEMENT PROGRAM

ATCO's revised forecast (excluding contingency) for the other AA6 Asset Replacement Programs is $42.8 million. This is $0.4 million lower than our initial submission. Table 7 shows our AA6 forecast capex for our other asset replacement programs.

Table 7.17: Other Asset Replacement Programs, AA6 Forecast Capex ($M real as at 31 December 2023)

PROGRAMS	2025	2026	2027	2028	2029	TOTAL
Risers and services	2.8	2.8	2.8	2.9	2.9	**14.2**
Regulator sets and metering facilities	2.5	2.0	1.9	1.9	2.1	**10.3**
Telemetry equipment	0.7	0.8	1.3	1.2	1.3	**5.4**
Mechanical compression fittings	1.0	1.0	1.0	1.0	1.1	**5.2**
Metallic mains	1.0	-	-	-	-	**1.0**
Isolation valves	0.5	0.2	0.2	0.2	0.2	**1.4**
Warning signs	0.1	0.1	0.1	0.1	0.1	**0.4**
Carry Over Programs	2.4	-	-	-	-	**2.4**
TOTAL	**11.5**	**6.9**	**7.3**	**7.3**	**7.7**	**42.8**

7.6.1.5 ATCO'S RESPONSE: ENABLING RENEWABLE GASES

ATCO does not accept the ERA's amendment to remove all capex associated with our Enabling Renewable Gases program. In response, we have re-evaluated our program and propose a revised program of $9.6 million (compared to our initial submission of $15.5 million).

The Enabling Renewable Gases program will facilitate the injection of renewable gases into the network during AA6 to enable:

- ATCO to purchase a portion of its UAFG as biomethane; and
- renewable gas to be injected into and distributed through the GDS and available for purchase by end users.

This assessment is based on the revised National Gas Objective that emphasises the importance of achieving greenhouse gas reduction targets, which is reflected in the revisions to the expenditure rules. ATCO submits that its proposal assists to achieve the targets refenced in the revised NGO (set out in the AEMC's targets statement[62]) as discussed below. It also aligns with the Australian Government's Future Gas Strategy[63], which acknowledges the need for gas well into the future, and to provide households with a choice in how their energy needs are met. ATCO expects that subsequent policy changes will act as enablers to achieve the benefits and outcomes detailed within our Business Cases. The Future Gas Strategy also acknowledges that low-emission gases, including biomethane,

62 https://www.aemc.gov.au/regulation/targets-statement-emissions

63 Australian Government's Future Gas Strategy: https://www.industry.gov.au/publications/future-gas-strategy

currently make a small contribution to Australia's energy mix, and that upscaling such alternative sources is a critical opportunity for Australia.

ATCO's revised investment of $9.6M comprises:

- One injection point for UAFG ($3.5M): This investment involves the construction of a gate station (injection point) for renewable gas to be injected into the network. The construction of this new gate station will enable ATCO to purchase biomethane for a portion of its UAFG.
- Two injection points for customer injection($6.2M): This expenditure is to construct two gate stations (injection points) for renewable gas to be injected into the network. This is to meet the expected availability of, and demand for, biomethane and enable biomethane to be injected into the GDS to ultimately be available for end users to purchase. This expenditure is expected to assist to boost the market for biomethane, allow biomethane to be distributed through the network and enable customers to purchase biomethane in place of natural gas.

ATCO has analysed these points separately (below and in its business cases). ATCO's business cases demonstrate that its revised proposal aligns with the updated national gas objective and expenditure rules, particularly in the context of emissions reduction. Please refer to attachment 07.105.00 Renewable Fuel Gate Station UAFG Business Case, and attachment 07.106.00 Renewable Fuel Gate Station Community Access for more details.

Benefits associated with biomethane

As set out in these business cases, the use of biomethane in the network (in place of natural gas) has a number of benefits.

Biogas is produced through anaerobic digestion where organic waste is broken down. The biogas would be released over time into the atmosphere as a result of the natural decomposition of the organic matter. Instead, biogas can be processed to produce biomethane and the biomethane then injected directly into the network (in place of natural gas).

The conversion of biogas to biomethane can help create circular economies, reduce waste and has a number of potential renewable energy applications (including injecting the biomethane directly into the network for use in place of natural gas).

When biomethane is injected into the GDS, the gas will be utilised (combusted). As such, the benefit (or carbon abatement associated with injecting biomethane into the gas network instead of natural gas), is the difference in emissions between burning biomethane, versus the biomethane being released unburnt into the atmosphere.

In simple terms, there are significant carbon emission reductions associated with biomethane, as one molecule of unburnt biogas (from natural degradation) leads to methane being released into the atmosphere ($CH_4 + 2O_2$), whereas one molecule of burning methane results in carbon dioxide being released into the atmosphere ($CO_2 + 2H_2O$). As methane's global warming potential (GWP) is higher than carbon dioxide, carbon reduction benefits can arise from emitting carbon dioxide instead of methane.

As set out in the business cases, ATCO has applied first principle calculations to calculate the emission reduction benefit associated with the injection of biomethane as an alternative to natural gas. This preliminary methodology utilised by ATCO does not utilise a "net-zero" approach to biomethane. We

therefore consider it to be a conservative approach. As noted in the Future Gas Strategy, combusting biomethane releases the carbon absorbed by the biogenic material from the atmosphere during its life[64]. On this basis biomethane is often considered to have net-zero carbon emissions which is reflected in the Australian National Greenhouse Accounts Factors which provides biomethane has a zero CO2 emission factor[65].

In summary, when considering the difference in emissions between unburned biomethane and burned biomethane, **for every 1 TJ of biomethane injected into the GDS, there is a 350 tonne of CO_2 equivalent (tCO_2-e) benefit**.

UAFG INJECTION POINT

Please refer to attachment 07.105.00 Renewable Fuel Gate Station UAFG Business Case for further detail.

The proposed UAFG injection point will facilitate ATCO's procurement of biomethane to offset a portion of our UAFG and assist us in meeting our emissions reduction targets. Our amended program has taken into account:

- **Revised Economic Analysis**: We have revised the economic cost benefit analysis to incorporate long-term benefits using the Value of Emissions Reductions (VER) methodology established by the Australian Energy Regulator (AER) for deriving emissions reduction values. By applying this methodology, we can demonstrate that the overall economic value of the project is positive.

  The benefits considered in this analysis include partially offsetting UAFG by using natural gas with biomethane, which contributes to environmental sustainability and aligns with Australia's target of reducing the carbon footprint and promoting renewable energy sources.

  The positive economic value derived from these benefits ensures that the project meets the criteria set out in NGR 79(2)(a), which requires that expenditure be justified by the net positive impact.

  Further details on the specific benefits and the cost benefit analysis supporting the positive economic value can be found in attachment 07.105.00 Renewable Fuel Gate Station UAFG. This attachment outlines the long-term benefits, the methodology used for calculating VER, and the overall justification for the project expenditure.
- **Availability of biomethane**: ATCO has engaged with Delorean Corporation, to determine that a sufficient amount of biomethane will be available for purchase for its UAFG, and to develop the operational model and ensure that the infrastructure meets the needs of all parties involved.

ATCO submits the expenditure meets the NGO as it is in the long-term interests of gas consumers with respect to assisting the Australian and Western Australian Governments to achieve their emissions reduction targets . Further, procuring approximately 12% of UAFG as biomethane (instead of natural gas) is also expected to assist ATCO to achieve its target (as set out in our Sustainability Strategy) to reduce Scope 1 net emissions to below 30% of 2020 levels by 2030.

64 https://www.industry.gov.au/publications/future-gas-strategy-analytical-report at page 31

65 https://www.dcceew.gov.au/climate-change/publications/national-greenhouse-accounts-factors-2023

Expenditure on the UAFG injection point is conforming capex for the following reasons:

- 79(1) - the expenditure is such that would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing services in a manner consistent with the achievement of the national gas objective - to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to:
  - price, quality, safety, reliability and security of supply of natural gas; and
  - the achievement of targets set by a participating jurisdiction –
    - for reducing Australia's greenhouse gas emissions; or
    - that are likely to contribute to reducing Australia's greenhouse gas emissions.

  Our business case demonstrates prudency in evaluating various options for UAFG replacement. The analysis aimed to select an option that balanced the elements required by the National Gas Objective (price, quality, safety, reliability, and security of supply) while achieving state and federal emissions reduction targets. Since biomethane has the same chemical composition as natural gas, it does not affect the quality, safety, reliability, or security of supply. Although ATCO acknowledges the higher cost of purchasing biomethane instead of natural gas for part of its UAFG, including the associated capex, our business case shows an overall positive economic value from this investment, along with environmental benefits.
- 79(2)(a) and (3) - the investment delivers overall positive economic value when considering the sum of:
  - The economic value, other than of changes to Australia's greenhouse gas emissions, directly accruing to the service provider, producers, users and end users; and
  - The economic value of changes to Australia's greenhouse gas emissions, whether or not that value accrues (directly or indirectly) to the service provider, producers, users or end users

  By considering the economic value of the emissions reduced as a result of purchasing biomethane in place of natural gas for a portion of its UAFG (which is enabled by this proposed expenditure), which ATCO has done based on the AER's guidance document, the economic value of this proposed expenditure is positive to the amount of $22.7M.
- 79(2)(c)(v) - the expenditure is necessary to contribute to meeting emissions reduction targets through the supply of services.
  - The proposed expenditure is required to enable ATCO to purchase a portion of its UAFG as biomethane which in turn enables ATCO to meet its emissions reduction targets. These emissions reduction targets will assist to achieve state and federal targets and therefore the expenditure directly contributes to meeting these targets.

ATCO notes that the ERA's Draft Decision, which aligns with EMCa's assessment, highlighted concerns regarding the economic justification for ATCO's renewable gas injection proposals. Specifically, the analysis states that ATCO did not demonstrate that injection of renewable gas for UAFG is the most "cost efficient" option and states that using natural gas for unaccounted-for gas (UAFG) is currently the "lowest cost" option[66].

[66] See for example paragraph 212 of the Draft Decision.

ATCO notes that EMCa's assessment was not based on the current expenditure rules, which expressly incorporate the revised national gas objective[67]. It therefore should not be relied on by the ERA to reject this proposed expenditure. The amended rules require a broader analysis, beyond what is the lowest sustainable cost, to now include an analysis of the national gas objective which in turn requires an assessment of the ability to contribute to achieving targets for reducing Australia's greenhouse emissions. Further, NGR 79(2)(a) now allows the economic value of changes to Australia's greenhouse emissions to be taken into account. As set out above and in the business case, with this revised economic analysis applied, this expenditure does meet these new tests.

CUSTOMER INJECTION POINTS

Please refer to 07.106.00 Renewable Fuel Gate Station Community Access Business Case for further detail.

ATCO proposes to construct two injection points for injecting renewable gas into the network to make biomethane available for purchase by end users. Our amended program has taken into account:

- **Revised Economic Analysis**: ATCO revised the economic cost benefit analysis incorporating long-term benefits. The revised analysis considers Value of Emissions Reductions (VER) based on the AER's method[68] for deriving values of emissions reduction, which demonstrates that the benefits of these projects significantly outweigh the costs.
- **Stakeholder Engagement**: ATCO sought feedback on introducing renewable gas into the network from the community through our Voice of Customer program. The community was supportive of the initiatives, with almost 9 in 10 personally considering 'Gas from renewable sources as at least important', but needing more information to better understand the cost impacts of the Enabling Renewable Gas programs. To develop a clearer picture of market readiness and support for the proposed infrastructure, ATCO also conducted a survey a of large industrial stakeholders to gauge their demand and willingness to transition to renewable gases. This survey identified strong support for the Renewable Program, with the majority of respondents indicating a willingness to assist in future planning of the gas network and to procure and consume renewable gas if available.

ATCO notes commentary in EMCa's report and the ERA Draft Decision questioning whether ATCO is the appropriate party to establish these customer injection points or whether it will become a "taker" of whatever "blend" a customer wants to deliver. Further, that it is the party wishing to develop renewable gas production facilities that would benefit from the proposed facilities and they should therefore meet the cost of any investment needed for associated connection and "blending" facilities.[69] Further, there is commentary around whether ATCO's role should extend to "the provision of *blending* and de-blending services as a covered service". ATCO makes the following points in response to these issues, set out further in the Business Case:

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67 This is contrary to the ERA's statement at paragraph 212 that "EMCa has reviewed the renewable expenditure in light of the regulatory changes above". ATCO's assessment of the EMCa report is that the old expenditure rules were utilised as a result of timing issues.

68 "Valuing emissions reduction final guidance – May 2024", *AER. https://www.aer.gov.au/industry/registers/resources/guidelines/valuing-emissions-reduction-final-guidance-may-2024/final-decision*

69 See paragraph 212 and 213 of the Draft Decision and from paragraph 87 of the EMCa report.

- ATCO's investment in infrastructure facilitates the transition to a lower-emissions gas network, providing a competitive and sustainable product for gas consumers. Replacing natural gas with biomethane will benefit all customers, as their use of this less emissions-intensive gas will contribute to Australia's efforts to meet its 2030 emissions targets.
- ATCO does not propose to provide any blending services for biomethane. Due to the chemical composition of biomethane meeting natural gas specifications, it is not required to be blended with natural gas and the injection points are not blending facilities.
- As the operator of the GDS, ATCO is the most appropriate party to construct, operate and maintain these customer injection points that will enable biomethane to be injected into the network for the following reasons:
  - for natural gas injected from a transmission pipeline, the transmission pipeline operator is responsible for operating and maintaining the injection points that enable natural gas to be injected into the network. The transmission operator is subject to significant regulatory obligations. [70]
  - ATCO is also subject to regulatory obligations with respect to the gas that is distributed to customers from the network. [71]
  - when injecting renewable gas such as biomethane into the network, the position is necessarily different as the biomethane will not be transported for injection into the network by a transmission pipeline. Additionally, biomethane plants operate at a lower pressure, which is not compatible with transmission pipelines. However, the pressures are better aligned with the operating pressures of the GDS.
  - The biomethane will be injected at the source – from the production facility.
  - As there is no transmission pipeline, the relevant regulatory obligations that apply to gas injected into the network from a transmission pipeline do not apply.
  - It would not be appropriate for these obligations to rest solely with the producer or customer who would likely have no or little experience or capability (and who would not be subject to these obligations in any event).
  - ATCO as the distribution network operator with obligations regarding the specification of gas supplied to customers, is the most appropriate party to retain responsibility for the operation and maintenance of these customer injection points.

As set out further in attachment '07.106.00 Renewable Fuel Gate Station Community Access Business Case', the proposed capex associated with two injection points to inject biomethane into the network to meet customer demand is conforming capex as follows:

- 79(1) - The planned expenditure conforms to NGR 79(1) as the expenditure aligns to Australian Government's climate objectives and is in line with good industry practice for reducing emissions and ensuring long-term environmental benefits. Other gas distribution networks across Australia

[70] For example, gas transmission pipelines are bound by the *Gas Supply (Gas Quality Specification) Act 2009* and *Gas Supply (Gas Quality Specification) Regulations* 2010

[71] For example, *Gas Standards (Gas Supply and System Safety) Regulation 2000*, regulation 5(2) requires ATCO to ensure that natural gas supplied to a consumer through a distribution system complies with AS 4564-2011. Note that biomethane falls within the definition of natural gas.

are transitioning to renewable gases. Adelaide[72] and Sydney[73] have operating renewable gas facilities and two more projects (in Gladstone[74] and Wodonga[75]) will be operational by 2026. These projects demonstrate that incorporating renewable gases into existing networks is not only feasible but also in line with progressive industry standards.

Two gate stations were forecasted as the likely maximum number technically feasible within AA6. We have assumed that the biomethane production plants at each gate station location are capable of supplying 150 TJ of bio-methane per year to partially offset natural gas.

- 79(2)(a) and (3) - the investment delivers overall positive economic value when considering the sum of:
  - The economic value, other than of changes to Australia's greenhouse gas emissions, directly accruing to the service provider, producers, users and end users; and
  - The economic value of changes to Australia's greenhouse gas emissions, whether or not that value accrues (directly or indirectly) to the service provider, producers, users or end users
  - By considering the overall economic value of the emissions reduced as a result of displacing natural gas with biomethane, the economic value of this proposed expenditure is positive to the amount of $11.2M.
- 79(2)(c)(v) - the expenditure is necessary to contribute to meeting emissions reduction targets through the supply of services. ATCO investing in the design and construction of renewable injection points will enable the distribution of renewable gas, thereby reducing overall emissions associated with gas supply.

As detailed above, ATCO notes that EMCa's assessment was not based on the current expenditure rules, which expressly incorporate the revised national gas objective . It therefore should not be relied on by the ERA to reject the expenditure proposed for customer injection points. The amended rules require a broader analysis, beyond what is the lowest sustainable cost, to now include an analysis of the national gas objective which in turn requires an assessment of the ability to contribute to achieving targets for reducing Australia's greenhouse emissions. As set out above, and detailed within attachment '07.106.00 Renewable Fuel Gate Station Community Access Business Case', with the revised economic analysis applied, ATCO has demonstrated how this expenditure meets these new tests.

PLANNED ACTIVITY

Table 7.18 shows our AA6 timing to install three renewable gas injection points.

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72 Hydrogen Park South Australia blends renewable hydrogen to more than 700 homes in the Adelaide suburb of Mitchell Park. More information available here - https://www.agig.com.au/hydrogen-park-south-australia

73 Malabar Biomethane Injection Plant will have an initial capacity of 95 terajoules of renewable gas per annum. This is about equivalent to the average annual gas usage of 6,300 NSW homes. More information available here - https://jemena.com.au/about/innovation/renewable-gas/key-projects/malabar-biomethane-project

74 Hydrogen Park Gladstone will blend up to 10% renewable hydrogen to 770 homes and businesses in Gladstone – More information available here - https://www.agig.com.au/hydrogen-park-gladstone

75 From 2025 Hydrogen Park Murray Valley will blend up to 10% hydrogen for supply into the existing gas distribution networks across Albury and Wodonga to more than 40,000 business and residential connections, More inflation available here - https://www.agig.com.au/hydrogen-park-murray-valley

Table 7.18: Number of renewable gas injection points delivered per year

PROGRAMS	2025	2026	2027	2028	2029	TOTAL
Injection point – UAFG	-	-	1	-	-	**1**
Injection point – Customer Access	-	-	-	1	1	**2**

REVISED PROPOSAL: ENABLING RENEWABLE GASES

The capex for the UAFG injection point includes $0.8M in 2025 for the bio-methane gas producer, Delorean Corporation, to connect to the network for power generation using natural gas. Once the organic waste facility and Anerobic Digester are operational, the produced biogas will replace natural gas for electricity generation. Excess biogas can be treated for biomethane quality and made available for purchase by ATCO to offset some UAFG requirements.

The forecast expenditure includes 10% contingency. The cost estimates based on the best available information, vendor quotes, and similar projects. Given the rapidly evolving technical standards and novelty of these programs, there is a higher likelihood of encountering unforeseen risks such as customisation of gate station design and specific location requirements, making the inclusion of contingency prudent.

Table 7.19: Enabling Renewable Gas, AA6 Forecast Capex ($M real as at 31 December 2023)

PROJECTS	2025	2026	2027	2028	2029	TOTAL
Renewable gas injection – UAFG	0.8	1.3	1.3	-	-	**3.5**
Renewable gas injection – Customer Access	-	-	0.6	3.1	2.5	**6.2**
TOTAL	**0.8**	**1.3**	**1.9**	**3.1**	**2.5**	**9.6**

7.6.1.6 ATCO'S RESPONSE: INLINE INSPECTION

ATCO has reviewed the ERA's Draft Decision and adjusted our inline inspection program and AA6 capex forecast. In the 2025-29 Plan the initial inline inspection program consisted of:

- Facility Upgrade – Pigging Facilities for 3 Bunbury pipelines, HP PI104, HP PI089, HP PI047
- Facility Upgrade – Pigging Facilities for 5 pipelines
- The ERA's Draft Decision disallowed expenditure for installing three pigging facilities for the Bunbury pipelines and removed the contingency from the remaining expenditure related to pigging facilities for 5 pipelines.

ATCO has reassessed the requirement for inline inspection for the three pipelines in Bunbury and will undertake direct assessment of these three pipelines to meet the requirements of Australia Standard (**AS**) 2885.3 2022[76]:

[76] AS 2885.3:2022 Section 5.6 Fitness for Purpose Requirements

"A Fitness for Purpose (FFP) assessment should draw upon a range of information to demonstrate that a PIPELINE SYSTEM can be safety operated until the next assessment. This information should include –

(i) *Pipeline anomalies and their degradation rate established from ILI surveys, direct assessments or other methods providing equivalent results;"*

We have removed the capex from our revised proposal associated with installing pigging facilities for the 3 Bunbury pipelines. ATCO has updated the forecasts for the remaining pigging facilities for 5 pipelines, including removing the contingency.

The revised forecast expenditure for our inline inspection capex increased from the Draft Decision of $13.0 million to $13.8 million. The revised forecast excludes contingencies but includes the expected contracted rates increase for fabrication works.

FACILITY UPGRADE – PIGGING FACILITIES FOR BUNBURY PIPELINES

The ERA's Draft Decision removes all expenditure related to Bunbury pipelines.

ATCO has assessed and revised the inspection strategy for the high pressure pipelines (HP PI104, HP PI089, HP PI047) located in Bunbury. Currently, the Bunbury pipelines are operating at 1850kPa with a maximum operating pressure (MAOP) of 5200kPa. With no immediate need to increase the operation pressure other than to conduct inline inspection, ATCO proposes to maintain the operation of these three pipelines at 1850kPa and conduct additional direct assessment of the pipelines to ensure they remain fit for purpose, safe to operate and in compliance with requirements of AS 2885.3[77].

This revised strategy leads to a reduction in both capex for pigging facilities and opex for inline inspection, which is offset by a modest increase in opex for direct assessment.

FACILITY UPGRADE - PIGGING FACILITIES

There are no changes to the scope, but ATCO has revised the forecast expenditure for this program.

The ERA's Draft Decision removes contingency applied to the forecast expenditure to modify six pipelines and to install five pigging facilities to enable inline inspection. In-line inspections provide key integrity data for any mitigation activities necessary to maintain the safety and integrity of the network, ensuring compliance with AS 2885 regulatory requirements.

The forecast expenditure has been revised to remove contingency but retains a 5% increase in contractor rates. This accounts for the anticipated rate increase for fabrication when the fabrication contract is renewed in September 2024.

REVISED FORECAST EXPENDITURE: INLINE INSPECTION

Our revised forecast of $13.8 million of network sustaining capex relating to Inline Inspection is $11.1 million lower than our initial submission. The revised forecast for the Inline Inspection for AA6 is summarised in Table 7.

[77] AS 2885.3:2022 Section 5.6 Fitness for Purpose Requirements

Table 7.20: Inline Inspection Program, AA6 Revised Forecast Capex ($million real as at 31 December 2023)

PROGRAMS	2025	2026	2027	2028	2029	TOTAL
2025-29 - Facility Upgrade - Pigging Infrastructure	-	1.5	4.9	3.4	4.0	**13.8**

7.6.1.7 ATCO'S RESPONSE: NETWORK REINFORCEMENT

ATCO has adjusted the network reinforcement program and expenditure forecast based on the latest hydraulic modelling results, new mains requests, and 2024 forecast. Our initial network reinforcement program consisted of:

- Network Reinforcement – Secret Harbour (begins in 2024, AA5)
- Network Reinforcement – Inglewood
- Network Reinforcement – Pearsall

ATCO has assessed the requirement to reinforce Secret Harbour and revised the back-gassing strategy and removed the capex from our revised proposal. ATCO has also removed contingency from the remaining network reinforcement projects and included carry-over expenditure for Network Reinforcement – Atwell. Network Reinforcement – Atwell begins in 2024 and is planned for completion in 2025.

We have reforecast based on the adjusted scopes and our network reinforcement capex increased from the Draft Decision from $0.6M to $0.9M.

- **Network Reinforcement – Secret Harbour** (begins in 2024, AA5): The ERA's Draft Decision removes expenditure related to the reinforcement of Secret Harbour.
  - ATCO has removed this project and its associated capex forecast.
  - The driver for this project was to reinforce the gas distribution network in the Secret Harbour area to manage network pressures above the system minimum of 15kPa. Additionally, this will provide security of supply for the Secret Harbour area.
  - Currently, the network pressure drops from 40kPa to 18kPa (close to system minimum) during peak gas demand periods. The network is supplied by a single regulator set and is not back-gassed.
  - The surrounding networks are growing, it is forecast that the Secret Harbour network will interlink and merge with another network within the next couple of years. This merger of two networks will improve network pressures during peak gas demand periods and provide additional gas supply sources to the Secret Harbour network. Based on the current network modelling, which includes the merging of the two networks, pressure in the Secret Harbour area is expected to be maintained above 20kPa over the next five years.
  - For these reasons, ATCO has removed the project from our 5-year forecast and will continue to monitor the network pressures via our Pressure Monitoring Devices (PMDs) and model network capacity on an annual basis.

- **Network Reinforcement – Inglewood**: The ERA's Draft Decision removes contingency applied to the forecast expenditure to extend the medium pressure mains along Central Ave and Hamer Pde by 1km and install a new MPR. This network reinforcement is essential to maintain pressures above the system minimum and to ensure the safety of services and continuity of gas supply to customers.
  - There are no changes to the scope, but ATCO has revised the expenditure forecast and removed contingencies. The forecast expenditure retains [redacted] expected increase in contractor rates and traffic management after the conclusion of the competitive tender in 2024.
- **Network Reinforcement – Pearsall:** The ERA's Draft Decision removes contingency applied to the forecast expenditure to extend the medium pressure mains along Wanneroo Rd by 800m to reinforce the gas network in Pearsall. This is to maintain pressures above the system minimum and to ensure the safety of services and continuity of gas supply to customers.
  - There are no changes to the scope, but ATCO has revised the expenditure forecast and removed contingencies. The forecast expenditure retains [redacted] expected increase in contractor rates and traffic management.
- **Network Reinforcement - Atwell**: This project is forecast to commence in 2024 and to complete in 2025. The primary investment driver for this expenditure is maintaining asset integrity and reliability. A forecast hydraulic model of the Atwell MAOP 350kPa network identified increased gas demands in the southern suburbs, leading to a 47% pressure drop across the single Atwell MAOP 700kPa pipeline. This indicates it is nearing its capacity limit. To address this, an additional High Pressure Regulator (HPR) will be installed to increase operating pressure and alleviate capacity constraints. This installation aligns with Section 3.3 of AS/NZS 4645:1:2018, ensuring the integrity and capacity management of the gas distribution network. The new HPR will also help maintain the pipeline's integrity by reducing velocity and better managing network capacity demands.
  - The carry over expenditure for Atwell reinforcement includes 10% contingency. This project has not yet commenced and refined forecasts cannot be provided. This project is expected to incur additional costs due to unknown site requirements and conditions.

FORECAST EXPENDITURE

Our revised forecast of $0.9 million capex relating to Network Reinforcement is $1.1M lower than our initial submission. The revised forecast is summarised in Table 7.21.

Table 7.21: Network Reinforcement, AA6 Revised Forecast Capex ($M real as at 31 December 2023)

PROGRAMS	2025	2026	2027	2028	2029	TOTAL
Network Reinforcement – Inglewood	0.5	-	-	-	-	0.5
Network Reinforcement – Pearsall	-	-	-	0.1	0.1	0.2
Network Reinforcement - Atwell	0.3	-	-	-	-	0.3
TOTAL	**0.7**	**-**	**-**	**0.1**	**0.1**	**0.9**

7.6.1.8 ATCO'S RESPONSE: OTHER PERFORMANCE AND SAFETY PROGRAMS

ATCO has reviewed the ERA's Draft Decision and adjusted our Other Asset Performance and Safety program and associated expenditure forecast. Our initial Other Asset Performance and Safety program consists of:

- Step and Touch Hazard Mitigation,
- Vehicle Protection,
- Corrosion Protection,
- Corrosion Protection Monitoring,
- Pressure Monitoring Devices,
- Gate Station Metering,
- Picarro, and
- Confined Space

ATCO accepts the ERA's amendment to remove Corrosion Protection Monitoring from the forecast, to reduce the scope for Pressure Monitoring devices and to remove contingency from the remaining Performance and Safety Programs. We do not accept the ERA's Draft Decision to disallow expenditure for reduced scope for vehicle protection, Gate Station Metering, Picarro, and Confined Space.

We have reforecast and our Other Performance and Safety Program capex increased from the Draft Decision of $8.5 million to $11.2 million.

The revised forecast comprises the following programs:

- Step and Touch Hazard Mitigation ($5.9M)
- Vehicle Protection ($1.0M)
- Corrosion Protection ($1.3M)
- Pressure Monitoring Devices ($0.5M)
- Gate Station Metering ($0.6M)
- Picarro ($1.9M)
- Confined Space ($0.1M)

STEP AND TOUCH HAZARD MITIGATION

The ERA's Draft Decision removes contingency applied to the expenditure forecast for step and touch mitigation program. There are no changes to the scope, but the forecast expenditure for Step Touch Hazard Mitigation has been revised with the contingency removed. The revised forecast of $5.9 million aligns closely to historical expenditure.

VEHICLE PROTECTION

The ERA's Draft Decision reduces the scope from 46 sites to 13 sites and reduces the unit rates to a 3-year historical average (2020 – 2022).

ATCO has revised the forecast scope after the completion of detailed assessment of all existing regulator sets with feedback from field personnel. Our revised scope has reduced from 46 sites to 31

sites, with capex of $1.0M. The 31 sites were identified against a multi-parameter assessment based on safety factors such as:

- Traffic Speed,
- Alignment to Traffic,
- HPR distance from traffic and,
- Physical protection (3m radius)

The priority is on protecting above-ground assets and those visited frequently, prioritising sites where the risk from third-party vehicle impacts is significant. These impacts pose credible risks, such as gas escapes, potential loss of supply, and injury to personnel. The environment around many assets has changed due to road alterations and urban development, increasing their vulnerability to vehicular damage.

ATCO's Asset Vehicle Impact Protection Formal Safety Assessment (**FSA**) identified an intermediate risk to assets and personnel from vehicle impacts, with major consequences potentially leading to fatalities or asset damage. Despite the remote frequency of such events, the severity necessitates adequate protection measures. Where practical, the installation of bollards or MRWA-approved crash barriers is essential. In cases where physical protection cannot be installed, traffic management will be employed to ensure risks are reduced to ALARP.

This revised scope is critical for maintaining the safety and reliability of ATCO's infrastructure amidst changing environmental conditions. This program conforms to NGR 79 (2)(c)(i); the forecast expenditure to install vehicle protection around existing assets addresses risks that have been assessed as not ALARP due to its proximity to high traffic speed in areas with limited visibility for oncoming traffic.

The expenditure for this program mainly relates to internal labour for planning, site supervisor and recording of the new assets and contractors for the installation of the vehicle protection.

The forecast expenditure is derived from using 2023 actual cost for internal labour and a 2-year average for contractor costs. The forecast expenditure is inclusive of overheads and does not include contingency. The increase in labour costs in 2023 reflects the increased hours from the Drawing Office to develop design packs and update mechanical drawings upon project completion. Using the 2023 actual costs for internal labour ensures that the forecast is based on the most recent and relevant data.

Contractor costs increased in 2022, and this trend continued through 2023 with expectations for it to persist. [redacted] is used for forecasting. Requirements vary from site to site, such as the number of bollards or the length of vehicle crash barriers. The two-year average cost will account for these changes in site requirements.

Please refer to the updated 07.10.028.00 Asset Performance – Vehicle Protection Business Case for more details.

CORROSION PROTECTION

The ERA's Draft Decision removes contingency applied to the expenditure forecast for the corrosion protection program.

ATCO has revised the forecast expenditure for its corrosion protection program to remove contingency. The revised forecast is $1.3M. The program includes replacement of anodes, upgrades of corrosion probes and AC corrosion coupons, upgrading cathodic protection test point enclosures, insulation joints, and surge protection. Internal personnel deliver the majority of the program and are not impacted by the anticipated increases in the contractor costs.

CORROSION PROTECTION MONITORING

The ERA's Draft Decision removes ATCO's corrosion protection monitoring project from the forecast.

ATCO accepts this and has removed this project from the AA6 capex forecast. We are continuing to investigate different technologies that can provide continuous improvement and cost efficiency to the operation and maintenance of our corrosion protection and pipeline systems.

PRESSURE MONITORING DEVICES

The ERA's Draft Decision reduces the scope from 50 sites to 30 sites and removes contingency from the expenditure forecast for the remaining scope.

ATCO accepts the ERA's Draft Decision to reduce the volume from 50 to 30 PMDs. The revised forecast to install 30 PMDs for monitoring weak pressure points in the network is $0.5M.

The 2-year historical average (2022-2023) has been used to forecast the program as it more accurately reflects the current cost of installing a PMD. In 2022, there was a price increase in components, making the costs from this period more representative of the present market conditions. Using a 2-year average captures these recent changes and avoids the outdated lower costs that would be included in a 3-year average. This approach ensures a more realistic and relevant forecast expenditure, which does not include contingency.

Please refer to the updated 07.05.026.00 Asset Performance – PMD Business Case for more details.

GATE STATION METERING

The ERA's Draft Decision removes expenditure related to ATCO's Gate Station Metering project from the expenditure forecast.

ATCO does not accept the ERA's Draft Decision to disallow this project ($0.8M). ATCO provides a revised forecast capex of $0.6M to install three ultrasonic meters downstream of the third-party owned gate stations. The ERA's Draft Decision is based on EMCa's assessment, which highlighted that gate station owners, not ATCO, are responsible for metered flow data accuracy. EMCa also rejected ATCO's claim of severe reputational risk from inaccurate meter data from third-party gate station owners. EMCa considers that gate station metering inaccuracies should be recoverable from the gate station owners. While ATCO agrees with this recovery statement, it is not possible for ATCO to identify these metering inaccuracies in the first instance, without these additional meters to provide data accuracy validation. Without a mechanism to identify inaccuracies, flow on impacts to customers by way of increased UAFG costs will continue to be unidentified.

Although the responsibility for metered flow data accuracy is with the gate station owners, it is in the best interest of end users for there to be metering downstream to verify the accuracy of metered flow data. Accurate downstream metering directly impacts several critical areas:

- **Compliance Reporting**: Unaccounted for gas (**UAFG**) is a significant component of operational costs. Inaccurate metering at gate stations can lead to inaccurate data provided to AEMO used in UAFG calculations.
  - By installing downstream meters, ATCO can ensure more accurate UAFG calculations, thereby optimising operational costs. This improvement will ensure accurate data is used for carbon emissions reporting (**CER**) and minimise the risk of breaches resulting from the use of inaccurate data in CER for greenhouse gas emissions.
- **Operational Efficiency**: Accurate metering downstream of selected Gate Stations allows ATCO to monitor and manage gas flow more effectively. This enhanced monitoring capability can lead to improved decision-making and operational adjustments, ensuring that the gas distribution system operates efficiently and reliably. The secondary gate meter will enable ATCO to address potential issues before they escalate.
- **Reputation**: While EMCa believes that reputational risks can be mitigated by recovering inaccuracies from gate station owners, ATCO contends that it is reasonable for ATCO to have independent means of monitoring flows into our network. By proactively ensuring the accuracy of metered data through downstream meters, ATCO can uphold its reputation for providing accurate and reliable data and foster trust among stakeholders.

ATCO proposes a forecast expenditure of $0.6M to install three ultrasonic meters downstream of the third-party owned gate stations. The cost estimate is based on a quote from the vendor for the material and bottom-up build for the installation. The cost estimate does not contain contingencies. Please refer to the updated 07.10.048.00 Asset Performance - Gate Station Metering Business Case for more details.

PICARRO

The ERA's Draft Decision, supported by EMCa's review, removes expenditure related to the Picarro project from the expenditure forecast, citing a lack sufficient information provided for assessment.

ATCO has further developed the business case for this project and does not accept the ERA's Draft Decision to disallow $1.9M. ATCO submits a forecast capex of $1.9M to purchase one Picarro unit to enhance leak survey, leak measurement, and network safety as well as to refine prioritisation of mains replacement programs. Please refer to 07.107.00 Asset Performance Picarro Business Case for more details.

In 2023, ATCO conducted a trial of the Picarro gas leakage detection technology over 300km of gas distribution mains. The advanced leak survey vehicle, equipped with Picarro technology, not only detects leaks but also monitors methane levels and integrates directly with our Geographic Information System (**GIS**) system. The trial demonstrated significant benefits in terms of efficiency, data accuracy, safety, and cost management. Safety improvements for ATCO's operators are particularly notable, as they can now work from within a temperature-controlled vehicle rather than using the current method of an electric bike. This change significantly reduces the risks associated with impacts, aggressive dogs, and adverse weather conditions.

One of the primary advantages of the Picarro technology is its superior capability in detecting gas leaks. The system's high sensitivity and precision ensure that even minor leaks are identified quickly,

which is essential for maintaining the safety and reliability of our gas distribution network. By meeting the requirements of AS/NZS 4645, we can better ensure regulatory compliance and achieve our required safety standards. The technology enables simultaneous detection of leaks on mains and at meter positions, thereby streamlining the leak survey process and add more efficient comprehensive coverage.

We note that ATCO's Technical Regulator, The Department of Mines, Energy, Industry Regulation and Safety (**DEMIRS**), Building and Energy Division have also provided support for ATCO's proposed Picarro Program as part of the Draft AA6 submission response:

> *"Building and Energy supports ATCO's initiative to incorporate the use of a vehicle mounted Picarro leak survey detection technology into their operations, which is aimed at enhancing the effectiveness of the leak survey program. The proposed new technology provides the capability and precision to detect leaks not only on gas mains but also at gas services and meter positions, providing analytical insight that can be leveraged to enhance leak detection, operational efficiency, and replacement processes."*

The Picarro leak survey vehicle automatically uploads location data and methane level data to our GIS system. This seamless integration eliminates manual data entry, reducing the likelihood of errors and significantly speeding up the process of data analysis and decision-making. The immediate availability of accurate data allows for faster identification and resolution of leaks, minimising potential risks and service disruptions. This improved data collection process supports more informed and timely asset management decisions.

With Picarro technology, we can adopt a more proactive and targeted approach to managing our gas distribution network. The detailed insights provided by the technology will enable us to prioritise mains replacement and maintenance activities based on thorough leak data. This targeted approach will help prioritise risk, thereby enhancing the integrity and reliability of our network. By focusing our efforts where they are most needed, we can extend the lifespan of our assets and prevent costly emergency repairs.

This technology enhances safety by automating the leak detection process, allowing operators to focus more on navigation and less on manual detection tasks. Consequently, this reduces the likelihood of operator incidents and improves overall efficiency in identifying gas leaks.

ATCO proposes a forecast expenditure of $1.9M to purchase one Picarro leak survey unit. The cost estimate is based on a vendor quote obtained in April 2023 and does not contain contingencies. This investment conforms to NGR 79 3(c)(iii), aims to improve the safety of network by ensuring leaks are identified efficiently and managed cost effectively through targeted mains replacement program.

CONFINED SPACE

The ERA's Draft Decision, supported by EMCa's review, removed $0.1M of expenditure related to the remediation of Confined Spaces from the expenditure forecast, citing insufficient information provided for assessment.

ATCO has updated the expenditure forecast from $0.2M to $0.1M to purchase safety equipment, ensuring that our personnel are equipped to manage Confined Space entry requirements and meet

HSE standards. Please refer to 07.112.00 HPR confined space remediation Business Case for more details.

ATCO completed a review of the current controls regarding confined space entry in response to the 2022 revision in Work Health and Safety Regulations, which included an updated definition of confined space. ATCO assessed the existing underground regulating facilities against the new definition and reviewed our current controls.

The outcome of the review, TCO RP 0706 High Pressure Regulator Pit (Confined Space) Risk Assessment, reconfirmed our current classification of confined spaces and identified necessary improvements for confined space equipment for safe entry.

The review identified that the current tripod lifting rigs for fall prevention and retrieval are not suitable for all regulating facilities due to variations in pit dimensions and lid designs, which hinder the setup of the current tripods.

ATCO proposes to purchase two additional tripods that are specifically designed to fit the variety of pit dimensions and designs encountered across our network. These tripods will enhance safety by ensuring that all pits can be equipped with appropriate fall prevention and retrieval equipment, thus complying with safety regulations and improving worker safety during confined space entry.

The review also identified a risk of loss of containment in the pit during maintenance, potentially caused by personnel inadvertently opening a valve. This poses a significant safety hazard, including the risk of engulfment.

ATCO recommends implementing a lock-out system for isolation valves before maintenance activities commence. This lock-out system will prevent valves from being inadvertently opened, thereby eliminating the risk of loss of containment. This measure will significantly enhance the safety of personnel working in confined spaces and align with best practices for maintaining safe working environments.

ATCO proposes a forecast expenditure of $0.1M for PPE to purchase two new tripods and lock-out valves. This investment conforms to NGR 79(3)(c)(iii) as it aims to improve the safety of personnel working in confined spaces by ensuring suitable fall prevention and retrieval equipment, as well as preventing accidental valve openings during maintenance.

7.6.1.9 NEW PROGRAM: EOL REPLACEMENT - HPR

BACKGROUND

ATCO has completed our assessment of high-pressure regulating facilities (**HPRs**) since our initial plan. Based on a multi-parameter condition assessment, criticality, and cost of replacement, ATCO proposes replacing four HPRs between 2025 and 2029 that have reached their end of life. These HPRs have deteriorated to a condition where maintenance is no longer effective, and their components are obsolete and no longer in production. Our vendor informed us that manufacturer Honeywell discontinued the production of COCON regulators at the end of 2023. Therefore, they are included in a long-term replacement plan to be removed from the network.

The increased probability of gas leaks due to corrosion, combined with the inability to maintain the regulator set due to obsolete components, can lead to overpressure of the downstream network. This safety risk has been assessed as not ALARP, necessitating the replacement of these HPRs.

INVESTMENT DRIVERS

The investment driver for this capex is to ensure the safety and integrity of facilities that have reached a condition where maintenance is no longer effective. The safety risk of these HPRs has been assessed as not ALARP, requiring their replacement.

CONFORMING CAPEX JUSTIFICATION

Replacing HPRs that are no longer maintainable and have obsolete components will significantly reduce the risk of failure, thereby protecting both the public and ATCO's workforce conforming to NGR 79(2):

- 79(2)(c)(i) - replacing these assets improves the safety of these assets by reducing the likelihood of leaks or damage that lead to a risk of public safety.
- 79(2)(c)(ii) - improving the integrity of the assets by replacing poor condition pressure equipment or load bearing equipment to improve control and safety systems within the network.

PLANNED ACTIVITY

The program has identified four HPRs to be replaced in AA6. Table 7.22 outlines the timing of the replacement in AA6.

Table 7.22: Number of HPRs replaced over 5 years

PROGRAM	2025	2026	2027	2028	2029	TOTAL
HPR Replacement	-	1	1	1	1	**4**

FORECAST EXPENDITURE

We have updated the sustaining capex forecast to include an additional $2.1M for the replacement of four HPRs.

The project cost is calculated using our actual expenditure in respect of similar projects with a projected increase in [redacted] contractor rates. The forecast expenditure does not contain contingency.

Table 7.23: EOL HPR Replacement, AA6 Revised Forecast Capex ($M real as at 31 December 2023)

PROGRAM	2025	2026	2027	2028	2029	TOTAL
HPR Replacement	-	0.5	0.5	0.5	0.5	**2.1**

Our new HPR Replacement Program is supported by a dedicated business case detailing: investment justification, options analysis, project details including resourcing, strategic alignment, and compliance

to the NGR; provided in [redacted]

7.6.1.10 NEW PROGRAM: FACILITY UPGRADE – METER COMPLIANCE

BACKGROUND

Non-compliant meter locations are flagged by the field crews during operational works such as replacement works, fault works and routine inspections. These sites are reported through field reports to the meter compliance team, prompting subsequent site visits for further investigation. A risk assessment is conducted and reviewed based on non-compliance categories and location types before the rectification work is included in the program scope.

Typical non-compliance issues addressed by this program include:

- Inadequate meter assembly protection,
- Non-compliant meter or/and service location,
- Requirement for a service isolation valve,
- Undersized meter,
- Non-compliant venting regulators and/or venting lines, and
- Rectification of hazardous area requirement on High Pressure meterset locations

INVESTMENT DRIVERS

The primary investment driver for this capex is to ensure existing meter facilities continue to comply with AS/NZS 4645, AS/NZS 5601 and AS/NZS 60079. Ensuring compliance not only aligns with regulatory requirements but also secure ongoing compliance with overall system safety and operational reliability.

CONFORMING CAPEX JUSTIFICATION

The investment is in accordance with the following sub-rule(s):

- NGR 79(2)(c)(i) – The investment improves safety by addressing risks and enhancing the integrity of gas meter installations. The proposed improvements reduces the likelihood of gas leaks, explosions, and other hazards. This contributes to a safer environment for the customer and community.
- NGR 79(2)(c)(iii) – The investment is necessary to comply with AS/NZS 4645.1:2018, AS/NZS 5601.1:2022 and AS/NZS 60079.

FORECAST EXPENDITURE

We have updated the sustaining capex forecast to include an additional $2.7M for upgrade of meter locations to ensure compliance to Australian Standards, AS/NZS 4645, AS/NZS 5601 and AS/NZS 60079.

The project cost is calculated using our AA5 actual expenditure for the Meter Compliance program. The forecast expenditure does not contain contingency.

Table 7.24: Meter Compliance Program, AA6 Revised Forecast Capex ($M real as at 31 December 2023)

PROGRAMS	2025	2026	2027	2028	2029	TOTAL
Meter Compliance	0.5	0.5	0.5	0.5	0.5	**2.7**

The new Meter Compliance Program is supported by a dedicated business case detailing: investment justification, options analysis, project details including resourcing, strategic alignment, and compliance to the NGR; provided in [redacted]

7.6.2 ATCO'S RESPONSE: AA6 GROWTH

We have revised the Demand Forecast, resulting in a decrease in our associated Growth expenditure from the Draft Decision of $177.9M to $151.0M. This reduction is driven by lower new connections compared to the Draft Decision. Based on the revised demand forecast, over AA6, ATCO forecasts connecting:

- 1 new industrial (A1) customer connection,
- 214 new commercial (B1) customer connections,
- 1,280 new small commercial (B2) customer connections,
- 64,664 new domestic (B3) customer connections with the associated mains extension and new gas meters and services.

GROWTH CAPEX NET PRESENT VALUE ASSESSMENT (A1, A2, AND B1 ONLY)

We forecast one new A1 customer for AA6. If additional A1 customers arise during AA6, they will be assessed individually to ensure economic justification for the capex.

For B1 customer connections, we have derived a cost forecast and a level of capital contribution based on historical averages. During AA6, each B1 new customer connection will also be assessed individually to ensure there is an economic justification for the capex.

GROWTH CAPEX NET PRESENT VALUE ASSESSMENT (B2 & B3 ONLY)

ATCO demonstrates that growth capex satisfies NGR 79(2)(b) through a net present value assessment. We have adopted the following assumptions in our modelling for growth domestic and commercial capex (see Table 7.25) to assess the expected incremental revenue to be generated as a result of the expenditure against the present value of the expenditure. Each assumption is discussed in the following sections.

Table 7.25: Greenfield and brownfield NPV assumption summary

ASSUMPTION	INITIAL PLAN	REVISED PLAN
Growth domestic and commercial capex	ATCO adopted 3-year average unit rate (2020-2022) to forecast for B2 and B3 customers across greenfield and brownfield connections.	ATCO's 3-year average historical unit rates have been updated to cover the period from 2021 to 2023.

ASSUMPTION	INITIAL PLAN	REVISED PLAN
	This is based on the best information known at the time of submission.	
Analysis period	25 years reflecting one lifecycle of 'meter and service pipes'.	No Change. The updated NPV assessment is analysed over 25 years.
Tariff	ATCO has adopted the 2023 tariffs.	ATCO has adopted the 2024 tariffs.
Discount rate	ATCO has adopted values from the 2023 tariff variation mechanism process.	ATCO has adopted values from the 2024 tariff variation mechanism process.
Labour cost escalator	ATCO has adopted the labour cost escalator of 1.06%	ATCO has adopted the labour cost escalator of 1.02%
Gas consumption	Based on the average gas demand for new customers as per the Core Energy forecast, with a 0.54% p.a. reduction in average consumption. No disconnections for B2 and a disconnection rate of 0.54% for B3 is assumed after 10 years.	Based on the average gas demand for new customers as per the Core Energy forecast, with a 0.46% p.a. reduction in average consumption. 0.23% disconnection rate for B2 and a disconnection rate of 0.46% for B3 is assumed after 10 years. The change in assumption is aligns to CORE's latest demand forecast.
Incremental opex	B2: $141.29 per customer ($ real 2023) B3: $35.07 per customer ($ real 2023)	B2: $176.46 per customer ($ real 2023) B3: $43.82 per customer ($ real 2023)

GREENFIELD AND BROWNFIELD GROWTH CAPEX

ATCO has remodelled the NPV of incremental revenue and costs associated with greenfield (B2 and B3) and commercial brownfield (B2) connections in line with NGR 79(2)(b). Capex is based on 62,500 residential (B3) new connections in greenfield developments and 1,283 small commercial (B2) connections in greenfield and brownfield areas expected to connect in AA6.

The capex required to connect 2,165 residential customers (B3) in brownfield developments has not been included in the NPV analysis required for 79(2)(b), as we have an obligation to connect customers within 20 metres of an existing gas main as per ATCO's Gas Distribution License 8 (GDL8) Schedule 1 clause 3.

Table 7.26: AA6 revised connection costs ($real as at 31 Dec 2023)

	B2 ($2023) GREENFIELD	B2 ($2023) BROWNFIELD	B3 ($2023) GREENFIELD	B3 ($2023) BROWNFIELD
Mains capex	$0.6M	-	$41.7M	-
Meter and Service capex	$4.1M	$2.5M	$80.3M	$5.5M
Feeders capex	-	-	$9.7M	$0.3M

	B2 ($2023) GREENFIELD	B2 ($2023) BROWNFIELD	B3 ($2023) GREENFIELD	B3 ($2023) BROWNFIELD
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

ANALYSIS PERIOD

The updated NPV assessment uses the same analysis period as our initial assessment in the initial plan. ATCO has chosen an analysis period of 25 years to align with the economic life of 'Meter and Services Pipes' after consideration of the following:

- The tariff revenue for new connections is generally set to recover the investment over its economic life. The majority of growth capex relates to meters and services with an economic life of 25 years.
- Given that most B2 and B3 connections relate to suburban residential developments, it is likely these connections will be maintained in the long run, however, a disconnection rate of 0.23% for B2 and 0.46% for B3 is assumed after 10 years to account for the fact that not all gas users will remain connected. This is based on the average disconnections rate over the last 5 years. This aligns to the CORE demand forecast.
- A positive NPV over the 25-year period means that existing customers would be better off even if the NPV was modelled out over the previous 50-year assessment period.
- The uncertainty associated with the energy transition supports a more conservative approach by adopting a 25-year period compared to the previous 50-year assessment period.

TARIFF

For the updated NPV assessment, ATCO has adopted the 2024 prevailing tariffs per the tariff variation adopted on 1 January 2024. This is consistent with the requirement to adopt the prevailing reference tariffs under NGR 79(4)(a).

DISCOUNT RATE

For the updated NPV assessment, ATCO has adopted the WACC parameters used in the 2024 tariff variation process. This is consistent with the requirement to adopt a discount rate equal to the rate of return implicit in the reference tariff under NGR 79(4)(c).

LABOUR COST ESCALATION

ATCO has adopted the labour escalation of 1.02% above CPI inflation for opex in the updated NPV assessment. The labour cost escalation is discussed in Section 8.9.

GAS CONSUMPTION

There is no change in the forecast average annual consumption per new customer compared to our initial plan. ATCO has adopted the forecast average annual consumption per new customer in line with our AA6 revised demand forecast (refer Chapter 5) as follows:

- B2 connections – 95.76 GJ/ year[78] for connections over AA6
- B3 connections – ATCO has assumed a ramp-up from 2.63 GJ in the first year of connection increasing to 10.50 GJ after 2 years.

We have adopted a 0.5% annual reduction to reflect that average gas demand is unlikely to remain constant for 25 years.

INCREMENTAL OPEX

ATCO has used the revised output growth escalation value for AA6 of $9.3 million (refer to section 8.8 for more details) to derive an annual incremental opex per tariff class. We have allocated the output growth portion of the opex forecast across tariff classes by referencing the allocation calculated for 2022. By applying the weighted annual real output growth rate to the updated Network and IT costs, we have calculated an average incremental opex for each tariff class, as shown in Table 7.27.

Table 7.27: Incremental opex per tariff class changes ($M real as at 31 Dec 2023)

TARIFF CLASS	$ PER NEW CUSTOMER (Initial Plan)	$ PER NEW CUSTOMER (Revised Plan)
A1	35,675	42,554
A2	16,066	19,565
B1	970	1,244
B2	141	176
B3	35	44

NGR 79 TESTING: RESULTS

The revised NGR 79 test results based on the updated demand forecast and assumptions are summarised in Table 7.28. This demonstrates that the revised NPV for the updated growth capex is positive and remains positive under a range of scenarios. Therefore, growth capex satisfies NGR 79(2)(b) because the expected incremental revenue to be generated as a result of the expenditure is greater than the present value of the expenditure.

Table 7.28: NGR 79 tests – summary of results ($real as at 31 Dec 2024)

NGR 79(2)(B) TEST	CAPEX ($M)	NPV ($M)	PAYBACK PERIOD	NPV SENSITIVITIES		
				CAPEX +10%	OPEX +10%	DEMAND -10%
B2 & B3 greenfield capex	137.9	14.3	22	2.4	8.6	-4.2
Commercial (B2) brownfield capex	2.5	2.9	11	2.7	2.7	2.2

[78] Based on 5 year average over 2025 – 2029.

NGR 79(2)(B) TEST	CAPEX ($M)	NPV ($M)	PAYBACK PERIOD	NPV SENSITIVITIES		
				CAPEX +10%	OPEX +10%	DEMAND -10%
TOTAL	**140.4**					

However, ATCO does note that the NPV is sensitive to negative variances. ATCO's practice is to re-test the NPV outcomes each year, and if the NPV results in the future show a negative amount, ATCO may need to consider capital contributions to satisfy NGR 79(2)(b) in the future.

The NPV assessment does not include residential brownfield capex because this is covered by ATCO's distribution licence obligation to offer to connect certain residential customers within the licence area[79], and therefore meets NGR 79 irrespective of the NPV. The above analysis demonstrates that the requirements of the NGR and NGO have been met for other categories of growth capex.

FORECAST EXPENDITURE

We have based our forecast capex on a unit cost approach, using the updated customer growth forecast multiplied by the relevant latest 3-year average (2021-2023) unit rates outlined in the Unit Rates Forecast and Strategy document. The costs associated with a new connection include the following:

- **Mains extension:** the average cost of extending our network to connect the new customer.
- **New service and meter installation:** the average cost of installing a service and new meter equipment.

Our revised forecast for AA6 growth development capex is offset by capital contributions and only the net capex will be added to the capital base. The forecast is based on historical expenditure and capital contributions.

Table 7.29 shows the AA6 forecast new customer connections growth capex.

Table 7.29: New Customer Connections, AA6 Forecast Capex ($M real as at 31 December 2023)

PROGRAMS	2025	2026	2027	2028	2029	TOTAL
Growth Domestic Forecast	24.3	28.0	29.7	31.0	31.6	144.7
Growth Commercial Forecast	1.6	1.2	1.3	1.3	1.4	6.9
Growth Development	0.8	0.8	0.8	0.8	0.8	3.9
Meter Upgrades	0.2	0.2	0.2	0.2	0.2	0.9
SUB-TOTAL	**27.0**	**30.2**	**32.0**	**33.3**	**34.0**	**156.5**
Less Capital Contribution	- 1.6[80]	- 0.9	- 1.0	- 1.0	- 1.0	- 5.5
TOTAL	**25.4**	**29.2**	**31.0**	**32.3**	**33.0**	**151.0**

[79] Clause 3, Schedule 1 of ATCO's Distribution Licence requires ATCO to offer to connect certain residential customers within ATCO's licence area. The obligation applies only for connections requiring 20 meters of less of service pipe and where the gas main is so located that it is practicable in accordance with good industry practice to connect the relevant premises to the main.

[80] Capital contribution higher in 2025 due to an A1 customer connection.

7.6.3 ATCO'S RESPONSE: AA6 INFORMATION TECHNOLOGY

ATCO does not accept the ERA's Draft Decision of $23.3 million and proposes a revised AA6 forecast capex of **$64.0 million.**

SUMMARY OF IT PROGRAM RESPONSE

Table 7.30 summarises the Technology programs included in this 2025-29 Revised Plan, the key driver and the AA6 forecast for each corresponding initiative.

Table 7.30: Summary of Technology Program Draft Decision Response

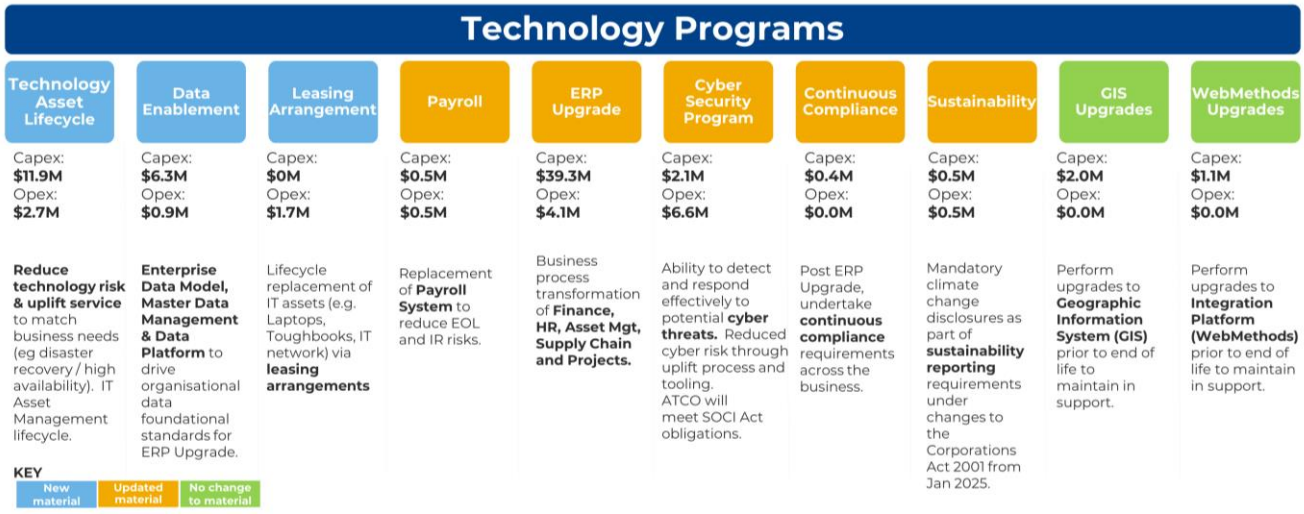
PROGRAMS	CATEGORY	KEY PROGRAM DRIVER	AA6 COST
ERP Replacement (Inc. HCM & EAM)	Revised	**End-of-life**: SAP ECC will reach "end of support" in 2027	**$39.3**
Cyber Security	Revised	Legislative Obligation – meeting our SOCI obligations to manage material risks. [redacted] - While we accept the ERA's findings in the Draft Decision that the original business case focused on achieving SP-3 without a legislative obligation, with ATCO's [redacted] cyber security posture and the CIRMP requirement to manage material risks for critical infrastructure entities, it is mandatory to safeguard ATCO's critical infrastructure against escalating threats.	**$2.1**
ESG Reporting System	Revised	**Legislative Obligation** Mandatory climate disclosures as part of sustainability reporting requirements aligned to changes in the *Corporations Act 2001* (Cth) from January 2025. **ATCO Group Sustainability Reporting requirements**. Globally, we disclose sustainability (including climate) related information, that we collect as part of our legislative and regulatory reporting obligations, which is published in an annual Sustainability Report **ATCO compliance reporting requirements**. We are subject to several regulatory compliance activities related to operational, environmental, social and governance requirements (e.g., National Greenhouse Emission and Energy Reporting).	**$0.5**
Payroll Upgrade	Revised	**Legislative Obligation** – meeting our Industrial Relations **(IR)** obligations. **Payroll Compliance** – payroll compliance with State and Federal legislation (including State Revenue and Australian Tax Office). It is a criminal offence from 1	**$0.5**

PROGRAMS	CATEGORY	KEY PROGRAM DRIVER	AA6 COST
		January 2025 for employers to intentionally underpay employees.	
Continuous Compliance	Revised and Renamed (from Continuous Improvement)	**Operation compliance** - improvement to compliance-related work items for ATCO to meet regulatory compliance and safety obligations, as well as to maintain reliability and security of the ATCO network.	**$0.4**
Data Enablement	New	**Program Dependencies** – Enterprise data management and enterprise data governance. Cornerstone for ERP Replacement program. **Data integrity and Accuracy** – Ensure data accuracy, security and quality in the collation and creation of Regulatory reports including ERA Compliance reporting, ERA Performance reporting, annual AEMO Negative Assurance Audit and Regulatory Information Notice (RIN).	**$6.3**
Technology Lifecycle	New	**Legislative Obligation** – meeting our [81]SOCI obligations for critical assets. **End-of-life**: multiple technology assets will reach "end of support" in 2025 – 2029. **Service Level Agreement Fulfillment (SLA)** - to meet IT Service SLAs to ensure regulatory reporting obligations can be met.	**$11.9**
GIS Upgrade	No Change	**Legislative Obligation** – meeting our SOCI obligations. **End-of-life** – Product lifecycle support policy	**$2.0**
WebMethods Upgrade	No Change	**Legislative Obligation** – meeting our SOCI obligations. **End-of-life** – update to vendor support	**$1.1**
IT Digital Program	Removed from AA6 program	-	**-**
IT Data Analytics Project	Removed from AA6 program	-	**-**

Figure 7.2 outlines our AA6 Technology Programs to ensure integrity of service is maintained while complying with the SOCI and Corporations Act obligations.

[81] Security of Critical Infrastructure Act 2018 (Cth) (SOCI Act)

Figure 7.2: Technology AA6 Work Plan



IT STRATEGIC PLAN

The revised IT Strategic Plan sets out our approach to the effective and efficient operations of the Technology function. The IT Strategic Plan incorporates all elements expected of a modern IT function encompassing IT strategy, governance, architecture, delivery, cyber security, and operations. The IT Strategic Plan and the Technology AA6 Work Plan supports the delivery of business benefits over AA6 while continuing to maintain and operate the existing IT Services in a sustainable and prudent manner in line with the National Gas Objective (*see Attachment 07.09.004*).

REGULATORY OBLIGATIONS

ATCO is subject to meeting its regulatory and legislative obligations including the Security of Critical Infrastructure Act (2018) (Cth) (SOCI Act) obligations. As a critical infrastructure entity, ATCO must take reasonable steps to comply with these obligations, including the requirement for a Critical Infrastructure Risk Management Program (CIRMP). We must carefully consider our risk position and implement reasonable and proportionate controls and mitigations as required under the SOCI Act.

Full detail of the Technology risk assessment is provided in Section 5.5 of the submitted IT Strategic Plan.

TECHNOLOGY PROGRAM ASSURANCE – EXTERNAL ADVISORY

ATCO engaged KPMG and CyberCX to undertake a comprehensive review and provide expert input into the revised AA6 IT Program of work.

KPMG Key Outcomes

ATCO sought KPMG's independent advice on the reasonableness and deliverability of the revised AA6 technology Program. KPMG considered that our responses to the issues raised by the ERA are appropriate with evidence that supports our responses. KPMG's conclusions are detailed in Attachment 07.121 - Regulatory Resubmission for IT expenditure - KPMG Report and their findings are provided on a confidential basis to the ERA.

CyberCX Key Outcomes

ATCO sought independent advice from CyberCX on ATCO's threat environment and from that intelligence developed the necessary programs of work that seek to reduce or mitigate the threats, consistent with accepted good industry practice expected of a critical infrastructure entity. CyberCX's recommendations are detailed in Attachment 07.123 - Cyber Security Program & Roadmap and their findings are provided on a confidential basis to the ERA.

DELIVERABILITY OF AA6 PROGRAMS

ATCO has been very considered in the creation of the Technology 2025-29 Work Plan, given the significant ERP Replacement program planned. In partnership with an external advisory, a detailed analysis using a bottom-up approach to build the resource and cost profiles and phasing the implementation of our major programs (to mitigate go live operational risks) has been defined. Similarly, a top-down challenge with senior leaders of the Gas business considered technology and business risk as well as the benefits of the proposed work plan, to arrive at the submitted program. Our detailed resource plans show a well-managed demand on business resources as outlined in the 07.09.004 - 2025-29 IT Strategic Plan – Revised. Detailed workforce plans will be established to enable each business area to plan for resource backfill requirements.

7.6.3.1 SOFTWARE AS A SERVICE (SAAS) ARRANGEMENT

ATCO accepts the ERA's Draft Decision to transfer SaaS opex to capex.

Accounting standards require certain software as a service (SaaS) cost to be regarded as operating expenditure. The ERA's Draft Decision recognises that regulatory accounts do not require full adherence to the accounting standards and therefore the ERA determined that SaaS expenditure should remain classified as capital expenditure for AA6.

In this 2025-29 Revised Plan, we have classified all SaaS costs as capex for regulatory purposes, despite what is required under the accounting standards.

7.6.3.2 TECHNOLOGY PROGRAM CONTINGENCY ALLOCATION

The ERA removed the contingency amounts for technology programs.

ATCO does not accept that the amounts allocated as contingency should be removed. This is because of the inherent uncertainty associated with technology programs costs and the expectation that the costs will not remain fixed but will likely increase over the short term together with the supply volatility of skilled technology personnel. For this reason, we do not consider that inclusion of contingency amounts for the technology program leads to an over-estimation of the efficient level of required expenditure.

Further, the scope of the work required to complete the technology program is relatively clear but requires further refinement as detailed requirements are gathered and the specific technology solutions are selected for implementation over AA6.

Therefore, we have included contingency for most of our revised technology program. However, we acknowledge the ERA's and EMCa's position that contingency amounts are not applicable for work that is familiar, repeatable and where costs should be able to be estimated with a high level of confidence. We have removed any contingency amounts from these types of works.

For most of our Technology capex programs, we have identified several known risks, that could impact our timeline and budget.

- Technical risks: including complexity of the technology environment and integration of new software platforms with our existing systems.
- Resource risks: related to competition, and volatility of supply in the market for skill sets required and implementation risks, such as user training and data quality issues have historically caused delays, especially in relation to Enterprise Resource Planning (ERP) platforms upgrades.
- To mitigate these risks, we propose a **0-15% contingency allocation** of the total program forecast.

7.6.3.3 ENTERPRISE RESOURCE PLANNING (ERP) REPLACEMENT PROGRAM - $39.3M

ATCO accepts the ERA's Draft Decision to select a single ERP core solution and have selected [redacted] based on current information available. We operate in an asset intensive industry and as a result, have compared and costed [redacted] solution against an alternative, industry-leading asset management solution.

Our revised capex forecast for the ERP Replacement is **$39.3 million.** This is supported by a revised business case that justifies the proposed expenditure against the capex criteria (07.10.052.00 - IT - ERP Replacement - Revised Business Case). The revised capex is based on a detailed bottom-up approach to build the cost profile and phasing the implementation to mitigate operational risks. This analysis also accounted for the additional costs associated with the Systems Integration partner, driven by the high demand for ERP skills across Australia. Our revised cost forecasts are further supported by analysis conducted by KPMG (*see Attachment 07.121*)

BACKGROUND

The ERP Replacement Program is a major program of work to replace our existing ERP software (SAP ECC) that enables our Human Resources, Finance and Asset Management functions. Our ERP approach has been updated to reflect:

- **Amended timeline to ensure successful implementation:** A staged implementation is preferred to reduce the impact on the day-to-day operations of the business, retail market participants and customers. The staged timeline is intended to ensure SAP ECC is replaced by 2027.
- **Competition for resources**: Many Australian companies using SAP ECC are yet to upgrade ahead of the 2027 deadline. We expect there to be intense competition for access to the necessary skilled resources as other companies move to also replace their current SAP ECC platform in the lead up to 2027. Our AA6 proposal did not appropriately factor this new information into the ERP Replacement cost estimate provided.

- **Reducing integration risk**: Our AA6 proposal recommends a composable ERP solution that would require extensive integration, which may introduce new risks to the business. We have reviewed our approach to ensure any integration risks are managed.
- **Insufficient contingency**: ATCO has accepted that the contingency originally proposed was not sufficiently justified. As a result, we revisited the costing analysis for the core ERP upgrade and best of breed options with a detailed costing analysis of the proposed solution.
- **Asset intensive industry** - ATCO operates in an asset intensive industry and as a result, has compared and costed [redacted] against an alternative, industry-leading asset management solution.

INVESTMENT DRIVERS

The key driver for the updated ERP Replacement is the end of life on ATCO's ERP, SAP ECC6, reaching end of support in 2027. If not replaced, there is risk of downtime and operational disruptions, complicating technical issue resolution, halting critical business functions, and reputational damage. Ultimately, this would hinder our ability to deliver services to customers and meet our regulatory obligations.

OPTIONS ANALYSIS

We agree with the ERA's Draft Decision that [redacted] should be the preferred platform for our core ERP capabilities, including Human Capital Management, and Finance system.

While [redacted] we recognise that our complex business requirements and specific Asset Management needs will benefit more from the specialised capabilities of a dedicated Asset Management system.

Our position is to implement a [redacted] capability, designed specifically for managing physical assets, predictive maintenance, asset lifecycle management and in-depth insights to asset performance. This will help us maximise asset utilisation and extension of our asset lifespan. Additionally, this solution will offer robust and seamless integration with other specialised tools such as IoT devices and GIS systems.

The advanced functionality of an [redacted] offers further qualitative and quantitative benefits. These benefits were assessed through analysing costs, risk, performance, compliance, and stakeholder impact.

A full description of the benefits of ERP Replacement program [redacted] provided in Section 2.3.5 of 07.10.052.00 - IT - ERP Replacement - Revised Business Case.

DELIVERABILITY

The ERP Replacement Program will be implemented in stages. The staged implementation manages the demand on business stakeholders and reduces impact on the day-to-day business operations. A managed sequenced delivery reduces the volume of significant change to processes compared to a single deployment by de-coupling the core ERP from the Enterprise Asset Management (EAM) platform, reducing the tightly integrated critical path.

The resource plan outlined in the Technology Strategic Plan, shows a reduced demand on business resources as outlined in the resource heat map based on a bottom up build of detailed internal labour allocations.

CONFORMING CAPEX JUSTIFICATION

This capex is conforming on the following basis:

- it aligns with being a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing services in a manner consistent with the achievement of the National Gas Objective (NGR 79(1)(a)); and
- it is necessary to
  - maintain and improve the safety of services (NGR 79(2)(C)(i);
  - maintain the integrity of services (NGR 79(2)(C)(ii));
  - comply with a regulatory obligation (NGR 79(2)(C)(iii)) *Security of Critical Infrastructure Act 2018* (Cth); and
  - to maintain the service provider's capacity to meet levels of demand for services exiting at the time the capital expenditure is incurred (NGR 79(2)(C)(iv)).

FORECAST EXPENDITURE

We collaborated with industry leader KPMG to develop a cost model for the ERP replacement program. KPMG used a bottom-up approach to build the cost profile and phasing the implementation to mitigate operational risks. This approach also accounted for the additional costs associated with the Systems Integration partner, driven by the high demand for ERP transformation services across Australia. Table 7.31 shows our revised AA6 ERP Replacement Program.

Table 7.31: Revised AA6 capex forecast for ERP Replacement Program ($M real as at 31 December 2023)

PROGRAM	2025	2026	2027	2028	2029	TOTAL
ERP Replacement Program	7.0	23.6	8.7	0.0	0.0	39.3
TOTAL	**7.0**	**23.6**	**8.7**	**0.0**	**0.0**	**39.3**

7.6.3.4 CYBER SECURITY PROGRAM - $2.1 M

Following the findings of the IT Current State Assessment and the Threat Intelligence Baseline from CyberCX, a revised program was defined by CyberCX (*see Attachment 07.123*) to address the identified risks. We have revised our approach to the Cyber Security Program in AA6 to ensure it comprehensively addresses our obligations and ATCO's risk appetite based on the recommendations from CyberCX.

While we accept the ERA's findings in the Draft Decision that the original business case focused on achieving Security Profile 3 (SP-3)[82] without a legislative obligation, the revised Cyber Security

[82] Security profile 3 (SP-3) is a level of maturity measured against the Australian Energy Sector Cyber Security Framework (AESCSF)

Program is necessary due to the regulatory obligation to safeguard ATCO's critical infrastructure against escalating threats. Our revised business case (*see Attachment 08.09.013.00*) details the background of the proposed investment, investment drivers and planned activities of the revised program.

CONFORMING CAPEX JUSTIFICATION

Overall, our Cyber Security program is designed to address the growing cyber threat and comply with increasing regulatory requirements. The Cyber Security program meets the criteria set out in the NGR:

- 79(1)(a) - the investment is in accordance with good industry practice and provides for the most efficient solution given the risk and benefits achieved. The solution provides the lowest sustainable cost through meeting all business requirements (investment need). This is achieved by selecting Option 2 – [redacted] to fulfill the system requirements.
- 79(2)(c)(iii) – The investment is necessary to comply with Gas Market rules, financial, legislative, and regulatory obligations.

FORECAST EXPENDITURE

Table 7.32 shows our revised AA6 capex forecast for the IT Cyber Security Program.

Table 7.32: Revised AA6 capex forecast for IT Cyber Security ($M real as at 31 December 2023)

PROGRAM	2025	2026	2027	2028	2029	TOTAL
Cyber Security	0.9	1.1	0.1	0.0	0.0	2.1
TOTAL	**0.9**	**1.1**	**0.1**	**0.0**	**0.0**	**2.1**

7.6.3.5 SUSTAINABILITY PROGRAM - $0.5M

Network Modelling Amendments (SYNERGI)

ATCO accepts the ERA's Draft Decision to not proceed with this project.

Energy Regulatory Reporting Amendments (NMIS)

ATCO accepts the ERA's Draft Decision to not proceed with this project.

ESG Reporting System $0.5M

ATCO does not accept the ERA's decision to reject the ESG Reporting system. Since our September 2023 submission we have developed a business case (*see Attachment 07.103.00*) that justifies the proposed project and demonstrates that it is conforming capital expenditure. Our capex forecast for this system remains the same as our 2025-29 Plan of **$0.5 million**.

INVESTMENT DRIVERS

This system will enable us to streamline NGERs reporting to CER and report on the required auditable climate-related financial disclosures (including future scenario modelling). This reporting is in accordance with the sustainability standards stipulated by the Australian Accounting Standards Board (AASB) as prescribed in draft amendments of the *Corporations Act* under Chapter 2M. This regulatory change is currently before the Australian Parliament in the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024*.

These requirements include[83]:

Reporting content: Requirements would aim to provide clarity to reporting entities about the types of information to be disclosed and to ensure the requirements improve access to decision-useful information for users of financial reporting. ATCO would be required to:

- Disclose information about governance processes, controls and procedures used to monitor and manage climate-related financial risks and opportunities.
- Use qualitative scenario analysis to inform their disclosures, moving to quantitative scenario analysis by approximately 2028/2029.
- Disclose climate resilience assessments against at least two possible future states, one of which must be consistent with the global temperature goal set out in the *Climate Change Act*.
- Disclose transition plans, including information about offsets, target setting and mitigation strategies.
- Disclose information about any climate-related targets and progress.
- Disclose information about material climate-related risks and opportunities for ATCO, as well as how ATCO identifies, assesses, and manages risk and opportunities.
- Disclose scope 1 and 2 emissions for the reporting period and disclose material scope 3 emissions from 2026 onwards.
- Have regard to disclosing industry-based metrics, where there are well-established and understood metrics available.

Assurance framework: Assurance requirements would be phased in and scaled up over time to allow capability and capacity uplift in the audit and assurance industry. Phasing is based on when ATCO commenced reporting, and the gradual scaling up of requirements would occur based on the complexity of the underlying disclosures and the ability to undertake assurance on those disclosures.

The key drivers for this expenditure include:

- **Mandatory climate disclosures** as part of sustainability reporting requirements aligned to changes in the *Corporations Act 2001* from January 2025.
- **ATCO Group Sustainability Reporting requirements**. Globally, we disclose sustainability (including climate) related information, which is published in an annual Sustainability Report available for financial investors publicly. This is an existing requirement; however, each jurisdiction will be captured by incoming mandatory disclosure requirements (same as Australia).

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[83] Department of Treasury (2024), "Treasury, Policy Impact Analysis: Climate-related financial disclosures", pg. 13, accessed on 30 May 2024, available at: https://treasury.gov.au/sites/default/files/2024-01/c2024-466491-pia.pdf

- **ATCO compliance reporting requirements**. We are subject to several regulatory compliance activities that are existing, and new obligations under biodiversity, modern slavery, heritage, and psychosocial wellbeing related to operational, environmental, social and governance requirements (e.g., National Greenhouse Emission Reporting).

Climate disclosures are the first to be regulated, however this is only the initial sustainability component to be mandatory and ATCO expects regulation to expand to include other ESG metrics, such as supply chain management; diversity, equity, and inclusion; future strategy linked to business planning; and greater reporting on Modern Slavery.

Secondary investment drivers that offer a broader view of utilising sustainability data include, but are not limited to:

- Attracting and retaining capital by meeting the expectations of sustainability conscious financial investors (e.g., Australian banks and asset investment firms).
- Building long-term value by focusing on sustainable growth and responsible business practices.
- Attracting and retaining talent and increasing employee satisfaction and productivity through meaningful engagement in sustainability initiatives.

The scope of this program ensures we can demonstrate compliance with NGR 79(1)(a); lowest sustainable cost, and NGR 79(2)(iii); comply with a regulatory obligation or requirement.

Table 7.33: Revised AA6 capex forecast for ESG Reporting System ($M real as at 31 December 2023)

PROGRAM	2025	2026	2027	2028	2029	TOTAL
ESG reporting system	**0.5**	**-**	**-**	**-**	**-**	**0.5**

7.6.3.6 GIS UPGRADE PROJECT $2.0M

ATCO accepts the ERA's Draft Decision to proceed with GIS upgrade project.

7.6.3.7 WEBMETHODS UPGRADE PROJECT $1.1M

ATCO accepts the ERA's Draft Decision to proceed with WebMethods upgrade project.

7.6.3.8 PAYROLL UPGRADE PROJECT $0.5M

ATCO does not accept the ERA's amendment to remove the Payroll Upgrade program. In response, we have re-evaluated our program and are proposing a new forecast of **$0.5 million.** We are submitting a project brief (*see Attachment 07.122*) to support this project. A new business case is currently in development and will be made available to the ERA by August 2024.

BACKGROUND

Our Human Capital Management (HCM) platform is planned to be upgraded as part of the ERP Replacement Program, scheduled for delivery by 2027, in alignment with SAP's ECC end of support

date. However, our current Payroll system, which is a vital component of HCM, is required to be upgraded and modernised to meet regulatory compliance by 2025. Driven by the obligation imposed by Australia's complex and rapidly changing industrial relations regulation, organisations across Australia are facing intense scrutiny regarding payroll and wage compliance. We must ensure that wages and workers' entitlements are accurately paid.

INVESTMENT DRIVERS

The key drivers for this expenditure are:

- **Maintain regulatory compliance:** The changing industrial relations landscape makes it challenging to maintain regulatory compliance, which has the potential to lead to financial losses, penalties, and reputational damage.
- **Extensive customisation and limited systems configurations** have necessitated increased resource allocation, due to resource intensive manual workarounds and reliance on third party resources to meet workplace regulatory changes. This inefficiency places strain on resources and increases cost plus increases the risk of errors, delays, non-compliance, and operational disruption.
- **Increased operational costs** to resolve issues are likely. Moreover, the risk of regulatory non-compliance can result in fines and penalties.

ACTIVITY

This program investment will consolidate disparate Time & Attendance and Payroll systems into a unified solution that will streamline and simplify our current Payroll business processes enabling alignment to regulatory requirements.

CONFORMING CAPEX JUSTIFICATION

The Payroll Remediation project capex meets the criteria set out in the NGR:

- NGR 79(1)(a) – the investment is in accordance with good industry practice and provides for the most efficient solution given the risk and benefits achieved. The solution provides the lowest sustainable cost through meeting all business requirements (investment need).
- The investment is in accordance with the following sub-rule(s):
  - 79(2)(c)(ii) – The investment maintains (or improves) network integrity by replacing the payroll application with a supported technology that complies with industrial relations legislation.
  - 79(2)(c)(iii) – The investment is necessary to comply with *Fair Work Act 2009*, *Fair Work Regulations 2009 (Cth)*, including recent amendments:
- *Secure Jobs Better Pay Amendment Act 2022 (Cth);*
- *Paid Family and Domestic Violence Leave amendment Act 2022*
- *Closing Loopholes Amendment Act 2023; and*
- *Closing Loopholes No.2 Amendment Act 2024 (Cth).*

FORECAST EXPENDITURE

Table 7.34: AA6 Revised Forecast capex for Payroll Upgrade ($M real as at 31 December 2023)

PROGRAM	2025	2026	2027	2028	2029	TOTAL
Payroll Upgrade Project	0.5	0.0	0.0	0.0	0.0	0.5
TOTAL	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.5**

7.6.3.9 IT DIGITAL PROGRAMS $1.9M

ATCO accepts the ERA's Draft Decision to remove the digital program forecast expenditure from AA6 IT capex.

7.6.3.10 IT DATA ANALYTICS PROGRAMS $1.0M

ATCO accepts the ERA's Draft Decision to remove the data analytics program forecast from AA6 IT capex.

7.6.3.11 IT CONTINUOUS COMPLIANCE PROGRAM $0.4M

ATCO does not accept the ERA's Draft Decision to reject this program and proposes a revised forecast of **$0.4 million**, which is $1.6 million lower than our original 2025-29 Plan.

This program is a revision to the IT Continuous Improvements Program, which was in the original AA6 Submission. The revised scope of the business case 07.117.00 - Continuous Compliance Business Case now focusses on small scale initiatives that enable us to continue to meet regulatory compliance, license obligations and comply with the requirements of the Safety Case. In particular, the program will ensure that ATCO can continue to provide required support for a reliable and secure gas network post the Enterprise Resource Planning (ERP) replacement.

Some examples of continuing to provide required support for network reliability include:

- Meeting customer and regulatory requirements for data collation and report generation for ERA Compliance and Performance reporting,
- Providing more granular identification of faults to aid incident resolution and trends analysis to improve service delivery; and
- Managing the recurrence of controlled document reviews, ensuring critical artifacts such as up-to-date Safe Work Instructions are always available to field operatives.

INVESTMENT DRIVERS

The key investment drivers for this expenditure include:

- Compliance with and maintaining legislation or regulatory requirements.
- Maintaining the safety of employees and the community; and

- Optimising system performance to improve business responsiveness to customer needs to continue to meet required mandated service standards.

CONFORMING CAPEX JUSTIFICATION

Although each component of the program has differing levels of investment and provides different solutions, the investments pursued as part of the program will comply with one or more of the following sub-rule(s) aligned with the NGR 79 including:

- 79(2)(c)(i) and 79(2)(c)(ii) – improving systems to ensure continued safety and system integrity, as well as providing succinct and simplified information for enhanced outcomes.
- 79(2)(c)(iii) – improving systems to achieve compliance with a regulatory obligation or requirement in our core and support systems, improving audit outcomes and seamless integration with third party systems.

FORECAST EXPENDITURE

Table 7.35: AA6 Revised forecast for IT Continuous Compliance ($M real as at 31 December 2023)

PROGRAM	2025	2026	2027	2028	2029	TOTAL
IT Continuous Compliance	0.0	0.0	0.0	0.2	0.2	0.4
TOTAL	**0.0**	**0.0**	**0.0**	**0.2**	**0.2**	**0.4**

7.6.3.12 NEW PROGRAM - DATA ENABLEMENT PROGRAM $6.3M

ATCO, like many utilities, relies heavily on asset data and information to drive decisions for cost-effective asset maintenance and meeting the needs of stakeholders. This necessary investment ensures that the data foundations are in place to support the ERP replacement program while managing the needs of the business.

During AA5, ATCO initiated a significant program to establish a data platform, integrating data from various systems. This has already yielded benefits, including aiding regulatory reporting, and supporting information needs help to ensure a safe, reliable gas network.

We recognise the need to establish a robust data foundation before further enhancing data and analytics capabilities. The implementation of a suite of new technologies to replace our ageing technology stack in AA6 will also introduce a range of data related business issues and inefficiencies that must be resolved. For example, the changeover of our core ERP and Enterprise Asset Management (EAM) solutions will require a review and potential re-design of our data platform. The submitted business case 07.113.00 - Data Enablement - Business Case provides further detail on the program.

INVESTMENT DRIVERS

The key drivers this expenditure include:

- **Preparing for the ERP Replacement Program:** ATCO is replacing its ERP system during AA6. This project will ensure that the necessary data foundations are in place to support the replacement program.
- **Address lack of data governance:** Our data records possess data gaps, data integrity and data accuracy issues due to inadequate data governance and master data management (Data Issues). These Data Issues manifest themselves in operational data sets, decision systems as well as operational and regulatory reports. They are repeatedly addressed by **manually cleansing** and collating data for reporting and insight across the gas operational workforce, causing delays and inefficiencies in operations.
- **Address operational challenges** caused by lack of data accuracy:

ACTIVITY

The following activities are planned that will address the business need (investment drivers):

- Create an enterprise data model that provides an integrated view of data across the business.
- Establish an effective data governance framework that allows us to better manage data.
- Implement a Master Data Management system capability in our existing Enterprise Data Platform to automate the ways in which business-critical data is governed, managed, and shared throughout business applications.
- Refactor existing reports in the data platform as the underlying data structures from source systems change.
- Introduce the process and data structures to reflect the broader functional capabilities of the replacement ERP.

CONFORMING CAPEX JUSTIFICATION

The investment is in accordance with the following sub-rule(s):

- 79(2)(c)(i) – The investment enables ATCO to have functional and supported IT systems consistent with good industry practice.
- 79(2)(c)(ii) – The investment is necessary for ATCO to maintains network integrity.
- 79(2)(c)(iii) – The investment is necessary for ATCO to meet its ongoing compliance with regulatory obligations.

FORECAST EXPENDITURE

Table 7.36: AA6 capex forecast for IT Data Enablement ($M real as at 31 December 2023)

PROGRAM	2025	2026	2027	2028	2029	TOTAL
Data Enablement	4.1	2.2	0.0	0.0	0.0	6.3
TOTAL	**4.1**	**2.2**	**0.0**	**0.0**	**0.0**	**6.3**

7.6.3.13 NEW PROGRAM – TECHNOLOGY LIFECYCLE $11.9M

The data centre migration to an externally hosted infrastructure service in December 2023 addressed hardware lifecycle management risk and was our first step in addressing end of life risk and the modernisation of IT Services.[84] Using a risk-based approach, we have revised and reformed the key IT Services needed to ensure a supported and sustainable IT Operations function and asset management lifecycle process to better meet the needs of the business and to ensure that reliable systems support is in place to enable the business to operate and comply with its service and network management obligations.

Our approach to asset management is changing considering the findings of the IT Current State Assessment and the [redacted]. Additional key IT Services requiring implementation or modernisation of our ageing infrastructure have been identified. These include IT assets that have reached end-of-life or will reach "end of support" during AA6. Our forecast for Technology Lifecycle is **$11.9 million.** The submitted business case, attachment 07.118.00 - Technology Lifecycle Business Case, provides further detail on the program.

INVESTMENT DRIVERS

The key drivers for this capex include:

- Reducing risk of significant system outages.
- Reducing potential non-compliance with legislative obligations risk.
- Addressing end of life systems and infrastructure risk.

ACTIVITY

The key activities performed under the Technology Lifecycle program include:

- [redacted]
- Application upgrades to business critical IT services where the operating system or application stack is going to reach or already is end of life.
- Re-platforming applications where the current underlying platform cost in AA6 will increase three times from the current cost in AA5.
- Regular recurrent upgrades to core systems continue in line with accepted industry practice (including Microsoft Office 365, G-Suite (Gas Metering Data Management, Financial & Accrual applications/tools) SAP etc.)

CONFORMING CAPEX JUSTIFICATION

This expenditure is conforming capital expenditure on the following basis:

- 79(2)(c)(i) – The investment enables ATCO to have functional and supported IT systems consistent with good industry practice.

[84] See supporting documents 07.125 - Azure Data Centre Migration - Business Case and 07.126 - Azure Data Centre Migration – CEAR.

- 79(2)(c)(ii) – The investment is necessary for ATCO to maintains network integrity.
- 79(2)(c)(iii) – The investment is necessary for ATCO to meet its ongoing compliance with regulatory obligations.

FORECAST EXPENDITURE

Table 7.37: AA6 capex forecast for Technology Lifecycle ($M real as at 31 December 2023)

PROGRAM	2025	2026	2027	2028	2029	TOTAL
Technology Lifecycle	5.3	1.2	0.6	2.9	1.9	11.9
TOTAL	**5.3**	**1.2**	**0.6**	**2.9**	**1.9**	**11.9**

7.6.4 ATCO'S RESPONSE: AA6 STRUCTURES AND EQUIPMENT

7.6.4.1 NEW MALAGA DEPOT - $4.3M

ATCO accepts the ERA's Draft Decision for the new Malaga depot expenditure of **$4.3 million.**

By way of providing the ERA an update to its plan, we note that there will be an updated business case review in late 2024 to consider the options for the Malaga depot. These options remain as:

1. Build the Malaga depot at 2 Masonry Way, Malaga.
2. Buy the Malaga depot at 54 Westchester Road, and modify it to suit our long-term needs, and sell the 2 Masonry Way block of land.
3. Enter into a long-term lease for the Malaga depot at 54 Westchester Road and perform some improvement works to improve the functionality and condition of the depot to suit our long-term needs and sell the 2 Masonry Way block of land.
4. Enter a long-term lease for a different commercial property and modify it to suit ATCO's operational needs and sell the 2 Masonry Way block of land.

The business case review will consider the cost and suitability of these options, including to ensure the new depot is optimally located within the existing network areas and is near all main arterial roads ensuring our response times to network events remain compliant. We will select the most appropriate option in accordance with the National Gas Rules.

The $4.3 million is currently the best estimate of the costs of the Malaga depot.

7.6.4.2 DEPOT MINOR WORKS PROGRAM - $2.3M

ATCO does not accept the ERA's Draft Decision to reject part of the capex corresponding to the 10% timesheet loading **$0.2 million** and maintains its original total submission of **$2.3 million.**

The ERA Draft Decision, based on EMCa's analysis, assessed the 10% "time-sheeting" line item as equivalent to contingency allowance. As stated in our response to EMCa (EMCa40), the 10% cost item does not equate to a contingency allowance. This cost covers the expected labour costs of the

Facilities Project Management team (Facilities) who will oversee the depot minor capex works program. This cost was expressed as "timesheeting" to reflect the number of hours expected to be spent by this team on the depot minor works program.

The Facilities team will manage the depot minor capex works program including to perform the following tasks:

- Consult with stakeholders to confirm scope of the required works.
- Document the scope of works, obtain design drawings and any necessary approvals for the works.
- Obtain quotations for the required works.
- Raise and obtain Capital Appropriation Request approval for the project.
- Award the works to the relevant contractor.
- Plan and supervise stakeholders and the contractor's execution of the works .
- Complete handover, invoicing and filing for the completed project.

This work will be performed by the Facilities Project Manager (70%) and the Facilities Coordinator (30%) with the Facilities Project Manager overseeing the majority of the works.

Our estimation of the labour required for the depot minor capex works project was based on the anticipated time sheeting hours from our 2023 depot minor capex project. As part of the annual depot minor works program Business Case, the Facilities team will assess the projects planned for the upcoming year. This is done in collaboration with the relevant stakeholders, considering operational priorities, HSE risk, condition. We have updated the *07.120 - Depots CAPEX 2025 -2029 Plan* cost estimate to clearly provide transparency on the labour costing calculation.

This evaluation will also involve reviewing the project management time sheeting effort required to complete the projects. The allocation of time sheeting will be adjusted based on the complexity of the projects outlined in the Project plan for the year. Table 7.38 provides a summary of AA6 Depot Minor Works Labour Cost of $0.2 million.

Table 7.38: ATCO AA6 Depot Minor Works Labour Cost ($M real as at 31 December 2023)

PROJECT ROLE	2025	2026	2027	2028	2029	TOTAL
Facilities Project Manager	0.04	0.02	0.03	0.03	0.03	0.14
Facilities Project Coordinator	0.02	0.01	0.01	0.01	0.01	0.06
Total	**0.05**	**0.03**	**0.04**	**0.04**	**0.04**	**0.20**

8. OPERATING EXPENDITURE

CHAPTER HIGHLIGHTS

1. The ERA did not approve ATCO's AA6 Forecast Operating Expenditure proposal for $455.9 million and proposed a lower amount of $337.4 million. This lower amount is due to the removal of costs from the base year and removal of a number of step changes.
2. ATCO does not accept and submits a revised proposal of $441.6 million.
3. ATCO proposes to use 2023 actual opex as the base year for the AA6 forecast. While we acknowledge the ERA has accepted 2022, we believe 2023 is a more reflective base year.

8.1 INTRODUCTION

This chapter outlines the ERA's Draft Decision on ATCO's AA6 operating expenditure (opex), our respective response to the Draft Decision, and our revised AA6 opex proposal.

ATCO incurs opex to operate and maintain the network for our customers, responding to publicly reported gas leaks and read customer meters. Our opex categories consist of expenditure relating to Network, Corporate, IT, UAFG, and Ancillary Services.

In this 2025-29 Revised Plan we have continued to apply the base-step-trend (**BST**) approach to forecasting opex for the network, corporate, and IT categories. We have included two 'specific forecasts' in our submission, for opex relating to UAFG and our forecast of proposed ancillary services in AA6.

This chapter outlines our response to the ERA's Draft Decision on our AA6 opex forecast.

8.2 STAKEHOLDER FEEDBACK

Table 8.1 summarises the feedback received from our stakeholders and our respective responses.

Table 8.1: Consideration of stakeholder feedback on the Opex Forecast

STAKEHOLDER FEEDBACK	OUR RESPONSE
• Alinta - ATCO has used 2022 as its base year because it is "the most recent year of actual expenditure". This is not what the NGR require, nor what the method logically requires. Rather, the most efficient year should be selected as the base year, balanced also against consideration of selecting a year that is likely to be reflective of future costs. In Alinta Energy's view, this is the lowest cost year selected at a granular cost level where compliant operations occurred.	The ERA has accepted ATCO's proposal to use 2022 as its base year. The ERA considers that the most recent full year of actual costs is an appropriate selection on which to base its forecast costs after taking out one off and non-recurring costs in that year. The ERA also considers that selecting a base year during the COVID-19 pandemic period would not be representative of ATCO's forecast expenditure in AA6.

STAKEHOLDER FEEDBACK	OUR RESPONSE
• Alinta - ATCO's cited reasons for its network opex underspend during AA5 include a tight labour market, increased efficiency of pipeline surveys and internalisation of reinstatement activities for some network activities. Alinta asks the ERA to consider whether these efficiencies may persist into AA6 and whether ATCO's BST forecast has been adjusted appropriately for these efficiencies.	ATCO, in its Revised Plan has provided an updated forecast for AA5, which includes actual costs from 2020 to 2023 and a forecast for 2024, totalling $372 million in 2023$. The total spend compared to the AA5 final decision of $376.3 million is $4.3 million lower. This under spend is primarily a result of the impact of COVID-19 restrictions in 2020 rather than an indication of efficiency in that year.
• Kleenheat is concerned that the history of over-estimation of Opex and Capex has resulted in ATCO receiving excessive returns over the previous Access Arrangement as outlined below, which is at the detriment of the customers of the GDS. • The National Gas Rules, Rule 77(2) appears to have some mechanism to remove any benefit associated with any difference between estimated and actual expenditure. • Kleenheat strongly urges the ERA to ensure any benefit from prior year over estimation is removed, including benefits from timing.	ATCO, in its Revised Plan has provided an updated forecast for AA5 for capex and opex. The under spend in both categories is primarily due to the impact of COVID-19 restrictions in 2020. National Gas Rules encourage network operators to be as efficient as possible as this efficiency establishes a base from which future regulatory decisions can be made, therefore flowing these efficiencies through to retailers as lower network charges, which retailers should then pass onto customers.
• Kleenheat - ATCO is proposing a $78 million increase (over 20 per cent) in the operating expenditure (Opex) in AA6, when compared to the current Access Arrangement. Kleenheat also notes that ATCO's actual Opex has historically been significantly lower than previous proposed Access Arrangements. • ATCO has underspent on average 17 per cent in AA4 and AA5 relative to its proposed amount.	National Gas Rules encourage network operators to be as efficient as possible as this efficiency establishes a base from which future regulatory decisions can be made, therefore flowing these efficiencies through to retailers as lower network charges, which retailers should then pass onto customers.

8.3 SUMMARY OF THE ERA'S DRAFT DECISION

The ERA did not approve ATCO's opex proposal. In their Draft Decision, the ERA reduced AA6 Opex from the proposed $455.9 million to $337.4 million, a variance of $118.5 million. Refer Table 8.2 Table 8.2.

Table 8.2: ERA Draft Decision comparison to ATCO's AA6 proposal – Opex

OPEX CATEGORY	ATCO PROPOSAL	ERA DRAFT DECISION	VARIANCE	VARIANCE (%)
Base year	312.6	253.5	-59.1	-18.9%

OPEX CATEGORY	ATCO PROPOSAL	ERA DRAFT DECISION	VARIANCE	VARIANCE (%)
Recurrent step changes	22.5	5.1	-17.4	-77.3%
Non-recurrent step changes	40.3	9.3	-31	-76.9%
Output growth escalation	10.4	14.0	3.6	34.6%
Input cost escalation	12.4	4.1	-8.3	-66.9%
Sub-total: (Network, Corporate & IT)	**398.1**	**286.0**	**-112.1**	**-28.2%**
UAFG	30.8	31.8	1	3.2%
Ancillary services	27.1	19.6	-7.5	-27.7%
TOTAL	**455.9**	**337.4**	**-118.5**	**-26.0%**

The ERA has proposed the following required amendments.

- **REQUIRED AMENDMENT 5.1:** ATCO must amend its access arrangement information to revise its AA6 2022 base year operating expenditure to $50.7 million pa ($ real as at 31 December 2023).
- **REQUIRED AMENDMENT 5.2:** ATCO must amend its access arrangement information to revise its AA6 recurrent step change operating expenditure to $5.1 million ($ real as at 31 December 2023).
- **REQUIRED AMENDMENT 5.3:** ATCO must amend its access arrangement information to revise its AA6 non-recurrent step change operating expenditure to $9.3 million ($ real as at 31 December 2023).
- **REQUIRED AMENDMENT 5.4:** ATCO must amend its access arrangement information to revise its AA6 output growth escalation operating expenditure to $14.0 million ($ real as at 31 December 2023).
- **REQUIRED AMENDMENT 5.5:** ATCO must amend its access arrangement information to revise its AA6 input cost escalation operating expenditure to $4.1 million ($ real as at 31 December 2023).
- **REQUIRED AMENDMENT 5.6:** ATCO must amend its access arrangement information to revise its AA6 unaccounted for gas operating expenditure to $31.8 million ($ real as at 31 December 2023).
- **REQUIRED AMENDMENT 5.7:** ATCO must amend its access arrangement information to revise its AA6 ancillary services operating expenditure to $19.6 million ($ real as at 31 December 2023).
- **REQUIRED AMENDMENT 5.8:** ATCO must amend its access arrangement information to revise its AA6 return on working capital to $8.7 million ($ real as at 31 December 2023). **Note:** This Amendment is covered in Chapter 9: Working Capital.

8.4 ATCO'S SUMMARY RESPONSE TO THE DRAFT DECISION

ATCO does not accept all the ERA's Draft Decision amendments related to opex. We have updated our AA6 opex forecast, considering the stakeholder feedback, the ERA's Draft Decision and the relevant regulatory tests, and are proposing a revised AA6 forecast opex of $441.6 million, summarised in Table 8.49.

ATCO has proudly operated in Australia for over 60 years and we've played an important role in the Western Australian community since our tenure with the gas distribution system started over a decade ago.

ATCO has significant concerns that if the Draft Decision level of opex were to be approved in the Final Decision, the reduced level of opex significantly constrains our ability to operate and maintain the gas network under our gas distribution licence and exposes us to increased risks. These risks include constraining ATCO's ability to efficiently deliver pipeline services in a safe, reliable, and secure manner as required under the National Gas Objectives. Examples of this include affecting the following services:

- **Emergency response capability:** Providing the 24/7 operations centre for responding to reported faults. While supervisors play a critical role in emergency response, contractor management, and work authorisation processes, their reduced availability can negatively affect other key functions. These functions include work planning, decision-making, performance monitoring, leadership, team building, and workforce engagement. Adequate supervision significantly impacts various performance factors, such as adherence to procedures, training effectiveness, safety communication, staffing levels, workload management, shift patterns, and organisational culture.
- **Responses to leaks**: Responding to class 1 leaks within an hour to maintain safety and reliability.
- **Maintenance:** Maintaining assets to provide the current level of reliability. Comprising on long-term maintenance more prone to wear and tear, results in increased downtime and extra maintenance costs that can quickly surpass the initial 'savings' and result in significant incidents.
- **Regulatory obligations**: Compliance with existing and new regulatory obligations.
- **Service levels:** Maintaining our mandated level of service to consumers.
- **Safety and reliability:** Conducting routine and corrective maintenance of ageing assets to ensure safe operations and continuity of gas supply. Consideration should be given to cost cutting and the increased risk of injuries to members of the public through missed response times and the resulting increased cost of audits, investigations, fines and reputational damage.
- **Cyber security vulnerabilities:** Protection against cyberattacks that could significantly disrupt operations, compromise sensitive data, or increase the risk of network incidents.
- **Staffing shortages:** Attracting and retaining qualified personnel will be affected, resulting in understaffing, increased workloads, and potential burnout in breach of our duty of care obligations, compromising the wellbeing and safety of our staff, and consequently our services and operations, including for example incident response times.

Table 8.3 shows ATCO's actual AA4 and AA5 opex for the base-step-trend categories. It shows that on average, the AA6 Draft Decision is $8.7 million per annum (13%) lower than expenditure in AA5. This is a material and unsustainable reduction in opex for a business of our scale.

Table 8.3: Base step trend categories – Actual vs Draft Decision ($M real as at 31 December 2023)

OPEX CATEGORY	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 (F)	AVG. ERA DD
Network	30.9	35.2	32.4	36.4	34.3	32.0	35.3	36.1	40.5	41.1	40.0
Corporate	21.2	15.9	19.0	22.5	23.4	20.0	19.1	24.5	23.4	23.6	11.9
IT	10.3	10.0	11.4	7.9	8.6	7.8	8.8	4.7	5.6	6.7	5.3
TOTAL	**62.3**	**61.1**	**62.8**	**66.8**	**66.4**	**59.8**	**63.3**	**65.4**	**69.6**	**71.5**	
Average pa			**AA4 63.9**					**AA5 65.9**			**57.2**

When compared to the most recent 2023 opex, the impact of the reduction is materially exacerbated at $12.4 million (or 18%) lower. The Corporate expenditure in the table above, is where the most significant reduction in the Draft Decision is evident, with Corporate costs being $11.5 million (49%) lower than 2023 costs and $10.6 million (47%) lower than 2018 (the base year for AA5 final decision costs, which had previously been accepted by the ERA).

Our initial submission included a benchmark report by Quantonomics (*see Attachment 09.003 in original submission documents*) that assessed ATCO's performance against industry peers. In their report, Quantonomics observed "*ATCO has performed better than the average for Gas Distribution Businesses with relatively high customer density on all measures; and better than the average for the sample as a whole.*"[85].

As shown in Figure 8.1, if the ERA's Draft Decision were to be overlaid on ATCO's opex per customer, ATCO would be the lowest of all gas networks in the study ($66 DD vs $74 for Ausnet). Additionally, as shown in Figure 8.2, the average opex per km in the Draft Decision would be the lowest by a considerable margin ($3,611 DD vs $4,493 for Ausnet) for those businesses with a higher customer density. ATCO believe that both of these outcomes are unrealistic and would severely restrict our ability to operate the network in a safe, reliable and sustainable manner.

[85] Quantonomics, Final Report: Benchmarking Study of the Western Australian gas distribution system, 10 May 2023, pg 34

Figure 8.1: Draft Decision overlay on opex per customer relative to customer density

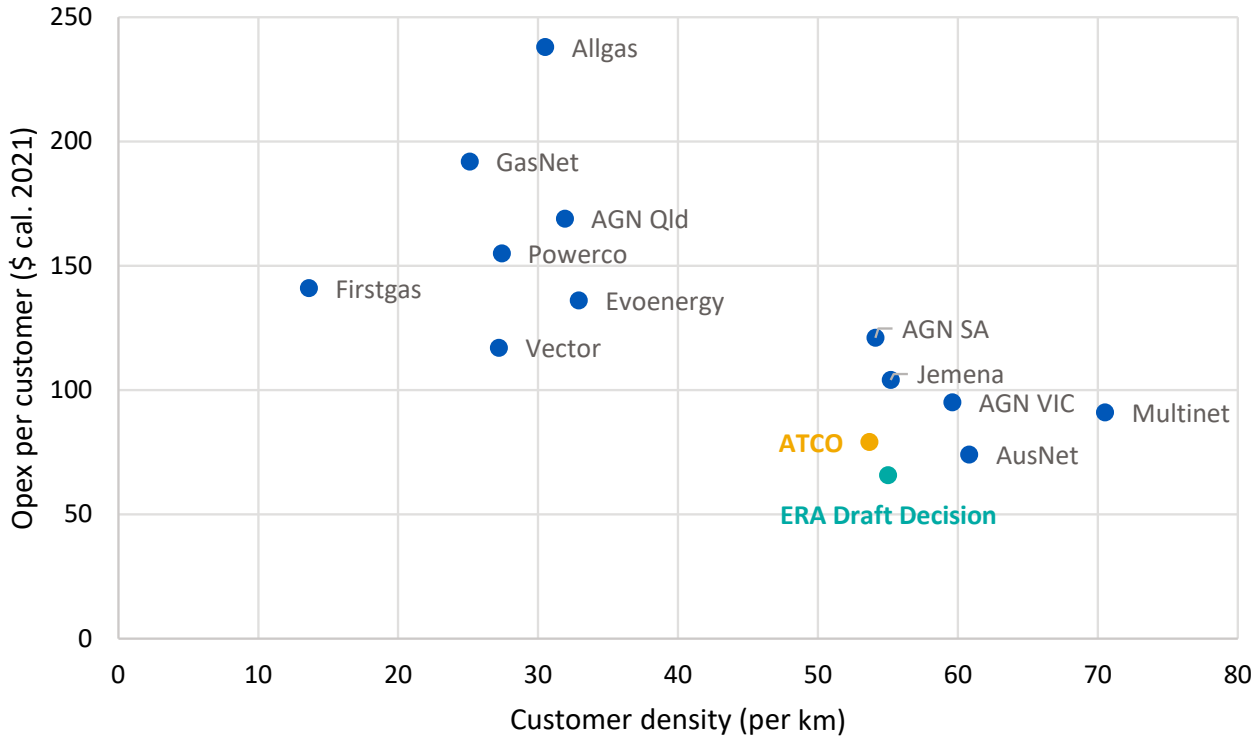
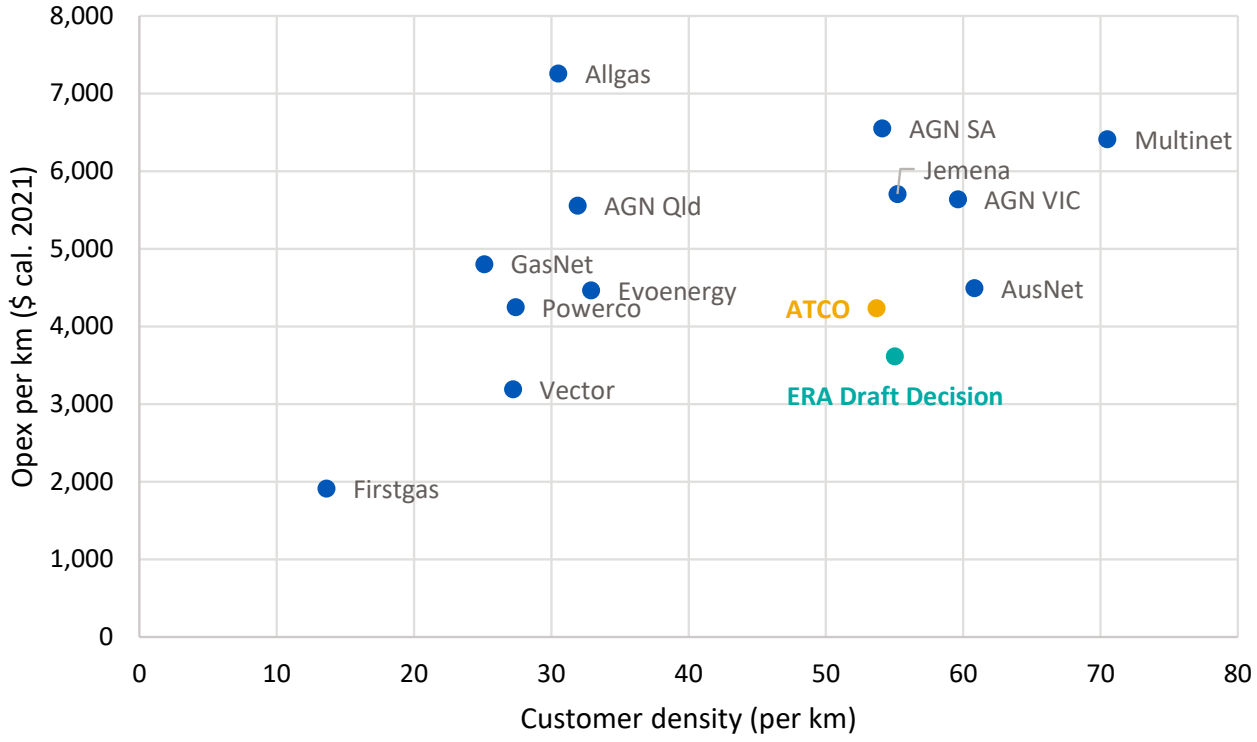


Figure 8.2: Draft Decision overlay on opex per km relative to customer density



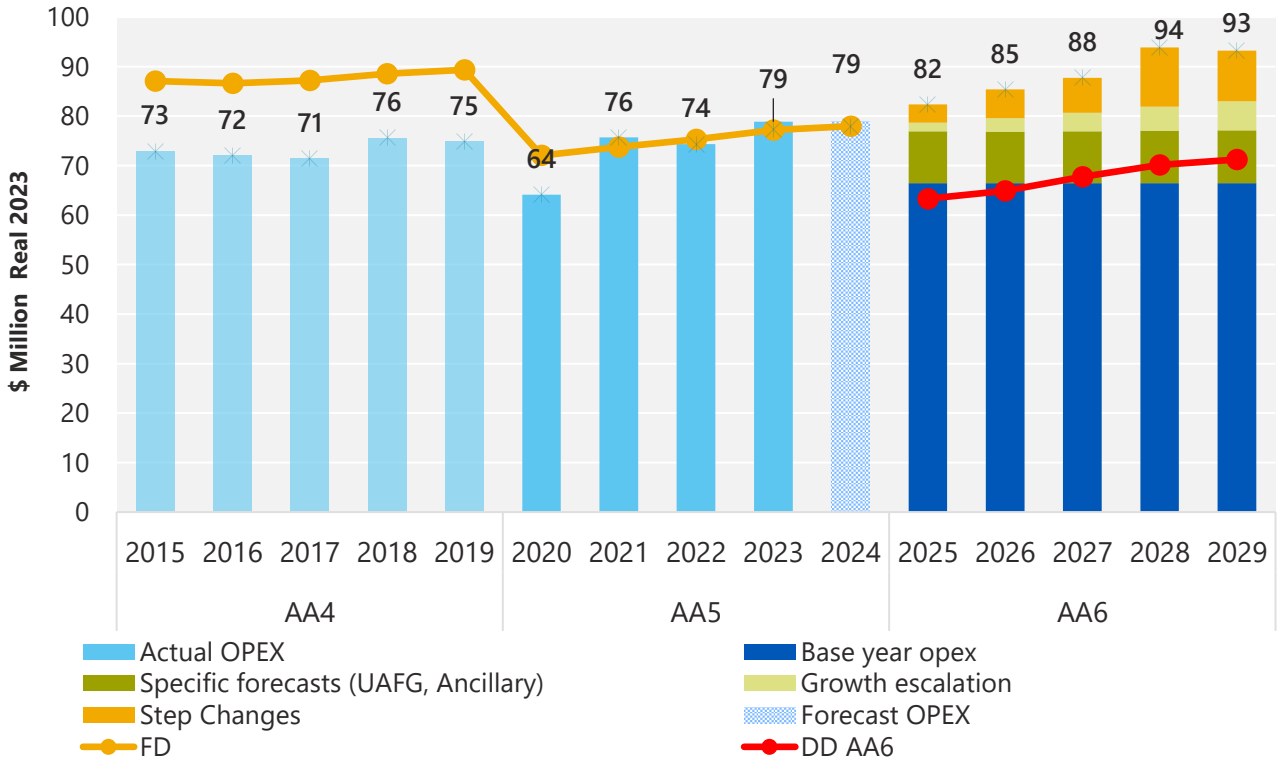
The ERA's Draft Decision results in an opex forecast that is significantly below ATCO's actual costs for both AA4 and AA5.

Under the National Gas Law incentive framework, ATCO is incentivised to incur costs efficiently and reveal these efficient costs. Revealed costs are used to forecast the expenditure for AA6. However, the

ERA's Draft Decision amendments to the base year do not result in a forecast that reflects ATCO's efficient cost or a forecast that is consistent with NGR 91 or the National Gas Objective.

We have also compared the Draft Decision forecast across all categories of expenditure in the following chart that shows the material reduction in opex in the AA6 Draft Decision AA6 compared to our actual expenditure over the past decade.

Figure 8.3: Historical Opex vs ERA Draft Decision ($M real as at 31 December 2023)



The ERA's Draft Decision results in an opex forecast that was not arrived at on a reasonable basis and does not represent the best forecast in the circumstances in accordance with NGR 74. ATCO has provided additional information in this response to address the ERA's findings in the Draft Decision.

Furthermore, ATCO notes that the National Gas Law has changed since our September 2023 submission and since the EMCa report was issued. The EMCa report expressly states that its review was based on the rules in place at the time (the old expenditure rules), which did not require reference to the National Gas Objective. As the ERA noted in its Draft Decision, the expenditure rules have since been revised and now expressly incorporate the National Gas Objective .

As a result, EMCa's review did not appropriately consider whether our opex was in the long-term interests of gas consumers in respect of emissions reductions, but also in respect of factors that must be considered under the requirements of the National Gas Objective such as price, quality, safety, reliability, and security of supply.

Achieving the lowest sustainable cost of delivering pipeline services is not an absolute requirement – this must be done in a manner consistent with achieving the National Gas Objective . As of 25 January 2024, the National Gas Objective was amended and is now to promote the efficient investment in, and operation and use of, natural gas services for the long term interests of natural gas consumers in

respect of price, quality, safety, reliability and security of supply of natural gas, as well as the achievement of targets to reduce or contribute to reducing Australia's greenhouse gas emissions.

ATCO has considered the ERA's Draft Decision, and our detailed responses are provided in the following sections.

8.5 ATCO'S RESPONSE: ERA REQUIRED AMENDMENT 5.1

ERA REQUIRED AMENDMENT 5.1:

ATCO must amend its access arrangement information to revise its AA6 2022 base year operating expenditure to $50.7 million ($ real as at 31 December 2023).

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

Several changes have been made to our AA6 opex forecast, including changing the base year from 2022 to 2023, and revised forecasts for Network, Corporate, IT, UAFG and Ancillary expenditure.

8.5.1 BASE YEAR CHANGE FROM 2022 TO 2023

ATCO proposes to adopt 2023 actual opex as the base year for the AA6 forecast of network, corporate, and IT opex as this is the most recent year of actual expenditure.

The ERA accepted ATCO's proposed use of 2022 for the base year, as this was the most recent year of actual expenditure at the time of our submission. We now propose to adopt 2023 as the base year because it is now the most recent full year of actual expenditure, it better reflects the current efficient costs and will be the most representative of the recurrent operating expenditure for AA6. This aligns with the intent of the ERA's Draft Decision noting the ERA's comment that "the most recent full year of actual costs is an appropriate selection on which to base its forecast costs after taking out one off and non-recurring costs in that year."

2023 is the most representative of ongoing efficient costs for the following reasons:

- **Most recent and relevant data:** 2023 represents the most recent full year of actual expenditure. This provides the most up-to-date picture of ATCO's current cost structure.
- **Post-COVID-19 normalisation:** The disruptions caused by COVID-19 may still have been evident in 2022 and may not fully reflect the "business-as-usual" operational costs forecast for AA6.
- **Contemporaneous regulatory obligations:** The costs of maintaining compliance with regulatory obligations are more accurately reflected in the 2023 data. There continues to be an increase in the regulatory obligations that ATCO must comply with, and costs payable by ATCO to statutory bodies such as Energy Safety, Energy Disputes Arbitrator, Energy and Water Ombudsman and the Economic Regulation Authority.

Table 8.4 shows the opex movement between 2022 and 2023.

Table 8.4: Base year opex comparison, 2022 to 2023 ($M real as at 31 December 2023)

	2022	2023	MOVEMENTS
Network	36.1	40.5	+4.4
Corporate	24.5	23.5	-1.1
Information Technology	4.7	5.6	+0.9
UAFG	3.3	3.0	-0.2
Ancillary services	0.9	2.0	+1.1
TOTAL BASE YEAR OPEX	**69.5**	**74.6**	**+5.0**
[redacted]	[redacted]	[redacted]	[redacted]
TOTAL OPEX	**74.4**	**78.9**	**+4.5**

The movements in actual base year opex between 2022 and 2023 are explained in Sections 8.5.1.1 to 8.5.1.3, with UAFG and Ancillary services being subject to specific forecasts for AA6 (not based on the base-step-trend methodology) and therefore being separately forecast in Sections 8.11 and 8.12.

8.5.1.1 2022-2023 DIFFERENCE: NETWORK COSTS

Network opex increased from 2022 to 2023 by approximately $4.4 million. The drivers of this increase are summarised as follows:

Table 8.5: 2022-2023 Difference: Network costs ($M real as at 31 December 2023)

NETWORK OPEX	
2022	36.1
Add:	
IT Managed Services[86]	2.4
Vacancies / Constrained Labour Market	1.6
Meter Reads	0.3
Insurance	0.1
Total Movement	4.4
2023 UNADJUSTED BASE OPEX TOTAL	**40.5**

IT MANAGED SERVICES

In 2023, ATCO moved computer and storage services from ageing on-premises physical servers that were out of support from 2024 to an externally hosted infrastructure service, managed through

[86] These IT costs are directly attributed to Network Cost Centres and therefore are shown here to remain consistent with RIN numbers and variance analysis.

ATCO's existing Managed Service Partner. This was done to remediate critical technology end of life risks.

As a consequence, annual hosting subscription services and licensing costs were incurred from April 2023 and will continue throughout AA6, however this has enabled us to avoid future capital spend.

The key investment drivers for the externally hosted infrastructure service were as follows:

- ATCO is subject to Critical Infrastructure Risk Management Program (**CIRMP**) obligations under SOCI. As a critical infrastructure entity, ATCO must so far as it is reasonably practicable to do so, minimise or eliminate any material risk of a hazard occurring as well as mitigate the relevant impact of such a hazard on the asset.
- The existing hardware in the Data Centre had reached end-of-life based on current lifecycle standards, were expensive to replace and required additional expertise to support that was difficult to locate in today's labour market. ATCO was required to address the end-of-life hardware risk to ensure ongoing compliance to SOCI.

The benefits of this investment include:

- In moving to an externally hosted infrastructure service, future infrastructure requirements should be easier to deploy and less expensive to operate than when compared to an equivalent on premise solution.
- Site disaster recovery for critical and essential business systems is simpler to implement and less likely to occur due to the level of redundancy already within externally hosted infrastructure service.
- ATCO continues to meet the requirements under SOCI in managing material risks.

The increase in costs between 2022 and 2023 represents ongoing expenses for ATCO, primarily due to the annual hosting subscription services and licensing costs in utilising an eternally hosted infrastructure service. The increase in costs between 2022 and 2023 is a recurrent cost to ATCO, reflecting the net increase in hosting subscription services and licensing costs.

VACANCIES / CONSTRAINED LABOUR MARKET

Approximately 25% of the movement was driven by an exceptionally high level of vacancies in 2022 in the Network Team (annualised turnover peaked at 19.9%) driven by low unemployment and a constrained labour market driving strong competition for resources in Western Australia. The vacancy rate decreased in 2023, providing a more stable workforce consistent with that experienced pre COVID-19.

The Network teams are dedicated to maintaining and operating the gas distribution network. In AA4, the Network internal resource pool grew by an average of 5% per year, which is reflective of the growth in the network length and complexity and an increase in network maintenance.

In AA5, the actual (2020-23 and forecast 2024) Network resource pool is expected to grow by 2% per year. The reduction from 5% in AA4 to 2% in AA5 is due to a contraction in new connections in 2020 (-2%), which was a direct result of COVID-19 and 2022 (-2%) was driven by Western Australia labour market constraints.

The labour market normalised in 2023, and has enabled ATCO's Network internal labour resource pool to return to pre-pandemic levels allowing ATCO to ensure the gas distribution systems safety and reliability.

METER READS

Meter reading costs are higher by $0.3 million in 2023 due to an increase the number of meter reads. In 2022, the number of meter reads were lower due to challenges faced by ATCO's meter reading provider in providing meter readers (due to labour market constraints). This resulted in reads having to be estimated by ATCO's system, which are lower cost.

An improvement in the Western Australian labour market in 2023 led to an increase in the availability of meter readers and an increase in physical meter reads. This resulted in higher meter reading costs compared to 2022.

Both retailers and customers are adversely impacted by estimated reads as they increase the volume of customer bill queries. Therefore, ATCO aims to increase the number of actual reads versus estimated reads in order to minimise the overall cost to retailers having to respond to customer queries thereby improving the customer experience and leading to a more efficient system overall.

INSURANCE

The 2023 Insurance premium is $0.1 million higher than 2022. On average, there has been an increase to ATCO Gas insurance premiums ranging between 5% to 21%an increase to ATCO from 2022 to 2023, driven by significant premium increases to the following insurance policies:

[redacted]

The contributing factors for the above premium increases are summarised below:

- **Increase to Network Asset replacement value**

  There has been an average 14% increase to the underlying asset value, which has a direct impact to the increase in ISR insurance premium. However, because ATCO's assets are insured under the ATCO Group Global insurance policy (underwritten by [redacted] the economies of scale results in a comparable, if not lower, ISR premium than the Australian ISR insurance market. Ensuring an approach to global insurance of its property portfolio is a proactive initiative taken by ATCO to ensure ISR premiums are maintained at a competitive rate.

- **Premium increases in the Australian insurance market**

  The insurance market remains challenging and premium rate increases were seen by all industries including those with a positive historical claims performance. These premium rate increases have been seen across many industries also due to industry-wide threats from geopolitical and economic volatility, along with newly emergent and elevated existing regulatory risks.

In accordance with industry best practice, ATCO has been proactive in ensuring that insurance premium increases are kept to a minimum ($0.1 million), wherever ATCO can practically influence such increases. Some actions taken are:

- At the time of insurance renewal, ATCO through its broker, tests the insurance market by seeking competitive insurance quotes from alternate insurers for key policies.
- Conducting Health, Safety and Mental Health & Wellbeing initiatives (including Toolbox meetings, education and awareness) with a view to reducing workplace injuries and claims, thereby proactively mitigating Workers Compensation premium increases.
- Fire management actions have been undertaken across depots e.g., at the Jandakot depot, regular vegetation clearance to reduce bushfire risks, hence avoiding potential fire claims, and resulting ISR insurance premium increases.
- Regular and periodic reviews and testing of fire alarms and emergency management systems, again to mitigate against the risk of fire thereby avoiding claims and potential ISR insurance premium increases.

8.5.1.2 2022-2023 DIFFERENCE: CORPORATE COSTS

Corporate costs in 2023 are lower by $1.1 million compared to 2022. This is primarily due to a reduction in legal costs during this period. This category also includes Finance, HR, Risk Management, stakeholder engagement, where there were minimal changes between the two years.

The two main drivers of the reduction in legal costs were:

- Legal consulting fees increased significantly in 2022, primarily due to the costs associated with external legal counsel for advice and other arbitration proceedings.
- With the legal team returning to a sustainable level of staffing in 2023, following higher turnover in 2022, there was a corresponding shift in workload allocation. A larger proportion of resources was directed towards supporting non-regulated business legal work compared to the previous year. This distribution of effort can fluctuate annually, reflecting the specific needs of each ATCO Australia business unit.

The 2023 level of Corporate costs are reflective of an ongoing and underlying level of activity that reflects AA6.

8.5.1.3 2022-2023 DIFFERENCE: IT COSTS

The 2023 IT opex increase of $0.9 million (total opex of $5.6 million) is attributed to increased resourcing ($0.2 million) and changes to the IT operating environment ($0.7 million) – Cloud adoption, Infrastructure Expansion and Cyber Security enhancements:

- **Resourcing**: The high number of IT vacancies in 2022 was addressed by increasing IT Managed Services Provider support in 2023 and the progressive recruitment of IT internal roles in alignment with the identified changes to ATCO's IT operating environment. This has led to a normalisation of costs associated with resourcing.

- **Cloud Adoption**: In 2023, ATCO expanded its use of cloud services, resulting in higher subscription and usage fees from April 2023. This approach will reduce future capex through the reduced procurement of IT infrastructure to support and run on premise applications, and also will reduce the risk of ageing hardware by eliminating associated failures, outages, and downtime.
- **Infrastructure Expansion**: In 2023, ATCO performed a data centre migration that involved moving servers and on-premise storage services to an externally hosted infrastructure service, with an increase in opex.
- **Cyber Security Enhancements**: To meet our cyber security obligations, we increased expenditure to implement additional risk management controls and tools to align with the Australian Energy Sector Cyber Security Framework (**AESCSF**) and government mandates. ATCO increased opex between 2022 and 2023 to meet capability standards and adapt to meet new regulatory obligations. This is a rapidly changing and continuous process requiring investment in security technologies and expertise, contributing to higher IT costs.

8.5.2 2023 BASE YEAR ADJUSTMENTS FOR NON-RECURRENT EXPENDITURE

Adjustments are required to the 2023 base year opex to ensure only recurrent costs are reflected. ATCO reviewed 2022 base year adjustments and considered if any additional adjustments are needed for 2023. These adjustments result in a reduction of $7.4 million from the 2023 base year. Further detail is provided in the following sections.

- **$4.3 million** of legal costs removed from 2023 for the [redacted] There are no legal costs in 2023 associated with the [redacted] (compared to $5.3 million combined in 2022). In 2023 there are no other similar legal costs that we consider to be non-recurrent.
- **$1.7 million** of costs removed from 2023 for the AA6 submission preparation (compared to $1.2 million in 2022). A separate step has been recorded from 2026 to 2029 for regulatory preparation costs relating to AA7. The ERA accepted this adjustment in their Draft Decision as a reduction of $1.2 million costs incurred in 2022.
- **$0.1 million** corporate restructuring costs removed from 2023. The ERA accepted this adjustment in their Draft Decision as a reduction of $0.8 million costs incurred in 2022.
- **$0.3 million** of costs removed from 2023 for the inline pipeline inspection program. A separate step change has been recorded for AA6 for inline pipeline inspections based on the number of inspections required in each year. The ERA accepted this adjustment in their Draft Decision as a reduction of $0.6 million costs incurred in 2022.
- **$0.1 million** of costs removed from 2023 for operating the Clean Energy Innovation Hub (**CEIH**) and Blending Projects.
- **$0.9 million** of costs removed from 2023 relating to our Short-Term Incentive Program (**STIP**), this is explained below and detailed in Section 8.5.3.3.

8.5.3 2023 BASE YEAR ADJUSTMENTS FROM ERA AMENDMENTS

We have also considered the additional adjustments in the ERA's Draft Decision made to the 2022 base year. We do not accept all the adjustments proposed in the Draft Decision.

In summary:

ATCO ACCEPTS:

- **CEIH and blending projects** – ATCO accepts the removal of costs relating to the CEIH and blending projects. ATCO notes that the amount it actually incurred in 2023 was $0.1 million, down from $0.3 million in 2022, and has therefore adjusted the amount to reflect this.

ATCO DOES NOT ACCEPT:

- **Stakeholder Engagement:** ATCO has not accepted the removal of $1.0 million for Stakeholder Engagement for the Business Improvement team. The cost of the Business Improvement team in 2023 was $0.6 million. The cost of this team is important for improving our service levels to customers and making it easier for our customers to interact with ATCO. Further information is provided in Section 8.5.3.2.
- **Short Term Incentive Program (STIP):** ATCO does not accept the removal of $3.7 million for STIP payments. Instead, $0.9 million has been removed from the 2023 base year as outlined in Section 8.5.3.3. STIP recognises and rewards employees for contributions that go beyond simply meeting basic performance targets or productivity gains. We have provided further information on the appropriateness of our STIP bonus scheme, and its alignment with external benchmarking data in Section 8.5.3.3.
- **Other Corporate Support Costs**: ATCO does not accept the removal of $6.8 million for Other Corporate Support costs. The calculation adopted in the Draft Decision comparing AA4 and AA5 costs was based on incorrect data from ATCO as a response to EMCa 52, and as a result, the $6.8 million adjustment in the Draft Decision is inaccurate. In addition, we maintain that these other corporate support costs are at an efficient level and contribute to essential corporate functions that ultimately benefit gas customers and the NGO. ATCO has also provided more information on why the post- pandemic incremental costs, previously called COVID-19 costs in our submission, should be included in the recurrent base year costs. Additional information on the benefits ATCO receives from Canada Head Office charges has also been provided in Section 8.5.3.4.

Our detailed responses to the adjustments in ERA Amendment 5.1 are provided in Sections 8.5.3.1 to 8.5.3.4 below.

8.5.3.1 CEIH AND BLENDING PROJECTS

ATCO accepts the ERA's decision to remove the CEIH and blending projects costs. The costs incurred in 2023 were $0.1 million in 2023 (compared to $0.3 million incurred in 2022). These 2023 costs have been removed from the 2023 base year opex.

8.5.3.2 STAKEHOLDER ENGAGEMENT

The ERA's Draft Decision requires a $1.0 million reduction for 'Corporate – Stakeholder Engagement'. The expenditure in this category includes opex for our Business Improvement (**BI**) Team. The ERA removed opex for this category suggesting that:

> *"costs associated with a business improvement team … should be offset by the cost reductions that the team achieves"*

ATCO does not accept the ERA's decision to remove $1.0 million and maintains these costs are part of an efficient base year's expenses. If the proposed cost reductions are implemented, ATCO may not be able to maintain the level of service gas retailers and consumers receive and that ATCO is obliged to provide under its licence and regulatory requirements. Additionally, the BI team's ability to deliver long term improvements, meet stakeholder expectations, or continue to meet industry standards and best practices will be restricted. These costs are justified in the following sections.

ROLE OF BUSINESS IMPROVEMENT (BI) TEAM

The primary role of the BI team is to improve the level of service to gas retailers and consumers that we are mandated to provide under the conditions of our licence and regulatory obligations. The BI team's role goes beyond cost savings alone. The BI team comprises 3 FTEs with additional support from the ATCO Group Digital Team. Collaborating with ATCO business units, the BI team identifies process and business improvement opportunities through change management, service design, user stories and digitisation. Through strategic planning, agile project management, and performance monitoring, the BI team facilitates the rollout of improvement projects across the business, which provide incremental cost and delivery efficiencies.

Examples of the projects that the BI team have delivered in AA5 include:

- **Commercial Gas Request (CGR) Management**: Created a workflow system to manage requests from gas retailers on behalf of commercial customers to either connect to the gas network or alter their existing connection. This resulted in better internal communication and more efficient management of commercial gas requests, resulting in faster CGR turnaround times for gas retailers and commercial customers.
- **Start-Up Sheets**: Implemented a workflow process to collect technical design specifications from multiple engineering teams and communicate these to field teams, for use during installation, commissioning, quality assurance, inspection, and asset management recording. Major benefits include:
  - better management of engineering projects and time savings with a more efficient workflow and improved data validation.
  - clearer communication between internal teams about specific projects.
- **Customer Contact Enquiry and Complaint Management**: Created an enquiry management system to provide a more streamlined online experience for gas retailers and consumers and to ensure ongoing compliance with licence and regulatory obligations. Enquiries are automatically categorised and sent to the appropriate team, while complaints are handled by our specialist complaint management team. Every enquiry and complaint is tracked from initial contact to resolution within one system, featuring reporting and analysis tools. Major benefits include:
  - Faster resolutions for Gas Retailers and Customers.
  - Reporting and analysis tools help the contact centre team identify recurring issues and work with ATCO business units to improve website information and resolve business process issues that cause confusion for gas retailers and consumers.

- Vendor and Contract Management: Created a workflow system to manage the onboarding approval process for new or renewing external vendors and the acceptance and management of vendor contracts throughout their term. Major benefits include:
  - Increased transparency, reduced risk, improved audit-readiness, communication, and efficiency.
  - Early reminders on contract renewals providing better process planning and sufficient negotiation time during contract renewals.
  - Insights into supplier performance, compliance, costs, and contract terms facilitates data-driven decisions and reduces operational risk.
- **Engineering Enquiry Management**: Created a system to provide timely and accurate responses to anyone who plans to conduct works near the gas distribution network within Western Australia. Major benefits include:
  - an improved experience and faster responses for people who plan to conduct works near a critical asset.
  - better internal communication, reduced risk, greater efficiency, reduced manual input, greater transparency, and improved reporting resulting in better decision making when managing works that impact on the gas distribution network.

BUSINESS IMPROVEMENT COSTS

The costs of running the BI team are substantially less than the $1.0 million estimated by EMCa. The BI costs largely reflect the labour costs of the team but also include vendor expenditure and IT cost allocation.

Table 8.6: Business Improvement Costs ($million real as at 31 December 2023)

YEAR	NUMBER OF FULL TIME EMPLOYEES	BI TEAM COST[87]
2021	2	0.49 M
2022	2	0.58 M
2023	3	0.67 M

DRIVERS OF THE BUSINESS IMPROVEMENT TEAM

The key outcome of the Business Improvement function is enhanced service levels and outcomes for gas retailers and consumers. Retaining this function ensures we can meet the evolving needs of gas retailers and consumers and ongoing compliance with licence and regulatory obligations in AA6 as technology and customer interaction expectations evolve.

[87] These costs include Customer Satisfaction & Experience Research cost, IT and Labour

OPEX JUSTIFICATION

In the sections above, ATCO has provided further information in respect of the costs of the BI team. These costs form part of an efficient and prudent cost base and are therefore justified under the NGR Rule 91(1) for the reasons below:

- **Gas Retailer and Consumer Satisfaction:** By delivering business improvements that enhance service levels, we can boost the efficiency and satisfaction of gas retailers and consumers in conjunction with complying with its licence and regulatory obligations. Conversely, narrowing the focus of the BI team to cost-cutting initiatives that solely benefit ATCO is likely to reduce customer service quality and decrease satisfaction, raising an additional risk of non-compliance with licence and regulatory obligations. A more probable outcome is that business improvements will lead to better and more efficient outcomes and higher service levels for retailers and consumers.
- **Longer Term Improvement Initiatives:** Focusing on short term cost balancing may discourage ATCO from investing in long term innovation and improvement initiatives that also ensure ongoing compliance with licence and regulatory obligations. If the BI team is expected to immediately offset the costs of initiatives with corresponding cost reductions, they may be less inclined to pursue transformative projects with longer-term pay back periods. This approach could stifle innovation and impede progress where continuous improvement is essential for adaptation and growth.
- **Stakeholder Expectations:** All stakeholders expect ATCO to demonstrate a commitment to continuous improvement and operational excellence. Therefore, investments in business improvement initiatives are essential for meeting stakeholder expectations as part of ongoing compliance with licence and regulatory obligations.
- **Industry Standards:** Staying abreast of industry standards and best practices is important for our stakeholders. Business improvement initiatives often involve adopting from and sharing good industry practice with our peers.

8.5.3.3 SHORT-TERM INCENTIVE PROGRAM (STIP)

ATCO does not accept the ERA's decision to remove the entire $3.7 million Short Term Incentive Program (STIP) costs from the base year. Instead, $0.9 million of costs have been removed from the 2023 base year and ATCO proposes to retain a STIP amount of $2.9 million on the basis of good industry practice outlined in [redacted], which is consistent with NGR 91.

The inclusion of STIP as a recurrent cost is in the long-term interests of consumers and consistent with NGR 91 because:

1. **The STIP is an essential element of Total Compensation,** critical to attracting, retaining, and incentivising the performance of ATCO contracted employees ultimately benefiting the long-term interests of gas consumers.
2. **Funding STIP only through financial 'outperformance' is inconsistent with market practices** and may incentivise negative behaviours that are not in the interests of gas consumers.
3. **Previous Regulatory Approvals and consultant recommendations support and recognise STIP as an efficient cost** (discussed in detail below).

4. **The STIP structure is consistent with market practice** demonstrated through the application of:
   a) Targets that are consistent with the market
   b) Actual payment rates that are consistent with market
5. **The consequences of removing STIP could be significant** For ATCO to recruit and retain a highly skilled workforce, if the ERA determines that it not a prudent or efficient cost then ATCO would be required to adjust the base salaries of the affected employees is to retain them in a highly competitive labour market. Without this change ATCO will not be able to maintain a safe and reliable network and provide the highest level of customer service.

ATCO engaged Mercer Consulting (Australia) Pty Ltd ("Mercer") to provide advice on STIP. They have advised that STIP is a consistent with good industry practice and benchmarked our payment level against similar businesses. Their detailed report is submitted (*see Attachment 08.104*).

Our position on STIP is detailed in the following sections.

THE STIP IS AN ESSENTIAL ELEMENT OF TOTAL COMPENSATION

ATCO's STIP program is crucial in sustaining cash-competitive employee compensation within this fiercely competitive job market. It has been a critical element of our remuneration strategy since 2010. STIP serves as a powerful incentive for personnel to consistently meet or exceed business targets. Moreover, the STIP program drives performance towards achieving both current and future business objectives by maintaining a robust linkage to overall company, business unit, and individual performance.

Fair pay and job security are essential foundations in retaining top talent. Ensuring ATCO's ability to compete for talent by attracting and retaining the right people at the right time is paramount for efficient operations. This commitment mitigates the costs associated with turnover, recruitment, and ongoing training of new personnel, ultimately safeguarding the long-term interests of gas consumers.

Participation in the STIP program is limited to roles that directly influence the achievement of business results and performance objectives. Examples of roles eligible to participate in the STIP include:

- Operational and Functional Leadership,
- Professionals in Engineering, Supply Chain, HSE, Finance and Human Resources,
- Technical Gas Network Specialists
- Field Supervisors

ATCO considers this is critical in the current employment market for efficient operation and to avoid costs linked to lengthy hiring, maintaining quality personnel, and constant training of newcomers. The inclusion of STIP as a component of Total Compensation is a key component of ATCO's remuneration strategy and has existed as a component of the remuneration strategy since 2010.

FUNDING STIP ONLY THROUGH FINANCIAL 'OUTPERFORMANCE' IS INCONSISTENT WITH MARKET PRACTICES

ATCO does not agree with the ERA that the payments made under the STIP should come from savings achieved through exceeding expenditure targets only. Our STIP program is designed to influence a

diverse set of outcomes over and above completing projects on time and on budget. These outcomes also include non-financial performance, such as safety.

The STIP program is designed to take into account the following matters that affect the employment market not only now but will continue to influence the employment market as the energy transition progresses over AA6:

- the current economic and employment environment in Western Australia
- the role of these payments to attract and retain staff
- the benefits (both financial and non-financial) that they directly and indirectly achieve
- the increased costs that ATCO would incur (which would ultimately flow to gas consumers) if it was unable to attract, retain and incentivise staff.
- Failure to attract and retain good staff also adversely affects our ability to operate the network from a safety, reliability, and security perspective.

Mercer advised that market data shows the majority of companies (70%) fund STI (STIP) as a budgeted line item[88]. This indicated the dominant practice is for STIP to be treated as a budgeted component of total remuneration and not funded purely by financial outperformance.

Data provided by Mercer underscores the increasing relevance and importance of non-financial performance metrics[89]. Mercer references findings following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry and the negative impacts of relying solely on Financial-only metrics. Mercer's survey data also reveals a significant majority of companies surveyed use non-financial performance metrics[90].

88 Mercer Consulting (Australia) Pty Ltd – Market Short Term Incentive Practices, Funding of Short Term Incentives

89 Mercer Consulting (Australia) Pty Ltd – Market Short Term Incentive Practices, Use of Non-Financial Performance Goals

90 Mercer Consulting (Australia) Pty Ltd – Market Short Term Incentive Practices, Use of Non-Financial Performance Goals – Table 4

ATCO'S NON-FINANCIAL MEASURES AND PERFORMANCE

ATCO concurs with Mercer's assessment regarding the importance of non-financial performance metrics. ATCO is concerned that funding the STIP solely on financial outperformance may motivate employees to prioritise financial outperformance over network safety, environmental objectives, and customer service. Therefore, ATCO advocates for a balanced approach that values and rewards both financial and non-financial achievements.

ATCO's STIP incentivises and drives strong performance across the following key non-financial areas:

- **Safety Performance:** Safety is the first consideration in everything we do. Including safety as a non-financial component of STIP reflects our commitment to continuously improve safety performance. We measure our safety performance using Total Recordable Injury Frequency Rate (TRIFR). This has steadily improved, exceeding targets in recent years, and the company aims to further reduce this rate to 1.0 in AA6.
- **Network Reliability:** Ensuring our customers have access to a reliable access gas supply is core to the services that we provide. ATCO's STIP rewards our staff for delivering network reliability outcomes that are to the benefit of customers. We measure our network reliability using the industry standard measures of SAIDI and SAIFI. ATCO has consistently exceeded its reliability targets for both SAIDI and SAIFI in AA5, and has set even more ambitious goals for AA6, and maintained an Asset Health Index target of 100.
- **Customer Satisfaction:** ATCO aims to motivate employees to prioritise customer satisfaction and operational excellence and is a non-financial component of STIP. ATCO consistently demonstrates exceptional customer service, achieving over 99% reliability in key performance indicators such as timely connections and rapid response to gas supply issues.
- **Sustainability and the Environment:** As outlined in the Mandatory Climate Disclosure requirements and the Australian Sustainability Reporting Standards. ATCO has aligned Executive remuneration with sustainability KPIs. ATCO's performance in environmental, social, and governance (ESG) aspects, as outlined below, is a significant factor in determining the STIP. ATCO integrated sustainability aspects into KPIs to motivate employees. The components of sustainability that are a part of the assessment of STIP include:
  - Environmental:
    - No reportable incidents to the Department of Water and Environmental Regulation.
    - No operational environmental spills.
    - Full compliance with the National Greenhouse and Energy Reporting Scheme.
    - Continued contribution to AGA's Global Decarbonisation Project.
    - Active contribution to growth activities to ensure progress toward our 2030 ESG targets.
  - Social:
    - Improvement of people engagement and culture to progress toward our 2030 ESG targets.
    - Improvement and sustainment of safety culture.
    - Enhancement of indigenous relations through strategic partnerships and collaboration.
    - Active community engagement activities.
    - Increased diversity, equity, and inclusion.

- Governance: Maintenance of regulatory compliance.

- **Diversity, Equity and Inclusion:** ATCO is committed to fostering a diverse, equitable, and inclusive (DEI) workplace to attract and retain a diverse workforce, drive innovation, and create a more inclusive and equitable workplace for all. We have integrated DEI KPIs into our STIP to incentivise and reward progress towards our DEI goals. These KPI's include:
  - Increased representation of underrepresented groups.
  - Improved employee engagement scores across diverse demographics.

In AA5, other examples of performance excellence that were not related to financial outperformance include but are not limited to:

- COVID-19: Employee performance given physical restrictions, increased illness, and absenteeism, changing work practices and response to government vaccination requirements as a critical industry.
- Labour Shortages: Responding to unprecedented turnover rates post COVID-19, which saw turnover spike to above 22% requiring additional workplace contribution, recruitment, and upskilling.

Therefore, it is not appropriate to offset the costs for STIP on the assumption that there is an equivalent financial benefit obtained.

PREVIOUS REGULATORY APPROVALS AND CONSULTANT RECOMMENDATIONS

The ERA accepted the inclusion of STIP in the AA5 Final Decision. This change in precedent suggests a shift in the ERA's regulatory practice without clear signalling or justification of a key issue that goes to how a business maintains motivation and incentivises its employees.

Further, we note that the ERA has disregarded the EMCa Report in which EMCa proposed including $2 million for STIP in the base year opex. This inconsistency undermines the rationale behind the ERA's proposed removal.

THE STIP STRUCTURE IS CONSISTENT WITH MARKET PRACTICE

ATCO asserts that our STIP structure is consistent with good industry practice on the basis that:

- Targets are consistent with market based evidence[91]
- Actual payment rates that are consistent with market based evidence[92].

ATCO's financial and non-financial performance has consistently supported these programs, and ATCO is confident this will continue in the future.

ATCO engaged Mercer to assess ATCO's Job Grades and STIP Target (*See Attachment 08.104*). Mercer found that ATCO's targets are consistent with relevant Market Sectors. Mercer confirms its position that the Resources, Construction and Engineering (RCE) market is most relevant to ATCO given the broad range of disciplines being employed and the dominance of RCE market companies in WA.

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91 Mercer Consulting (Australia) Pty Ltd – Market Short Term Incentive Practices – Short Term Incentive Opportunities – Table 1

92 Mercer Consulting (Australia) Pty Ltd – Market Short Term Incentive Practices – Actual versus Target Short-Term Incentive – Table 2

ATCO has considered the data from Mercer indicating ATCO's targets are consistent with good industry practice[93].

ATCO has used the data from the Mercer report to calculate an actual payment percentage consistent with good industry practice. The resulting percentage is shown in [redacted].

93 Mercer Consulting (Australia) Pty Ltd – Market Short Term Incentive Practices – Short Term Incentive Opportunities – Table 1

94 Mercer Consulting (Australia) Pty Ltd – Market Short Term Incentive Practices – Actual versus Target Short-Term Incentive – Table 2

[redacted]

We have applied these percentages to ATCO's STIP eligible workforce as at 31 December 2023 to determine the dollar amount of STIP that would be consistent with good industry practice. The results are shown in [redacted].

[redacted]

The result of the calculations support ATCO's proposal that $2.9 million of the $3.7 million paid in 2023 is consistent with good industry practice and justifiable under NGR 91.

STIP STRUCTURE IS CONSISTENT WITH OTHER ORGANISATIONS IN REGULATED INDUSTRIES

ATCO acknowledges the significance of incentive schemes in ensuring network availability, network uptime, and customer satisfaction as outlined in Rennie's report[95], (*see Attachment 08.106*). If rewards are linked to certain parameters like gas availability, the time taken to restore service after interruption, or frequency of network maintenance, the network and customer satisfaction will improve.

Furthermore, ATCO recognises that competition for skilled employee labour is an industry factor within the gas utility business environment. The need for incentives is important for attracting talent in the technical and operational fields. Unfortunately, if there are no proper incentives created, gas utilities may find it hard to obtain a skilled workforce, which would ultimately put at risk the safety of both the workers and the respective network[96].

95 Rennie – AGA Corporate Cost Review - Report

96 Rennie – AGA Corporate Cost Review - Report

ATCO also observes that Evoenergy Gas and Jemena[97], being regulated companies, provide incentive plans for employees, and are governed by the Australian Energy Regulator (AER). The absence of AER guidelines on reporting bonuses or mention of incentive programs in its Regulatory Information Notice templates indicates that they regard incentive programs as prudent and part of an efficient cost base.

Some other large gas distribution businesses operating on the east coast also provide STIP as a form of remuneration. Subsequently, no specific disallowance regarding the appropriateness of STIP payment has been clearly indicated in the AER in the regulatory decisions made for these distributors[98]. For the AER, STIP appears not to have a significant impact when determining the operating expenditure of east coast gas distributors.

As Rennie's analysis indicates, a new entrant in the gas distribution market seeking to establish a competitive position would likely need to offer a competitive incentive program to attract the right talent, which will become a prudent part of their cost base.

Another source of evidence is the Safety Science report[99], noted in the report by Rennie, which assessed employees across several levels in the oil and gas industry. The study highlighted that purely financially-driven incentives do not consistently demonstrate a positive relationship between financial reward and safety performance. This underscores the need for other non-financial metrics to be seriously considered when awarding incentives to employees in the oil and gas industry.

Therefore, ATCO's STIP, comprises both financial and non-financial objectives, which is prudent, efficient, and aligns with good industry practice. This approach also supports the National Gas Objective, ensuring that ATCO remains a safe and reliable service provider.

THE CONSEQUENCES OF REMOVING STIP COULD BE SIGNIFICANT

ATCO asserts the STIP program is an essential component of its remuneration strategy. If ATCO cannot attract, retain, and incentivise staff, it will face inefficiencies and increased costs. This will ultimately burden gas consumers through potential safety concerns, network disruptions impacting their daily lives and businesses, and even long-term sustainability challenges that could affect future costs and expectations.

The consequences of removing STIP could be significant, including:

- Decreased motivation for employees to perform at their best leading to a decline in performance across all areas including safety, network reliability, and customer service, where employees may not feel as compelled to meet or exceed business targets.
- Limited innovation hindering long term efficiency and continuous improvement.
- Retention issues as employees are more likely to seek opportunities for greater compensation elsewhere.

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97 Rennie – AGA Corporate Cost Review – Report, page 34

98 Rennie – AGA Corporate Cost Review – Report, page 40

99 Bitar et al, 2022 'Rewarding safety performance: Improving safety or maintaining beliefs?', Safety Science, 14 October 2022, https://www.sciencedirect.com/science/article/abs/pii/S0925753522001631

- Recruitment challenges due to the lack of competitive compensation packages making it harder to attract the right people at the right time.
- Engagement issues resulting from employees feeling undervalued and disengaged.

To address the potential negative consequences, ATCO would need to consider 'buying out' the STIP to preserve employees overall Total Compensation and to avoid disengagement and employee turnover. This would involve converting all or a significant proportion of the STIP value to a component of base salary. This would lead to an equal cost impacting the gas consumer and remove ATCO's ability to encourage high performance. This alternative is not considered to be in the long term interest of consumers.

REVISED PROPOSAL

ATCO proposes the retention of $2.9 million for the Short-Term Incentive Program (STIP) in the 2023 base year.

8.5.3.4 OTHER CORPORATE SUPPORT COSTS

ATCO does not accept the ERA Draft Decision to remove $6.8 million in Other Corporate Support Costs (HR, Finance and Risk). The ERA, on advice from EMCa, proposed that ATCO's Other Corporate Support Costs were $6.8 million more than experienced on average in AA4. In their Draft Decision, the ERA cited that:

> *"…in the absence of additional supporting information the efficient level of costs for Other Corporate Support costs are based on the AA4 average, resulting in a reduction of $6.8 million from the 2022 base year operating expenditure."*

ATCO disagrees that average AA4 costs should be used as a benchmark of efficient costs incurred in AA5 and in our submission, as this ignores the output growth factor (embedded in the base-step-trend methodology), labour cost escalation factor and the step changes in AA5 that the ERA approved in their AA4 final decision.

However, to ensure we address the ERA's concerns we have referred to average AA4 cost when providing explanations of cost movements.

We propose that the respective cost increase between the base year and the AA4 average was materially less than the assumed $6.8 million and is more accurately $0.5 million above the AA4 average annual amount of $4.2 million, representing a 12% increase. This figure contrasts sharply with the ERA's assertion of a 306% increase.

The discrepancy in these figures can be attributed to ATCO's error in calculation of AA4 actual costs in real 2023$ and some incorrect assumptions by EMCa.

Our response therefore:

- Evidences a more accurate and moderated increase between AA4 and AA5 (correcting the calculation error and addressing the incorrect EMCa's assumptions).
- Provides additional and more compelling information for the cost increase where appropriate.
- Provides a revised AA6 'Other Corporate Costs' forecast for the base year, being 2023.

Table 8.12 summarises and steps through the adjustments to the AA4 average cost, AA5 average cost and our 2023 base year. Further details are provided below and in attachments 08.103 and 08.102.

Table 8.12: Other Corporate Cost Comparison ($M real as at 31 December 2023)

	AA4 AVG	AA5 AVG	AA4 AVG V AA5 AVG	2022 COSTS	2022 V AA4 AVG	2023 COST	2023 V AA4 AVG
ERA Draft Decision	1.6	8.3	6.7	8.7	7.1	7.1	5.5
AA4 Correction (Using 6 yr Avg)	5.2	8.4	3.2	8.7	3.5	7.8	2.6
Adjusted AA4 (Using 5.5 yr Avg)	5.7	8.4	2.7	8.7	3.0	7.8	2.1
Adjusted legal fees	5.7	6.8	1.2	8.7	3.0	7.8	2.1
Adjusted for STIP	4.2	4.7	0.5	5.0	0.8	4.0	-0.2

AMENDED COST COMPARISON: BASE YEAR VS AA4 AVERAGE INCREASE

Using 2023 as our base year and correcting the issues that were relied upon for the ERA Draft Decision, ATCO's actual corporate support costs between the AA4 average and 2023 reduces by $0.2 million, or 5%. We propose that the amount of $4.0 million in the 2023 base year represents an efficient level of costs.

ATCO acknowledges that there was an incorrect calculation of AA4 actual costs in $real 2023 in the additional information provided to EMCa 52[100]. The error in the underlying calculation resulted in an under-representation of the costs in AA4. The size of the overall difference was then compounded by an overestimation of AA5 costs by EMCa:

- AA4 'Other Corporate Costs' were under-represented due to a calculation error. Some base costs in AA4 were represented incorrectly and had the $2023 inflation factor applied incorrectly. The resulting figure for AA4 was therefore incorrect and *lower* than the actual cost.

  This subsequently over-estimated the 'difference between the base year and the average AA4 costs' that was used to justify the Draft Decision. Over the comparative five years of AA4, average yearly costs were under-represented by approximately $3.6 million. The information provided in attachment 08.103 now reconciles back to the audited regulatory accounts and to the Regulatory Information Notice (RIN) previously submitted to the ERA.
- AA5 'Other Corporate Costs' were over-represented due to incorrect assumptions by EMCa:
- ATCO also note that EMCa calculated an annual average cost for AA4 using 6 years, however AA5 covered costs incurred over 5.5 years, as 2014 costs were incurred over half a year (July to Dec).
- 'One-off' non-recurrent costs for the [redacted] and ATCO's corporate restructure program were included in the AA5 average. We propose these costs should have been removed from both periods (AA4 and AA5) to make it a like for like comparison between the underlying AA4 and AA5 costs.

[100] Email to ERA: EMCA 52 Response, 13 December 2023

- Short-term Incentive Payments (STIP) are already included in our base year other corporate support costs at $3.7 million and are therefore included in the $6.8 million noted by EMCa and the ERA. The Draft Decision removal of the $6.8 million (which includes STIP) *plus* the 2022 STIP base year reduction of $3.7 million is effectively 'double counting'. We have therefore removed STIP from our calculations when identifying the real increase in costs between AA4 and AA5. Our response to ERA's decision on the removal of STIP is provided in Section 8.5.3.3.

As outlined, ATCO now proposes to adopt 2023 as the efficient base year for the AA6 forecast of other corporate support costs being $4.0 million per annum (excluding STIP and Legal costs).

COVID-19 (POST PANDEMIC INCREMENTAL COSTS)

The ERA's Draft Decision in paragraphs 29 to 33 of attachment 5 noted that insufficient information has been provided regarding COVID-19 costs.

In the Draft Decision, the ERA cited that:

> *"ATCO has not provided sufficient information on why the COVID-19 costs should be included in recurrent base year costs"*

This response will address the concerns raised in the Draft Decision.

ATCO acknowledges that calling post pandemic incremental business costs "COVID-19" costs may be misleading given the end of the pandemic and could lead to these costs being perceived to be non-recurrent.

ATCO will now refer to these costs as 'Post Pandemic Incremental Business Costs' and highlight their recurring nature below.

Post Pandemic Incremental Business Costs

In the Draft Decision, attachment 5, Operating expenditure, para 30, the ERA cited in that:

> *"EMCa considered that while there were likely to be additional costs involved in implementing COVID-19 protocols, and these costs may have been present in 2022, the costs to implement protocols for COVID-19 cannot be considered as recurrent costs. "*

Although the initial pandemic and business restrictions are over, some impacts still persist as businesses have adapted to the new ways of working. ATCO's spending in adapting to remote work, ensuring employee safety, and maintaining business continuity are not temporary measures but rather ongoing operational needs.

- Remote Working Environment: Due to the pandemic, ATCO's business model rapidly moved to a remote work arrangement. This involved a significant spend in technology infrastructure, cyber security measures, and employee training to facilitate efficient remote operations. These costs are not one-off expenses but are essential to support a long-term hybrid work model that many businesses have adopted to maintain flexibility and employee well-being. These changes are currently in place and expected to remain for the long term.

- Employee Safety Measures: ATCO implemented social distancing protocols, increased sanitation practices, and providing personal protective equipment (PPE) as they were important for ensuring employee safety. While the severity of the pandemic may lessen over time, some level of these measures such as increased frequency of office cleaning during working hours and increased provision of sanitation consumables have been accepted as normal and necessary to maintain a safe work environment.
- Business Continuity Planning: ATCO has invested in robust plans that can adapt to unforeseen disruptions, such as natural disasters, or future pandemics. The ongoing cost ensure that ATCO can maintain essential operation and minimise disruption in case of future disaster.

The total Post Pandemic Incremental Business costs in 2022 were $0.5 million and $0.3 million in 2023. We acknowledge that these costs have reduced and that for some businesses these costs are now just incorporated into their underlying expenditure categories and not able to be separately identified.

However, the current level of costs are expected to remain in the future as they are part of the normal course of business. Therefore, these costs should be part of the recurrent base year being a true representation of AA6 costs.

AVERAGE AA4 TO AA5 CORPORATE COSTS INCREASE - $0.9M

In the Draft decision, attachment 5, Operating expenditure, para 34, the ERA cited that:

> *"Notwithstanding any potential misunderstanding on the potential drivers for the increase in costs, ATCO has not adequately explained the increase in Corporate Support costs. ATCO can provide further information in its response to the Draft Decision. "*

In response to para 34 of ERA's Draft Decision, ATCO has explained the drivers of any increase in average costs between AA4 and AA5 in each function of the Corporate Costs. The average increase in Corporate costs are shown in Table 8.13 below.

Table 8.13: Corporate cost functions and AA5 average cost increase over AA4 average costs, ($M real as at 31 December 2023)

FUNCTIONS	AVERAGE COST AA4 TO AA5 INCREASE /(DECREASE)
Other Corporate Support costs (Table 8.12)	$0.5
Stakeholder Engagement	-$0.3
Regulatory & licence fee	-$1.5
Legal costs	-$0.8
Canada Head Office charges	$3.0
TOTAL INCREASE	**$0.9**

The table shows that the corrected comparison between AA4 and AA5 average costs results in a $0.9 million increase between the periods. This is in contrast to the $6.8 million removed from the base

year in the Draft Decision (paragraphs 28 to 35). Given we have selected 2023 as the base year we have also compared the 2023 level of costs ($4.0 million) against the AA4 average ($4.2 million) in Table 8.12. This shows a decrease of $0.2 million in these costs compared to AA4. Because we are selecting 2023 as the base year, consumers will benefit from this lower revealed cost in AA6 compared to the level of these costs in AA4.

Regardless of the above we will explain the average cost movements between AA4 and AA5 below to answer the questions raised in the Draft Decision in paragraphs 29 to 33 of attachment 5.

Other corporate Support costs: ($0.5M increase (AA4 to AA5)

Other Corporate Support costs are comprised of the expenditures of three functions: Human Resources (HR), Finance, and Risk Management. Over AA5, the average annual spend for these combined functions was $4.7 million, which closely aligns with the AA4 period's average of $4.2 million, an increase of $0.5 million. This is significantly lower than ERA's assumption of an average increase of $6.8 million.

A comparison between the submission base year of 2022 and the AA4 average reveals a slight increase of $0.8 million. However, using the updated 2023 base year spend of $4 million results in a $0.2 million cost reduction compared to AA4. This positive trend indicates ongoing efforts to streamline operations and maintain an efficient level of costs within these areas.

The overall cost increase in AA5 compared to AA4 was primarily driven by several essential initiatives and external factors. While network growth contributed to some extent, the primary drivers were increases in compliance obligations, the need to maintain operational efficiency, and the provision of enhanced customer benefits. These initiatives were not discretionary but rather mandatory for regulatory compliance, operational effectiveness, and in accordance with industry good practice. These initiatives include but not limited to:

- **Single Touch Payroll Phase 2 (STP2):** This initiative, mandated by the Australian Taxation Office (ATO), necessitated substantial upgrades to our payroll systems and processes to accommodate the reporting of detailed personal tax, superannuation, and other data. This compliance requirement demanded significant investment in both technology and personnel to ensure accurate and timely reporting.
- **Time-Sheeting System:** ATCO implemented the time-sheeting system to streamline our payroll processes, reduce manual data entry errors, and enhance cost allocation accuracy and transparency.
- **COVID-19 Compliance:** As ATCO Gas operates in a critical industry, adhering to COVID-19 safety protocols was paramount. In response, ATCO implemented vaccination tracking, reporting, and enforcement measures, as well as managing increased leave and absence due to the pandemic. These compliance measures safeguarded the health and safety of our workforce and supported uninterrupted operations.
- **Recruitment Challenges:** The current tight labour market and economic conditions saw a significant increase in employee turnover. From a pre-pandemic level of 9% to over 25% from September 2021 until March 2023, this impacted ATCO's recruitment efforts. We also invested in diversity and inclusion initiatives to build a more skilled and representative workforce. Retaining our talent pool and attracting new skilled is important for maintaining our operational levels.

- **Human Capital Management (HCM):** The commencement of a comprehensive HCM analysis and review, while still ongoing, represents an investment in the future. This initiative aims to optimise our HR processes and systems, ultimately leading to improved efficiency and cost-effectiveness.
- **Finance Reporting Changes:** In recent years, significant changes in accounting standards and tax regulations, such as the implementation of SaaS accounting treatment and other financial reporting amendments, have resulted in additional resources in our finance reporting function. These changes required staff training, system upgrades, and increased scrutiny of financial transactions to ensure compliance.
- **Regulatory Cost Reallocation:** Since 2022, the fees associated with the Energy Safety Levy (related to the *Energy Safety Act*) have been moved from the Regulatory function (which is outside of Other Corporate Support cost) to the Risk function. This reallocation has contributed to the apparent cost increase in AA5.

In summary the cost increases in Other Corporate Support cost in AA5 were largely unavoidable due to mandatory compliance requirements, the need to maintain operational efficiency in challenging circumstances, investments in technology and personnel, and changes in cost allocation.

In AA6, we anticipate a modest increase of one FTE (Full-Time Equivalent) primarily to support internal training and development through the appointment of an Organisational Development Advisor in the HR function. Additionally, we expect the finance reporting function to increase from its current staffing levels to manage the increased complexities of evolving financial regulations and reporting standards. However, ATCO has absorbed these costs rather than including as step change.

We propose 2023 as the base year for Other Corporate Support Costs, at $4 million per year. This reflects a decrease from the AA4 average cost of $0.2 million and a decrease from the forecasted AA5 average of $0.7m. ATCO acknowledges that the reductions from AA4, and the 2023 base year total of $4 million includes realised efficiencies that have been gained from system improvements, process optimisation and labour market stabilisation. These efficiencies are expected to carry through to AA6 making 2023 an efficient base year with further cost reductions when compared to the forecasted AA5 average of $4.7 million. Further details are provided in attachment '08.106 - Base Year - Corporate Cost Review - Rennie Advisory'[101] in their report, also considered that 2023 base year forecast for AA6 better aligns with NGR 91(1) than using the 2022 numbers for the purposes of forecasting for AA6.

Stakeholder Engagement: ($0.3M decrease (AA4 to AA5))

ATCO's stakeholder management team supports network operations through delivery of safety awareness and education through direct industry-focussed initiatives and other targeted and mass media campaigns, including Safety Awareness, community engagement and community projects.

Furthermore, the stakeholder management team looks for opportunities to improve the customer experience, manage stakeholder expectations through the development of a discrete business improvement team in 2021 and ensure that ATCO is operating efficiently. The team also focuses on better customer experience, with shorter wait times, more accurate information, and a more responsive customer service team. The average cost of the stakeholder management team has decreased by $0.3 million in AA5 compared to the AA4 average, demonstrating efficient resource

[101] Rennie – AGA Corporate Cost Review – Report, page 53-54

utilisation and cost management by the introduction of Business Improvement team and support from the Canada Head Office. Further details are provided in attachment 08.103.

Regulatory & licence fees: ($1.5M decrease (AA4 to AA5))

Regulatory and licence fees have reduced by an average of $1.5 million in AA5 compared to AA4 due to the reallocation of Levy charges, i.e. Energy Safety Levy, Petroleum Safety Levy and Energy & Water Ombudsman levy to Other Corporate Support costs under the Risk function. Further details are provided in attachment 08.103.

Legal: ($0.8M decrease (AA4 to AA5))

The decrease between AA5 and AA4 is driven by two main factors, the Legal function shift to a shared service approach (between ATCO Gas and ATCO Australia) and natural fluctuations year to year of activity levels in each ATCO Australia business unit. These are discussed below.

- **Shift to shared service model**
  - Towards the end of AA4, between 2017 and 2019 ATCO shifted its approach from having a dedicated ATCO Gas legal FTE to adopting a shared service model. ATCO Australia employed the dedicated legal FTE and ATCO Gas has subsequently only been charged for the cost of the service directly attributable to resolution and support of ATCO Gas legal matters. This approach was enabled by the introduction and implementation of the time-sheeting system, which ensured accuracy in allocation of actual time spent on Gas legal matters. This change resulted in a reduction of FTE from 3 dedicated FTE in 2015 to 0 FTE from 2017.
  - The change in model has resulted in increased efficiencies across ATCO Australia, which in turn have benefited ATCO Gas with lower legal costs and have given rise to a more efficient base level of legal costs in AA5 that will carry through to AA6.
- **Fluctuations of activity levels**
  - During AA5, a larger portion of the shared legal teams' efforts are allocated to supporting non-regulated business legal work. This trend depends on activity levels in each ATCO Australia business unit and fluctuates year to year.

Canada Head Office Charges and its benefits: ($3.0M increase (AA4 to AA5))

Canada Head Office charges were questioned in the ERA Draft Decision:

> *"….what benefits ATCO will receive from the increase in corporate head office costs from Canada to be included in the base year recurrent costs."*
>
> *"EMCa noted that ATCO has not provided any compelling information regarding the value-for-money of the Canada head office charge. "*

These points are addressed in the following section.

INCREASE IN CANADA HEAD OFFICE CHARGES

The ERA's Draft Decision appears to have merged two distinct cost categories: "Canada Head Office charges" and "Other corporate support." These are separate line items with distinct cost drivers and functions.

The Canada Head Office charges relate to the services provided by ATCO's Canada headquarters (discussed below), while "Other corporate support" comprises other corporate functions like HR, Risk and Finance located within ATCO's Australian business, have been explained in Section 8.5.3.4.

Table 8.14 [redacted]

	2014*	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 (F)
[redacted]											
AVG PA			[redacted]						[redacted]		

**Note: The AA4 period commenced in July 2014, so the 2014 values are for the six months July to December 2014.*

As a subsidiary within the ATCO Group of Companies, ATCO is provided a significant level of support from the Canada Head Office. The cost of this support has increased between AA4 and AA5 for the following main reasons:

- Prior to 2020, the Canadian Head Office had been incorrectly utilising a net labour value instead of a gross labour value as an input into the Massachusetts formula. Consequently, ATCO benefited from an under-allocation of costs during the AA4 period. Had this adjustment been made retrospectively, the average cost in AA4 would be higher, aligning more closely with the AA5 average cost.
- The Canadian Head Office has expanded its level of service to ATCO in the recent years (additional services listed below). This expansion has been driven by increase stakeholder demands i.e., development of ESG strategies, plans and execution including evolved indigenous engagement strategies and further development of the information technology including improvements in cyber security, and increased regulatory requirements, resulting in a higher cost apportionment.
- The cost of providing these services has been impacted by global supply chain constraints and other industry inflationary factors (in excess of general CPI).
- We have seen a depreciation in the Australian dollar compared to the Canadian dollar between the AA4 and AA5 periods. The exchange from CAD/AUD during the AA4 and AA5 periods has moved from 0.97 to 0.91, respectively. The Canadian Head Office charges are incurred in Canadian dollars and ATCO pays these costs in Australian dollars.

Notwithstanding these factors, the value apportioned to ATCO Canadian Head Office cost benchmarks favourably as validated by Rennie. ATCO engaged Rennie to assess ATCO's Corporate Costs including benchmarking ATCO's Canadian Head Office charges. Rennie's main findings from their analysis were the following points:

- the Massachusetts formula for allocation was fair and reasonable.

- the correction and cost impact arising from the Massachusetts allocation logic to reflect Gross Labour instead of Net Labour does not change the value-for-money position and ATCO continues to benefit from the head office services.
- Canada head office allocations provide value to ATCO of $7.8 million, despite excluding corporate security, real estate, and innovation costs, due to difficulty in obtaining appropriate comparisons; and
- ATCO would incur a significant level of one-off cost to establish a standalone capability (in addition to the recurrent costs) if these services were not provided from the Canadian Head Office.

CANADA HEAD OFFICE SERVICES

The Canada Head Office provides ATCO with highly skilled shared executive and corporate resources, who provide strategic advice, corporate and executive management, governance (including performance monitoring compliance and internal audit), and assistance with insurance, capital markets and company secretarial activities.

ATCO's Canada Head Office helps with specific corporate support services including:

- Risk management advice through a member of the Board that leads internal audit (financial, operational and process) and risk management for ATCO and other subsidiaries.
- Corporate secretarial and governance support activities such as board administration, corporate governance and business processes.
- Intercompany licensing and maintenance and management of branding for corporate communications, including websites, logos, trademarks and press releases.
- Consultancy support for the development of business strategy and delivery of business plan objectives.
- Consultancy support for Human Resource functions, including executive compensation, career ladders, compensation strategy / philosophy / approvals (ensuring consistency with strategy and philosophy of ATCO Group, enterprise-wide recruitment strategy, Leadership Development Program design and delivery, facilitation of group wide succession planning and performance management plan design and governance.
- Analysing investments and business structures.
- Consultancy support for IT strategy, IT governance, and cyber security.
- Consultancy support for risk management; and
- Consultancy support for Health & Safety compliance and governance reporting.
- The Board of ATCO Group and committees of the Board (e.g., audit committee) that meet regularly throughout the year and receive reports and review operations of subsidiaries, including ATCO.
- Participation in the Board of ATCO, who meet four times per year.
- The ATCO Group audit and risk committees, who consider and act on:
    - Monthly ATCO performance metrics and compliance data that includes HSS&E, security, privacy, and affiliated code of conduct compliance.
    - Risk and audit reports for ATCO and the MWSWGDS.

- Provision of internal control and audit services. The ATCO Group Audit Committee manages and reviews the financial internal audit program, and reviews internal and external audit reports, annual financial reports, internal controls and financial policy compliance and the appointment and management of external auditors; and
- A Risk Committee that reviews stewardship reports (six monthly); risk reports; risk registers including key risks, new risks and risks removed from the register; manages and reviews the non-financial internal audit program including outstanding and past due recommendations and actions and the annual internal audit program; and reviews and monitors the insurance program.

The operation of the Board and Audit Committee governance controls including risk and audit committees on a group basis, is consistent with accepted good industry practice consistent with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

Further detail of the scope of the activities in the key functions are set out below:

- **Strategy and Investment:**
  - Financial Expertise: The Canada Head Office leverages its access to well-developed capital markets to secure funding at competitive rates, this ensures that ATCO has sufficient capital for growth and expansion. This also helps ATCO in its risk management strategies and long-term financial planning, that contributes to the financial stability.
  - Operational Efficiency: The Canada Head Office develops and refines policies and procedures based on industry best practices. These standardised procedures help streamline processes and ensure regulatory compliance.
  - Brand Reputation: The Canada Head Office manages the ATCO Group's brand image and reputation. While ATCO does not require branding to compete with other pipeline service providers in its distribution area, branding and the associated costs of maintaining branding is nonetheless necessary to enable ATCO to be readily identified by its customers as their service provider. Put simply, stakeholders are generally more readily inclined to work with a well-known and respected brand than a less well known or respected brand, to the advantage of the enterprise bearing the brand.
  - External Relations: The Canada Head Office handles interactions with the media, community, and government on behalf of ATCO Group. As a prudent operator ATCO need to manage its interaction with jurisdictional and Commonwealth governments on energy policy and public debate on its development, which is heavily coordinated by the Canada Head Office.
- **Risk Management:**
  - Significant infrastructure asset: ATCO is a significant infrastructure asset, which accounts for over $1.4 billion of investment and presents a wide range of financial, investment, operational, health and safety and environmental risks, which a prudent service provider is obliged to manage. The Canada Head Office helps us monitor and manage these risks, which aligns with the ASX Corporate Governance Principles and Recommendations.
  - Internal Audit: The use of international group internal auditors provides ATCO with access to a broader range of help in risk management and internal audit. This ensures thorough and comprehensive audits, identifying potential vulnerabilities and areas for improvement.

Leveraging this with Canada Head Office is more efficient and cost-effective than maintaining a separate internal audit team of 2-3 FTEs.

- Crisis Management and Business Continuity: The Canada Head Office also supports crisis management, contingency, and business continuity planning. These practices are essential for a utility provider like ATCO, where business interruption can have significant consequences for the broader community and economy. By having robust plans in place, ATCO minimises the impact of potential disruptions and ensure the continuity of network.

- **Accounting and Finance :**
  - Standardised Processes: By aligning with the Canada Head Office's established procedure allows ATCO to streamline operations, reduce errors, and maintain efficiency. This ensures a higher quality of work and a more predictable output across different projects and teams.
  - Cross-Training and Skill Enhancement: Shared training programs between departments create a more flexible workforce. Employees gain a broader understanding of ATCO's functions, allowing them to step in to assist other teams during peak periods or when specialised skills are required. This flexibility also opens up career development opportunities within ATCO.
  - Resource Optimisation: Centralised resource allocation from the Canada Head Office ensures that ATCO has access to the necessary tools, technologies, and people to handle fluctuations in workload and meet deadlines.
  - Knowledge Sharing and Collaboration[102]: Connecting with the broader expertise of the Canada Head Office provides ATCO employees access to existing principles and policies. This knowledge transfer accelerates problem-solving, improves decision-making, and promotes innovation within the ATCO team.
  - In the absence of above support from the Canada Head Office, ATCO would require a team of 2 FTEs to keep abreast with compliance with Australian Accounting Standards, ASIC and ASX requirements.
- **Human Resources**: The services provided include Organisational Development, Performance Management, Compensation and benefits support and service.
  - Organisational Development includes the scoping, design and sourcing of Organisational Development programs to support and develop leadership and employees including compliance and awareness training for the broader workforce.
  - Performance Management includes technical and administrative support of annual performance review processes, goal setting and development plan management.
  - Compensation and benefits include the overarching analysis and management of our compensation systems including engagement with specialist consultancies, data management and analysis, revision of salary bands based on labour market trends and management of the Employee Share Purchase Plan

[102] Rennie – AGA Corporate Cost Review – Report, page 43

CANADA HEAD OFFICE BENEFITS AND THE VALUE FOR MONEY

In the Draft decision, the ERA sought addition information on the benefits and the value for money on the Canada Head Office charge. The ERA said:

> *"....what benefits ATCO will receive from the increase in corporate head office costs from Canada to be included in the base year recurrent costs."*
>
> *"EMCa noted that ATCO has not provided any compelling information regarding the value-for-money of the Canada Head Office charge. "*[103]

It is accepted good industry practice for corporate activities to be managed centrally and treated as a shared cost, rather than on a disaggregated local basis. Through the Canada Head Office, ATCO has access to economies of scale[104] discounts enabled by leveraging the parent company's buying power. Examples of where consumers in Western Australia benefit from these discounts include:

- Discounts received in IT software license rates for Microsoft & Salesforce.
  - Microsoft: Microsoft applications are purchased for over a [redacted] discount on retail pricing. ATCO saved approximately CAD230k by leveraging on ATCO's global buying power.
  - Salesforce: The Business Improvement team uses Salesforce to automate business processes, reduce manual data entry, create insightful reports and dashboards, and provide a higher level of service to our customers. The Canadian Digital team provides support to the Australia Business Improvement team by testing and reviewing their work. The Canadian Digital team also provide support when key members of the Australian BI team are on leave, and ATCO need additional support. For 2023 ATCO Australian Salesforce Licencing costs were [redacted]. ATCO saved approximately [redacted] by negotiating better Salesforce licencing costs as a group across all business units throughout the world.
- Discounts also received for ATCO Gas' Master Services Agreement provided by [redacted].
- Reduced pricing received in our pipe supply contract.
- Lower rates provided through our gas meter supply contract.
- Insurance coverage negotiated with [redacted] by the Canada Head Office:
  - Coverage for unique risks: ATCO's risk profile, with its extensive pipeline infrastructure in Western Australia, presents unique challenges. [redacted] specialises in managing both large single-site exposure and aggregated pipeline risk exposures, and provides tailored coverage, which the Australian market would struggle to match.
  - Simple terms and structure: [redacted] substantial capacity allows them to cover ATCO's high-value assets with a policy limit of liability of [redacted]. This eliminates the need for multiple insurers with smaller risk capacities (6-7 insurers), complex negotiations and varying terms and conditions.
  - Significant cost benefit: [redacted] risk engineering focus, mutual structure, and superior capabilities allows them to offer highly competitive premiums. Their 2023 average rate

[103] ERA, Draft Decision, Attachment 5, Operating expenditure, para 33 & 31

[104] Rennie – AGA Corporate Cost Review – Report, page 43

[redacted] is substantially lower than the estimated [redacted] that ATCO would likely to get in the Australian market resulting in a minimum saving of [redacted] This saving alone equates to 23% of the total Canada Head Office charges for 2023.

Insuring in the Australian market would also result in compromising on coverage terms, such as reduced earthquake and flood protection. [redacted], ATCO maintains superior coverage without sacrificing essential protections. Furthermore, [redacted] provide ATCO with resilience credits every year, which ATCO Gas uses for depots and infrastructure, e.g., clearing of vegetation around the Jandakot depot to reduce the bushfire risk.

The benefits received by ATCO has increased over the past few years as more collaboration with Canada Head Office has occurred.

ATCO utilises the Massachusetts formula to apportion the corporate head office costs from Canada. This methodology is a generally accepted allocation methodology. ATCO and ATCO Pipelines (AP) commissioned an independent review by KPMG, as part of an internal audit, to assess the fairness and reasonableness of the cost allocation methodology and services provided to ATCO by Canada. The resulting KPMG Shared Service Allocation Review report[105] validated ATCO and AP's position, finding no need to recommend any alterations or changes to the existing methodology. There has been some volatility in these costs as seen over the last few years however based on benchmarking provided by Rennie[106] the cost reflects a prudent spending level.

Rennie Advisory has reviewed the prudency of the Canada Head Office services to ATCO. They consider that these services are valuable and are in alignment with NGR 91(1).

CANADA HEAD OFFICE EFFICIENCY INITIATIVES

To maintain efficiency and drive value across the business Canada head office has implemented various cost-saving measures, resulting in several internal efficiencies. For gas consumers in Western Australia this means that the Canada head Office costs are efficient and will remain efficient into the future.

The efficiency initiatives introduced during 2023 by Canada head office looked not only at opportunities within the Common Group functions themselves but also across all functions within the organisation. Specific initiatives by Common Group function included:

- Finance and Accounting:
  - Continue to revisit which Finance and Accounting functions should reside centrally and which should reside within the Business Unit. Where appropriate Common Group functions were pushed back to specific Business Units (mainly the Canadian based Utilities) in 2023.
  - Prioritise and execute process improvement projects led by the F&A Technology Strategy (Finance Transformation) team to eliminate manual processes and drive further efficiencies through the use of technology.

105 KPMG Shared Service Allocation Review report (attachment 08.105)

106 Rennie – AGA Corporate Cost Review - Report

  - Replace the Hyperion Financial Management (HFM) consolidation system with the Oracle Consolidation & Cloud Close Service (FCCS) system in late 2022/early 2023 with annual savings generated due to lower licensing and support fees.
  - Identify opportunities for increased usage of automated IT controls and reduction of manual key controls to build greater efficiencies in Internal Controls in the businesses, leading to more reliance by External Audit and lower external audit fees.
- Common Services
  - Similar to Finance and Accounting. Canada head office revisited which Common Service functions should reside at the Corporate level to ensure proper oversight while appreciating the unique needs of the Business.
  - Enhancing our in-house legal and governance support capabilities, which allows a more risk based focused approach while reducing third party costs.
  - Various Source to Pay initiatives, including enterprise sourced contracts and use of purchase orders.
- **Information technology:** Restructuring of the Corporate Information Technology function to focus on specific risk areas including cyber security, technology lifecycle and third-party vendor support.
- **Executive:** Continued cost savings effort reflected by lower professional fees, as a result of leveraging in house counsel, and lower travel costs.

EFFICIENT COST BASE: CANADA HEAD OFFICE:

ATCO engaged Rennie Advisory[107] to analyse and benchmark the efficiency of its Canadian head office expenses. Rennie used a reliable and industry-standard benchmarking method to estimate the typical cost of these services. Rennie's detailed report can be found in Attachment 08.106.

Rennie's analysis focused on ATCO's 2023 Canada head office charges of $8.1 million after excluding security, real estate, and innovation costs (totalling $0.6 million) because suitable comparisons weren't available.

Their analysis found that providing similar head office functions independently in Australia would cost around $7.8 million. Based on this comparison and ATCO's actual 2023 expenditure of $8.1 million expense, Rennie concluded that the 2023 Canada head office services and costs comply with rule 91(1) of the NGR[108].

Furthermore, Rennie recommends that the full $8.7 million Canada head office charges, including the initially excluded $0.6 million, should remain in the 2023 year for the base-step-trend approach in the AA6 forecasting process. While these excluded costs were not benchmarked, Rennie considers them prudent and efficient[109].

[107] Rennie – AGA Corporate Cost Review – Report, page 46

[108] Rennie – AGA Corporate Cost Review – Report, page 51

[109] Rennie – AGA Corporate Cost Review – Report, page 47-49

Rennie's analysis demonstrates that Canada head office charges are reasonable and efficient and represent the best forecast of our forward looking costs in the circumstances.

OTHER CORPORATE COSTS: CANADA HEAD OFFICE CHARGES REVISED PROPOSAL

Based on the above information, ATCO proposes $8.7 million as an efficient cost for the 2023 base year. Rennie also stated that 2023 base year forecast better aligns with NGR 91(1) than using the 2022 numbers for the purposes of forecasting for AA6[110]. ATCO proposes that the Canada Head Office costs are prudent and efficient, and there are material benefits that arise as a result of being part of the ATCO Group.

8.5.4 ATCO'S REVISED BASE YEAR

Table 8.15: ATCO's revised 2023 base year (Network, Corporate and IT) ($M real as at 31 December 2023)

	ERA DRAFT DECISION 2022 BASE YEAR	ATCO RESPONSE 2023 BASE YEAR
Network, corporate and IT opex (Table 8.4)	**70.5**	**73.9**
Adjustments:		
[redacted]	-4.8	-4.3
Legal costs † [redacted]	-0.5	-
AA6 regulatory submission preparation	-1.2	-1.7
Corporate restructure costs	-0.8	-0.1
Pipeline Inline Inspections	-0.6	-0.3
Clean Energy Innovation Hub (CEIH)	-0.3	-0.1
Short-Term Incentive Program (STIP)	-3.7	-0.9
Stakeholder engagement	-1.0	-
Other corporate support costs	-6.8	-
Total adjustments	**-19.7**	**-7.4**
EFFICIENT BASE YEAR OPEX	**50.8**	**66.4**

[110] Rennie – AGA Corporate Cost Review – Report, page 53-54

8.6 ATCO'S RESPONSE: ERA REQUIRED AMENDMENT 5.2

ERA REQUIRED AMENDMENT 5.2:

ATCO must amend its access arrangement information to revise its AA6 recurrent step change operating expenditure to $5.1 million ($ real as at 31 December 2023).

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

ATCO disagrees with several key aspects of the decision:

- **Enabling Renewable Gases:** ATCO does not accept the ERA's decision to remove all operating expenditure related to enabling renewable gases. ATCO has undertaken further analysis of biomethane market availability and benefit analysis and refined our renewable gases proposal. ATCO proposes $1.7 million for this expenditure.
- **Cyber Security:** ATCO disagrees with the ERA's decision to remove expenditure related to cyber security. ATCO proposes $6.6 million for protecting critical infrastructure as per our obligations under SOCI from increasingly sophisticated cyber threats.
- **Economic Regulatory Changes:** ATCO disagrees with the ERA's decision to remove expenditure related to economic regulatory changes. ATCO proposes $1 million to adapt to the evolving regulatory landscape and ensure compliance.
- **Enterprise Resource Planning (ERP) Replacement Program**: We do not accept ERA's decision to remove $3.5million towards our ERP replacement program. ATCO proposes $4.1 million to ensure the ERP Replacement platform remains robust, adaptable, and capable of meeting the evolving demands of our service obligations.

ATCO agrees with the ERA's decision to accept costs related to:

- Superannuation guarantee rate increase
- Property, plant, and equipment opex threshold increase
- Gas inspection safety changes.

8.6.1 REVISED STEP CHANGES FOR AA6

8.6.1.1 ENABLING RENEWABLE GASES- $1.7M

ATCO does not accept the ERA's Draft Decision to remove all opex for enabling renewable gases. ATCO has revised the forecast and proposes $1.7 million in AA6 opex. We maintain that these investments are critical in supporting ATCO and our customers to reduce emissions.

ATCO has analysed the Western Australian market and concluded that suitable biomethane feedstock sources are available to support emission reduction targets. These market insights suggest biomethane will be commercially available from 2027. With this new information available, we have refined the renewable gases proposals to include three biomethane injection infrastructure projects.

This revised expenditure relates to:

- Operation and maintenance costs associated with one injection point for renewable gas, allowing ATCO to purchase biomethane for a portion of its UAFG ($0.3M)
- Operation and maintenance costs associated with two injection points for producers to inject renewable gas into the network, available for purchase by customers ($0.3M)
- Amendments to the GDS Safety Case for Renewable Gas Injection Points to meet regulatory obligations ($0.5M)
- Purchase of ACCUs for two years to enable ATCO to contribute to both ATCO's and Australia's greenhouse gas emissions goals, prior to biomethane becoming available for purchase in 2027. Procurement of ACCU's will enable ATCO to make gradually staged and sustainable contributions towards its net emission reduction targets in line with our Sustainability Strategy.

O&M FOR RENEWABLE GAS INJECTION POINTS ($0.6M)

Opex associated with the operation and maintenance of new infrastructure includes:

- One UAFG Injection Point: Operation and maintenance for one injection point to allow ATCO to replace a portion of its UAFG with biomethane ($0.3 million)
- Two Customer Injection points: ATCO has reduced the number of customer injection points to two (from five). These injection points will enable the delivery of biomethane into the network for end users to purchase. The reduced number reflects our updated analysis of the expected availability of biomethane in the market. ($0.3 million)

Further detail is provided in *Section 7.6.1.5* and Renewable Fuel Gate Station UAFG Business Case (*see Attachment 07.105.00*), and Renewable Fuel Gate Station Community Access (*see Attachment 07.106.00*).

Table 8.16: Renewable gas injection points, AA6 Forecast Opex ($M real as at 31 December 2023)

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
Number of injection points (cumulative)	-	-	1	2	3	**3**
Opex – UAFG Gas injection point ($M)	-	-	0.1	0.1	0.1	**0.3**
Opex – Customer injection point ($M)	-	-	-	0.1	0.2	**0.3**
TOTAL ($M)	**-**	**-**	**0.1**	**0.2**	**0.3**	**0.6**

RENEWABLE GAS INJECTION POINT REGULATORY OBLIGATIONS ($0.5M)

For each injection facility, ATCO will be required to amend the Gas Distribution System (GDS) Safety case and prepare a Heating Value (commingling) Management Plan for the impacted subnetwork, to meet the requirements of the GSSSR 2000 and AS/NZS 4564. The Safety Case amendments and Heating Value Management Plans will be required to be submitted to our Safety Regulator DEMIRS, Building and Energy for acceptance.

The required Safety Case amendments will describe the systems put in place for the safe operation of the new infrastructure, including those for design, construction, operation, maintenance, training, and

supervision. The amendments will also provide a description of the assets and risk management systems in place to identify, assess and take action to treat risks.

Further detail is provided in the Renewable Delivery Strategy (*see Attachment 03.004*) and Renewable Fuel Gate Station UAFG Business Case (*see Attachment 07.105.00*), and Renewable Fuel Gate Station Community Access (*see Attachment 07.106.00*).

Table 8.17: Renewable Gas Injection Point Regulatory Obligations, AA6 Forecast Opex ($million real as at 31 December 2023)

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
Safety Case – UAFG Gate Station	-	-	0.2	-	-	**0.2**
Safety Case – Customer Gate Station	-	-	-	0.2	0.2	**0.4**
Renewable Gas Injection Point Regulatory Obligations	0.0	0.0	0.2	0.2	0.2	**0.5**

PURCHASE OF ACCUS ($0.6M)

ATCO proposes purchasing ACCUs in 2025 and 2026 prior to biomethane being available for purchase in 2027 to offset UAFG. This is to support ATCO's emissions reduction targets, to ensure we have improved access to investors and financiers who have expectations that we have a clearly defined path to achieve our sustainability targets and most importantly, to meet our customers' expectations to take meaningful measures as soon as possible. Procurement of ACCU's will enable us to make gradually staged and sustainable contributions towards reducing our net emissions in line with our Sustainability Strategy and to meet Western Australian emissions reduction policy and legislated Federal emissions reduction targets.

Further detail is provided in the Renewable Fuel Gate Station UAFG Business Case (*see Attachment 07.105.00*).

Table 8.18: ACCUs, AA6 Forecast Opex ($million real as at 31 December 2023)

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
ACCUs	7,357	11,467	-	-	-	**18,824**
Expenditure ($M)	0.3	0.4	-	-	-	**0.6**

REVISED FORECAST EXPENDITURE

ATCO proposes $1.7 million in opex in AA6 to enable the injection of renewable gases into the network and meet our emission reduction targets. The expenditure covers the operational and maintenance costs associated with the new injection points, regulatory obligations such as Safety Case amendments and the purchase of ACCUs. These investments are for transitioning to a more sustainable energy future and align with ATCO's broader emission reduction goals, while supporting customers to meet their own environmental goals.

Note: Additional opex associated with the procurement of biomethane in lieu of natural gas for a portion of UAFG is discussed in Section 8.8.

ATCO has completed the cost benefit assessment for the construction of the injection points, which includes the forecasted capex (Section 7.6.1.5) and the forecasted associated opex discussed above (including cost of biomethane). ATCO's cost benefit assessment concluded that the benefits of these projects outweigh the capital and operational costs.

Further detail on cost breakdown is provided in "Enabling Renewables - Cost Estimate" (*see Attachment 08.109*).

Table 8.19: Enabling renewable gases step change, AA6 Forecast Opex ($M real as at 31 December 2023)

PROJECTS	2025	2026	2027	2028	2029	TOTAL
O&M of one injection point	-	-	0.1	0.1	0.1	0.3
Renewable gas point regulatory obligations – UAFG	-	-	0.2	-	-	0.2
Purchase of ACCUs	0.2	0.4	-	-	-	0.6
Renewable gas injection point – UAFG ($M)	**0.2**	**0.4**	**0.3**	**0.1**	**0.1**	**1.1**
O&M of two injection points ($M)	-	-	-	0.1	0.2	0.3
Renewable gas point regulatory obligations – Customer	-	-	-	0.2	0.2	0.3
Renewable gas injection point – Customer Access	**-**	**-**	**-**	**0.3**	**0.4**	**0.6**
TOTAL	**0.2**	**0.4**	**0.3**	**0.4**	**0.5**	**1.7**

8.6.1.2 CYBER SECURITY PROGRAM - $6.6M

ATCO does not accept the ERA's decision to remove opex related to Cyber Security. In response, we have revised our approach to the AA6 Cyber Security Program to ensure it comprehensively addresses our obligations and ATCO's risk appetite. Further details on this program are included Section 7.6.3.4 Cyber Security Program and supported by our business case *'IT - Cyber Security Business Case'* (*see Attachment 08.09.013.00).*

Our revised forecast for Cyber Security opex is $6.6 million, which includes the cost of an [redacted] with the annual licensing and support fees for cyber security specific tools necessary to appropriately manage ATCO's cyber security risks and operations. The cyber security specific tooling is [redacted]

FORECAST EXPENDITURE

The revised forecast expenditure for this AA6 step change is detailed in Table 8.20.

Table 8.20: Cyber security, AA6 Forecast Opex ($M real as at 31 December 2023)

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
Labour	0.4	0.8	0.8	0.8	0.8	3.6
Subscription fee	0.0	0.4	0.8	0.9	0.8	3.0
TOTAL	**0.5**	**1.2**	**1.6**	**1.7**	**1.6**	**6.6**

8.6.1.3 ECONOMIC REGULATORY CHANGES - $1.0M

BACKGROUND

The ERA determined that the $2.0 million for economic regulatory changes in proposed opex did not meet the criteria under Rule 91 of the NGR. The ERA notes that the changes to the NGL and NGR have not been implemented in WA and that, in any event, it considered the proposed costs to appear excessive and noted ATCO would need to demonstrate how these costs would be required to comply with obligations.

EXPENDITURE DRIVER

While the reforms to gas pipeline regulation have not yet been implemented in Western Australia, ATCO notes that these reforms have already been implemented on the East Coast. We expect that these reforms will be implemented in Western Australia prior to, or shortly after, the ERA making its Final Decision on ATCO's AA6 submission, and at least prior to the commencement of AA6.

As such, ATCO disagrees with the ERA's decision to remove these expenditures entirely. ATCO has revised its proposed expenditure to deal with these upcoming reforms and proposes a revised amount of $1.0 million for AA6 ($1.0 million lower than the submission of $2.0 million). This amount comprises:

- **$0.6 million** for one additional FTE to ensure ATCO complies with the new regulatory obligations.
- **$0.3 million** to reflect an anticipated increase in Standing Fees paid to the ERA under Regulation 4 of the Economic Regulation Authority (National Gas Access Funding) Regulations 2009.

These proposed opex increases are detailed in the following sections. Further information can also be found in the attachment 'Regulatory Changes – Cost Estimate' (*see Attachment 08.108*).

Regulatory Obligations ($0.6M)

In 2023, the Energy Ministers agreed to several packages of changes to the legal and regulatory framework relating to reforms to gas pipeline regulation and the inclusion of renewable gases into the regulatory regime. The changes to the NGL and NGR have been implemented in other jurisdictions but only some have been implemented in Western Australia (e.g., the revised national gas objective, to expressly incorporate emissions reductions, and the revised expenditure rules, to expressly

incorporate the national gas objective). We expect the remaining new obligations to be implemented in Western Australia during 2024.

Some of ATCO's new obligations and respective requirements have been summarised in Table 8.21. We have forecast the need for one additional FTE to help with these additional obligations.

Table 8.21: Regulatory obligations – additional requirements

OBLIGATION	DESCRIPTION OF REQUIRED TASKS
Increased disclosure requirements	• Work with the relevant business units to pull accurate information in a timely manner to meet increased reporting requirements. • Provide the ERA with an annual review of tariffs and non-reference services • Work with business units to provide historical financial and demand information and the cost allocation methodology employed by the service provider, which must comply with NGR principles • Prepare basic information relating to pipeline assets, pipeline services, the standing terms for each service offered, service availability, and service usage
Publish transparency information	• Maintain service availability and usage information (ongoing monthly requirement) • Work with business units to regularly deliver, review and update information regarding the type of gas (including blends) being transported including any blending limits and additional information where the type of gas transported will change in the future • Deliver on the requirement for a user access guide setting out the process for making an access request, the information to be included with the access request and response times, annual review, and revision • Prepare reports annually and monthly as per new NGL disclosure standards
Pipeline interconnection	Coordinate the development and maintenance of an interconnection policy, which must include: • Information regarding the right to interconnect • Description of the interconnection process • Information required to be provided as part of interconnection application • Link to relevant AGA policies • Description of any technical, safety or reliability principles, requirements, or processes that AGA will use to assess an application • Information regarding how fees will be calculated and recovered • Standard terms and conditions

The additional FTE will also help with the following items:

- Conduct research and develop economic models to evaluate impact of public policies.
- Identify potential problems and issues that could arise from proposed or existing regulations and make recommendations to stakeholders.
- Enhance our ability to engage with stakeholders, retailers, regulatory bodies, and industry partners. This includes participating in regulatory proceedings and fostering positive relationships with key stakeholders.
- Help mitigate the risks associated with non-compliance, such as potential penalties or reputational damage.

Overall, adding one more FTE to our regulatory team will strengthen our ability to adapt to upcoming regulatory changes, enhance compliance efforts, and ultimately, better serve our customers and stakeholders on our network. This is in the long term interest of gas consumers.

Standing Charges ($0.3M)

ATCO's proposed opex of $1.0 million included an amount to reflect the expected increase to standing charges payable to the ERA as a result of the ERA's increased obligations flowing from these regulatory amendments.

Under the *Economic Regulation Act 2003 – Economic Regulation Authority (National Gas Access Funding) Regulations 2009,* ATCO must pay for Standing Charges each quarter to fund the ERA perform its functions under the national gas scheme laws. The amount payable is calculated using a defined formula under the Act that includes core function costs for the quarter. In 2023, ATCO's charges totalled $0.6 million.

ATCO's forecast is that the Standing Charges will increase by 10% during AA6 to cover the increased costs incurred by the ERA to monitor and ensure the compliance of gas pipelines. These expected increased costs are caused by the expanded regulatory team at the ERA, which will result in higher costs to be flowed through to ATCO.

Further, the opex and capex rules were revised to expressly refer to the (newly revised) national gas objective. While these reforms provide regulatory certainty to support investment in renewable gases and ensure the long-term interests of gas consumers is considered when making expenditure decisions, there is now an additional layer of scrutiny in Rule 91 (and Rule 79) that the ERA will need to consider.

Further, the additional information publication and disclosure obligations placed on ATCO, as noted above, will have a flow through impact on to the ERA. ATCO considers this is likely to result in the ERA incurring additional costs that will ultimately flow through to ATCO by way of increased standing charges.

In the attachment 'Regulatory Changes – Cost Estimate' (*see Attachment 08.108*), there is $0.7 million identified to pay for the additional FTE and associated administrative costs, and $0.3 million identified to pay for the increase in the Standing Charges to the ERA.

REVISED FORECAST EXPENDITURE

The revised AA6 opex for this step change is detailed in Table 8.22.

Table 8.22: Economic Regulatory Changes, AA6 Forecast Opex ($M real as at 31 December 2023)

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
Regulatory Obligations	0.1	0.1	0.1	0.1	0.1	**0.7**
ERA Standing Charge increase	0.1	0.1	0.1	0.1	0.1	**0.3**
	0.2	**0.2**	**0.2**	**0.2**	**0.2**	**1.0**

8.6.1.4 ENTERPRISE RESOURCE PLANNING (ERP) REPLACEMENT PROGRAM - $4.1M

ATCO disagrees with the ERA's decision regarding the opex associated with ERP Replacement program and submits a revised forecast to support our position. Further details on this program are included in Section 7.6.3.3 and the 'IT-ERP Replacement - Business Case (*See Attachment 07.10.052.00*). The revised opex is based on a detailed bottom-up approach to build the cost profile. Our revised cost forecasts are further supported by analysis conducted by KPMG (*see Attachment 07.121)*.

The incremental opex for the AA6 ERP Replacement program is **$4.1 million**. This is intended for the annual licencing fees [redacted] incurred from 2028. The new ERP is expected to be a cloud-based solution and will be a significant upgrade from ATCO's current ERP system.

FORECAST EXPENDITURE

The AA6 forecast opex for this step change is detailed in Table 8.23.

Table 8.23: [redacted]

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
[redacted]						
[redacted]						

8.6.2 NEW STEP CHANGES FOR AA6

8.6.2.1 CRITICAL INFRASTRUCTURE ACT - SECURITY, COMPLIANCE AND REPORTING - $1.4M

BACKGROUND

The purpose of the *Security of Critical Infrastructure (SoCI) Act 2018* (**SoCI Act**) is to manage risks to critical infrastructure assets by ensuring owners and operators for critical infrastructure assets are taking appropriate steps to secure their assets. The Commonwealth Government has focused on four key hazard vectors: cyber security, personnel, supply chain and physical and environmental hazards.

The SoCI Act requires that to protect Australia's security, economy and sovereignty, ATCO consider failures or disruption in its Gas Distribution System that can have flow on effects on other Critical Infrastructure Assets. This is in many ways different to the types of risk assessments ATCO would normally perform, and controls ATCO would normally add, which instead focus on more inwardly-important considerations such as State regulatory compliance, individual safety, and financial loss.

Not only is the SoCI Act an important pillar in Australia's national security, failure by ATCO to comply with the requirements of the SoCI Act carries the risk of significant civil penalties. However, complying with the SoCI Act creates an additional regulatory burden, requires many additional processes to be put in place, and in some instances requires a new focus on security (as opposed to asset management).

ATCO has divided its SoCI-uplift requirements into two groups: SoCI-related cyber security uplift, which has been incorporated into ATCO's submission at Section 7.6.3.4 Cyber Security Program and Section 8.6.1.2 Cyber Security Program; and the other three SoCI vectors (physical/natural hazard, personnel, and supply chain hazards) being grouped together and discussed below.

Separately, the *Security Legislation Amendment (Critical Infrastructure Protection) Act 2022* (Cth) (**SLACIP Act**) came into effect on 2 April 2022. It imposes further security obligations on entities that own or operate critical infrastructure assets in Australia. The SLACIP Act amended the SOCI Act to create a requirement for responsible entities to create and maintain a critical infrastructure Risk Management Program (**CIRMP)** that complies with the legislated Risk Management Program Rules.

DRIVERS

Existing ATCO Gas Risk Management and Technical Compliance Activities

As a regulated business, ATCO has established risk management practices. ATCO's Risk Management processes are described in the ATCO Australia Risk Management Framework (AA-GRC-PL05). The management of risk is an integral part of ATCO's corporate governance, which involves systematic identification and understanding of risks and the controls that are in place to manage them. Ultimately the process leads to a determination of whether a risk is acceptable or requires further action.

ATCO further engages in internal and external assurance processes, including technical auditing and network inspections, which are conducted in accordance with Technical Compliance Audit Procedure (AGA-R&R-PR04) and include Safety Case audits and independent audits as required by the ERA.

The SoCI Act adds an additional layer of risk management, reporting and assurance requirements on top of ATCO's existing Risk Management Framework and Safety Case audit and inspections.

The SoCI Act Risk Management Program Rules

The MWSWGDS has been identified as a critical asset under the SoCI Act because it is "a network or system for the distribution of gas to ultimately service at least 100,000 customers (or any other number of customers prescribed by the rules)."

Under the SoCI Act, ATCO must establish and maintain a process or system in the entity's CIRMP to identify the material risks to the network and (as far as is reasonably practicable) prevent material risks that could have a relevant impact on the asset. The SoCI Act splits hazards into four 'hazard vectors':

1. Cyber and Information Security
2. Personnel
3. Supply Chain
4. Physical Security and Natural Hazards.

The requirements of the SoCI Act, in particular the requirement to create and maintain a CIRMP, will add significant ongoing work for ATCO not already being performed as part of ATCO's existing enterprise risk or technical compliance obligations. The SoCI Act requires ATCO to uplift its cyber security posture, including meeting the requirements of certain cyber security frameworks (in ATCO's case the Australian Energy Sector Cyber Security Framework).

The following additional roles are required by ATCO to ensure that it meets its requirements under the other three SoCI vectors, as well as its overarching requirements to maintain its CIRMP.

The Additional Roles

Although ATCO's CIRMP and supporting documents will be established before the start of AA6, the ongoing CIRMP review, maintenance and reporting requirements set out in the SoCI Act will add significant internal effort, which goes far beyond either ATCO's internal corporate risk reporting requirements, or the ERA's technical compliance requirements (i.e., under the ATCO Safety Cases).

ATCO had previously forecast that two additional roles would be required due to the introduction of the SoCI Act:

- One SoCI Cyber Security Role (1 FTE); and
- One SoCI Compliance Role (1 FTE equivalent).

Neither the ERA nor EMCa addressed these roles in the ERA's response. In considering other feedback of the ERA, the SoCI Cyber Security Role has been removed and these responsibilities and costs will be incorporated into the Cyber Security Program in Section 8.6.1.2.

ATCO maintains the forecast for the SoCI Compliance Role, and having further considered its security posture and obligations under the SoCI Act, seeks an additional role of SoCI Physical Security and Controls Lead. ATCO has summarised the necessary roles below, with reference to the specific legislative CIRMP requirements.

SoCI Compliance Lead

The SoCI Compliance Lead will work closely with cross-functional teams to develop and implement the CIRMP and critical infrastructure risk management strategies and align ATCO's processes to the SoCI Act and other evolving regulation and guidance. The SoCI Compliance Lead's responsibilities include conducting SoCI risk assessments, monitoring emerging risks, and enhancing ATCO's CIRMP compliance to ensure it reflects current practices.

The role will include the following tasks, referenced to the ATCO SoCI Act CIRMP Requirements:

Table 8.24: SoCI Compliance Lead Role description

CIRMP RULES	DESCRIPTION OF REQUIRED TASKS
	Ensure all SoCI registration tasks are completed with the Department of Home Affairs.
	• Engage with the relevant vector leads and the Senior Manager Risk & Compliance, and prepare reports for the SOCI Management Committee to ensure: • Timely and effective completion of assigned SOCI compliance actions. • Collaboration, timely and effective exchange of information exists between vector leads. • Consistency across vector management. • Timely reporting of relevant information to the SOCI Management Committee and the Board; and Produce any requested reports or further information for the SOCI Management Committee or Board in their roles as attestation bodies.
7(1)(c)(i)	Facilitate the preparation, recording and consistency of SoCI Material Risk Treatment Plans and supporting materials to eliminate material risks and mitigate relevant impact of each hazard.
7(1)(d)(e)	Evaluate the CIRMP on an ongoing basis to ensure its effectiveness and compliance with the Act. .
7.2	Develop, record, maintain and validate ATCO's risk management framework, subsidiary documents, systems, and methodology to effectively integrate SoCI requirements into existing requirements and obligations.
7.2 (b)	Support the preparation and update of the Critical Interdependencies Register and review process, including liaising with other third-party bodies (e.g. upstream gas suppliers, critical vendors, emergency services) to ensure continuity and connection between sectors).
8(2)(a), 8(2)(b)	Support the Cyber Security team in reviewing the Cyber and Information Security Hazards Register and treatment plans, and documentation of process
8(4), 8(5)	Support the Cyber Security team to demonstrate compliance (internally to the SoCI Management Committee and Board, and externally to the Department) with the Australian Energy Sector Cyber Security Framework.
11.2 (a)	Review and document Critical Infrastructure assets, technology components and facility registers.
11(1)(a), 11(2)(a)	Document and review the process for identifying and reviewing physical critical components of the CI asset.
Risk Management Assurance Risk Management Attestation	Ensure that all supporting documentation, Board Papers, and approvals are in place for the successful annual attestation of the effectiveness of the CIRMP by the Board

CIRMP RULES	DESCRIPTION OF REQUIRED TASKS
Regulatory Change Management	Monitor and review changes to the SoCI Act, attend Department of Home Affairs briefings, attend industry meetings and working groups to discuss continuing compliance and best practice.

SoCI Physical Security and Controls Lead

The SoCI Act requires owners of critical Infrastructure such as ATCO Gas to continually uplift their security posture to secure critical infrastructure. This requires working across functional teams to consolidate and continually review and test ATCO's security controls beyond pure asset management.

The role will include the following tasks, referenced to ATCO's SoCI Act Risk Management Program Requirements:

Table 8.25: SoCI Physical Security and Controls Lead description

CIRMP RULES	DESCRIPTION OF REQUIRED TASKS
Regulatory Change Management	Monitor and update changes to the SoCI Act, participate in the Department of Home Affairs' briefings, attend security industry meetings and working groups to discuss continuing security best practice.
8(2)(a), 8(2)(b)	Collaborate with the Cyber Security team in reviewing the Cyber and Information Security Hazards Register and treatment plans, and documentation of process and link to Physical Security Hazards and treatment plans
9(1)(a), 9(6)(a), 9(6)(b)	Support the Personnel Vector SMEs in Human Resources and ATCO operations teams to identify ATCO's critical workers, identify personnel risks and document and maintain processes
9(1)(c)(i), 9(1)(c)(ii)	Analyse, document and maintain the Personnel Security Hazards and Treatment Register, including preparing and updating the relevant policy and procedure documents
9(2)	Support the ATCO Gas HR team to monitor the process or system for assessing the suitability of ATCO Gas' critical workers (i.e., background check assessment of information relating to the matters mentioned in the Act).
9(4)	Notify the Secretary if a background check is no longer required for a critical worker.
10(1)(a)(i), 10(1)(a)(ii), 10(1)(a)(iii), 10(1)(a)(iv), 10(1)(a)(v), 10(1)(a)(vi)	Support the Supply Chain Vector SMEs to manage the hazard and treatment register (includes interference, misuse of privileged access, disruption, threats, major supplier risk, impact to other assets)
11(1)(b)(i)	Prepare, analyse, and maintain a hazard register that minimises or eliminates a material risk, and mitigates a relevant impact, of a physical security hazard on the identified ATCO Gas physical critical components
11(1)©	Establish, maintain, and document a system to respond to incidents where unauthorised access to a physical critical component occurs.

CIRMP RULES	DESCRIPTION OF REQUIRED TASKS
11(1)(d)	Establish, maintain, and document a process or system to control access to physical critical components, including restricting access to only those individuals who are critical workers or accompanied visitors
11(2)(c)	Document and analyse the security arrangements for the ATCO gas network (responding to incidents) in the CIRMP (or elsewhere), including Security Policy, Management System and Standards.
Attestation	Support the ATCO Gas operations teams in reviewing threat and failure analysis & post incident reporting for folding into the CIRMP, and where relevant, reporting as part of the attestation process.

FORECAST EXPENDITURE

The Department of Home Affairs, in its submission into the *Review of the Security Legislation Amendment (Critical Infrastructure Protection) Bill 2022* reported that the average expected costs for responsible entities of critical gas assets to implement, and maintain, the risk management program rules was an average one-off cost of $10.4 million, followed by an average ongoing cost of $2.1 million, based on industry submissions.

As explained above, as a regulated business, ATCO has established risk management practices. ATCO's submission for an additional $1.4 million for two additional roles assisting in compliance and security management across the Personnel, Supply Chain and Physical Security vectors for the ATCO network is reasonable. This reflects only the additional legislative uplift required by the SoCI, understanding the existing process and systems ATCO already has in place.

The forecast AA6 expenditure for this step change is detailed in Table 8.26.

Table 8.26: Critical Infrastructure Act – Security, Compliance and Reporting, AA6 Forecast Opex ($million real as at 31 December 2023)

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
FTE	2	2	2	2	2	
Expenditure ($ million)	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**1.4**

8.6.2.2 SECURITY OF SUPPLY – PIPELINE PATROL - $0.8M

BACKGROUND

ATCO has completed a 5-yearly review of the Security of Supply Risk Assessment since our initial plan. The assessment involves a review of actions that ATCO would reasonably take in the event of a pipeline incident resulting in supply loss and calculates the number of customers affected. This number of 'customers lost' is converted to 'customer weeks lost'.

Where unacceptable High risks are identified, ATCO must act to reduce the identified risks to an acceptable level, or Intermediate and ALARP in accordance with the ATCO Australia POS Risk

Management Framework (AA-RSK-FWK-01) and the Gas Distribution System (GDS) Safety Case (TCO PL00005).

The latest supply risk assessment reconfirms three sections of the high pressure network as high risk located in Bunbury, Two Rocks, and Caversham. We conduct daily patrols on these three pipelines to reduce the risk of third party damage, which would result in the requirement to isolate the pipeline.

The assessment identified three additional pipelines as high risk and requiring daily pipeline patrols to reduce the risk to an acceptable level.

DRIVERS

The investment driver is risk mitigation. Increased frequency of patrols enable more timely identification of potential threats to the pipelines from external interference, reducing the frequency of a potential incident.

FORECAST EXPENDITURE

Currently, ATCO has one FTE responsible for conducting daily patrol on 3 pipelines. ATCO proposes to allocate an additional 1.5 FTE to conduct daily patrols on three additional pipelines. The proposal aims to provide adequate backup personnel to cover absences due to leave or training, ensuring consistent and reliable pipeline monitoring.

The forecast AA6 expenditure for additional pipeline patrols is $0.8 million. The forecast expenditure for this step change is detailed in Table 8.27.

Table 8.27: Security of Supply, AA6 Forecast Opex ($million real as at 31 December 2023)

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
FTE	1.5	1.5	1.5	1.5	1.5	1.5
Expenditure ($ million)	**0.16**	**0.16**	**0.16**	**0.16**	**0.16**	**0.8**

8.6.2.3 CONTROL ROOM FATIGUE MANAGEMENT - $1.6M

BACKGROUND

In April 2024, DEMIRS WorkSafe Petroleum Safety Division, who oversee the regulation of our Mandurah Gas Lateral, conducted an Inspection and Audit of our Mandurah Gas Lateral Safety Case. Subsequently, a WorkSafe Improvement Notice was issued to ATCO to review and assess fatigue management within the 24-hour Control Room. Notwithstanding that ATCO is yet to receive confirmation from DEMIRS as to the detailed grounds and terms of this Notice, ATCO is conducting a fatigue assessment of the Control Room Operator's duties and identify necessary actions.

Our current proposal included in our Revised Plan is to increase the control room personnel by four FTEs. This will facilitate scheduling of two control room operators for night and weekend shifts, ensuring coverage for breaks and effectively managing fatigue risks. However, this proposal is currently still under review. As noted above, ATCO will have more detailed information after we have

received confirmation from DEMIRS as to the detailed grounds and terms of the Notice and conducted our fatigue assessment.

Our requirements may decrease after our fatigue assessment, but based on current information at time of drafting, our best forecast is that we will need four additional FTEs.

DRIVERS

The additional opex is driven by the requirement to comply with the provisions of the *Work Health and Safety (Petroleum and Geothermal Energy Operations) Regulations 2022* regarding fatigue management in the Control Room.

FORECAST EXPENDITURE

The proposed solution involves increasing the control room personnel by four FTEs. This will ensure Control Room operators working night shift are provided with a suitable break from continuous work to manage the risk of cumulative fatigue. As noted above, a review of shift patterns is currently being conducted and will require additional resources to ensure continual 24 hour network coverage.

The forecast AA6 expenditure for this step change is detailed in Table 8.28:

Table 8.28: Control Room Fatigue Management, AA6 Forecast Opex ($million real as at 31 December 2023)

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
FTE	4	4	4	4	4	4
Expenditure	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**1.6**

8.6.2.4 PICARRO LEAK SURVEY TECHNOLOGY O&M - $0.5M

BACKGROUND

ATCO is proposing the adoption of Picarro's Technology to support our Leak Survey Program. By incorporating Picarro technology, we expect to enhance leak detection, prioritise leak repairs and mains replacement more efficiently through Picarro's leak rate measurement capabilities. This in turn, is anticipated to result in cost savings and adopting this technology aligns to current industry good practice. Gas distribution companies are using Picarro technology to replace the traditional walking the mains to detect leaks. Further detail is provided in Section 7.6.1.8 and Picarro Business Case (*see Attachment 07.107.00*).

DRIVERS

The investment driver is to enhance our leak survey technology to gather more insights about asset condition, such as leak rates, to drive proactive and data-driven asset management, especially with the prioritisation of mains replacement. ATCO's leak survey practice should align to current good industry practices and achieve operational efficiency.

FORECAST EXPENDITURE

The forecast opex relates to the operation and maintenance of the Picarro technology. The forecast expenditure is based on a quote from the vendor. The forecast expenditure for this step change over AA6 is detailed in Table 8.29.

Table 8.29: Picarro, AA6 Forecast Opex ($million real as at 31 December 2023)

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
Operations and Maintenance Expenditure	0.1	0.1	0.1	0.1	0.1	0.5
TOTAL	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.5**

8.6.2.5 PAYROLL UPGRADE PROJECT - $0.5 M

ATCO's AA6 capex forecast includes the Payroll Upgrade Project, with further details included in Section 7.6.3.8, Payroll Upgrade Project. The new Payroll solution is expected to be a cloud-based solution based on a SaaS agreement, which will see a significant move from ATCO's current existing on premise systems. The licensing and support fee expenditure is scheduled from 2025 resulting in an incremental cost of $0.5 million for AA6.

FORECAST EXPENDITURE

The forecast AA6 opex for this step change is detailed in Table 8.30.

Table 8.30: Payroll Upgrade Project, AA6 Forecast Opex ($million real as at 31 December 2023)

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
Annual licencing and support fees	0.1	0.1	0.1	0.1	0.1	0.5
TOTAL	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.5**

8.6.2.6 TECHNOLOGY LIFECYCLE - $2.7M

ATCO's capex forecast for AA6 includes the Technology Lifecycle program. Further details on this program are included in Section 7.6.3.13 and the *'IT-Technology Lifecycle - Business Case* (*see Attachment 07.118.00*).

This expenditure includes the cost of the annual licencing and support fees of the technology assets requiring change or uplifts. The expenditure is scheduled from 2025 with a total cost of $2.7 million. The opex changes on an annual basis as some assets are changed or uplifted as others may be decommissioned.

FORECAST EXPENDITURE

The forecast AA6 expenditure for this step change is detailed in Table 8.31.

Table 8.31: Technology Lifecycle, AA6 Forecast Opex ($million real as at 31 December 2023)

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
Licencing and support fees	0.5	0.7	0.5	0.6	0.6	2.7
TOTAL	**0.5**	**0.7**	**0.5**	**0.6**	**0.6**	**2.7**

8.6.2.7 DATA ENABLEMENT - $0.9M

ATCO's capex forecast for AA6 includes the Data Enablement program. This new business case includes opex for the annual licencing and support fees of technologies to deliver and maintain data management capabilities.

The licensing and support fee expenditure is scheduled from 2025, resulting in a total cost of $0.9 million over AA6.

Further details on this program are included in Section 7.6.3.12 and the *'IT-Technology Lifecycle - Business Case* (*see Attachment 07.113.00*).

FORECAST EXPENDITURE

Table 8.32: Data Enablement, AA6 Forecast Opex ($million real as at 31 December 2023)

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
Licensing and support fees	0.0	0.0	0.0	0.0	0.0	0.1
Labour	-	-	0.3	0.3	0.3	0.8
Total	**0.0**	**0.0**	**0.3**	**0.3**	**0.3**	**0.9**

8.6.2.8 TECHNOLOGY LEASING - $1.5M

BACKGROUND

Since mid-2021, ATCO has been leasing most IT hardware assets and refreshing them according to its IT asset management plan. We periodically refresh our IT assets when they are end of life, out of support and as software and firmware updates cease to be available.

Prior to mid-2021, we purchased around 317 IT hardware units that will reach their end-of-life by 2025. Our proposed replacement program to transition them to leasing agreements, based on accepted good industry practice to protect ageing devices against malware and other security and performance risks, while ensuring they are also capable of supporting and running up-to-date software and applications.

This practice also allows greater flexibility to the technology refresh lifecycle, reduce downtime, and eliminates the need for large upfront investment in hardware, freeing up capital for other critical business needs.

We submit that this opex meets the regulatory test in NGR 91. The incremental cost of transitioning our owned ageing hardware to leasing is forecasted to be **$1.5 million** for AA6.

DRIVERS

This transition to leasing agreements offers several advantages, both financially and operationally. The benefits listed in Table 8.33 are the key reasons for this expenditure.

Table 8.33: Benefits of transitioning to Leasing

BENEFIT	DESCRIPTION
Provides flexibility to refresh technology when needed.	**Scalability** - leasing allows ATCO to change or replace IT assets on a specific and systematic basis, providing flexibility to adapt to changing business conditions. **End-of-Term Option** - There is also the flexibility to return the equipment, purchase at reduce price, upgrade to newer technology, or extend a lease if circumstances dictate.
Lowers the Total Cost of Ownership (TCO).	**Lower cost** – Leasing eliminates the need for large upfront investment (capex) in hardware, freeing up capital for other critical business needs. In addition, for most types of equipment the leasing company will take a residual position on that equipment thereby reducing the overall cost over the term of the lease. **Lower maintenance and support cost** - By adopting a more formalised approach to technology refresh and deployment, ATCO will be able to minimise ongoing support costs, improve productivity and maximise the usefulness of the assets. **Reduce downtime** – Support built into the lease with issues can be addressed more quickly, minimising downtime and maintain productivity
Guards against obsolescence.	**Reduce obsolescence risk** - Lifecycle arrangements ensure that equipment does not become obsolete and impact business productivity. **Access to latest technology** – Leasing agreement includes options to upgrade equipment at regular interval, ensuring access to latest technology without the need for additional capital expenditure.
Secure disposal of equipment.	**Elimination of disposal process and co–t** - Lifecycle services are managed through a combination of services from ATCO's managed services provider and the leasing company. For example, disposal services (and costs) are built into the original leasing service (and charges).
Operational Efficiency	**Internal Efficiency –** elimination of hardware procurement and maintenance means we can focus more on our core competencies and strategic initiatives.

FORECAST EXPENDITURE

The cost estimate (*see Attachment 08.110) Opex Forecasting Leasing* provides a full cost calculation of transitioning our 317 units of IT hardware (desktops, laptops, tough books, and IT network equipment), which are expected to reach their end of life by 2025

Table 8.34: Technology leasing, AA6 Forecast Opex ($million real as at 31 December 2023)

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
Technology Leasing	0.3	0.3	0.3	0.3	0.3	1.5
Total	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**1.5**

8.6.2.9 ESG REPORTING SYSTEM - $0.5M

BACKGROUND

The ESG Reporting System will support ATCO's reporting obligations under the National Greenhouse and Energy Reporting Scheme and the upcoming mandatory climate-related disclosures as part of sustainability reporting requirements (aligned to changes in the *Corporations Act 2001* from January 2025). It will provide a fit-for-purpose system to monitor, measure, and report on sustainability performance. The revised incremental licensing fee expenditure is now scheduled from 2026 resulting in an incremental cost of **$0.5 million.** Further details on this program are included in Section 7.6.3.5 and the *ESG Reporting - Business Case* (*see Attachment 07.103.00).*

FORECAST EXPENDITURE

We will incur new licencing fees and running costs for the ESG Reporting System software as shown in Table 8.35.

Table 8.35: ESG Reporting System, AA6 Forecast Opex ($million real as at 31 December 2023)

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
ESG Reporting System – licensing fee	-	0.1	0.1	0.1	0.1	**0.5**

8.6.3 ATCO'S REVISED RECURRENT STEP CHANGES SUMMARY

Table 8.36: Adjustments for recurrent step changes ($million real as at 31 December 2023)

RECURRENT STEP CHANGES	2025	2026	2027	2028	2029	AA6 TOTAL
ERA ACCEPTED						
Superannuation Guarantee rate Increase	0.3	0.4	0.4	0.4	0.4	**1.9**
PPE threshold increase	0.2	0.2	0.2	0.2	0.2	**0.9**
Gas Inspection team	0.2	0.2	0.2	0.2	0.2	**1.0**
UPDATED STEP CHANGES						
Enabling renewable gases	0.3	0.4	0.3	0.4	0.5	**1.7**
Cyber Security Program	0.4	1.2	1.6	1.7	1.6	**6.6**
Economic Regulatory Changes	0.2	0.2	0.2	0.2	0.2	**1.0**
ERP Replacement	-	-	-	2.1	2.1	**4.1**
NEW STEP CHANGES						
Critical Infrastructure Act	0.3	0.3	0.3	0.3	0.3	**1.4**
Security of Supply – Pipeline Patrol	0.2	0.2	0.2	0.2	0.2	**0.8**
Control Room Fatigue Management	0.3	0.3	0.3	0.3	0.3	**1.6**
Picarro leak Survey Technology	0.1	0.1	0.1	0.1	0.1	**0.5**
Payroll Upgrade Project	0.1	0.1	0.1	0.1	0.1	**0.5**
Technology lifecycle	0.5	0.7	0.5	0.6	0.6	**2.7**
Data Enablement	0.0	0.0	0.3	0.3	0.3	**0.9**
Technology leasing	0.3	0.3	0.3	0.3	0.3	**1.5**
ESG reporting system	-	0.1	0.1	0.1	0.1	**0.5**
TOTAL	**3.3**	**4.6**	**5.0**	**7.4**	**7.4**	**27.6**

8.7 ATCO'S RESPONSE: ERA REQUIRED AMENDMENT 5.3

ERA REQUIRED AMENDMENT 5.3:

ATCO must amend its access arrangement information to revise its AA6 non-recurrent step change operating expenditure to $9.3 million ($ real as at 31 December 2023).

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

ATCO disagrees with several key aspects of the decision:

- **Access Arrangement 7 (AA7) and Rate of Return Assessment Regulatory Preparation:** ATCO does not accept the ERA's decision to limit the expenditure for AA7 and rate of return assessment regulatory preparation to $5.2 million. We believe this amount is insufficient to cover the necessary costs associated with these complex regulatory processes.
- **Managed IT services tender renewal:** ATCO does not accept the ERA's decision to remove the cost for Managed IT services tender renewal process. This cost is essential to ensure the continued provision of reliable and efficient IT services, which are critical to the sustainable delivery of secure supply of gas and associated operations in line with the National Gas Objective.

ATCO agrees with the ERA's decision on:

- **Software as a service (SaaS) arrangement:** ATCO accepts the ERA's decision to classify the software as a service (SaaS) arrangement as capital expenditure.

ATCO agrees with the ERA's decision with modification:

- **Pipeline inline inspections:** ATCO accepts the ERA's decision to deduct the operating expenditure of $2.1 million for inline inspections of the Bunbury pipelines. However, we propose a modification to include a maintenance expense of $0.5 million instead. This adjustment accurately reflects the necessary maintenance costs following inspections and ensures the pipelines' continued safe operation.

ATCO's response to this amendment is detailed in the following sections.

8.7.1 ACCESS ARRANGEMENT 7 AND RATE OF RETURN INSTRUMENT REGULATORY PREPARATION - $6.0M

BACKGROUND

The ERA determined that $0.9 million of forecast costs for the 2026 rate of return review and AA7 submission preparatory costs did not meet the criteria under Rule 91 of the NGR. The ERA noted that ATCO's cost estimate of $6.2 million is 19% higher than the expected AA6 preparation cost of $5.2 million.

ATCO does not accept the ERA's position that the step change for AA7 preparation costs should be equivalent to the forecast amount for the preparation of AA6 submission for the following reasons:

- **Additional consulting costs from the ERA** – The ERA has engaged four consultants to assist with the preparation of their AA6 decision. The costs of the ERA's engagement of these consultants is passed onto ATCO through the *Economic Regulation Authority (National Gas Access Funding) Regulations 2009*. The cost associated with the ERA's consultants in the AA6 review is significantly higher than what has been incurred previously and higher than ATCO had forecast. ATCO does not yet have visibility of the likely costs for the ERA's consultants in the second phase of their review for AA6 but expects these to also be higher than we had forecast.
- **2023 actual expenditure** – The actual costs in preparing the AA6 program in 2023 are now available. We have considered our 2023 actuals in reviewing the forecast costs for AA7, which we still consider to be reasonable for the reasons provided in our initial submission.
- **Under-resourcing of AA6 program** - ATCO has consistently expressed, both in its initial submission and throughout the consultation process, that it was significantly under-resourced during the AA6 submission process.
    - The ERA's Draft Decision and EMCa's report highlight the consequences of this under-resourcing, noting that ATCO did not provide sufficient information. This deficiency was a direct result of the AA6 team's limited resources, which hindered their ability to adequately address the complex and extensive regulatory requirements.
    - It is illogical to suggest that optimal results can be achieved by further reducing resources that are already insufficient. ATCO's experience demonstrates that under-resourcing leads to subpar outcomes, including the inability to provide comprehensive information as noted by the ERA and EMCa.

As a result, ATCO asserts that the $6.0 million satisfies the operating expenditure criteria of NGR 91 to be efficient and prudent. It will ensure that ATCO's AA7 Program can deliver on the needs of the community and stakeholders by resourcing the program effectively. This includes consultants and experts where appropriate to fulfill the regulatory obligations effectively, conduct comprehensive consultations, gather feedback, and address concerns in a timely and transparent manner. Also, it will mitigate any risk of non-compliance with all regulatory requirements that may arise due to under-resourcing.

FORECAST EXPENDITURE

The forecast AA6 expenditure for this step change is detailed in Table 8.37.

Table 8.37: Regulatory preparation, AA6 Forecast Opex ($million real as at 31 December 2023)

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
RORI review costs	-	0.2	-	-	-	0.2
AA7 Preparation costs	-	-	1.0	3.0	1.8	5.8
		0.2	**1.0**	**3.0**	**1.8**	**6.0**

8.7.2 MANAGED IT SERVICES TENDER RENEWAL - $0.5M

BACKGROUND

ATCO does not accept the ERA decision to reject the opex step change for the Managed IT Services Tender Renewal of **$0.5 million.**

DRIVER

ATCO's managed IT services contract is periodically reviewed and is not a routine activity. The MSA is a large and complex agreement that necessitates both legal and commercial IT industry expertise to ensure ATCO receives the best value for money throughout the contract period. This contract underpins the successful delivery of critical IT services to the organisation.

Given the highly complex nature of IT services delivery, ATCO requires specialist external expertise to ensure that the tender for the upcoming renewal achieves the required outcomes from the contract negotiation process. The current contract contains eight schedules and consists of over seventy discrete IT Services. These services were more applicable when we had a significant on-premises footprint. With the transition to cloud and SaaS solutions, it is crucial to negotiate a modern contract that delivers the best value for money.

Furthermore, as a critical infrastructure entity, ATCO also has the responsibility to ensure that contract negotiations meet our obligatory and operational requirements. Without leveraging external expertise in critical infrastructure and SoCI obligations, we may inadvertently accept a position that falls short of meeting our regulatory obligations.

If investment in specialist external expertise is not secured, it should be anticipated that the tender process will yield sub-optimal outcomes. This could create a future burden for the gas consumer, potentially compromise ATCO's ability to achieve its expected operational outcomes and furthermore, meet its regulatory obligations.

FORECAST EXPENDITURE

The forecast expenditure for this step change over AA6 is detailed in Table 8.38.

Table 8.38: Managed IT Services Renewal, AA6 Forecast Opex ($million real as at 31 December 2023)

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
Managed IT services tender renewal	**0.2**	**0.3**	**-**	**-**	**-**	0.5

8.7.3 PIPELINE INLINE INSPECTION - $4.5M

BACKGROUND

ATCO has conducted a feasibility assessment and modified the inspection strategy for three pipelines in Bunbury, resulting in a reduction of $2.1 million in opex previously allocated for inline inspections of these pipelines. Instead, we will increase the number of direct inspections to gather the necessary pipeline integrity data and comply with Fitness for Purpose requirements in AS 2885.3:2022.

Inline inspection is the preferred method of inspection and aligns to good industry practice. The current operating pressure of the Bunbury pipelines of 1850kPa, which is lower than its MAOP of 5200kPa. Increasing the operating pressure, required to facilitate inline inspection would require significant capex, which due to lower operating pressure lacks operational driver and would outweigh the benefits gained. Therefore, we have opted for direct inspections.

Direct inspections, outlined in AS 2885.3:2022, provide an alternative inspection method if inline inspection is not possible by offering an external assessment of the pipeline's condition. These inspections involve physically examining the pipeline at specific intervals to identify any signs of corrosion, wear, or other potential issues. This strategy ensures that the integrity of the pipelines is assessed and maintained, ensuring the continued safety and reliability of the gas supply.

We propose a reduction of $2.1 million from our 2025-29 Plan with a partial offset of $0.3 million to change strategy from inline inspection to direct inspection for Bunbury pipelines.

FORECAST EXPENDITURE

The revised forecast expenditure for inline inspections for 11 pipelines and direct inspection for 3 Bunbury pipelines over AA6 is detailed in Table 8.39.

Table 8.39: Pipeline Inline Inspections, AA6 Forecast Opex ($million real as at 31 December 2023)

ACTIVITY	2025	2026	2027	2028	2029	TOTAL
Expenditure – Inline inspection	-	0.5	1.0	1.6	1.0	4.2
Expenditure – Direct inspection	0.1	0.2	-	-	-	0.3
Total Expenditure	**0.1**	**0.7**	**1.0**	**1.6**	**1.0**	**4.5**

8.7.4 ATCO'S REVISED NON-RECURRENT STEP CHANGE SUMMARY

Table 8.40: Adjustments for non-recurrent step changes ($million real as at 31 December 2023)

NON-RECURRENT STEP CHANGES	YEAR	AA6 TOTAL
Pipeline Inline Inspections	2025 to 2029	**4.5**
Access Arrangement 7 Regulatory Preparation and RORI review	2026 to 2029	**6.0**
IT Managed Services	2025 to 2026	**0.5**
	TOTAL	**11.0**

8.8 ATCO'S RESPONSE: ERA REQUIRED AMENDMENT 5.4

ERA REQUIRED AMENDMENT 5.4:

ATCO must amend its access arrangement information to revise its AA6 output growth escalation operating expenditure to $14.0 million ($ real as at 31 December 2023).

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

ATCO do not accept the output growth escalation in the Draft Decision as we have updated our demand forecast with 2023 actuals that result in a different growth escalation factor.

BACKGROUND

ATCO does not accept the ERA's Draft Decision on output growth escalation factors for AA6. The ERA has forecast an increasing customer base over the course of AA6 and ATCO does not accept this view.

REVISED FORECAST

ATCO has forecast an increase in customer numbers from 2025 to 2029, with the justification of ATCO's position and details of ATCO's revised demand forecast detailed in Section 5.4.9.

Given the growth in customer numbers, ATCO has forecast an associated increase in the total length of the network. ATCO's proposed growth capex is detailed in Section 7.6.2.

As proposed in our 2025-29 Plan, we have derived a weighted annual real output growth rate based on a 45:55 weighting of growth in customer numbers to growth in the network length that is accepted by the ERA in its Draft Decision. Based on ATCO's updated demand forecast and growth capex forecasts, ATCO's proposed escalation factors are shown in Table 8.41.

Table 8.41: Forecast output growth factors for AA6

FORECAST GROWTH FACTORS	WEIGHTING	2025	2026	2027	2028	2029
Net growth in the number of customers	55%	6,978	8,237	9,509	10,212	10,585
Net growth in the size of the network (km)	45%	123	141	151	156	159
Weighted annual output growth rate		0.86%	1.00%	1.10%	1.15%	1.18%

ATCO REVISED PROPOSAL

ATCO's revised forecast of the real output growth escalation assumptions and the opex forecast for output growth escalation for AA6 is $9.3 million.

Table 8.42: Forecast output growth for AA6 ($million real as at 31 December 2023)

FORECAST OUTPUT GROWTH	2025	2026	2027	2028	2029	TOTAL
Forecast output growth	0.9	1.3	1.8	2.4	3.0	9.3

8.9 ATCO'S RESPONSE: ERA REQUIRED AMENDMENT 5.5

ERA REQUIRED AMENDMENT 5.5:

ATCO must amend its access arrangement information to revise its AA6 input cost escalation operating expenditure to $4.1 million ($ real as at 31 December 2023).

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

ATCO do not accept the input escalation in the Draft Decision as we have included an Electricity, Gas, Water and Waste Services (EGWWS) premium of 0.37%. ATCO's operation relies on EGWWS workforce heavily.

8.9.1 BACKGROUND

ATCO does not accept that the Draft Decision's labour cost escalation forecast of 0.49% is consistent with NGR 74(b)(2). We also do not accept the ERA's argument that a business with no productivity growth is unlikely to sustain real wage growth at above-average rates in the long term, and that it is unreasonable to expect wages growth for ATCO to exceed average wages growth without increases in ATCO's productivity[111]

8.9.2 DETAILED RESPONSE

Input real growth escalation is driven by price increases in labour and materials above inflation. Input real growth escalation is a function of labour cost escalation, materials cost escalation and the weightings applied to each. The Draft Decision accepts that input real growth escalation contributes to a reasonable basis for deriving the operating expenditure forecast when using the base-step-trend approach, in line with NGR 74(2)(a).[112]

The Draft Decision has accepted the following aspects of ATCO's input real growth escalation and ATCO continues to adopt these assumptions in this 2025-29 Revised Plan:

- **Weightings**: ATCO continues to propose an opex resource mix of 62% labour and 38% materials based on benchmark weights developed by the Pacific Economic Group.[113]
- **Materials cost escalation**: ATCO continues to propose no real cost escalation for materials costs. ATCO considers that increases in the cost of materials are not expected to exceed Consumer Price Index (CPI) growth over AA6.[114]

The Draft Decision also accepted ATCO's use of a four-year average forecast rather than a five year-average forecast for the Wage Price Index (WPI) and CPI used to determine the forecast AA6 real labour escalator because WA Treasury's 'estimated actual' WPI All Industries and CPI forecasts for 2022/23 were not representative of forecasts for these variables from 2023/24 onwards.

111 Draft Decision, Attachment 5: Operating Expenditure, para 141

112 Draft Decision, Attachment 5: Operating Expenditure, para 131

113 Draft Decision, Attachment 5: Operating Expenditure, para 132

114 Draft Decision, Attachment 5: Operating Expenditure, para 132

The Draft Decision did not accept ATCO's proposed labour cost escalation forecast, instead, adopting a real labour escalation rate of 0.49%. The ERA has removed the EGWWS premium for calculating real labour escalation.

8.9.2.1 WESTERN AUSTRALIAN WPI AND CPI

In this 2025-29 Revised Plan, we have used the most recent WA Treasury WPI and CPI data, incorporating the state budget for 2024/25 released on 9 May 2024, as we consider that this is reasonable and represents the best forecast in accordance with NGR 74. The annual WPI and CPI forecasts used to calculate a four-year average for AA6 are shown in Table 8.43.

Table 8.43: Western Australia State Budget – Key Budget Assumptions, Western Australia[115]

	2024-25	2025-26	2026-27	2027-28	AVERAGE
Wage Price Index growth	3.75%	3.50%	3.00%	3.00%	3.31%
Price Index growth	3.00%	2.50%	2.50%	2.50%	2.63%

8.9.2.2 EGWWS PREMIUM OVER THE WESTERN AUSTRALIAN WPI

ATCO's 2025-29 Plan incorporated a labour cost escalation forecast that included a premium for wages growth in the EGWWS sector over all industries average. Our approach to estimating labour cost escalation was consistent with the method adopted in the ERA's previous gas and electricity access arrangement decisions. We incorporated a 0.37% growth premium reflecting the long term historical average WPI growth premium for the EGWWS sector. Figure 8.4 demonstrates the annual historical premium between the relevant ABS series[116], since March 2020.

115 Western Australia State Budget 2024-2025, Available from: https://www.ourstatebudget.wa.gov.au/budget-papers.html

116 ABS, Synergies calculations

Figure 8.4: Annual quarterly movements in EGWWS WPI and All Industries WPI (nominal)[117]

Figure 8.4 illustrates the quarterly growth differentials between the EGWWS WPI and the broader All Industries WPI, compared to the corresponding quarter of the prior year, spanning from 2004 to Q1 2024. The March quarter 2024 growth is the strongest year-on-year quarterly growth since March 2013.

Synergies, in their update report[118] (*see Attachment 08.111)*, notes that in the recent analysis by KPMG for the AER forecasts, there is strong nominal and real WPI growth at the national level for the All Industries and EGWWS sectors. The AER's forecast for average nominal growth for the EGWWS sectors is 3.70%, which shows an EGWWS average premium of 0.4% between 2026 and 2029, with expected strong demand for labour in this sector. This closely aligns with our proposed AA6 EGWWS premium and is a reasonable assumption considering the large investments planned in the energy and water sectors in the next 5 to 10 years.

ATCO acknowledges that the EGWWS premium has reduced over time, however, wages growth in the EGWWS sector historically has exceeded all industries growth, which reflects the generally highly skilled workers in the EGWWS sectors and relatively highly unionised workforce. This is also due to EGWWS workers' highly interchangeable skills, particularly in relation to comparable roles in key sectors such as mining and construction.

8.9.2.3 ATCO'S RELIANCE ON EGWWS SECTORS

ATCO's operations heavily rely on the EGWWS workforce. The EGWWS WPI reflects the specific wage pressures we face in attracting and retaining skilled workers. Removing the EGWWS premium will fail to recognise these reasonably incurred costs.

- Tight Labour Market in WA and Australia: A broader view considering long-term data back to 2000, rather than just the recent period between 2019 and 2024 (which showed an average wage

[117] Synergies, ATCO's cost escalation forecasts for the AA6 2025- 2029 period, Figure 1.

[118] Synergies, ATCO's cost escalation forecasts for the AA6 2025- 2029 period.

premium of only 0.08%), indicates that a 0.37% premium is justified. This is because the WA and Australian labour markets are expected to be strong in AA6. This strength is expected to be driven by significant growth in infrastructure activity across the EGWWS sectors that will put sustained pressure on wages across the board.

- Transferable Skills of EGWWS Workers: EGWWS workers possess skillsets that are highly transferable to these other growing sectors. For example, electricians, welders, and boilermakers employed in the EGWWS can also find work in construction or resources projects. This means that there will be increased competition for EGWWS workers from these other sectors, which almost certainly will drive the wages up in the EGWWS sector more than in recent history.
- Strong International Demand: On top of strong domestic demand, there is also likely to be strong international demand for EGWWS workers in the coming years. This is due to planned energy decarbonisation infrastructure projects around the world. This global demand will put further pressure on wages in the EGWWS sector in Australia.
- Recent Surge in EGWWS WPI Growth: Synergies, in their updated report, noted that the 2019-24 period is an anomaly reflecting the significant disruption to Australian economic activity and international supply chains in the post-COVID-19 period. In contrast, the EGWWS WPI percentage growth from the corresponding quarter of the previous year was 3.93% in the March quarter of 2023 and 4.38% in the March quarter of 2024. This represents the strongest year-on-year quarterly growth since June 2013. This recent surge strengthens ATCO's argument that the WA and Australian labour markets are expected to be strong in AA6.

Therefore, ATCO considers that the best forecast of labour cost escalation over AA6 will include a premium of 0.37% for the EGWWS sector.

8.9.3 ATCO'S REVISED PROPOSAL

Table 8.44: Forecast input growth factors for AA6

INPUT GROWTH FACTOR	WEIGHTING	2025	2026	2027	2028	2029
Labour	62%	1.02%	1.02%	1.02%	1.02%	1.02%
Materials	38%	-	-	-	-	-
Weighted annual input growth rate		**0.62%**	**0.62%**	**0.62%**	**0.62%**	**0.62%**

Table 8.45: Forecast input growth for AA6 ($M real as at 31 December 2023)

FORECAST INPUT GROWTH	2025	2026	2027	2028	2029	TOTAL
Forecast input growth	**0.9**	**1.4**	**1.9**	**2.5**	**3.0**	**9.6**

8.10 PRODUCTIVITY ADJUSTMENT

Benchmarking of our opex performance confirms that we are efficient against our industry peers. In our 2025-29 Plan, ATCO commissioned Quantonomics, an expert benchmarking service provider, to measure ATCO's productivity and benchmark its gas distribution network operations (See Attachment 09.003).

In this 2025-29 Revised Plan, we have also not included a productivity adjustment as we do not believe it is in the long-term interests of customers and would likely yield adverse implications for our ability to provide a safe and reliable natural gas service. The Draft Decision conflated our productivity performance with our STIP program, which we have addressed in Section 8.5.3.3, and labour cost escalator, which we have addressed in Section 8.9.

- **Our benchmark performance is already considered efficient:** ATCO's benchmark performance is already considered efficient compared to our peers (*see Figure 1.1 and Section 9.4.1 in our ATCO Plan 2025-29*). We do not believe that a productivity adjustment is in the long-term interests of customers as it would likely yield adverse implications for our ability to provide a safe and reliable natural gas service. We consider this is the best estimate available with our current information and benchmarked performance.

  Furthermore, Synergies concluded that the forecast increase in the scale of our operation and our capex forecast (largely sustaining and network growth) are *unlikely to influence opex productivity in any material way* given our current operating efficiency. Quantonomics found that our *average technical efficiency scores, estimated as the highest in the sample* of industry peers, *are equal to 1.0, indicating full efficiency*.

- **No strategic technology projects forecast** ATCO's proposed capex for AA6 is largely for network sustaining and network growth projects, rather than strategic projects to enhance the productivity and efficiency of its operations or reduce ATCO's operating costs. While our proposal for capex includes upgrades to ATCO's IT systems (including ERP), the driver of these programs are due to end-of-life replacement and to address cyber security risk rather than for persistent operating efficiency improvements. We do not expect that these projects will yield sufficiently large, ongoing productivity improvements that would justify the inclusion of a productivity adjustment in the opex forecast. Also, application of an arbitrary productivity adjustment would not necessarily achieve a sustainable cost of delivering pipeline services. Including such an adjustment would result in ATCO not being able to recover at least its efficient costs (section 24 of the NGL).
- **We are absorbing costs:** ATCO will absorb $3.8 million in identified network step changes over AA6 that fall outside the base year. Table 8.46 provides a summary of the individual components that make up this expenditure. This efficiency is equivalent to an implied annual efficiency improvement of 0.4% on network related opex.

Table 8.46: Additional step changes identified but not allowed for ($M real as at 31 December 2023)

STEP CHANGES NOT ALLOWED FOR IN AA6 FORECAST OPEX	AA6 TOTAL
Step and Touch Hazard Mitigation	0.1
HSE	0.2
Commitment to Sustainability	0.5
Strategic Engagement Program	0.3
Hazardous areas remediation	0.8
Data centre migration	1.1
HR – Organisational development advisor	0.8
Total	**3.8**

8.10.1 STEP AND TOUCH HAZARD MITIGATION - $0.1M

ATCO has proactively installed electrical hazard protection mechanisms, such as Step Touch systems, on 59 sites since the start of the Step Touch Mitigation Program in 2015. In the majority of cases, deep electrodes were installed to effectively reduce voltage on the assets. To ensure continued efficient voltage reduction, it has been determined that a consumable replacement of four electrodes (2 per Step Touch site) will be necessary. These electrodes have a useful lifespan of 10 years. Therefore, the first electrode replacement cycle is forecast to commence in between 2025 and 2029. This proactive approach ensures the ongoing safety and reliability of our infrastructure while minimising potential hazards.

8.10.2 HEATH AND SAFETY CHANGES - $0.2M

Considering the recent changes in the Work Health Safety and Department of Water and Environment (DWER) legislation, including the ISO 45001 Health and Safety Management Standard and ISO 14001 Environment Management Standard, we have updated our policies and procedures to ensure compliance and best practices.

We are committed to providing a safe and sustainable work environment for our employees, clients, and stakeholders. Our safety performance, measured by ATCO's Total Recordable Injury Frequency Rate (TRIFR), has improved and we will keep monitoring TRIFR (with an emphasis on serious potential events).

We will also use the Critical Control Management (**CCM**) Good Practice approach to strengthen our HSE framework and ensure that we allocate our resources and efforts effectively to manage our most serious risks. CCM is a rigorous process that provides assurance for our critical controls and drives improvement actions for our highest risks on the Gas Network. The CCM Good Practice approach is a method that helps us identify, assess, implement, and monitor the critical controls that prevent or mitigate our most significant risks. It also helps us learn from incidents and near misses, and continuously improve our risk management practices.

8.10.3 COMMITMENT TO SUSTAINABILITY - $0.5M

At ATCO, we are committed to sustainability in all aspects of our business. To achieve our sustainability goals, we are undertaking initiatives[119] requiring additional cost compared to 2023, such as new team members and consulting fees including:

- Preparing for the upcoming mandatory climate-related financial disclosures in relation to the upcoming changes in the *Corporations Act 2001*, including generating process changes for reporting, gathering datasets for incorporation into an ESG reporting tool (refer Section 7.6.3.5) and educating internal stakeholders about the changes and the impacts.
- Working with our procurement team to incorporate environmental, governance, and social factors of corporate responsibility into procurement processes and decision-making; working with our finance team to understand the impact of regulatory changes but also liaising with external financiers to discuss and improve sustainability outcomes; and growing the leadership teams understanding and mindset towards sustainable environmental and social practices to encourage their own teams consistent with good industry practice.
- Planning and delivering the next update to our annual Sustainability Strategy in the latter half of 2024, which includes an in-depth study of materiality impacts for the business, renewed or revised targets and a focus on the ability to derive value out of the reported data to create efficiencies and initiatives for our business and customers.

This will generate benefits in the long term for consumers. Some of the benefits that we anticipate are:

- Reducing our operational costs by saving energy, water and materials through operational initiatives and better procurement practices.
- Mitigating our risks by complying with environmental and social regulations and standards.
- Ensuring that we operate and provide our services in consideration of the new emission reduction component of the NGO.
- Mitigating our ESG risks by complying with increasing environmental and heritage regulations, social and community expectations and building our resilience to change including examples such as Modern Slavery, Security and Climate Positive standards.
- Enhancing our social licence by demonstrating our leadership and innovation in the field and in our community.
- Improving our employee engagement and retention by creating a positive work culture and environment dedicated to diversity, equity, and inclusion.

8.10.4 STRATEGIC ENGAGEMENT PROGRAM - $0.3M

Our 2025-29 Plan is underpinned by our strategic customer and stakeholder engagement program, through which we sought feedback on our proposed activities, services, and investments for the coming five-year period.

[119] Commitment to sustainability costs of $0.5M reflect AGA's expenditure

In developing this program, we identified the importance of adopting an enduring approach to engagement to facilitate ongoing and transparent communication between ATCO and our stakeholders that extends beyond the prevailing Access Arrangement period.

Our proposed Strategic Engagement Program aims to build on our current learning from the AA6 Program and generate reliable insights into what stakeholders value, which in turn will be factored into our business planning. Our program includes engagement activities such as:

- Stakeholder Reference Group
- Energy Consumer Reference Group
- Digital Engagement platform
- Ad-hoc consumer behaviour and sentiment surveys

8.10.5 HAZARDOUS AREAS REMEDIATION - $0.8M

ATCO incurred costs in AA5 to commence remediation of high risk hazardous area sites, and to provide key upskilling, certification, and training for required personnel to ensure competency in evaluating hazardous areas, aligning with findings from the *Gas Distribution System Safety Case* audit. This opex project aimed to mitigate risks with remediation work on legacy telemetry equipment ensuring compliance to AS/NZS 2381.1:2005. As part of this work, we also made modifications to standard designs to ensure continued compliance to the standard for new assets.

In 2022, the revision of AS/NZS IEC 60079.10.1:2022 "Explosive atmospheres Part10.1. Classification of areas - Explosive atmospheres", came into effect with significant changes. Keys changes to impact ATCO were:

- AS/NZS IEC 60079.10.1:2022 provided a far greater emphasis on the methodology of classification through the "sources of release method". This prompted ATCO to develop and validate[120] a new "sources of release calculator".
- The Supplement and Clause E.1.3 Gas distribution, introduced key revisions affecting ATCO's hazardous area classification. These changes include:
  - Restricting gas distribution classification to 1050 kPa, invalidating previous assessments where above-ground metering or pressure reduction facilities up to 1900 kPa were deemed non-hazardous.
  - Explicitly referencing AS/NZS 4645 for defining hazardous areas, leading to assessments based on AS/NZS IEC 60079.10.1 criteria.
  - Revised requirements regarding zone classification in relation to pressure relief devices and Pressure relief valve vent pipe outlets, sourced from AS/NZS 4645.

The standard revision also removed the ambiguity in the application of AS/NZS IEC 60079.10.1:2009, which often resulted in areas being classified as non-hazardous.

Design reviews for standard high-pressure meterset installations, conducted in accordance with the revised AS/NZS IEC 60079.10.1:2022, have enabled us to estimate the necessary activities for safety compliance. The remediation actions will be covered under the Meter Compliance capex program.

[120] Validated by an external engineering consultancy, GHD.

However, each of the sites will require a dossier for the hazardous area. A dossier is a comprehensive collection of documents and information required to demonstrate compliance with relevant standards for the classification, installation, and maintenance of equipment in hazardous areas. Compiling the dossiers to meet the requirements of AS/NZS 60079 series is an operational activity.

It is estimated that a $0.8 million investment in AA6 is required to meet these compliance obligations.

8.10.6 DATA CENTRE MIGRATION - $1.1M

Late 2023, ATCO proactively migrated its infrastructure and storage workloads, that support the majority of its mission critical applications, from its on-prem Data Centre services to a modern Microsoft Azure Infrastructure Platform Services. This strategic move was essential to mitigate the critical technology risks associated with the ageing on-premise physical servers infrastructure, which were reaching end-of-life. As a result, annual cloud licencing and service costs were incurred from April 2023 onwards as outlined in Sections 8.5.1.1 and 8.5.1.3 and will continue throughout AA6.

However, only a portion of the increased costs appear in the 2023 base year (as the costs commenced in April), the portion that is not reflected in the 2023 base year is being absorbed by ATCO across AA6.

This transition to the cloud offers several key advantages for both ATCO and its customers:

- **Enhanced Reliability and Performance:** Cloud infrastructure provides a more robust and scalable platform for ATCO's services, reducing the risk of downtime and ensuring consistent performance even during peak usage periods.
- **Improved Security:** Cloud providers employ state-of-the-art security measures to protect data and systems, safeguarding ATCO, and its customers from cyber threats.
- **Increased Agility:** Cloud-based services enable ATCO to rapidly adapt to changing business needs, deploying new features and functionalities faster than ever before.

8.10.7 ORGANISATIONAL DEVELOPMENT ADVISOR - $0.8M

In AA6, we anticipate an increase of one FTE (Full-Time Equivalent) primarily to support internal training and development through the appointment of an Organisational Development Advisor in the HR function.

This is necessary due to the loss of skills, experience, and knowledge from the gas business in recent years. The competitive labour market is a significant driver of increased turnover resulting in knowledge loss, however other factors, such as retirements of key personnel is also a factor.

An Organisational Development Advisor's responsibilities include:

- **Leadership Capability:** The development and implementation of training programs aimed at building leadership capability to replace lost skills.
- **Employee Capability:** The development and implementation of employee training and development program, which also replaces lost skills as well as increasing our investment in employees, therefore enhancing employee experience, and reducing turnover.
- **Talent Management:** Continued improvement in Succession Planning and Talent Management processes to reduce the impacts on business operations following employee turnover.

8.11 ATCO'S RESPONSE: ERA REQUIRED AMENDMENT 5.6

ERA REQUIRED AMENDMENT 5.6:

ATCO must amend its access arrangement information to revise its AA6 unaccounted for gas operating expenditure to $31.8 million ($ real as at 31 December 2023)

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

ATCO does not accept the UAFG amount in the Draft Decision as we have updated our demand forecast with 2023 actual data. This results in new demand volumes and UAFG for AA6.

BACKGROUND

ATCO acknowledges and accepts the ERA's decision to approve ATCO's proposed UAFG percentages for AA6. However, ATCO does not accept the ERA's decision on the UAFG volume and unit price. ATCO proposes a revised UAFG opex of $29.6 million.

REVISED FORECAST

UAFG Volume

ATCO has revised the forecast UAFG volumes upwards in line with the revised demand forecast (see Section 7.4.1). This reforecast represents the best forecast possible in the circumstances, as per NGR 74(2)(b). The revised forecast takes into account the most recent data and trends and is considered to be a more accurate reflection of expected UAFG volumes. Further details are provided in the updated UAFG Strategy and Forecast (*see Updated Attachment 08.09.008*).

Natural Gas and Biomethane

ATCO does not accept the ERA's decision to disallow the combination of natural gas, biomethane and hydrogen gas to replace UAFG volumes. We have used updated market insights[121] in revising our plan to utilise a combination of natural gas and biomethane to replace UAFG, which is considered to be a viable and sustainable solution. This plan is expected to deliver significant environmental benefits. Further details are provided in attachment 07.105.00.

UAFG Unit Price

ATCO acknowledges and accepts the ERA's decision to approve ATCO's proposed price for natural gas as reasonable. ATCO is currently negotiating the terms of a five-year agreement (1 January 2025 to 31 December 2029) with a retailer of natural gas for the supply of UAFG. This followed a competitive tender process and is expected to be finalised soon. The parties have agreed on the price for natural gas and ATCO has therefore revised the UAFG unit price for natural gas to reflect this. We will share this confidential information with the ERA once the agreement is finalised. The UAFG tender was highly competitive, delivering a price reduction that will benefit all customers.

[121] For example - *DEL Enters Collaboration Agreement with ATCO Gas Australia* - https://deloreancorporation.com.au/announcements/

While the majority of UAFG will be purchased as Natural Gas, in accordance with ATCO's renewable gas strategy, a portion of UAFG will be replaced with biomethane to support ATCO in achieving emission reduction targets. Over the course of AA6, [redacted] is anticipated to be available for us to purchase. Based on currently available commercial information, we anticipates purchasing this percentage of biomethane at a slightly higher unit rate of [redacted] compared to natural gas at [redacted] Over AA6, the additional cost of procuring biomethane in lieu of natural gas for [redacted]

Further, ATCO submits that this opex meets the regulatory test in NGR 91. This rule now expressly requires an assessment of the National Gas Objective that incorporates emissions reductions, which was not considered at the time of the Draft Decision.

ATCO has demonstrated within the '*Renewable Gas Injection point - UAFG - Business Case*' (*see Attachment 07.105.00*) - that the benefits of this project (value of associated emissions reduction) significantly outweigh the additional cost.

ATCO considers this achieves the lowest sustainable cost in a manner consistent with achieving the objective of being in the long-term interests of gas consumers, not just in respect of price, quality, safety, reliability, and security of supply, but also to achieve targets that will reduce, or likely to contribute to reducing, greenhouse gas emissions. The procurement of approximately 12% of UAFG as biomethane is expected to enable ATCO to achieve the objective outlined in our Sustainability Strategy, to reduce emissions (scope 1) to below 30% below 2020 levels by 2030. This target is also in alignment with the Australian Government emissions reduction target of 43% below 2005 levels by 2030, as set out in the AEMC targets statement. Further justification is provided in attachment 07.105.00.

ATCO REVISED PROPOSAL

Our revised UAFG opex for AA6 is outlined in Table 8.47.

Table 8.47: ATCO's proposed vs ERA revised UAFG opex ($M real as at 31 December 2023)

	2025	2026	2027	2028	2029	AA6 TOTAL
UAFG rate (%)	1.81	1.78	1.74	1.73	1.72	-
Total consumption (TJ) (excludes UAFG)	28,340	28,299	28,594	28,392	28,199	141,823
ATCO proposed UAFG opex	**6.0**	**5.9**	**5.9**	**5.9**	**6.0**	**29.6**

8.12 ATCO'S RESPONSE: ERA REQUIRED AMENDMENT 5.7

ERA REQUIRED AMENDMENT 5.7:

ATCO must amend its access arrangement information to revise its AA6 ancillary services operating expenditure to $19.6 million ($ real as at 31 December 2023).

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

We do not accept the ERA's Draft Decision and have updated the ancillary service operating expenditure with 2023 information to $22.2 million.

8.12.1 BACKGROUND

ATCO does not accept the ERA's decision for ancillary services of $19.6 million and proposes an updated ancillary service opex of $22.2 million.

8.12.2 ATCO RESPONSE

ATCO has not accepted the ERA's decision on ancillary volumes and has reforecast AA6 ancillary services in Section 5.4.10. This is the best forecast possible for ancillary services volumes, as per NGR 74(2). Therefore, ATCO has applied these volumes to calculate the ancillary services opex in its response.

The ERA in summary noted that proposed unit rates were "*between 16 per cent and 60 per cent higher than recent unit rates incurred in 2022 for these services and has [therefore] reduced the costs for these services.*"

ERA has used the 2022 RIN data to ascertain the real cost of ancillary services and thereon determined the most recent available cost unit rates for each service. These values were then converted into 2023 dollars to calculate the total cost of ancillary services of $19.6 million.

8.12.2.1 2022 RIN DATA

The 2022 RIN data that ERA referenced only represent the direct cost. It did not include all the indirect costs of providing these services such as scheduling, liaison with retailers, or the provision of infrastructure such as IT systems.

Unit rates from 2022 are not reflective of current costs to provide the services. Contracts for some services have been renewed resulting in real cost increases caused by the difficulty in recruiting staff to provide the services by contractors. Contracts for some services are still being renegotiated, and although final rates were not available in time for this response, they are likely to result in real cost increases. These likely but unknown cost increases have not been included in the calculation of the proposed tariff rates in this revised proposal.

8.12.2.2 2023 RIN DATA

ATCO has recalculated the unit rate costs of ancillary services based on 2023 ancillary services costs provided to the ERA in the 2023 Regulatory Information Notice (RIN) data. These costs now include:

- Direct costs of operations personnel and contractors providing the services.
- An allocation of the Commercial Services costs, which provides liaison with retailers.
- The cost of locking devices for the apply meter lock service.
- An allocation of overheads at the rate of 15%. Overheads were applied to direct costs, including the Commercial Services team costs, which were to cover management, scheduling, and other infrastructure costs (such as IT and vehicle running not directly attributed to the services). Note, these costs in the 2023 RIN were reallocated to ancillary services costs from other areas of opex in the 2023 RIN data.
- Known real cost increases due to contract renegotiation.

The ERA has determined a unit rate of $954.87 ($ real as at 31 December 2023) for the permanent disconnection reference service in AA6. The ERA has used the two-year average of the 2020 and 2021 years to calculate the unit rate for permanent disconnection. The ERA's methodology to derive the unit rate (and the resultant unit rate of $954.87) does not result in a reasonable forecast of the AA6 costs of delivering this service. As discussed above, ATCO proposes to apply the 2023 actual rates, that truly represent the unit rates for future periods, to calculate the unit rates for all ancillary reference services including permanent disconnection for AA6.

ATCO has provided the recalculation of these unit rates to the ERA in (*see confidential Attachment 06.102)*.

ATCO REVISED PROPOSAL

Table 8.48: Ancillary Services, AA6 Forecast Opex ($M real as at 31 December 2023)

OPEX	2025	2026	2027	2028	2029	TOTAL
Applying a meter lock	0.4	0.4	0.4	0.4	0.4	2.0
Removing a meter lock	0.2	0.2	0.2	0.2	0.2	1.2
Deregistering a delivery point	0.3	0.3	0.3	0.3	0.3	1.6
Disconnecting a delivery point	0.3	0.3	0.3	0.3	0.3	1.5
Reconnecting a delivery point	0.6	0.6	0.6	0.6	0.6	3.1
Special meter reading	1.0	1.0	1.0	1.0	1.0	5.1
Permanent disconnection	1.5	1.5	1.5	1.6	1.6	7.7
TOTAL	**4.3**	**4.4**	**4.4**	**4.5**	**4.6**	**22.2**

8.13 ATCO'S REVISED AA6 OPEX FORECAST

Table 8.49: AA6 Forecast Opex ($M real as at 31 December 2023)

OPEX CATEGORY	ATCO ORIGINAL PROPOSAL	ERA DRAFT DECISION	ATCO REVISED PROPOSAL
Base year	312.6	253.5	332.2
Recurrent step changes	22.5	5.1	27.6
Non-recurrent step changes	40.3	9.3	11.0
Output growth escalation	10.4	14.0	9.3
Input cost escalation	12.4	4.1	9.6
Sub-total network, corporate & IT	**398.1**	**286.0**	**389.8**
UAFG	30.8	31.8	29.6
Ancillary services	27.1	19.6	22.2
TOTAL	**455.9**	**337.4**	**441.6**

9. WORKING CAPITAL

9.1 INTRODUCTION

This chapter outlines the ERA's Draft Decision and ATCO's response regarding working capital.

The ERA accepted ATCO's proposed method of calculating working capital but required it be amended to be consistent with other elements of its Draft Decision. The ERA also requested we consider 2023 inventory information.

9.2 SUMMARY OF THE ERA'S DRAFT DECISION

In their Draft Decision, the ERA confirmed ATCO's proposed method of calculating working capital. For the purposes of its Draft Decision the ERA accepted the working capital parameters proposed by ATCO. However, the ERA requested the level of 2023 inventory be provided to assist the ERA in its final decision regarding working capital.

The ERA amended the working capital calculation to be consistent with other elements of its Draft Decision as shown in Table 9.1.

Table 9.1: ERA's Draft decision working capital calculation for AA6

RETURN ON WORKING CAPITAL	2025	2026	2027	2028	2029
Opening working capital ($million nominal)	23.0	30.2	33.2	34.9	36.7
WACC (% nominal)	7.33%	7.33%	7.33%	7.33%	7.33%
Return on working capital ($million nominal)	1.7	2.2	2.4	2.6	2.7
Deflator to $real 2023	0.952	0.928	0.916	0.883	0.862
Return on working capital ($million real 2023)	1.6	2.1	2.2	2.3	2.3

The ERA proposed the following amendment:

- **REQUIRED AMENDMENT 5.8**: ATCO must amend its access arrangement information to revise its AA6 return on working capital to $8.7 million ($ real as at 31 December 2023)

9.1 ATCO'S RESPONSE: ERA REQUIRED AMENDMENT 5.8

ERA REQUIRED AMENDMENT 5.8:

ATCO must amend its access arrangement information to revise its AA6 return on working capital to $8.7 million ($ real as at 31 December 2023).

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

ATCO does not accept the ERA's revised working capital amendment. We have revised our working capital requirement so that it aligns with revised input values in this Revised Plan, such as the values of revenue and expenses. ATCO has provided the 2023 inventory parameters requested in the ERA's Draft Decision.

ATCO'S RESPONSE

The ERA noted the requirement for working capital in its Draft Decision.

> *"The requirement to maintain a stock of funds arises from the timing misalignment (on average) between incurring the costs of providing services and recovering the revenues associated with those services. In addition, a stock of materials is held to allow the efficient and timely provision of services. Therefore, the cost of working capital represents the efficient costs of a business that receives revenue at a different time than when it incurs costs."*[122]

ATCO has amended its calculation of working capital to be consistent with other elements of its response to the ERA's Draft Decision.

We have also provided the value of inventory as at December 31, 2023, and reviewed the inventory percent parameter used in the working capital calculation. The 2023 inventory parameter, year-end inventory as a percent of capex for 2023, is 2.42% shown in Table 9.2. Due to the minor variation, we have not amended the parameter used in the working capital calculation.

Table 9.2: Working capital inventory parameters ($ million nominal)

	2019	2020	2021	2022	2023
Year-end inventory value	1.42	1.52	1.82	1.84	1.97
Actual reference service Capex	72.0	61.6	74.6	81.3	81.5
Inventory as a % of capex	**1.97%**	**2.46%**	**2.44%**	**2.26%**	**2.42%**

The opening working capital value on 1 January 2025 has been updated to the nominal dollar value used in the latest available tariff variation tariff model, 1 January 2024. This method of setting the opening working capital value is consistent with the method in our original proposal.

The amended working capital calculation is shown in Table 9.3.

Table 9.3: Return on working capital AA6

RETURN ON WORKING CAPITAL	2025	2026	2027	2028	2029
Opening working capital ($millions)	23.0	37.6	39.7	42.8	44.5
WACC (% nominal)	7.33%	7.33%	7.33%	7.33%	7.33%

[122] ERA, Draft Decision on revisions to the access arrangement for the Mid-West and South-West Gas Distribution Systems – Attachment 5: Operating expenditure, Table 5.25, page 31.

RETURN ON WORKING CAPITAL	2025	2026	2027	2028	2029
Return on working capital ($millions nominal)	1.7	2.8	2.9	3.1	3.3
Deflator to $real 2023	0.940	0.917	0.894	0.872	0.851
Return on working capital ($million real 2023)	1.6	2.5	2.6	2.7	2.8

10. DEPRECIATION

CHAPTER HIGHLIGHTS

1. ATCO has retained the methods set out in the 2025-29 Plan to calculate the base depreciation allowance but updated the amounts to reflect the expenditures detailed in this Revised Plan.
2. ATCO has revised its approach to modelling the amount of accelerated depreciation in response to the ERA's Draft Decision and associated assessment by Frontier Economics.
3. In this 2025-29 Revised Plan we are proposing $87.2 million of accelerated depreciation in AA6 to manage the potential for asset stranding risk.

10.1 INTRODUCTION

This chapter outlines the ERA's Draft Decision and ATCO's response regarding the base depreciation and accelerated depreciation allowances.

We have maintained our approach to calculating the base depreciation allowance, continuing to adopt a straight-line method (i.e., a current cost accounting approach) utilising the economic lives detailed in the 2025-29 Plan.

Depreciation of the capital base is one component of the total revenue allowing for the recovery of approved capex over time. The ERA states that *for depreciation, consideration of a longer term perspective is required to promote the long-term interests of consumers of gas networks in the presence of decarbonisation*.[123]

We have included more information on our approach to determine the amount of accelerated depreciation and amended the supporting modelling in response to the ERA's Draft Decision and associated assessment by Frontier Economics.

10.2 STAKEHOLDER FEEDBACK

Table 10.1 summarises the feedback received from our stakeholders and our respective responses.

Table 10.1: Consideration of stakeholder feedback on the Accelerated Depreciation Forecast

STAKEHOLDER FEEDBACK	OUR RESPONSE
In response to our 2025-29 Plan, the ERA received 12 public submissions in response to their Issues Paper. • Submissions from AGL, Origin Energy, the WA Council of Social Service	ATCO notes the response from AGL and agrees that at this time of market and industry uncertainty it is appropriate to accelerate depreciation. In our Draft Decision Response we have proposed $87.2 million over the next 5 years of AA6, with

[123] ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 6: Depreciation, 24 April 2024, page iii

STAKEHOLDER FEEDBACK	OUR RESPONSE
(WACOSS), the WA Expert Consumer Panel, Alinta Energy, Kleenheat, Synergy and Stewart Lee addressed our proposal to provide for accelerated depreciation in AA6. • Concerns and feedback were raised in relation to the impact on customers, especially with the price increases due to inflation and cost of living pressures. • There were divergent views regarding the application of accelerated depreciation if it should be provided and disagreement whether the inclusion is justified. • There was general support about the concept of accelerated depreciation, and it was noted that the AER and the ERA has accepted levels of depreciation. Interestingly, acceptance of accelerated depreciation varied in methodology and jurisdiction. • The concept of future risk was a key discussion point within the submission, with variations across respondents, however most acknowledged that asset stranding risk is real in the right scenario, however this should be justified through a robust model that addresses why accelerated depreciation is justified and how best to apply it. • There was general consensus that the future is uncertain, with some feedback acknowledging that the most likely scenario will be Electricity Dominates and the least likely scenario being Natural Gas Retained.	the ability to reassess with updated data and likely embedded government policy at the beginning of AA7 in 2030. The ERA acknowledges that *accelerated depreciation may be an imperfect solution*[124] and ATCO are cognisant of the impact on customers by applying a level of accelerated depreciation. As per section 10.5.8, the impact on an average residential customer is $20 annually. However, the *ERA considers that while ATCO may recover its capital sooner than it expected…it is also unable to earn the rate of return on returned capital (that is, the depreciated capital), which is a future saving for customers*…as there is *no double counting of depreciation*[125]. While our regulatory regime does provide for opportunity to recover costs, the ERA acknowledges that it *does not eliminate ATCO's risk by guaranteeing revenue recovery* and that *accelerated depreciation can be used as a tool to help attain the National Gas Objective to ensure the safe and reliable use of the network for remaining customers such that their appliance investments are not stranded*[126]. ATCO must ensure we operate a sustainable, safe, reliable, and cost effective natural gas service with this objective driving our investment strategy in AA6. Reducing the economic life of assets does bring forward depreciation, which we analysed as part of this current analysis and that our model (*see Attachment 10.101*) has the ability to adjust. This can be part of a combination to ensure we are deriving the most efficient forecast available. As per the ERA expectation, we will further monitor and provide regular updates regarding network utilisation throughout AA6 and into future periods[127]. We are not proposing to shorten asset lives in AA6, however the level of accelerated depreciation we are proposing allows for further adjustment in AA7. ATCO has shown in section 10.5.8 that a considerable stranding risk is evident in two of four scenarios. Section 10.5.8.1 provides the results of the analysis against the four scenarios. ATCO agree with ECP that a smooth transition between 2024 and 2025 is best for customers. ECP recommend the ERA re-

[124] ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 6: Depreciation, 24 April 2024, paragraph 76, page 17.

[125] ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 6: Depreciation, 24 April 2024, paragraph 69, page 16

[126] ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 6: Depreciation, 24 April 2024, paragraph 71, page 16 and paragraph 75, page 17 respectively.

[127] ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 6: Depreciation, 24 April 2024, paragraph 85, page 19

STAKEHOLDER FEEDBACK	OUR RESPONSE
	profile this to recover more in the latter years of AA6. This will have limited effect due to the effect of smoothing tariffs to set the price path over AA6, which is an output from the ERA PTRM model. The ERA acknowledged that accelerated depreciation *is a reasonable regulatory tool to manage the potential for reducing levels of future customer demand.*[128] In section 10.5.8, ATCO demonstrates that a considerable stranding risk is evident in two of four scenarios. Our response to the future uncertainty is a measured response that can be adjusted at the next access arrangement review to reflect updated information on the energy transition. Our response below provides more information to assist stakeholders' evaluation of our revised proposal.

10.3 SUMMARY OF THE ERA'S DRAFT DECISION

In the Draft Decision, the ERA accepted our approach to calculate the base level of depreciation, which is consistent with our existing depreciation method. However, due to updates in other components of our AA6 submission (such as forecast capex), the amounts calculated by the ERA for base level depreciation are different to the amounts we are proposing in our Draft Decision response.

The ERA did not accept our proposed $80 million for accelerated depreciation. Although the ERA considers that "*accelerated depreciation is a reasonable regulatory tool to manage the potential for reducing levels of future customer demand*"[129], they did not agree that ATCO had "*justified its proposed amounts for AA6*"[130]. The main contention was regarding the "*modelling methodology and approach, along with how the model was implemented and the resulting outcomes*"[131].

The ERA proposed the following amendments:

- **REQUIRED AMENDMENT 6.1:** ATCO must amend the forecast depreciation of the capital base for AA6 to $347.3 million ($real as at 31 December 2023). The yearly values for each year of the access arrangement period are set out in [Table 10.2].
- **REQUIRED AMENDMENT 6.2:** ATCO to remove its proposed accelerated depreciation.

[128] ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 6: Depreciation, 24 April 2024, paragraph 98

[129] ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 6: Depreciation, 24 April 2024, para 98

[130] ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 6: Depreciation, 24 April 2024, para 99

[131] ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 6: Depreciation, 24 April 2024, para 103

Table 10.2: ERA's Draft Decision for AA6[132] base regulatory depreciation ($M real as at December 2023)

ASSET CATEGORIES	2025	2026	2027	2028	2029	TOTAL
High Pressure Mains - Steel	4.3	4.4	4.4	4.5	4.5	**22.1**
High Pressure Mains - PE	(0.1)	0.1	0.1	0.1	0.1	**0.2**
Medium Pressure Mains	7.0	7.0	7.0	7.0	7.0	**35.2**
Medium / Low Pressure Mains	14.7	15.3	15.9	16.5	17.2	**79.5**
Low Pressure Mains	1.7	1.7	1.7	1.7	1.7	**8.4**
Regulators	1.6	1.7	1.0	1.0	1.0	**6.3**
Secondary Gate Stations	(1.3)	0.2	0.2	0.2	0.2	**(0.6)**
Buildings	1.0	1.1	1.2	1.2	1.2	**5.7**
Meter and Services Pipes	28.7	29.1	29.7	29.8	29.9	**147.2**
Equipment & Vehicles	1.0	1.0	1.1	1.0	0.9	**5.1**
Vehicle	1.6	2.0	1.9	1.9	1.9	**9.2**
Information Technology	(0.3)	5.7	6.7	7.0	5.6	**24.8**
Telemetry and Monitoring	0.6	0.7	0.8	1.0	1.0	**4.1**
Equity Raising Cost	0.0	0.0	0.0	0.0	0.0	**0.1**
SUB-TOTAL: Straight line Depreciation	**60.6**	**70.0**	**71.6**	**72.8**	**72.4**	**347.3**
Accelerated depreciation	0.0	0.0	0.0	0.0	0.0	**0.0**
BASE DEPRECIATION	**60.6**	**70.0**	**71.6**	**72.8**	**72.4**	**347.3**

[132] ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 6: Depreciation, 24 April 2024, Tables 6.4, 6.5, pages 10 and 31 respectively.

10.4 ATCO'S RESPONSE: BASE LEVEL DEPRECIATION

10.4.1 ERA REQUIRED AMENDMENT 6.1

ERA REQUIRED AMENDMENT 6.1:

ATCO must amend the forecast depreciation of the capital base for AA6 to $347.3 million (real as at 31 December 2023). The yearly values for each year of the access arrangement period are set out in Table 6.5 of this Draft Decision attachment.

ATCO GAS AUSTRALIA RESPONSE: ACCEPT WITH MODIFICATIONS

- ERA accepted our approach to calculate the base level of depreciation, which is consistent with our existing approach.
- ATCO has proposed a revised level of capex for the remainder of AA5 and for AA6.
- The revised forecast of our base level of depreciation is $371.2 million.

10.4.2 ATCO REVISED PROPOSAL

Base level depreciation is calculated using the forecast opening capital base at the beginning of AA6, plus the forecast capex in AA6. This is used to calculate the equivalent forecast depreciation included in the AA6 target revenue building block approach.

ATCO has calculated the forecast base level depreciation using the updated opening capital base and the revised levels of capex in this Revised Plan.

Consistent with the required amendments in the Draft Decision, ATCO has recalculated total forecast base depreciation for AA6 as $371.2 million. Table 10.3 provides the breakdown of base level depreciation per asset class annually over AA6.

Table 10.3: ATCO's Draft Decision response for AA6 base level depreciation per asset category ($ million real as at 31 December 2023)

ASSET CATEGORIES	2025	2026	2027	2028	2029	TOTAL
High pressure mains - steel	4.3	4.4	4.4	4.5	4.5	22.1
High pressure mains - PE	-0.1	0.1	0.1	0.1	0.1	0.2
Medium pressure mains	7.0	7.0	7.0	7.0	7.0	35.0
Medium/low pressure mains	14.6	15.3	15.9	16.6	17.2	79.6
Low pressure mains	1.7	1.7	1.7	1.7	1.7	8.4
Regulators	1.6	1.7	1.0	1.0	1.1	6.3
Secondary gate stations	-1.3	0.2	0.2	0.3	0.3	-0.3
Buildings	0.9	1.0	1.1	1.1	1.1	5.2
Meter and services pipes	28.7	29.0	29.5	29.4	29.4	145.9

ASSET CATEGORIES	2025	2026	2027	2028	2029	TOTAL
Equipment and vehicles	1.0	1.0	1.0	1.0	0.9	4.9
Vehicles	1.5	1.9	1.8	1.8	1.8	8.7
Information technology	-0.1	9.1	13.7	14.1	13.5	50.3
Telemetry and monitoring	0.6	0.7	1.0	1.2	1.3	4.7
Full retail contestability	-0.2	0.0	0.0	0.0	0.0	-0.2
Land	0.0	0.0	0.0	0.0	0.0	0.0
Equity raising costs	0.0	0.0	0.0	0.0	0.0	0.1
TOTAL DEPRECIATION	**60.2**	**72.9**	**78.4**	**79.7**	**80.0**	**371.2**

10.5 ATCO'S RESPONSE: ACCELERATED DEPRECIATION

10.5.1 ERA REQUIRED AMENDMENT 6.2

ERA REQUIRED AMENDMENT 6.2:

ATCO to remove its proposed accelerated depreciation.

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

- ATCO does not accept the ERA amendment in the Draft Decision to remove proposed accelerated depreciation.
- ATCO has revised the accelerated depreciation model according to the requirements of the Draft Decision.
- ATCO demonstrates that a significant asset stranding risk is apparent in two of the four Future of Gas scenarios.
- ATCO has developed a brought forward depreciation schedule, which benefits the long-term interest of customers and reduces the risk of asset stranding.
- The revised forecast of our accelerated depreciation is $87.2 million.
- The total depreciation for AA6, including accelerated depreciation is $458.4 million

10.5.2 BACKGROUND

ATCO does not accept the Draft Decision to remove the proposed accelerated depreciation of $80 million. We note that the ERA accepted the *concept* of accelerated depreciation.[133] On the suitability of accelerated depreciation the ERA stated:

[133] ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 6: Depreciation, 24 April 2024, para 98

> *"in an environment of uncertainty, accelerated depreciation can be used as a tool to help attain the National Gas Objective to ensure the safe and reliable use of the network for remaining customers such that their appliance investments are not stranded*[134]*. "*

However, the ERA did not accept our proposed amount of accelerated depreciation due to concerns around the methodology adopted in our original accelerated depreciation model, and the requirement for more information. We have addressed these requirements in our response.

The ERA, and their advisor Frontier Economics, noted some specific areas of concern and these are outlined in

Table 10.5 and Table 10.4. Further, we have presented our justification of why we need to bring forward depreciation in AA6 due to the increased risk of asset stranding in the future.

We are proposing a level of accelerated depreciation in AA6 of $87.2 million. This is in addition to the base level of depreciation of $371.2 million, corresponding to total AA6 depreciation of $458.4 million. The following sections provide further detail of our revised methodology and justification of our changes including our revised the accelerated depreciation model according to the requirements of the Draft Decision.

The Draft Decision highlighted several areas that were applicable to base depreciation and any brought-forward (or accelerated) depreciation in terms of applicability to the NGR. Below confirms these aspects in relation to our response to the Draft Decision:

- In relation to contribution to the achievement of the National Gas Objective (NGL ss28(1) and 23), the proposed depreciation schedule will:
  - Promote efficient investment in, and efficient operation and use of, the network (e.g., through price signals)
  - be in the long term interests of consumers, including in respect of:
    - the allocation of costs between current and future consumers (e.g., through reducing the rate of return paid by future customers).
    - avoiding or reducing price shocks; and
    - ensuring the safe and reliable use of the network for remaining customers such that their appliance investments are not stranded.
- The modelling (and the inputs into it) is based on best forecasts or estimates possible in the circumstances (NGR 74).

10.5.3 FUTURE UNCERTAINTY

We expect strong demand for the gas distribution network in AA6. This is supported by the ERA's analysis and stakeholder feedback that shows customer support for the continued use of gas over the short to medium term. Over the longer term however, there is in uncertainty around the future of distributed natural gas. This uncertainty is being driven by:

134 ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 6: Depreciation, 24 April 2024, para 75

- The introduction of federal, state, and corporate targets and policies to drive emissions reduction over time.
- Improvements in electrical appliances and technologies that can be used as substitutes for natural gas.
- Changes in consumer preferences and attitudes towards decarbonisation.

GOVERNMENT POLICIES

Government policies at local, state, and federal levels are now progressively aimed at reduced carbon emissions. The development of these policies is creating uncertainty in the longer term:

- Focus on electrification policies: Emissions reduction in gas networks needs the same priority and level of supportive policies as renewable electricity generation and storage technologies.
- No renewable gas target policy: While it is an important step to integrate emissions reduction into the decision making of energy market bodies, its effect could be magnified through the development of a renewable gas target.
- Slow adoption of the renewable gases changes: The Western Australian Government is yet to adopt the changes to the regulatory framework that expands it to incorporate renewable gases that has already been adopted in other Australian jurisdictions subject to the National Gas Law.

FEDERAL GOVERNMENT FUTURE OF GAS STRATEGY

On 9 May 2024, the Federal Government released the Future Gas Strategy[135], which *sets out the Australian Government's approach to gas policy* on the way to net zero. The Strategy contributes to the uncertainty around the future of distributed natural gas in the long term.

The principles of the strategy indicate that gas will remain an important source of energy through to 2050 and play a critical role in transitioning to renewable energy. One of the key principles of the strategy is to ensure maintenance of gas supplies and for households to continue to have a choice over how their energy needs are met. The strategy notes that household gas consumption is relatively stable and that barriers to electrification exist, especially for low-income households. This is combined with the acknowledgement that "forecasting future gas consumption is difficult due to a wide range of variables that affect demand for gas"[136].

However, there is also clear direction in the Strategy *that a key decarbonisation strategy for the Australian Economy is electrification of homes, business, and industry,* which *should be expediated wherever possible*.

As the strategy indicates, future customers may have less ability to control their energy transition pathway, therefore the utilisation of accelerated depreciation will assist in balancing this risk across all customers. It is the view of the ERA that *waiting until the realisation of gas demand declines could leave*

135 Australian Government (2024) "Future Gas Strategy", Commonwealth of Australia, accessed on 16 May 2024, available at: https://www.industry.gov.au/publications/future-gas-strategy

136 Australian Government (2024) "Future Gas Strategy", Commonwealth of Australia, accessed on 16 May 2024, available at: https://www.industry.gov.au/publications/future-gas-strategy

it too late for networks, consumers, and regulators to respond if the window for capital recovery is lost due to inaction[137].

No details are contained in the strategy on how the principles will be achieved (other than certain 'immediate actions') nor does it include specific detail regarding any future amendments to policy or legislation. Therefore, until there is concrete evidence on the policy direction flowing from the Future Gas strategy, accelerated depreciation is an appropriate tool to help move risk away from future customers.

10.5.4 REGULATORY CONSIDERATIONS FOR ACCELERATED DEPRECIATION

The concept of flexibility in regulatory depreciation for gas and electricity networks was highlighted back in 2015 by Garth Crawford, acknowledging that a need exists for *networks to move to more flexible depreciation approaches that will protect consumers from future regulatory failure arising from fundamental changes in energy markets*[138].

The 2021 ERA Final Decision on the Dampier to Bunbury Natural Gas Pipeline accelerated the depreciation on the pipeline by adjusting the depreciation schedules to reflect economic lives capped at 2063. The recent Goldfields Gas Pipelines Access Arrangement revisions submission proposes a depreciation approach to cap asset lives to 2066. This proposal is currently under consideration by the ERA.

The 2023 AER final decision on Regulatory Depreciation for Australian Gas Networks (Vic & Albury) stated that:

> *"where [asset] stranding occurs, accelerated depreciation both in the [short] period and subsequent periods generally extends the life of the network because the associated higher revenue and tariffs in the shorter term are not enough to strand the asset and this is followed by lower tariffs due to the reduction to the capital base*[139].

The AER also acknowledges that employing a level of accelerated depreciation achieves a balance between what consumers pay now to mitigate future price increases, and the risk of greater price increases in the future if mitigation is delayed[140].

More recently in Jemena's Draft Plan, stakeholder feedback from residential and small business groups were in favour of a level of accelerated depreciation as to *not burden future generations*[141].

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137 ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 6: Depreciation, 24 April 2024, para 82.

138 Crawford, G. (2015), "Future Network Cost Recovery and Depreciation - Regulatory and policy options", published by Energy Networks Australia, Available at: https://www.energynetworks.com.au/resources/fact-sheets/future-network-cost-recovery-and-depreciation-regulatory-and-policy-options/

139 AER (2023), "AER - Final decision - AGN 2023–28 - Attachment 4 Regulatory depreciation - June 2023", Available here: https://www.aer.gov.au/documents/aer-final-decision-agn-2023-28-attachment-4-regulatory-depreciation-june-2023

140 AER (2023), "AER - Final decision - AusNet 2023–28 - Attachment 4 Regulatory depreciation - June 2023", accessed on 23 May 2024, available here: https://www.aer.gov.au/documents/aer-final-decision-ausnet-2023-28-attachment-4-regulatory-depreciation-june-2023

141 Jemena Website (2024), "A Guide to our Draft 2025 Plan", page 30, accessed on 22 May 2024, available at: https://yournetwork.jemena.com.au/guide-our-draft-2025-plan

Flexibility in the depreciation schedule in relation to compliance with NGR 89 is compliant as the proposed depreciation schedule is designed to:

- result in tariff variations over time that promote efficient growth in the market for reference services (NGR 89(1)(a)).
- result in each asset (or asset group) being depreciated over its economic life (NGR 89(1)(b)) – we note there is discussion by the ERA in their 2021 final decision for DBP[142] about the meaning of "economic life" in NGR 89 – see in particular paragraphs [1354]-[1382] and [1463]-[1527].
- not result in any double-counting or over recovery (NGR 89(1)(d)) (noting that this is already accepted by the ERA in the Draft Decision).
- allow for ATCO's reasonable needs for cash flow to meet financing, non-capital, and other costs (NGR 89(1)(e)); and
- allow for flexibility from one access arrangement to the next (contemplated by NGR 89(1)(c) in relation to the adjustment of economic lives) as more information becomes available.

10.5.5 REVISED ACCELERATED DEPRECIATION PROPOSAL

We are proposing a level of accelerated depreciation in AA6 of $87.2 million. The inclusion of accelerated depreciation represents an increase in the revenue proposed for AA6 of 7%. In isolation, it accounts for an 8% increase in proposed AA6 tariffs for B3 customers. However, the inclusion of accelerated depreciation is in the long term interests of consumers (and consistent with the National Gas Objective) for a number of reasons, including:

- Providing greater certainty around ATCO's ability to recover its efficient costs incurred in providing services means that ATCO is in a better position to ensure safety, reliability, and security of supply going forward through avoiding the risk of asset stranding.
- Accelerated depreciation means the capital base is depreciated quicker, meaning that customers in the future pay lower tariffs as a result of both lower future depreciation and lower returns on capital due to a smaller future capital base.
- ATCO's proposed modelling approach avoids price shocks for consumers in the future, where costs may become spread over a smaller customer base. Incenta (*see Attachment 10.103*) concludes that the proposed model meets the requirements of the National Gas Rules where the outcomes caused by advancing depreciation by differing degrees can be tested (most notably, will result in assets only being depreciated once provided that appropriate checks are applied, as ATCO's modelling does).
- Our proposed approach (changing the depreciation profile rather than changing the underlying asset lives in the capital base) also provides flexibility and can be adjusted in each access arrangement to adapt to changing circumstances as required.

[142] ERA (2021), "Final decision on proposed revisions to the Dampier to Bunbury Natural Gas Pipeline access arrangement 2021 to 2025" accessed on 2 May 2025, available at: https://www.erawa.com.au/cproot/21855/2/PUBLIC---DBNGP---DBP---AA5-Final-Decision.PDF

10.5.6 MODELLING METHODOLOGY

In response to the Draft Decision, ATCO is providing additional information on the modelling methodology and assumptions that have been adopted to determine the amount of accelerated depreciation.

We have maintained the four scenarios detailed in the September 2023 submission and provide additional information on the scenarios and input assumptions in section 10.5.6.4

10.5.6.1 RECOMMENDED AREAS OF IMPROVEMENT

In the Draft Decision, the ERA and Frontier Economics highlighted improvements to the accelerated depreciation model to ensure that ATCO has properly justified the need to bring forward depreciation into AA6. Table 10.4 and

Table 10.5 outline the specific recommendations or concerns from Frontier Economics and the ERA respectively, along with a summary of ATCO's response.

Table 10.4: Frontier Economics recommendations[143] on ATCO's accelerated depreciation and our response

FRONTIER RECOMMENDATION	ATCO RESPONSE
Has the case for accelerated depreciation (AD) to promote cost recovery been established? Recommendation 1: In order to determine whether there is a high degree of confidence that costs will be recovered, for all four modelling scenarios, analysis should be undertaken to establish: • the extent to which ATCO would be unable to recover its costs in the absence of AD, and • if ATCO is unable to recover its costs in the absence of AD, the extent to which ATCO's cost recovery is improved as a result of the proposal AD.	Our revised model and analysis address this recommendation. Different cost recoveries per scenario are highlighted in the analysis Section 10.5.8, showing ATCO's regulated asset base after the point at which revenue generation is less than the cost of service leading to asset stranding risk in the Electricity Dominates and Energy Hybrid scenarios. Refer to revised model in attachment 10.101 as explained in the Acceleration Depreciation - ACIL Allen report (*see Attachment 10.102*). ATCO has provided a modelling guideline (with analysis) in attachment 10.104.

[143] Frontier Economics (2024), "ATCO MWSW GDS Accelerated Depreciation Modelling Review", accessed on 26 April 2024, available at: https://www.erawa.com.au/cproot/23996/2/GDS---ATCO---AA6---Frontier-Economics-Accelerated-depreciation-report.PDF

FRONTIER RECOMMENDATION	ATCO RESPONSE
Has the case for AD to promote efficient utilisation been established? Recommendation 2: For all four modelling scenarios, analysis should be undertaken to establish: • the extent to which inefficient utilisation of ATCO's assets would occur in the absence of AD, and • if inefficient utilisation of ATCO's assets would occur in the absence of AD, the extent to which efficiency of utilisation is improved as a result of the proposal AD. In our view this would require forecasting demand using the network prices modelled by ACIL Allen as inputs into the retail prices faced by customers.	Our revised model and analysis address this recommendation. Our analysis in Section 10.5.8 shows that employing AD in AA6 extends the point in time where cost recovery is insufficient to meet the cost of service and therefore the utilisation of the asset is inefficient. Refer to revised model in attachment 10.101 as explained in the Acceleration Depreciation - ACIL Allen report (*see Attachment 10.102*). ATCO has provided a modelling guideline (with analysis) in attachment 10.104.
Has the case for AD to ensure constant real tariffs been established? • *No recommendation*	Our revised model offers a different approach to constant real tariffs as outlined in Section 10.5.6. Our revision has removed the constant real tariff methodology and moved to demonstrating asset stranding risk under different scenarios and the effect of accelerated depreciation in reducing that risk. Refer to revised model in attachment 10.101 as explained in the Acceleration Depreciation - ACIL Allen report (attachment 10.102).
Has the case for taking action on AD <u>now</u> been established? Recommendation 3: Analysis should be undertaken to determine the effect of deferring action on AD in all scenarios. This analysis should not only compare outcomes from deferring action under a single scenario – such as the Electricity Dominates scenario. Rather, the analysis should recognise that there is risk to taking action on AD on the expectation of the Electricity Dominates scenario occurring, if in future it turns out that another scenario occurs.	Our revised model and analysis address this recommendation. Deferring accelerated depreciation to later access arrangements is a functionality in the model and we have employed this to analyse the effect on pricing. We have established that the effect of deferring accelerated depreciation, creates a larger burden on future customers and increases the cost recovery through future accelerated depreciation in later access arrangements and is not the preferred option. Refer to attachment 10.101 and attachment 10.104.

FRONTIER RECOMMENDATION	ATCO RESPONSE
Are there other modelling issues that need to be address? Recommendation 4: Our comments on inputs and assumptions should be considered, with changes to inputs and assumptions or justification of existing inputs and assumptions as appropriate.	Our revised model and analysis address this recommendation. ATCO has taken an approach to explain and justify the number of assumptions and methods taken in the model to produce a level of AD in AA6. Refer to attachment 10.104 and outlined generally in Section 10.5.6.

Table 10.5: ERA areas of concern[144] on ATCO's accelerated depreciation and our response

ERA	ATCO RESPONSE
Increased uncertainty of future demand *…changes potentially raise uncertainty as to the role of gas networks in the future where decarbonisation is pursued by governments and consumers.*	ATCO agrees. Uncertainty is driving discussion and decisiveness around the future of natural gas networks and the future role in the energy landscape.
Context and historical approach to the provision of accelerated depreciation *The future of gas transmission and distribution networks cannot be assumed to be the same given the differing exposures to demand factors, customer types and market, technological and regulatory forces now and into the future.*	ATCO agrees. Policy changes in terms of carbon abatement and global warming targets are expected to drive a change in the way we use the gas distribution system.
Operating environment for gas distribution networks *The speed of decarbonisation can affect how quickly arrangements need to change. A slow transition provides for the space and ability for learning to occur, where adjustments can be made as uncertainty becomes resolved through the passage of time and additional information. However, a sudden transition results in the absence of those advantages and creates little time to adjust with potentially higher volatility.*	ATCO agrees. This is the reason ATCO is proposing to adopt $87.2 million of accelerated depreciation in AA6 as it provides flexibility in AA7 and future access arrangements to decrease or increase cost recovery based on better information about future asset stranding risks.

144 Ibid, pages 10-32

ERA	ATCO RESPONSE

The National Gas Objective and the revenue and pricing principles
Other Australian regulators such as the Australian Energy Regulator have accepted that accelerated depreciation is consistent with the National Gas Objective in the Victorian gas distribution network decisions. The ERA has also accepted similar arguments for gas transmission networks in the 2021 Dampier to Bunbury Natural Gas Pipeline access arrangement decision.
	ATCO highlights that the National Gas Objective has recently adopted a new definition:
	…to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to:
	• price, quality, safety, reliability, and security of supply of natural gas; and
	• the achievement of targets set by a participating jurisdiction—
	  ○ for reducing Australia's greenhouse gas emissions; or
	  ○ that are likely to contribute to reducing Australia's greenhouse gas emissions.

Future network use *The ERA expects that ATCO will monitor and provide regular updates regarding network utilisation and disconnections throughout AA6 and beyond. This information will inform regulatory decision making in an uncertain environment.*	ATCO agrees. ATCO can monitor through the annual regulatory information notice process, the relevant updates in connections and disconnections - with the analysis of behind this data to inform future of gas analysis including levels of accelerated depreciation.
Prices for current and future customers *The ERA considers that levelised prices are more of a secondary consideration that is useful in providing a perspective beyond any one access arrangement determination but cannot be the dominant reason for accepting accelerated depreciation.*	ATCO has modified the approach to determining accelerated depreciation.
Regulatory flexibility *The ERA considers that the alteration of depreciation profiles from one access arrangement period to the next is a flexible approach that allows for adjustments if expectations are not realised. The ERA notes that a pure straight-line depreciation approach has no flexibility.*	ATCO agrees. This is the reason ATCO is proposing to add accelerated depreciation in AA6 as it provides flexibility in AA7 and future access arrangements to decrease or increase cost recovery based on better information about future asset stranding risks.
Stakeholder matters raised during consultation *The ERA notes that though stakeholders provided mixed views regarding whether accelerated depreciation should be provided, there was majority support about the concept. The main point of contention is whether or not ATCO has justified its proposed amounts for AA6*	ATCO agrees and has listened to stakeholder concerns. ATCO has modified our methodology to understand the 'baseline' asset stranding risk dependent on scenario. ATCO has tested these assumptions through sensitivity analysis in Section 10.8.5.3.

ERA	ATCO RESPONSE
Draft decision on accelerated depreciation *…the ERA considers that accelerated depreciation is a reasonable regulatory tool to manage the potential for reducing levels of future customer demand.*	ATCO agrees. Demand forecast changes are evident through the variations in the customer choice modelling completed by ACIL Allen. Refer to attachment 10.102.
Amount of accelerated depreciation *The ERA does not consider that ATCO's proposed amount is a robust estimate of accelerated depreciation. This is due to concerns about the modelling methodology and approach, along with how the model was implemented and the resulting outcomes.*	ATCO has modified the approach to calculating the accelerated depreciation with further explanation and analysis for the justification.
Methodology and approach *The ERA considers that ATCO's static modelling approach limits what conclusions can be drawn as outcomes are disconnected from the solutions that the model purports to find.*	ATCO agrees and has modified the model providing an iterative application to customer demand and pricing.
The S-Curve approach for customer switching *…the S-curve is constant across customers and scenarios, even though customer preferences are unlikely to be identical across customers, scenarios, or time.* *ATCO should consider the suggestions from Frontier.* *…the ERA notes that the S-curve switching parameters are a highly material part of the model, where small changes can drive large differences in outcomes and accordingly requires further analysis.*	ATCO has altered S-curves to reflect the differences per scenario. ATCO agrees that these are material to the modelling outcomes. ATCO has outlined further analysis of the assumptions and coefficients against each S-curve in attachment 10.104.
The reasonable opportunity to recover efficient costs *The ERA considers that ATCO has not sufficiently demonstrated that it would not have a reasonable opportunity to recover its costs but for the provision of its proposed accelerated depreciation amount in AA6.*	ATCO has provided justification that without accelerated depreciation, depending on the type of scenario, a level of asset stranding risk occurs, negating ATCO's ability to recover costs into the future.
Approach to levelised prices *To the extent that levelising prices is an appropriate method, the ERA prefers Incenta's approach. This is because the distinct customer categories make it inappropriate to target some weighted average which would result in actual customers facing levelised prices that were designed for a synthetic customer that does not exist.*	ATCO has altered the method of determining accelerated depreciation.

ERA	ATCO RESPONSE
Other matters (Para 131-Para137): • Rooftop Solar • Industrial customers • Appliance Choice • Stakeholder/ERA consultation • Initial customer demand position	ATCO and their expert consultants ACIL Allen have considered several changes to the model. Further detail creates a further dynamic modelling outcome, however further complexity in the model creates diminishing returns in terms of relevant outcomes. As a long forecast model, assumptions about customer choice have a greater impact in the long term (~20-40 years), however a smaller effect in the short term (~5-15 years). To address the matters raised by Frontier and the ERA, the model utilises sensitivities as proxies to account for items such as how 'rooftop solar systems' may affect customer gas demand. Refer Table 10.6 for further detail around specific modelling improvements.
Model implementation *Generally, the four scenarios chosen seemed appropriate, but reservations remain regarding the implementation of those scenarios. The ERA considers that there has been inadequate explanation of the default assumptions used in the models relied upon by ATCO and requires greater disclosure and documentation.*	ATCO agrees and has modified the model to be more intuitive including: • Single model for all scenarios • Dashboard to alter inputs and methodology (e.g., accelerated versus straight line, tilt function) • Provided a model use guideline that outlines further analysis of the inputs and assumptions to provide greater transparency on inputs and assumptions and generally how the model functions – refer attachment 10.104 • ACIL Allen revised report offers further information and justification regarding the asset stranding risk, cost recovery mechanism and level of accelerated depreciation – refer attachment 10.102.
Model Transparency *[Modelling inputs] require additional clarification, adjustments, and refinements from ATCO, especially considering how sensitive the model is to initial parameters.*	ATCO has now provided clarity on modelling inputs and the reasons chosen as well as how they have been implemented in the model. ATCO has outlined further analysis of the inputs and assumptions in attachment 10.104 and summarised in Section 10.5.7.

ERA	ATCO RESPONSE
Modelling sensitivity *The ERA considers that ATCO needs to provide greater detail and explanation of the most sensitive parameters as the absence of this information raises doubts as to the robustness of such estimates and the utility of the modelling undertaken.*	ATCO agrees and has modified the approach for modelling, justification, and explanation of assumptions.
Model robustness *The ERA considers that ATCO needs to clearly explain how the outcomes of the scenarios where increasing gas demand still results in accelerated depreciation is plausible. The absence of an explanation also raises doubts as to the robustness of such estimates and the utility of the modelling undertaken.*	ATCO agrees and has utilised the Draft Decision response to further detail explanation about the four scenarios, their impact on asset stranding risk and the cost recovery mechanism based on none or different levels accelerated depreciation.

10.5.6.2 REVISIONS TO THE MODELLING APPROACH

ATCO has updated its modelling approach in response to the Draft Decision. The model is referred to as the Future of Gas Model (FOGM) and is now a single MS excel model.

The modelling approach used in the updated model is similar to the previous version of the model, with a change in the method to calculate the proposed accelerated depreciation. Various assumptions and inputs to the scenarios are updated resulting in the scenarios behaving differently in some cases. We have detailed some of the changes below.

PREVIOUS METHODOLOGY

The previous version of the model was based around a customer choice modelling framework. Customer classes were developed using tariff classes and in the case of residential customers, historical usage data. Existing residential users were assigned to different appliance classes based on observed usage data. Potential new connections were also incorporated, with the number of potential new customers each year extrapolated based on historical new connections.

Appliance life was assumed to be an average of 15 years. The model assumes that 1/15th of each existing customer class faced a decision to either replace gas appliances or switch to electricity appliances each year. The cost of replacing gas appliances or switching to electricity (including gas disconnection and electricity connections costs) was converted to a present value (in the year in question).

The switching decision in each year was driven by applying the NPV associated with switching to a logic function (S-curve). As the NPV of the cost of switching moves more favourably towards electricity in a year, a greater proportion of customers in each class (of those facing a switching decision) choose to switch to electricity.

Potential new connections are handled in the same way except that the NPV of connecting excludes some of the cost of switching (for example, no gas disconnection costs) and includes the relative costs of connecting to both gas and electricity.

Accelerated depreciation was calculated for each scenario by determining a constant tariff (in real dollars) over the full life of the scenario. This approach allocated the recovery of sunk assets on an equitable basis to all existing and future customers, reflecting the uncertainty about future outcomes. The recommended accelerated depreciation was a mid-point between three of the four scenarios with the Hydrogen Future scenario being a relative outlier.

UPDATED METHODOLOGY

The updated approach is the same as the previous approach in relation to the consumer choice model. However, the scenario inputs have been updated for the most current information with respect to:

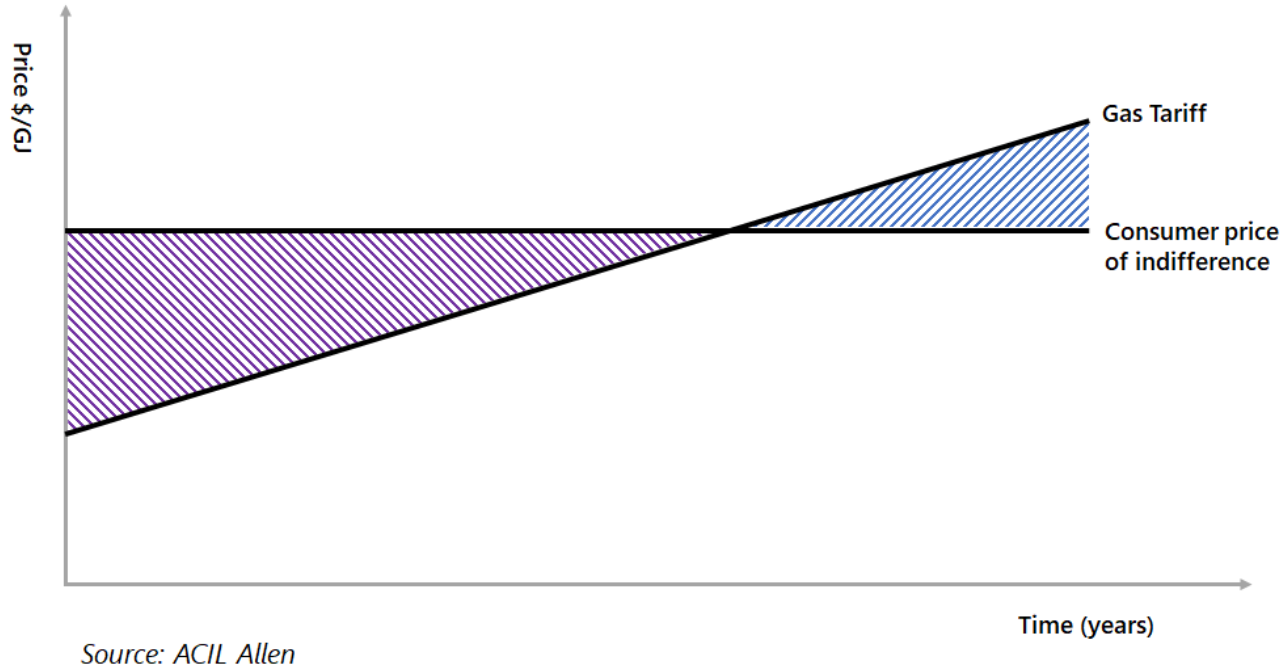
- Appliance costs and usage
- Connection and disconnection costs
- Projected electricity and gas prices.

In addition, rebates used in some of the scenarios are updated based on the underlying scenario characteristics.

Instead of using the constant real tariff approach to calculate accelerated depreciation, the revised approach combines a tilt function with a price cap on retail prices that is applied to bring forward some depreciation into earlier years while limiting retail prices in all years to the price cap. The tilt function brings forward some recovery of capital into the early years where there is room between the underlying gas price and the consumer's price of indifference, such that the gas supplier's customer base is not unduly cannibalised.

Figure 10.1 below provides an example of where rising gas tariffs (driven by the requirement to return capital through depreciation charges on a falling customer base) exceed the price that the gas supplier can charge because of competitive alternatives (electricity) available to the consumer.

Figure 10.1: Example of gas tariffs exceeding capacity to recover costs



Source: ACIL Allen

Applying the tilted accelerated depreciation across the full 50 years of the model allows the user to assess the impact on the RAB and the change to asset stranding risk at the end of the fifty years. The higher the tilt coefficient, the more depreciation is accelerated into the earlier years of the model.

The price cap used in each scenario has been calibrated to the first year that the NPV is positive in favour of connecting to electricity, for new customers potentially connecting to either gas or electricity.

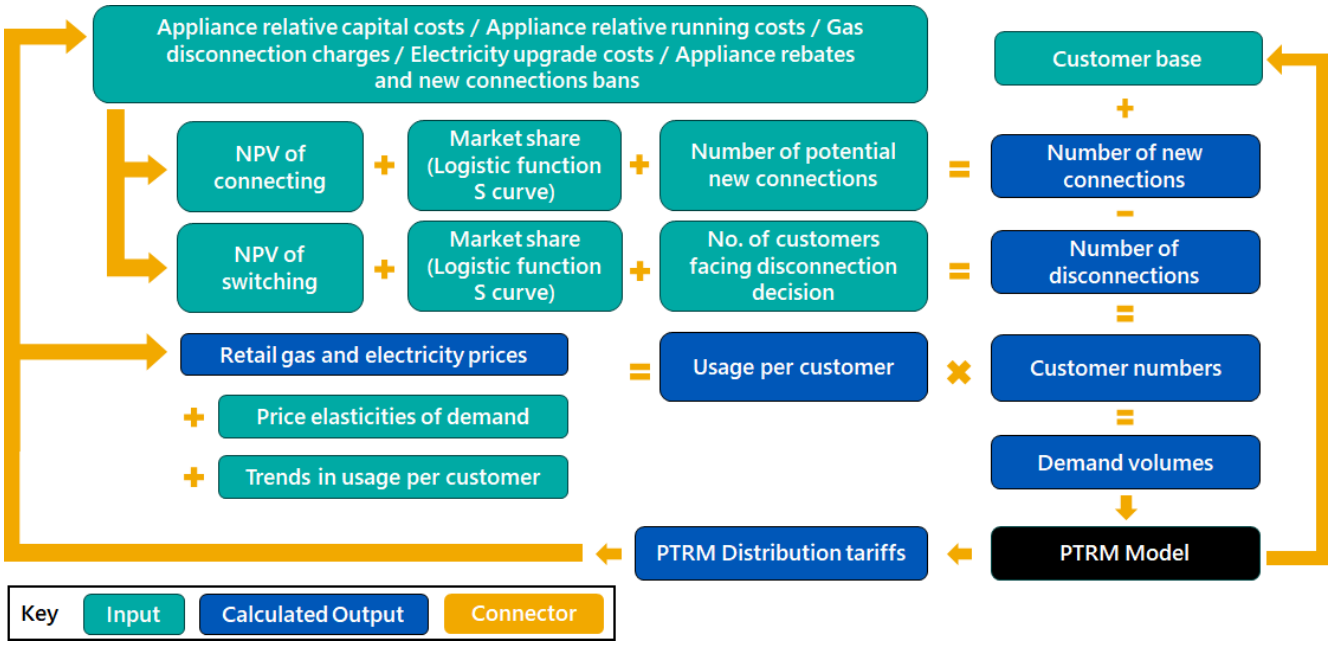
10.5.6.3 MODELLING ARCHITECTURE

Our approach to calculating the revised accelerated depreciation schedule includes the following:

- Develop the projected annual gas demands from 2025 to 2074 for the four separate scenarios
- Extract the current asset base, the remaining asset lives, and the proposed new assets expenditure and lives and opex associated with each of the four scenarios.
- Calculate the revenue and depreciation schedules associated with the underlying demand and expenditures under the four separate scenarios via an integrated model that links ACIL Allen modelling to the ATCO PTRM model.
- Apply an appropriate tilt factor to the straight line depreciation schedule to bring forward some depreciation into AA6.
- Apply a price cap to retail prices to limit prices to plausible levels.

The methodology is explained in attachment 10.102 and attachment 10.104. Figure 10.2 provides a visual overview of how the model works on a simplified basis.

Figure 10.2: Overview diagram of how the accelerated model operates



10.5.6.4 FUTURE OF GAS SCENARIOS

In our original submission, we engaged ACIL Allen to develop a set of plausible future scenarios for the Western Australian electricity and gas sectors, with a specific focus on reticulated gas in the ATCO distribution network. This reticulated gas could include natural gas or future energy sources such as biomethane, hydrogen, or other lower emission gases.

ATCO developed the four future of gas scenarios in conjunction with stakeholders in November 2022. We held two workshops that were attended by representatives of retailers and government. The sessions covered:

- **Session 1:** The first session focussed on the environment in which ATCO operates. The session commenced with an environmental scan to assess key uncertainties. Linkages between uncertainties were identified and grouped to establish common themes. The final part of the session involved reducing the four themes to the most plausible and consistent set of scenarios.
- **Session 2:** The second session was used to confirm the proposed scenarios and then to consider the detailed design of the scenarios, including assumptions, key changes between each scenario and the likely outcomes in terms of economics, regulation, policy, and demand for use of the ATCO distribution network.

The four scenarios were designed to outline possible trajectories for the Western Australian gas sector, considering market, policy, environmental, technology and industrial factors. These scenarios shape the modelling inputs regarding gas usage, costs, appliance switching, and other factors extending beyond 2050.

In April 2023 we published the scenario descriptions as part of our Draft Plan to be transparent on the detail of each scenario and obtain feedback prior to finalising our approach to accelerated depreciation.

We have maintained these scenarios in response to the Draft Decision because their design remains plausible. If anything, due to the changing nature of policy and discussion around transition and sustainability targets, it seems that retaining gas as it is currently used is the least likely outcome among the scenarios.

The ERA notes that *generally, the four scenarios chosen seemed appropriate, but reservations remain regarding the implementation of those scenarios*. We have provided a summary of the four scenarios below. We are providing more explanation of how inputs and assumptions align to these scenarios in response to the ERA considering that ATCO should have had *greater disclosure and documentation*. Inputs and assumptions are provided in Section 10.5.7 and further detailed in *Attachment 10.102* and *Attachment 10.104*.

A summary of the four scenarios is given below.

HYDROGEN FUTURE

In the Hydrogen Future scenario, advancements in renewable hydrogen and other renewable gas technologies enable these gases to replace natural gas domestically and internationally, mirroring the current natural gas and LNG industries with a focus on high-volume exports. This scenario results in the following:

- Substantial export opportunities for Australia at the expense of traditional LNG exports and domestic gas supply in Western Australia
- Governments support hydrogen as a cost-effective way to decarbonise various sectors and maintain Australia's status as a major energy exporter, promoting hydrogen-compatible infrastructure and appliances.
- Moderate technological progress in reducing carbon emissions limits the immediate switch to electricity. However, the availability of low-cost renewable hydrogen and other renewable gases drives economic growth, lowers consumer energy bills, and boosts industrial profitability.

ELECTRICITY DOMINATES

In the Electricity Dominates scenario, rapid advancements in renewable electricity generation and storage significantly lower costs, leading to widespread electrification of industry and households. This scenario results in the following:

- Governments support this transition with substantial financial incentives, grants, subsidies, and potential bans on new fossil fuel appliances to achieve climate goals and reduce living costs.
- While initial cost reductions are slow, they accelerate by the mid-2030s, driven by global renewable energy adoption, impacting gas distribution businesses, and reducing but maintaining viable gas volumes beyond 2050.
- Lower electricity prices make renewable hydrogen and other renewable gases more affordable, though electrification is preferred by most, limiting the market for renewable gases.
- Hydrogen and other renewable gases remain essential for hard-to-abate industries and exports, while hydrogen-based gas power generation is at an early stage of development currently and is not yet in operation in Australia.

- Lower electricity prices and reduced conversion costs enhance economic conditions in Australia and globally, supporting moderate growth rates.

ENERGY HYBRID

The Energy Hybrid scenario envisions balanced technological advancements in renewable gases and electrification, resulting in a mix of consumers either transitioning to electricity or remaining on the gas network. This scenario results in the following:

- Both electricity and zero-emissions gases become viable alternatives to natural gas, leading to diverse responses among residential, commercial, and industrial consumers.
- Government policies adopt a market-driven approach, supporting various pathways to meet emission reduction targets.
- Moderate reductions in costs for both electricity and renewable gases foster economic growth, though less significantly than in the Electricity Dominates scenario.
- Hard-to-electrify industrial processes continue using natural gas, transitioning to renewable hydrogen or other renewable gases over time.
- Moderate technological advancements in carbon reduction limit the switch from reticulated gas to electricity for emission reductions in the medium term.

NATURAL GAS RETAINED

In the Natural Gas Retained scenario, natural gas remains crucial in the ATCO network, consistent with medium-term expectations from previous regulatory periods. This scenario results in the following:

- Slow technological advancements make renewable hydrogen and renewable methane economically unviable at scale, resulting in low adoption of lower-emissions gases.
- Natural gas is used as a transition fuel to reduce carbon emissions through coal-to-gas switching and support renewable generation.
- Carbon capture and storage (CCS/CCUS) technologies become widely adopted, allowing carbon-intensive industries to capture emissions.
- An international carbon market emerges, enabling global cooperation. CCS/CCUS indirectly impacts gas distribution, supporting the development of Western Australia's natural gas reserves and gas-fired power generation.
- Residential and commercial emissions are managed through carbon offset schemes. Moderate economic growth is driven by CCS/CCUS and cost-effective offsets, but higher CCS/CCUS operational costs and marginal gas production increase energy bills and reduce industrial margins.
- Household appliance electrification follows regular cycles, with industrial users relying on carbon-neutral natural gas or CCS/CCUS.
- This scenario depends on CCS/CCUS technology and effective offset markets; without these, continued natural gas use would conflict with policy goals.

SCENARIO WEIGHTING

Each scenario is a distinct future driven by specific technology and policy developments. They represent plausible futures, but it is unlikely that any of these scenarios will eventuate in its current form. Also, each scenario does not have an equal probability of occurring. Therefore, as the relative probability of each scenario is unknown, and the scenarios are not a complete set of the future, deriving conclusions by some form of a weighted average of results or settling on the central case is difficult. Therefore, our experts, ACIL Allen or Incenta have not used either of these approaches in assisting us developing our conclusions or in developing our recommendations.

10.5.7 MODELLING INPUTS AND ASSUMPTIONS

The ERA and Frontier Economics[145] highlighted several areas where our modelling assumptions and methodology required further justification or explanation. A summary of these and our response is provided in Table 10.6 and a full summary of modelling input and assumptions is further expanded in Section 10.5.7.1 and 10.5.7.2.

Table 10.6: Summary of potential areas for improvement and our response

POTENTIAL AREAS OF IMPROVEMENT	ATCO RESPONSE
Varying the **input assumptions for distribution, transmission, and retail components of retail gas prices** across all scenarios, including: • wholesale gas price forecasts • retail electricity prices	Input assumptions are adjusted and altered per scenario
Ensuring **consistency in the inclusion of carbon costs** between gas and electricity retail tariffs.	Carbon cost inputs are consistent across gas and electricity tariffs.
Varying **income assumptions for LGAs** based on census data.	The model uses the weighted average between low/medium/high income groups, with different discount rates feeding into NPV calculations.
Incorporating behind the meter PV in the NPV analysis.	Incorporating complexity into the model was not reasonable given particular data not available to build into the model but making the conscious choice of keeping the modelling outcomes simplified.
Considering **other representative appliance types** in the analysis of NPV.	
Considering the **extent to which customers with gas heating already have RCAC** installed.	
Considering how **existing data on rates of electrification** can be used to inform and test assumptions relating to the specification of the s-curve, and the modelling approach generally, provides reasonable results.	Limited information exists in the context of understanding the rates of electrification in WA.

[145] Frontier Economics (2024), "ATCO MWSW GDS Accelerated Depreciation Modelling Review", accessed on 26 April 2024, available at: https://www.erawa.com.au/cproot/23996/2/GDS---ATCO---AA6---Frontier-Economics-Accelerated-depreciation-report.PDF

10.5.7.1 COMMON MODELLING ASSUMPTIONS AND INPUTS

The common model inputs that are generally the same in terms of inputs, include three general assumptions:

1. Customer appliances
2. Customer types
3. Customer preferences.

The following section summarises the key inputs and assumptions developed on a general basis, common across the model utilised in the modelling. Refer to attachment 10.102 for specific details and quantification of these assumptions:

CUSTOMER APPLIANCES

Gas and electricity appliances utilised for modelling purposes are shown in Table 10.7, which provides a list of appliances used (i.e., cooking, hot water, room heating and house heating) and a comparison of appliance type between gas and electricity used in the model. The specific differences between these inputs include:

- **Appliance energy consumption**
  - A central assumption includes the average of high, medium, and low appliance energy consumption. The average was utilised to keep the model simple, which relates to the weighted average of customer types (refer below).
  - The gas cooking, hot water and room heating usage numbers were obtained from internal ATCO analysis. The gas ducted heating number was estimated as the difference between Grattan Institute's estimate of gas usage for a three appliance household (~24.7 GJ) in Perth and ATCO's estimate of gas hot water and cooking usage (see the Grattan Institute publication in 2020 "Flame Out: The Future of Natural Gas"[146]).
  - The equivalent electric appliance usage was derived after accounting for heat loss and efficiency gains from switching to electric appliances.
- **Appliance (capital) costs**
  - Appliance capital costs were obtained from Appendix D of the Grattan Institute publication[146] and adjusted for the rate of inflation.
  - Appliance capital costs are assumed to remain unchanged in real terms over the projection period.
- **Appliance maintenance costs**
  - Maintenance cost data was obtained from a report for the Consumer Advocacy Panel[147] "Are we still cooking with gas" produced by the ATA and adjusted for the rate of inflation.

146 Wood, T. & Dundas, G. (2020) "Flame Out: The Future of Natural Gas", available at: https://grattan.edu.au/report/flame-out-the-future-of-natural-gas/

147 ATA (2014), "Are we still cooking with gas", available at: https://www.ata.org.au/wp-content/projects/CAP_Gas_Research_Final_Report_251114_v2.0.pdf

- **Appliance usage efficiency**
  - Appliance usage efficiency is assumed to remain unchanged over the forecast period.

Table 10.7: Gas and electricity appliance type and usage as model inputs

APPLIANCE USAGE	GAS APPLIANCE TYPE (GJ)	ELECTRICITY APPLIANCE TYPE (kWh)
Cooking	Gas stove	Electric cooktop (induction)
Hot water	Gas instant hot water	Heat pump hot water
Room heating	Gas wall furnace	Reverse-cycle air conditioner (RCAC) split system
House heating	Ducted gas heating	Ducted RCAC

CUSTOMER TYPES

The modelling incorporates the different tariff classes explained in Chapter 6. However, the model completes the majority of the analysis based on the B3 tariff (residential) as this accounts for approximately 80% of ATCO's tariff revenue. A principal assumption within the residential categorisation is the customer types. The model uses a simplified assumption of high, medium, and low income households, plus commercial and industrial customers. The specific differences between these inputs include:

- **High, medium, and low income class assumptions**
  - Frontier Economics highlighted that Local Government Area (LGA) information was in the initial accelerated depreciation model but not utilised within the analysis. LGA data is utilised for creating a customer profile to understand the share of high, medium, and low income households in the gas network.
  - LGAs with a medium total household income (as measured by the ABS in the 2021 Census) in excess of $2,000 were classified as high income. LGAs with median total household income of $1,700 or less were classified as low income. Those between $1,700 and $2,000 per week were classified as medium income.
  - The percentage of households classified as low, medium, and high income is 17.1%, 62.1%, and 20.8% respectively.
- **Customer discount rates**
  - Customer discount rates reflect how forward looking or biased customers are reasonably assumed to be when evaluating the decision to switch from gas to electric appliances. High income and commercial customers are assumed to look further into the future when making their decisions and therefore have a lower discount rate because they put less value on money today. Lower income households value money today over future investments and therefore have higher discount rates.
  - ACIL Allen notes there is some international evidence that suggests consumers tend to have high discount rates when making appliance choices. However, for the purposes of the model, the discount rates have been set to 5%, 10%, and 15% for high, medium, and low income customers (and 3% for commercial) as determined by ACIL Allen to provide a variation between customers.

CUSTOMER PREFERENCE

The modelling provides variations in customer preference, meaning that gas usage and appliance switching is variable subject to externalities (e.g., typically price). The following outline the specific differences of these inputs:

- **Non appliance cost-related rates of connection and disconnection**
  - The non-appliance cost-related rate of connection and disconnection are calculated based on the historical rates of connection and disconnection to the network before any significant changes to the attractiveness of switching takes place in the model. They capture the fact that customers connect and disconnect irrespective of the relative attractiveness of doing so.
- **Price elasticities of demand for usage per customer**
  - A key assumption for the model is how gas prices affect gas usage per customer. As real gas prices increase, the usage per customer declines.
  - Commercial and industrial customers are assumed to be more price elastic (i.e., sensitive to price changes) than residential customers.
  - Demand is assumed to be price inelastic, which is a realistic assumption. This is supported by a significant body of academic empirical evidence and ACIL Allen observations in estimating price elasticities for electric, gas, and water utilities in Australia.
- **Trend in gas usage per customer over time**
  - Analysis of ATCO's customer usage data' shows that there is a downward trend in gas usage per customer over time for most tariff classes. These trends were estimated and projected into the forecast period.
  - Residential gas usage per customer is assumed to decline by 0.1 GJ per annum in the forecast period, while commercial B2 is assumed to decline by 1 GJ per annum. Commercial B1 declines by 13.2 GJ per annum. Industrial A1 increases by 1529 GJ per annum.
  - These trend rates are assumed to decay by 5% per year over the forecast period for all scenarios except Electricity Dominates where no rate of decay is applied.
- **Decision rule for switching decision**
  - A customer is assumed to face a switching decision when their appliances are 15 years old. As at 2024, we assume that the distribution of appliance ages in the gas network follows a uniform distribution between zero and 15 years of age. This distribution then changes over time as new customers connect, existing customers reconnect, and existing customers disconnect.
- **Gas disconnection and Electricity upgrade costs**
  - The cost of disconnecting from gas is assumed to be $898. This figure is derived from the Grattan Institute's estimate made in 2020 and adjusted for movements in the CPI[148]. The cost of upgrading an electricity connection to switch away from gas appliances is assumed to be $3,367.

[148] Wood, T. & Dundas, G. (2020) "Flame Out: The Future of Natural Gas", available at: https://grattan.edu.au/report/flame-out-the-future-of-natural-gas/

APPLYING THE S-CURVE TO PREDICT CUSTOMER BEHAVIOUR

An S curve logistic function is used for residential customers (Tariff B3) and smaller commercial customers (Tariff B2). The relative NPV of switching from gas to electricity is calculated, and a logistic curve is used to estimate the market share of gas versus electricity over time. Separate logistic function calculations and projections are made for disconnections and new connections.

The usage per connection is projected separately and is driven by relative changes in the price of gas and electricity and long-term trends in per-customer usage. The tong term trends are based on the historical usage behaviour of each tariff class.

For commercial (B1) and industrial (A1 and A2) customers, usage per customer is a function of changes to gas and electricity prices and a long-term linear trend. Customer numbers for B1, A1 and A2 are projected to move proportionally with the projected number of residential customers.

The logistic (logit) function is used to determine the probability of customers switching. This is a common model used to represent customer behaviour. This function resembles an S curve characterised by a slow build-up, a ramp-up phase, and a mature phase where the take-up has reached a saturation point.

Further detail regarding this function and other components of the modelling approach are provided in attachment 10.102.

10.5.7.2 ASSUMPTIONS THAT DIFFER BETWEEN SCENARIOS

The modelling inputs that differ in terms of inputs per scenario are listed below and further detailed in attachment 10.102 and attachment 10.104:

- **Fuel costs (energy costs) -** Fuel costs (electricity and gas price assumptions) are key drivers in the cost of choosing either gas or electricity for each customer class (feeding into NPV). The assumptions differ across the scenarios. The various assumptions about the cost of carbon (constraint) and hydrogen costs (reducing over time) are used in developing gas and electricity inputs.
- **Carbon prices** - A carbon penalty is incorporated into gas prices commencing from 2030 in each scenario. The carbon penalties were designed by ACIL Allen to differentiate scenarios in line with the scenario descriptions.
- **Hydrogen prices -** Hydrogen pricing is used to displace projected wholesale natural gas prices in each scenario, when projected wholesale natural gas prices exceeded projected hydrogen prices. Hydrogen prices were taken from the current AEMO Integrated System Plan[149] assumptions. Renewable energy exports were used for the Hydrogen Future scenario. AEMO Prices were projected to 2053/54 and ACIL Allen extrapolated prices to 2074.
- **Retail gas prices:**
  - Gas prices were developed using an internal ACIL Allen building block model incorporating ACIL Allen projected wholesale gas prices (including a carbon penalty and displaced by

[149] AEMO (2024), "2022 Integrated System Plan (ISP)", available at: https://aemo.com.au/energy-systems/major-publications/integrated-system-plan-isp/2022-integrated-system-plan-isp

hydrogen projections where lower than the projected wholesale natural gas price). The model includes assumptions about transmission and retailer gross margins. The pricing model was calibrated to existing gas prices as currently charged by natural gas retailers in the ATCO distribution area. Prices are differentiated by differences in assumed carbon penalties and hydrogen prices against the relative scenarios. Retail gas prices also vary depending on the distribution tariff generated by the FOGM model (the consumer choice model estimates demand changes, which feed into a simplified PTRM, which then feeds back revised distribution gas tariffs as an iterative method).

  - Retail gas price assumptions are provided in the FOGM in the Scenarios Tab for each tariff. Final retail gas prices (including final gas distribution tariffs) are provided in the Prices Tab in the FOGM.

- **Retail electricity prices:**
  - Retail electricity prices were developed using an internal ACIL Allen building block model incorporating ACIL Allen projected wholesale electricity prices. The model includes assumptions about transmission, distribution, and retailer gross margins. The pricing model was calibrated to electricity prices as charged by Synergy in April 2024.
  - Prices were differentiated by variations in wholesale electricity prices generated by variations in wholesale gas prices and different technology learning rates for each scenario
- **Appliance rebates across scenarios -** Appliance rebates are assumed to commence from 2041 onwards for the Energy Hybrid and Electricity Dominates scenarios. They are set to be 20% of the cost of each appliance for the Electricity Dominates scenario and approximately 10% of the appliance cost in the Energy Hybrid scenario. No rebates are paid under the Natural Gas Retained and Hydrogen Future scenarios.
- **Ban on new connections** - Under the Electricity Dominates scenario there is a ban on new connections from 2040 onwards

10.5.8 ANALYSIS OF RESULTS

In this section ATCO sets out the analysis of the results from the Future of Gas Model (FOGM).

ACIL Allen's approach to determine an accelerated depreciation amount is to:

1. Find the point where, with unconstrained prices, customers no longer choose to connect to the network and record the price at which this occurs. ACIL Allen found the price to be approximately twice the 2029 forecast retail price of gas to residential consumers.
2. ACIL then imposed a price constraint, twice the 2029 forecast retail price of gas to residential consumers and evaluated the unrecovered RAB in 2074.
3. ACIL then used their judgement to bring forward an amount of accelerated depreciation of $87.7 million to AA6, balancing reducing the RAB standing risk against price impacts in AA6.

The amount of depreciation brought forward does not totally eliminate asset stranding risk but does reduce it.

10.5.8.1 ASSET STRANDING RISK

Asset stranding risk is affected by several factors:

- The starting RAB value at the point in time that the risk is considered.
- The rate at which the asset base is depreciated.
- The amount of capital to be invested and the profile of the investment
- Upper limits on the amount of revenue that can be collected because of existing customers disconnecting and switching to electricity, and potential customers choosing electricity over gas.

ATCO is faced with the dilemma of needing to maintain and invest in a reliable gas distribution network to existing and potential future customers, while facing the risk that existing customers may disconnect, and future customers choose not to connect.

Should a scenario eventuate in which customer numbers decline faster than ATCO can recover its invested capital (via depreciation charges), asset stranding is likely. Conceptually, customers will choose to disconnect or not connect, when the life cycle costs of using electricity over gas are lower. Practically, customer preferences vary with early adopters willing to choose electricity when it is not necessarily lower cost and lethargic late adopters willing to remain using gas, even when there is a lower cost to switch. There are a range of factors in the decisions of individual customers that may include:

- Underlying preferences for the use of gas over electricity or vice versa.
- The availability of information and the ability to undertake a cost assessment of options.
- Split incentives in the case of renters (landlord pays the capital but not the operating costs).
- The capacity to access capital to switch to electricity.

Therefore, the FOGM uses S-curves to reflect variations in consumer behaviour when the decision to switch or connect is required.

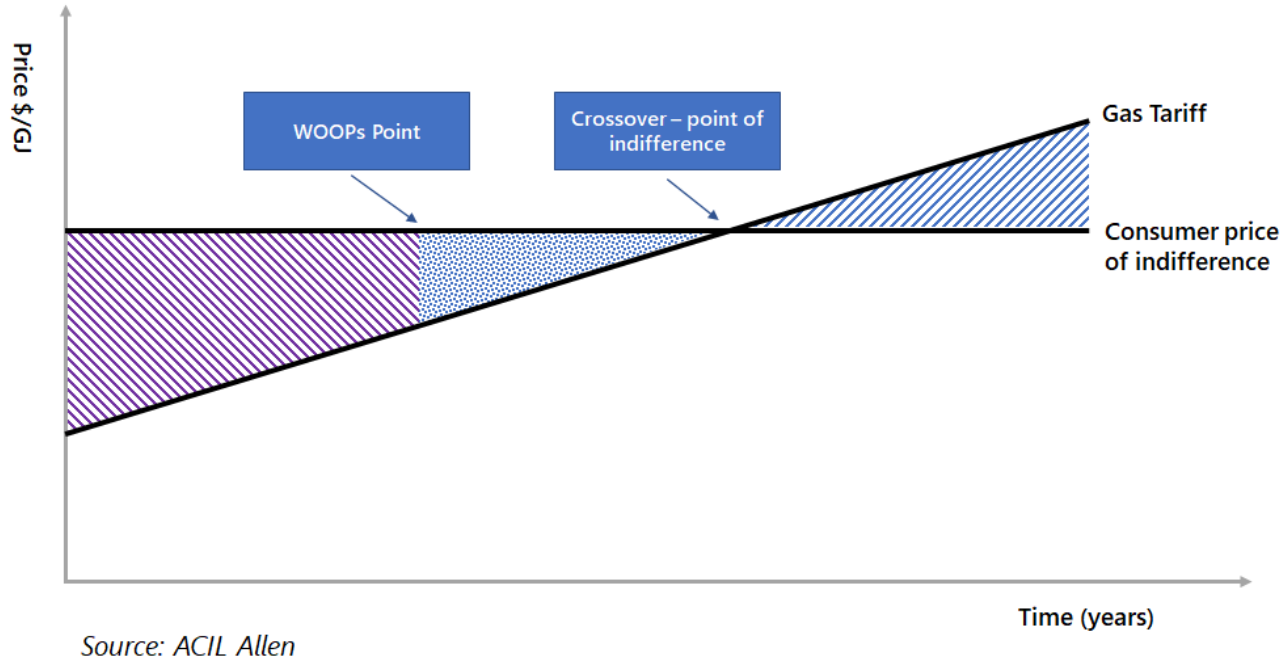
In scenarios where customers disconnect or choose not to connect, the remaining smaller customer base faces higher charges as operating costs and the fixed costs associated with the return to capital (cost of capital) and return of capital (depreciation) are spread over a smaller customer base and smaller volume of gas. Future opex and capex would be expected to fall in such scenarios, but the existing sunk capital costs (the existing RAB) cannot be undone.

At some point, revenues that can be recovered will be insufficient to cover all fixed and variable costs. This is referred to as the point of indifference in Figure 10.3 below. Fixed costs not recovered beyond the point of indifference are ‘stranded’.

WINDOW OF OPPORTUNITY PAST

The solution to avoiding stranding of the fixed costs is to bring forward the costs (depreciation) ahead of the point of indifference where there is some headroom between underlying costs and the point of indifference. The last point at which costs must be brought forward to avoid stranding is known as the Window of Opportunity Past point, or WOOPs point.

Figure 10.3: Representation of the Window of Opportunity Past point



Source: ACIL Allen

Where the future is known with 100% certainty, bringing forward depreciation costs could be left to the last point in time the WOOPs point). However, the future is uncertain, and where asset stranding risk is plausible, acting earlier has two advantages:

1. It reduces the risk of asset stranding where the WOOPs point is determined incorrectly.
2. The brought forward depreciation costs can be spread over a longer period and avoid a significant step up in costs (and gas tariffs) when the WOOPs point is reached.

STRAIGHT LINE DEPRECIATION SCENARIOS

Understanding what happens to the network demand and customers (and how that effects the RAB) was a key issue discussed by the ERA and Frontier Economics. The following provide a summary of the outputs of running the FOGM based on the forecast outcomes of the four scenarios. Critical outputs from modelling the scenarios include:

- Impact on gas volumes and customer numbers
- Changes in the closing RAB over time
- Change to capex and opex over the modelled period
- Impacts on depreciation as determined by the PTRM modelling functionality in the FOGM
- The impact on tariffs in the form of customer retail prices.

Modelling parameters and further information regarding the specific inputs are available in the ACIL Allen report (*see Attachment 10.102*).

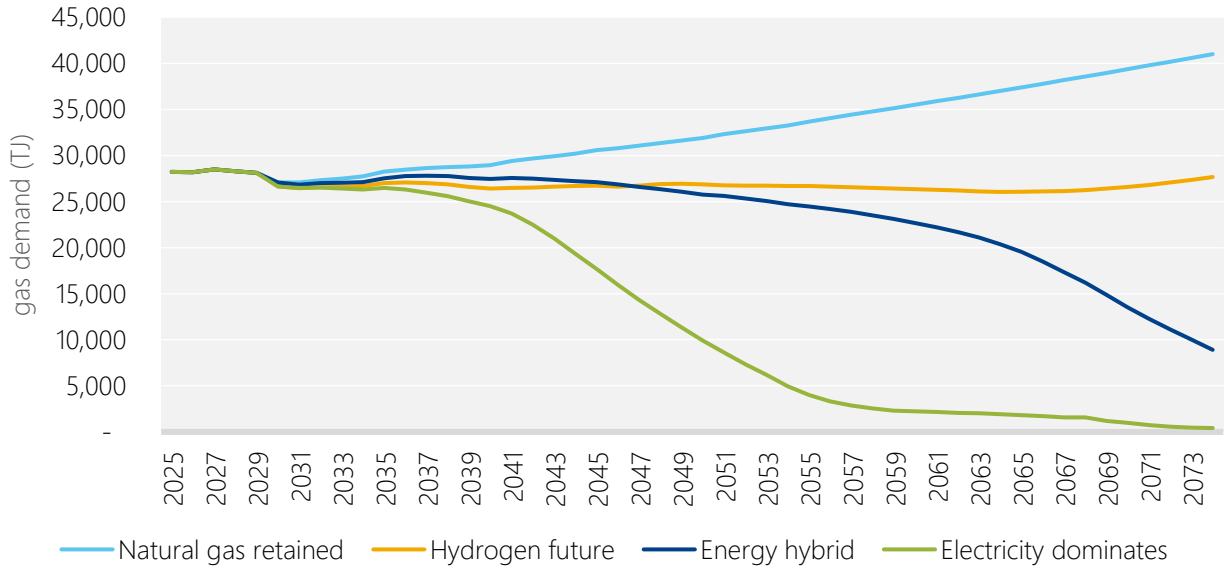
VOLUME, CUSTOMERS AND RETAIL PRICES

Gas demand in the Electricity Dominates and Energy Hybrid scenarios is simulated to decline to levels where asset stranding risk is very high and significant, respectively. Gas demand in the Electricity Dominates scenario reaches negligible levels by around 2070. In the Energy Hybrid scenario, gas demand commences declining dramatically from around 2060.

In the Hydrogen Future scenario, gas demand remains stable until around 2066 and grows slightly afterwards as the technology uptake improves and normal market forces apply.

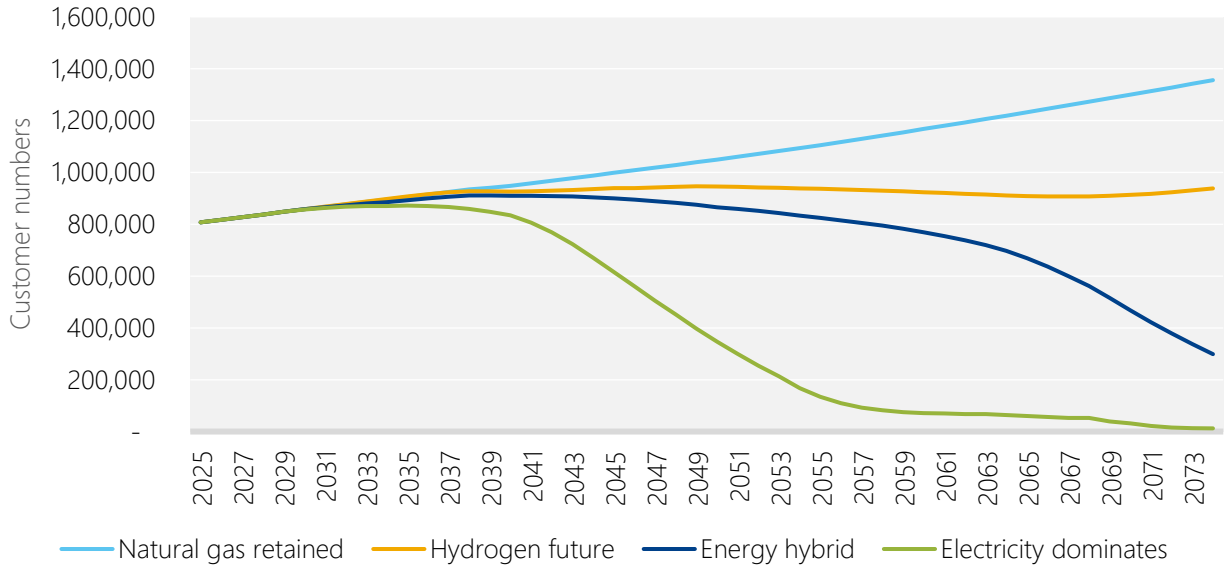
In the Natural Gas Retained scenario, gas demand is simulated to rise over the modelling period after a gradual decline to 2032. By the end of the modelling period, gas demand is around 45% higher in the Natural Gas Retained Scenario than projected demand in 2025.

Figure 10.4: Projected gas demand, Terajoules – straight line depreciation



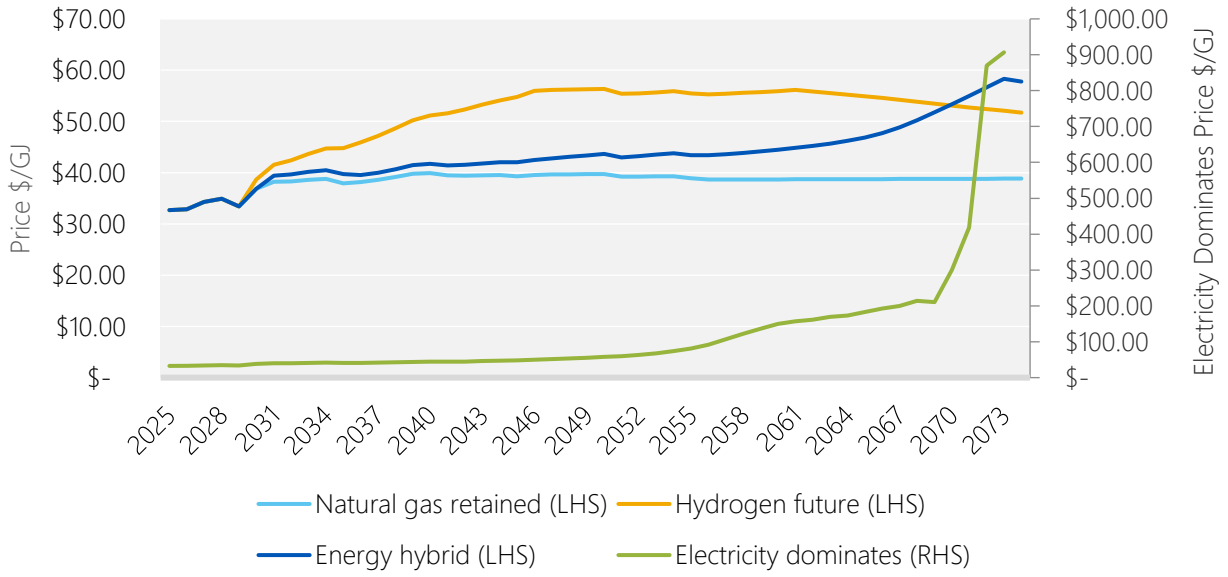
A similar pattern to Figure 10.4 can be seen in the projected customer numbers for all four scenarios (see Figure 10.5). Under the Natural Gas Retained and Hydrogen Future scenario, total customer numbers are projected to continue to grow. In the case of Energy Hybrid and Electricity Dominates, customer numbers are simulated to fall to around 299,000 and 12,000, respectively, by 2074. In the Energy Hybrid scenario, the viability of the network is at risk in 2074. In the Electricity Dominates scenario, the network would no longer be viable in 2074, given the low customer numbers and demand.

Figure 10.5: Projected customer numbers – straight line depreciation



Network viability is at risk in two of the four scenarios due to the fact that prices increase beyond the capacity for the customers to pay. The FOGM employs a Price Cap to ensure exponential price increases are not considered plausible, however they do offer a view on the future operation of the network and how so few customers would be much worse off where most customers have disconnected. Figure 10.6 shows the Retail prices in each given scenario with the Electricity Dominates scenario shown on a separate axis due to the forecast projection exponentially increasing at around 2068 caused by having minimal customers as shown in Figure 10.5.

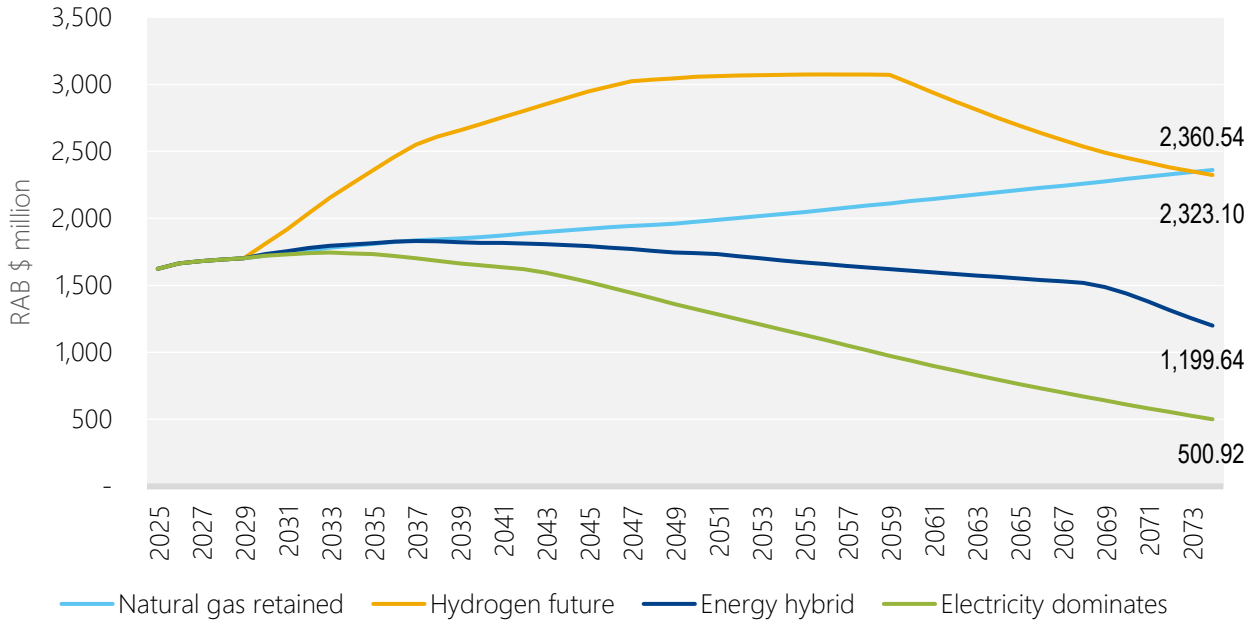
Figure 10.6: Projected prices residential (B3) gas retail prices $ per GJ – straight line depreciation



REGULATORY ASSET BASE

The residual RAB under straight-line depreciation represents the stranded asset risk under the traditional (i.e., straight-line) approach to depreciating assets. Under this depreciation approach, stranded asset risk is $501 million for the Electricity Dominates scenario and $1,200 million for the Energy Hybrid scenario (although a portion of the residual RAB in the Energy Hybrid scenario would be depreciated after 2074 before the customer base disappears). Figure 10.7 represents the change in RAB over the 50 year analysis period using straight line depreciation.

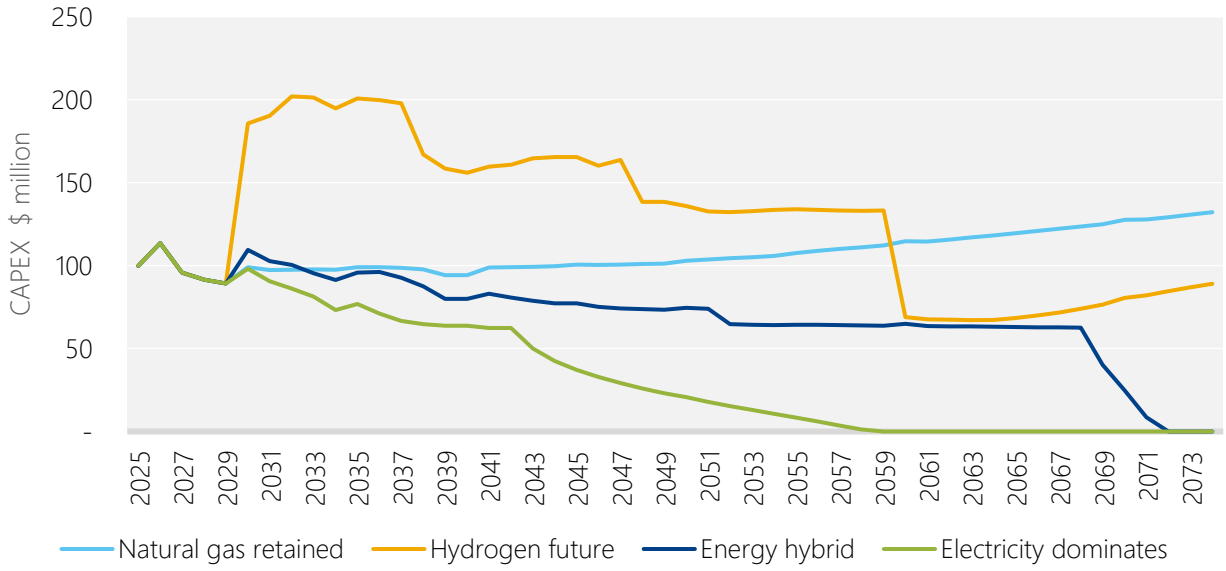
Figure 10.7: Forecast Regulatory Asset Base per scenario – straight line depreciation



CAPEX AND OPEX

The capex profiles are adjusted for the different circumstances of each scenario. The Natural Gas Retained scenario has a linear profile reflecting the ongoing sustainable nature of the business under that scenario. The Hydrogen Future scenario has a large increase between 2030 and 2059, consistent with conversion of the network for distributing hydrogen. The Energy Hybrid scenario gradually declines as customers gradually disconnect and then falls to zero from 2072 as the gas distribution business falls into terminal decline. The Electricity Dominates scenario has a faster capex decline associated with a higher rate of customer disconnections, falling to zero from 2063. Figure 10.8 represents the change in capex over the 50 year analysis period using the straight line depreciation method.

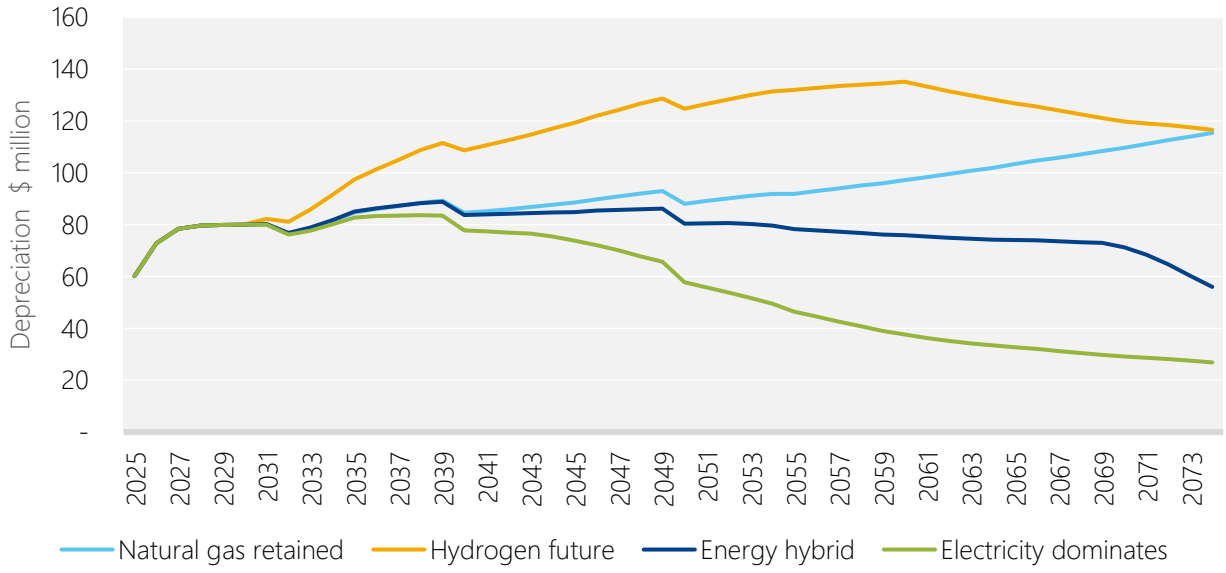
Figure 10.8: Capex profile for each scenario – straight-line depreciation



DEPRECIATION

The depreciation schedule is calculated for the different scenarios against a straight line basis. The profile of each schedule is linked to the growth or decline in the customer base, and in the case of Hydrogen Future, the large increase in capex between 2030 and 2059. Depreciation between 2025 and 2029 is the same for all scenarios, as there is no simulated demand or projected capex difference over that period, therefore all scenarios have the same relative starting point from 2029. Figure 10.9 shows the initial starting point being the same in all scenarios and the variation of depreciation over the 50 year analysis period.

Figure 10.9: Depreciation profile for each scenario – straight-line depreciation



ASSET STRANDING RISK ASSESSMENT

The Electricity Dominates and Energy Hybrid scenarios simulate a terminal decline in customer bases and high asset stranding risk. The Hydrogen Future and Natural Gas Retained scenarios simulate maintenance or solid growth of the customer base and little stranding risk over the next 50 years.

It is clear from the modelling that asset stranding is evident in the Electricity Dominates scenario, which the WA Expert Consumer Panel believes is the most realistic in the current environment[150]. If this results in our capital base being unrecoverable, then *this would result in asset stranding for ATCO and reduce incentives for the efficient operation of, and investment in, the network. Further, future consumers might be harmed by price shocks as network costs are spread over a smaller customer base and their investments in gas appliances may be stranded.*[151]

We asked Incenta Economic Consulting (Incenta) to provide further analysis and comment on our AA6 depreciation proposal for the Draft Decision Response. In relation to the risk of asset stranding, Incenta found (*see Attachment 10.103*):

> *…if the current depreciation method were to continue to be applied into the future, there is a material risk of asset stranding under the "electricity dominates" scenario, although the ACIL Allen modelling suggests that the risk of asset stranding is modest to negligible under the other scenarios.*

Incenta also acknowledged that the revised FOGM shows that estimates of asset stranding for each scenario under different options can now be made directly rather than inferred, which was a criticism of Frontier Economics[152] and an issue identified and rectified.

ACIL Allen (*see Attachment 10.102*) considers the case has been made to allow some acceleration of depreciation to mitigate the asset stranding risk. There is no right amount to be allowed. If it is too little, further acceleration can be allowed during AA7 and beyond. Similarly, if it is too much, the rate of acceleration can be reduced in future regulatory cycles. In this sense, allowing some acceleration of depreciation in the current period can be considered creating an option to avoid stranded asset risk in the future, which can be adjusted in the future as further information becomes available.

10.5.8.2 ACCELERATED DEPRECIATION

Stakeholders and the ERA[153] recognise and accept that applying accelerated depreciation provides a means of cost recovery, as a mitigation of future asset stranding risk. The ERA also note that *the decision for providing accelerated depreciation involves a balance between acting too soon against*

150 WA ECP (2023), "Submission to the ERA's issues paper about ATCO AA6 proposed access arrangement", pg. 21, available at: https://www.erawa.com.au/cproot/23773/2/Expert-Consumer-Panel-public-submission.PDF

151 ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 6: Depreciation, 24 April 2024, para 19.

152 Frontier Economics (2024), "ATCO MWSW GDS Accelerated Depreciation Modelling Review", accessed on 26 April 2024, available at: https://www.erawa.com.au/cproot/23996/2/GDS---ATCO---AA6---Frontier-Economics-Accelerated-depreciation-report.PDF

153 ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 6: Depreciation, 24 April 2024, para 27 and 28.

acting too late. This is in the context of an ongoing energy transition with high degrees of uncertainty[154]. The ERA also consider that alteration of depreciation profiles provides regulatory flexibility over the inflexible straight line approach. In relation to the revenue and pricing principles (NGL ss28(2) and s24), cost recovery through accelerated depreciation is acceptable to ensure that we have a reasonable opportunity to recover our efficient costs of providing reference services. (As a corollary, we will not have a reasonable opportunity to recover costs utilising the straight-line method as outlined in section 10.5.8.1).

CALCULATING ACCELERATED DEPRECIATION

ACIL Allen's approach to calculating revised depreciation (accelerated) schedules was as follows:

- Develop the projected annual gas demands from 2025 to 2074 for the four separate scenarios.
- Extract the current asset base, the remaining asset lives, and the proposed new assets expenditure and lives and operating expenditures associated with each of the four scenarios.
- Calculate the revenue and depreciation schedules associated with the underlying demand and expenditures under the four separate scenarios via an integrated model that links the ACIL Allen modelling to ATCO's PTRM.
- Apply an appropriate tilt factor to the straight-line depreciation schedule to bring forward some depreciation into the up-coming regulatory period from 2025 to 2030.
- Apply a price cap to retail prices to limit prices to plausible levels.

We implemented a facility for calculating accelerated depreciation within the PTRM component of the FOGM. The implementation is similar to the approach used by the Victorian gas distributors in their submissions to the Australian Energy Regulator for their current access arrangements (2023-28).

Accelerated depreciation is calculated by applying a so-called **tilt function** to each component of the asset base (existing and new capex) in each year. The tilt function is a simplified version of what is referred to as the "tilted annuity" method. Under the method proposed, the depreciation of individual assets can be advanced or deferred by simply changing a single factor (the tilt rate), so that the effect of differing degrees of advancement of depreciation may be tested.

If the residual asset value in any year falls below the calculated accelerated value, the depreciation for that year is set to the residual asset value, at which point the asset is fully depreciated. This ensures that accumulated depreciation cannot exceed the total asset value. Incenta notes this issue and confirmed that this check to limit depreciation is applied in the model. Examples of the tilt function changes are provided in attachment 10.102.

The accelerated depreciation function in the FOGM is driven by the tilt function. ACIL Allen recommend that ATCO use a tilt-value of 0.02 (2%). The recommended accelerated depreciation results are based on the 0.02 tilt-value. ACIL Allen are upfront in terms of the choice of tilt-value, commenting that the:

> *The final choice of tilt-value and, therefore, the amount of brought forward depreciation is a matter of judgment, trading off reduction in stranded asset risk and*

[154] ERA, Draft decision on revisions to the access arrangement for the Mid-west and South-West Gas Distribution Systems – Attachment 6: Depreciation, 24 April 2024, para 90.

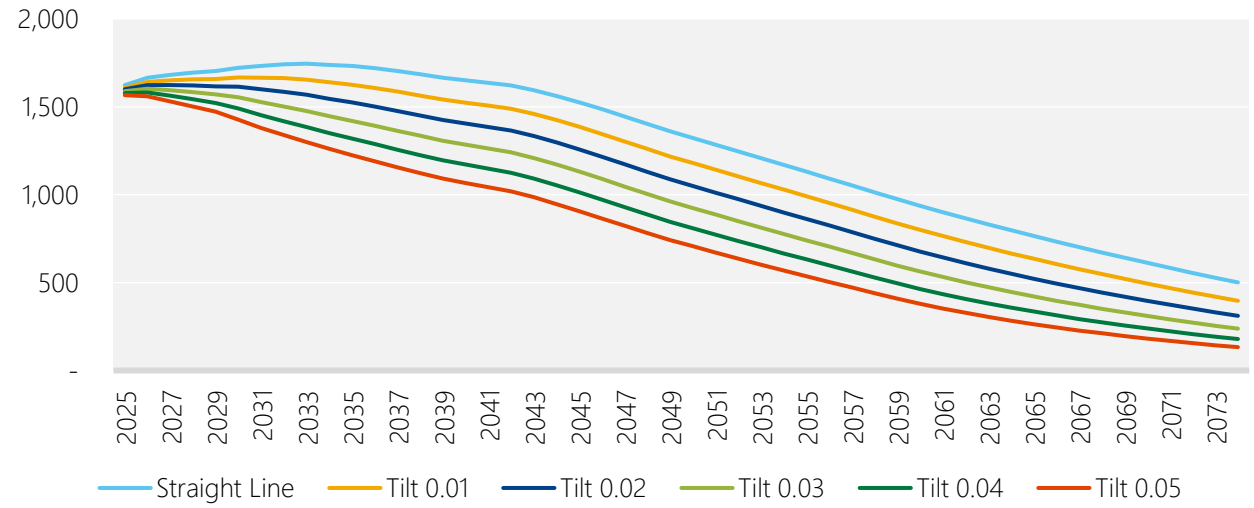
the risk of missing the WOOPs point, with some modest short-term increases in consumer costs.

Incenta found:

that applying a tilt factor of 2% would reduce ATCO's stranding risk, although not eliminate it.

Two of the four scenarios demonstrate a significant amount of asset stranding risk. Figure 10.10 below demonstrates how applying a "tilt" function to bring forward depreciation reduces the value of the RAB in 2074 to reduce stranding risk. Note at the accelerated depreciation values considered the RAB value is not reduced to zero prior to 2074 and so stranding risk is reduced but not eliminated.

Figure 10.10: RAB closing amount per tilt value for the Electricity Dominates scenario $M



The most likely 'asset stranding' scenario is "Electricity Dominates". This is indicated by the accelerating price increases around 2025 driven by a declining customer base over which to spread costs. Figure 10.11 shows the effect on customers in an Electricity Dominates scenario against customer prices with the impact that the tilt function has to reduce prices as customers decrease.

Figure 10.11: Price and customer impact per tilt value (no cap) for the Electricity Dominates $/GJ

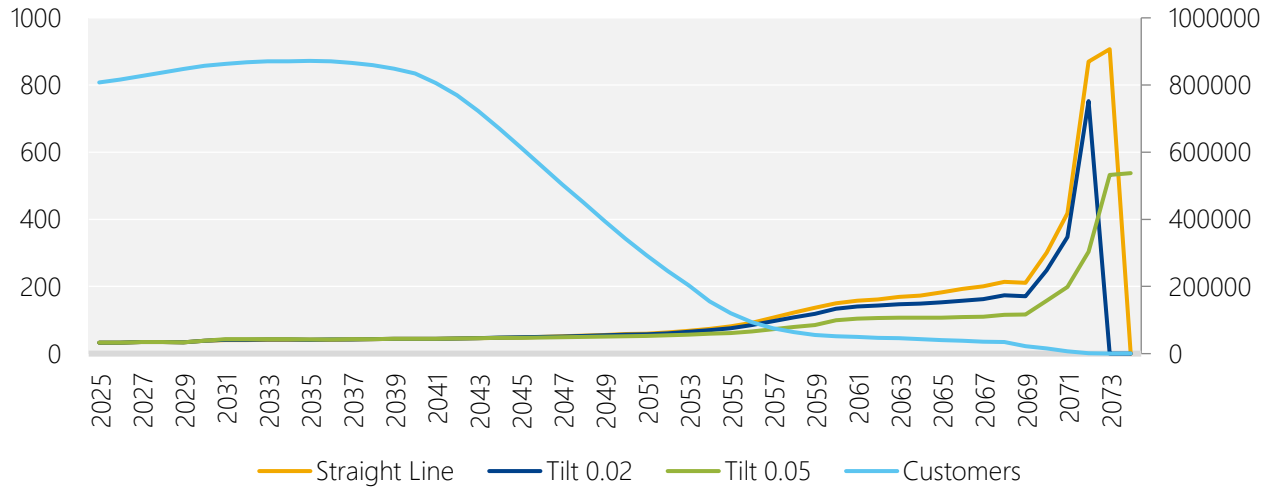


Table 10.8 shows the residual closing RAB value in 2074 for each scenario under straight line and accelerated depreciation, using tilt-values of 0.01 to 0.05. For the two scenarios with high asset stranding risk, none of the assessed depreciation options completely remove asset stranding risk. However, as the tilt-value increases (bringing forward more depreciation) the asset stranding risk reduces.

Under the straight line method, stranded asset risk is $501 million for the Electricity Dominates scenario and $1,200 million for the Energy Hybrid scenario.

Applying accelerated depreciation with a low tilt-value of 0.01 reduces the stranded asset risk by $122 million and $107 million for the Energy Hybrid and Electricity Dominates scenarios respectively. If a tilt-value of 0.05 is used, stranded asset risk is reduced by $365 million and $374 million respectively.

Table 10.8: Residual RAB values in 2074 for straight line and accelerated depreciation (tilt-values of 0.01 to 0.05) ($M real as at 31 December 2023)

DEPRECIATION	NATURAL GAS RETAINED	HYDROGEN FUTURE	ENERGY HYBRID	ELECTRICITY DOMINATES
Straight line	2,360.54	2,323.10	1,199.64	500.92
Accelerated – tilt-value of **0.01**	2,191.08	2,027.64	1,079.60	396.50
Accelerated – tilt-value of **0.02**	2,018.34	1,790.55	1,067.56	310.90
Accelerated – tilt-value of **0.03**	1,837.86	1,589.66	1,040.43	238.02
Accelerated – tilt-value of **0.04**	1,661.24	1,415.61	934.30	178.99
Accelerated – tilt-value of **0.05**	1,481.76	1,266.39	846.91	132.93

EFFECT OF ACCELERATED DEPRECIATION ON CONSUMERS

The proposed bringing forward of depreciation will result in an increase in cost to gas consumers in the short term. We believe that price stability and the long run interests of consumers are key (and indeed, intertwined) concerns and limiting the uncertainty for future network users is a key function of accelerating depreciation.

NETWORK UTILISATION

We provided an expert report from Incenta (*see Attachment 10.103*) that includes an appendix detailing both graphically and mathematically how to estimate allocative efficiency and consumer surplus. Incenta has expanded on this analysis to separate out the consumer surplus from the overall allocative efficiency more clearly.

As Incenta points out, both the consumer surplus and allocative efficiency measures provide useful information that can assist regulators in assessing amounts of accelerated depreciation. In particular, they note that if aggregated consumer surplus over time increases as a consequence of a specific acceleration of depreciation, then this suggests that customers in aggregate would benefit from that acceleration.

Incenta provides the following, in relation to the efficiency of use of the pipeline:

1. *(Incenta) find that a modest advancement of depreciation from AA6 (i.e., a tilt factor of 2 per cent or 5 per cent) is likely to increase consumer surplus and allocative efficiency overall for the "natural gas retained", "energy hybrid" and "hydrogen future" scenarios; and*
2. *(Incenta) conclude from this that measures to address stranded asset risk in the electricity dominance scenario would not be at risk of adversely affecting the efficiency of use of the network should the other scenarios come to pass.*

DELAYING ACCELERATED DEPRECIATION

We have investigated the effect of delaying accelerated depreciation into future Access Arrangement Periods (*see Attachment 10.104*). It shows that delayed action, maintaining the same risk profile, would increase price changes later.

Incenta (has also completed analysis – *see Attachment 10.103*) acknowledged that this can be *considered conservative when assessed against the requirements of the national gas regime as it would leave further action to remove stranded asset risk from AA7 if the electricity dominance scenario came to pass (and as currently forecast).*

Incenta concluded that, *if the ERA deferred its decision to change depreciation for AA6, then applying a tilt factor of around 5 per cent from AA7 would generate a similar level of stranded asset risk to applying a tilt factor of 2 per cent from AA6 be at the current review. We also find that deferring the decision to change depreciation would be inferior in terms of the efficiency of use of the pipeline.*

Future customers may carry a larger cost burden if accelerated depreciation was deferred to AA7 and a scenario similar to Electricity Dominates or Energy Hybrid. The possibility of further electrification of customer energy use increases prices to less customers creating inefficiency in the future use of the natural gas network.

10.5.8.3 MODELLING SENSITIVITIES

The ERA considered in their Draft Decision response that we need to provide greater detail and explanation of the most sensitive parameters. We have provided a supporting document that provides guidelines on how to alter the model to achieve this analysis and the outputs of a number of sensitivities highlighted by stakeholders as necessary (*see Attachment 10.104*). A summary of the key parameters and their sensitivities is provided below.

CUSTOMERS

Appliances

The modelling approach forecasts the impact of relative energy prices between gas and electricity on the projected demand for gas to 2074 while accounting for the effects of changes in relative appliance costs and running costs between gas and electricity on total gas volumes over time.

An S curve logistic function is used for residential customers (Tariff B3) and small commercial customers (Tariff B2). The relative NPV of switching from gas to electricity is calculated, and a logistic curve is used to estimate the market share of gas versus electricity over time. Separate logistic function calculations and projections are made for disconnections and new connections.

The key inputs into the NPV calculation for switching decisions are:

- Relative capital costs of the appliances
- Relative running costs
- Gas disconnection charges
- Electricity upgrade connection costs
- Rebates for electric appliances.

The sensitivities for these and other customer choice parameters are given in attachment 10.104.

S-Curve parameters

The S-Curve function and parameters are discussed in section 10.5.7.

Maximum Price Constraint

Incenta notes that ACIL Allen has addressed this issue by allowing a maximum price constraint to be determined, which is specified as the distribution that causes the final (retail) price to increase by a factor of the 2029 price. The Victorian gas distributors encountered the same modelling issue in their work on regulatory depreciation for their recent access arrangement review and responded to the issue in a very similar manner[155].

NETWORK INPUTS

Asset lives

We have built the FOGM to provide for fixed asset lives. Refer to attachment 10.101 and 10.104 for further detail.

Depreciation profile adjustment allows for flexibility from one AA period to the next (consistent with NGR 89(1)(c)), whereas changing asset lives is a more permanent (and less flexible) approach to the problem to approaching asset stranding risk.

Capex and Opex

The FOGM model has been designed to allow for sensitivities and has output functionality for analysis. Sensitivities of these and more parameters are discussed in *Attachments 10.102, 10.103 and 10.104*.

Changing the Tilt

Altering the tilt was discussed in section 10.5.8.2.

[155] Incenta noted this issue in a report for the Victorian gas distributors: Incenta (2022), "Assessment of compliance with the requirements for regulatory depreciation", footnote 44 (available at: https://www.aer.gov.au/documents/agn-victoria-albury-attachment-64-incenta-expert-report-assessment-compliance-requirements-regulatory-depreciation-july-2022).

10.5.9 CONCLUSION

SCENARIOS

For conclusions on scenarios and their effect on the modelling (consumer choice modelling), refer to attachment 10.102.

ASSET STRANDING RISK

ACIL Allen considers using a tilt-value of 0.02, which provides a reasonable trade off in reducing asset stranding risk while balancing the cost increases for consumers (*see Attachment 10.102*). The residual RAB is shown in Table 10.9, for both current levels of depreciation and if accelerated depreciation is applied at a tilt of 0.02. The accelerated residual RAB represents the potential asset stranding risk in two of the four scenarios (i.e., Energy Hybrid and Electricity Dominates).

Table 10.9: Asset stranding risk (residual RAB) in 2074 (50 years) with an applied tilt of 0.02 ($M real as at 31 December 2023)

DEPRECIATION	NATURAL GAS RETAINED	HYDROGEN FUTURE	ENERGY HYBRID	ELECTRICITY DOMINATES
Straight line (current)	2,360.54	2,323.10	1,199.64	500.92
With acceleration – tilt-value of 0.02	2,018.34	1,790.55	1,067.56	310.90

RECOMMENDED ACCELERATED DEPRECIATION

The proposed brought forward depreciation is shown in Table 10.10. ACIL Allen notes that a significant asset stranding risk is retained under two scenarios, after the recommended accelerated depreciation is applied. The total accelerated depreciation amount for AA6 is $87.2 million. Incenta concluded that reducing asset stranding risk to a level that is not material should be a priority for regulated businesses, in particular:

1. Regulated businesses receive no windfall from taking action too early to remove stranded asset risk (more depreciation in AA6 will just mean lower prices thereafter), however;
2. if action is deferred, the capacity for the regulated business to recover its costs may be lost.

Table 10.10: Recommended accelerated (brought forward) depreciation in AA6

RECOMMENDED DEPRECIATION	2025	2026	2027	2028	2029
Brought forward depreciation	24.9	17.0	16.5	14.2	14.7

10.5.10ATCO REVISED PROPOSAL

Under NGR 88, assets constituting the capital base must be depreciated according to a depreciation schedule consisting of separate schedules, each relating to a particular asset or class of assets. ATCO has provided an updated depreciation schedule as part of this Revised Plan provided in Table 10.11.

Due to time constraints, we were unable to apply the accelerated depreciation across all asset classes and we are eager to work with the ERA to incorporate our proposed level of accelerated depreciation into the ERA PTRM model. For this proposal, all accelerated depreciation was set against the asset class of High pressure mains – steel (longest life asset). Applying accelerated depreciation in this way has no effect on tariff smoothing over AA6.

Table 10.11: AA6 forecast depreciation ($M real as at 31 December 2023)

ASSET CATEGORIES	2025	2026	2027	2028	2029	TOTAL
High pressure mains - steel	4.3	4.4	4.4	4.5	4.5	22.1
High pressure mains - PE	-0.1	0.1	0.1	0.1	0.1	0.2
Medium pressure mains	7.0	7.0	7.0	7.0	7.0	35.0
Medium/low pressure mains	14.6	15.3	15.9	16.6	17.2	79.6
Low pressure mains	1.7	1.7	1.7	1.7	1.7	8.4
Regulators	1.6	1.7	1.0	1.0	1.1	6.3
Secondary gate stations	-1.3	0.2	0.2	0.3	0.3	-0.3
Buildings	0.9	1.0	1.1	1.1	1.1	5.2
Meter and services pipes	28.7	29.0	29.5	29.4	29.4	145.9
Equipment and vehicles	1.0	1.0	1.0	1.0	0.9	4.9
Vehicles	1.5	1.9	1.8	1.8	1.8	8.7
Information technology	-0.1	9.1	13.7	14.1	13.5	50.3
Telemetry and monitoring	0.6	0.7	1.0	1.2	1.3	4.7
Full retail contestability	-0.2	0.0	0.0	0.0	0.0	-0.2
Land	0.0	0.0	0.0	0.0	0.0	0.0
Equity raising costs	0.0	0.0	0.0	0.0	0.0	0.1
SUB-TOTAL: Straight line Depreciation	**60.2**	**72.9**	**78.4**	**79.7**	**80.0**	**371.2**
Plus Accelerated depreciation	24.9	17.0	16.5	14.2	14.7	87.2
TOTAL DEPRECIATION	**85.1**	**89.9**	**94.9**	**93.9**	**94.6**	**458.4**

11. RETURN ON CAPITAL, TAXATION, INCENTIVES

CHAPTER HIGHLIGHTS

1. ATCO has amended the rate of return to be 7.33% (vanilla nominal after-tax) to align with the Draft Decision. ATCO will separately, and confidentially, nominate the averaging period for the market driven parameters that will be applied in the Final Decision.
2. We have re-estimated the cost of corporate income tax consistent with other elements of this Revised Plan.
3. The ERA accepted ATCO's proposal for not including any new incentive mechanism for AA6

11.1 INTRODUCTION

This chapter outlines the ERA's Draft Decision and ATCO's response regarding the rate of return and the estimated cost of corporate income tax.

The ERA accepted ATCO's proposal and the reasons for not including any new incentive mechanism for AA6. We have not included any new incentive mechanisms in this Revised Plan.

11.2 STAKEHOLDER FEEDBACK

Table 11.1 summarises the feedback received from our stakeholders and our respective responses.

Table 11.1: Consideration of stakeholder feedback on the Demand Forecast

STAKEHOLDER FEEDBACK	OUR RESPONSE
Stakeholders acknowledged the rate of return is set according to the ERA's 2022 Rate of Return Instrument but were concerned about the increase in the rate of return due to current market conditions.	The rate of return environment has now exited a period of historically low interest rates, which depressed the rate of return in AA5. The long term average interest rate on 10 year Commonwealth Government bonds over the period January 2000 to April 2024 is 4.12%[156] similar to the equity risk free rate of 4.20% adopted in the Draft Decision.
One stakeholder submitted the risk to gas pipeline operators posed by emissions reduction regulation should be dealt with via the equity market risk premium and the WACC.	It would be inappropriate to make further adjustments to the return calculated in accordance with the method set down in the Rate of Return Instrument. Additionally, the industry is moving towards the use of accelerated depreciation to manage the risk to gas

[156] RBA statistical table F2, Capital market yields -Government bonds – Monthly.

STAKEHOLDER FEEDBACK	OUR RESPONSE
	pipeline operators posed by emissions reduction regulation. Accelerated depreciation has the advantage over adjustments to the rate of return that it may be "wound back" if it is found in later periods not to be required.

11.3 SUMMARY OF THE ERA'S DRAFT DECISION

In their Draft Decision, the ERA confirmed ATCO's proposed rate of return is consistent with the gas rate of return instrument. The indicative rate of return in the Draft Decision was updated for current market conditions, with a 20-day averaging period to 14 February 2024. We have separately, and confidentially, nominated the averaging period to be used to determine the rate of return for the Final Decision.

The ERA has proposed a different estimated cost of corporate income tax, primarily due to amendments proposed in the underlying expenditure amounts. The ERA has proposed the following amendments:

- **REQUIRED AMENDMENT 7.1**: Subject to the nomination of a final averaging period, ATCO must update its rate of return to be 7.33 per cent (vanilla nominal after-tax).
- **REQUIRED AMENDMENT 7.2:** ATCO must amend the estimated cost of corporate income tax in accordance with [Table 11.2]

Table 11.2: ERA's Draft Decision calculation of the estimated cost of corporate income tax for AA6[157] ($ million nominal)

	2025	2026	2027	2028	2029
Unsmoothed revenue	**213.5**	**234.0**	**246.2**	**257.9**	**266.0**
Tax expenses					
Operating expenditure	66.5	69.9	74.8	79.4	82.6
Debt servicing cost	58.2	60.8	63.2	65.7	67.9
Tax depreciation	68.4	71.8	75.2	78.3	79.2
Total tax expenses	**193.1**	**202.5**	**213.2**	**223.4**	**229.8**
Tax					
Estimated taxable income	20.4	31.5	33.0	34.4	36.2
Carried forward tax loss	-	-	-	-	-
Estimated taxable income (net of tax loss)	20.4	31.5	33.0	34.4	36.2

[157] ERA, Draft Decision on revisions to the access arrangement for the Mid-West and South-West Gas Distribution Systems – Attachment 7: Return on capital, taxation, incentives, Table 7.10, page 23.

	2025	2026	2027	2028	2029
Estimated cost of corporate income tax	6.1	9.4	9.9	10.3	10.9
Value of imputation credits	(3.1)	(4.7)	(4.9)	(5.2)	(5.4)
Estimated cost of corporate income tax	**3.1**	**4.7**	**4.9**	**5.2**	**5.4**

11.4 ATCO'S RESPONSE TO THE DRAFT DECISION

11.4.1 ERA REQUIRED AMENDMENT 7.1

ERA REQUIRED AMENDMENT 7.1:

Subject to the nomination of a final averaging period, ATCO must update its rate of return to be 7.33 per cent (vanilla nominal after-tax).

ATCO GAS AUSTRALIA RESPONSE: ACCEPT

Subject to the nomination of a final averaging period, and the market based rate of return parameters determined in that period, ATCO has updated its rate of return to be 7.33 per cent (vanilla nominal after-tax).

ATCO'S RESPONSE

The rate of return is determined according to the process and parameters set out in the ERA's 2022 Rate of Return Instrument. ATCO agrees with the ERA's application of the Rate of Return Instrument to determine the ERA's Draft Decision rate of return. ATCO has not updated the market based parameters in this revised plan. Market based parameters will be updated in the ERA's Final Decision based on the values observed during the nominated averaging period.

11.4.2 ERA REQUIRED AMENDMENT 7.2

ERA REQUIRED AMENDMENT 7.2:

ATCO must amend the estimated cost of corporate income tax in accordance with Table 7.10 of this Draft Decision attachment.

ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT

ATCO agrees with the ERA's method of calculating income tax including tax asset lives. However, the values of revenue and expenses included in the calculation have been amended to be consistent with values in this revised plan.

ATCO REVISED PROPOSAL

The values of the tax asset base have been amended to be consistent with the capital expenditure values in this revised plan as shown in Table 11.3 and Table 11.4.

Table 11.3: Opening tax asset base ($ million nominal)

	2020	2021	2022	2023	2024
Opening value	603.3	606.6	620.9	641.0	659.3
Plus, capex (net)	61.6	74.5	80.8	81.5	82.5
Less, tax depreciation	-57.7	-59.7	-60.4	-62.8	-65.9
Less, asset disposals	-0.6	-0.5	-0.4	-0.3	0.0
Closing value	**606.6**	**620.9**	**641.0**	**659.3**	**675.9**

Table 11.4: Forecast tax asset base ($ million nominal)

	2025	2026	2027	2028	2029
Opening value	675.9	713.6	762.1	786.2	804.7
Plus, capex (net)	106.3	124.0	107.3	105.1	105.0
Less, tax depreciation	-68.6	-75.4	-83.3	-86.6	-88.4
Less, asset disposals	0	0	0	0	0
Closing value	**713.6**	**762.1**	**786.2**	**804.7**	**821.4**

The calculated forecast income tax allowance is shown in Table 11.5.

Table 11.5: Forecast income tax allowance ($ million real 2023

	2025	2026	2027	2028	2029
Estimated taxable income	51.9	54.3	55.8	54.5	57.2
Tax payable	15.6	16.3	16.7	16.3	17.2
Less value of imputation credits	-7.8	-8.2	-8.4	-8.2	-8.6
Estimate of corporate income tax ($million nominal)	7.8	8.2	8.4	8.2	8.6
Deflator to $real 2023	0.940	0.917	0.894	0.872	0.851
Estimate of corporate income tax	**7.3**	**7.5**	**7.5**	**7.1**	**7.3**

12. OTHER ACCESS ARRANGEMENT PROVISIONS

CHAPTER HIGHLIGHTS

1. ATCO has removed fixed principle 11.5 from the proposed access arrangement
2. The affordability and sustainability key performance indicators have been updated to align to the 2025-29 Revised Plan

12.1 INTRODUCTION

This chapter outlines ATCO's response to the ERA's Draft Decision on fixed principles; application procedures; extension and expansion requirements; capacity trading requirements; principles for change delivery and receipt points; and key performance indicators.

12.2 SUMMARY OF THE ERA'S DRAFT DECISION

The ERA's Draft Decision accepted allowing fixed principles 11.1 and 11.2 to expire on 25 August 2025 and 1 January 2031, respectively; the application procedures; the extensions and expansion requirements; capacity trading requirements; principles for change delivery and receipt points.

The ERA's Draft Decision includes the following required amendments:

- **REQUIRED AMENDMENT 8.1 –** ATCO must delete fixed principle 11.5 (relating to emissions reduction and renewables) from the proposed access arrangement.
- **REQUIRED AMENDMENT 8.2 –** ATCO should review its affordability key performance indicator targets in accordance with the targets calculated by the ERA and set out in [Table 12.2] of this Draft Decision attachment.

Table 12.1: ERA Draft Decision affordability key performance indicators and yearly targets for AA6 ($ real 31 December 2023)

KPI	2025	2026	2027	2028	2029
Opex per km of main ($)	4,304	4,356	4,487	4,577	4,582
Opex per customer connection ($)	78	79	82	83	83

- **REQUIRED AMENDMENT 8.3 –** ATCO should review its carbon emissions key performance indicator targets in accordance with the revised investment levels approved by the ERA in its draft decision.

12.3 ATCO'S RESPONSE TO THE DRAFT DECISION

12.3.1 ERA REQUIRED AMENDMENT 8.1

> **ERA REQUIRED AMENDMENT 8.1:**
>
> ATCO must delete fixed principle 11.5 (relating to emissions reduction and renewables) from the proposed access arrangement.
>
> **ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT**
>
> ATCO has revised fixed principle 11.5

BACKGROUND

ATCO proposed a new fixed principle to ensure recovery of any conforming expenditure incurred after 1 January 2025 to implement emissions reduction strategies and prepare the network for the introduction of hydrogen, biomethane and other renewable gases. This fixed principle is in anticipation of the proposed amendments to the national gas regulatory framework.

Since ATCO's submission, the National Gas Objective in Western Australia has been revised to incorporate emissions reduction objectives. The expenditure rules that apply in Western Australia have also been revised to expressly refer to the NGO and therefore also now incorporate an emissions reduction element.

Furthermore, in March 2024, the regulatory framework in all other Australian jurisdictions was amended to bring hydrogen, biomethane and other renewable gases under the national gas regulatory framework. While these amendments are not yet implemented in Western Australia, we understand that the Western Australian Government is progressing towards adopting these changes.

Notwithstanding that ATCO expects these amendments to be implemented in WA before the ERA's final decision, ATCO submits that a revised fixed principle 11.5 is required in the event it is not, for the same reasons as discussed in section 6.8 above.

ATCO'S RESPONSE

Given the progress that has been made on the regulatory framework since ATCO's September 2023 submission we have reassessed the need for the inclusion of the fixed principle that provides for expenditure incurred prior to the legislative amendments taking effect to be eligible to be treated as conforming expenditure.

As set out in Section 14.15.2, a mechanism is required to enable ATCO to recover conforming expenditure following the incorporation of biomethane and other renewable gases into the economic regulatory framework (if the amendments are not made prior to the ERA's Final Decision).

ATCO has amended fixed principle 11.5 to work in conjunction with the tariff variation mechanism to ensure that if there are any unrecovered operating or capital costs that arise during AA6 related to the enabling renewable gas program, that these costs are recovered in AA7.

12.3.2 ERA REQUIRED AMENDMENT 8.2

ERA REQUIRED AMENDMENT 8.2:

ATCO should review its affordability key performance indicator targets in accordance with the targets calculated by the ERA and set out in Table 8.3 of this draft decision attachment.

ATCO GAS AUSTRALIA RESPONSE: ACCEPT

Revised affordability key performance indicator targets have been calculated

BACKGROUND

Although there is no requirement to state our key performance indicators (KPIs) within this Access Arrangement Information, we included KPIs within our 2025-29 Plan to enable stakeholders to understand the key metrics we use to measure our performance.

REVISED AFFORDABILITY KEY PERFORMANCE INDICATORS

We have revised the affordability targets to match the forecasts incorporated into this 2025-29 Revised Plan. The revised affordability targets for AA6 are detailed in the table below:

Table 12.2: Affordability Key Performance Indicators ($ real as at 31 December 2023)

AA6 TARGETS	AA5 TARGET	2025	2026	2027	2028	2029
Opex per km of main	$5,226	5,603	5,756	5,852	6,198	6,091
Opex per customer connection	$98	$102	$105	$107	$113	$110

12.3.3 ERA REQUIRED AMENDMENT 8.3

ERA REQUIRED AMENDMENT 8.3:

ATCO should review its carbon emissions key performance indicator targets in accordance with the revised investment levels approved by the ERA in its draft decision.

ATCO GAS AUSTRALIA RESPONSE: ACCEPT WITH MODIFICATIONS

ATCO has revised the UAFG key performance indicator due to the reforecast of customer demand.

Carbon emissions key performance indicator target was not altered, as supported in attachment '07.105.00 - Renewable gas injection point - UAFG - Business Case'.

BACKGROUND

ATCO's Sustainability Strategy (Attachment 0.3.003) sets out our emissions reduction target for 2030. In response to new information we have amended the timing of our expenditure plans to introduce

renewable gases into the network as we now expect this to commence in 2027. However, the recommended option for the reduction of UAFG includes offsetting our Scope 1 emissions for every year of AA6 and therefore no changes were required to the Carbon Emission abatement profile in AA6.

In response we have revised our profile of the UAFG rate and confirmed our annual target Scope 1 abatement for AA6.

REVISED CARBON EMISSIONS KEY PERFORMANCE INDICATORS

We have revised the carbon emissions profile to match the forecasts incorporated into this 2025-29 Revised Plan. The revised sustainability targets, including the UAFG Rate, for AA6 are detailed in the table below:

Table 12.3: ATCO AA6 Sustainability Key Performance Indicators

AA6 TARGETS	AA5 TARGET	2025	2026	2027	2028	2029
UAFG Rate (%)	2.37	1.81	1.78	1.74	1.73	1.72
Carbon Emissions (**Net reduction**) (Scope 1) (t CO_2-e)	N/A	7,357	11,467	14,630	18,082	20,443

13. SERVICE TERMS AND CONDITIONS

CHAPTER HIGHLIGHTS

1. ATCO has accepted the majority of ERA's amendments to the Template Service Agreement
2. ATCO has included additional information in the Permanent Disconnection Agreement.

13.1 INTRODUCTION

This chapter outlines ATCO's response to the ERA's Draft Decision on the Template Service Agreement and Permanent Disconnection Contract.

ATCO has accepted the majority of the ERA's amendments to the Template Service Agreement and included additional information in the Permanent Disconnection Agreement.

13.2 SUMMARY OF THE ERA'S DRAFT DECISION

The ERA approved ATCO's amendments to the Template Service Agreement to include provisions for receipt points that receive gas that is not natural gas, provisions for cyber security and other minor wording changes to existing provisions.

For the Permanent Disconnection Contract the ERA's decision required ATCO to, at a minimum, clarify the service options for disconnections and the payment of costs related to property repairs/reinstatements.

The ERA's Draft Decision included the following required amendments:

- **REQUIRED AMENDMENT 9.1 -** ATCO must retain the words "arrangement or understanding" in the definition for the term Interconnection Arrangement in the Template Service Agreement. That is, the definition must mean: "*a written or unwritten contract,* ***arrangement or understanding*** *in respect of an interconnection at a Physical Gate Point between the ATCO GDS and an Interconnected Pipeline (and includes a written or unwritten contract,* ***arrangement or understanding*** *for the provision of an Interconnection Service)*".
- **REQUIRED AMENDMENT 9.2 -** ATCO must amend proposed new clauses 5.5(d) and 5.9 of the Template Service Agreement to require the service provider to act reasonably in imposing conditions precedent and charges. The amended drafting is set out at paragraph 50 of this draft decision attachment.
- **REQUIRED AMENDMENT 9.3 -** ATCO must retain existing clause 15.1(g) (which relates to default provisions) in the Template Service Agreement.
- **REQUIRED AMENDMENT 9.4 -** As confirmed by ATCO the words "during a month" in clause 8 of Schedule 2 in the Template Service Agreement were inserted in error. These words should therefore be deleted.

- **REQUIRED AMENDMENT 9.5 -** ATCO must review the terms and conditions set out in the Permanent Disconnection Contract to identify any improvements that can clarify and/or resolve the matters raised in submissions to the ERA with respect to the permanent disconnection service. As a minimum, the terms and conditions for the permanent disconnection service must:

  a. clarify the service options for disconnection (whether temporary or permanent) and clearly set out the circumstances where the permanent disconnection service is required; and

  b. clarify the extent to which property will be repaired or reinstated with respect to disturbances to paving, concrete, bitumen and other things that form part of a property crossover/verge.

13.3 ATCO'S RESPONSE TO THE DRAFT DECISION

ATCO has accepted Required Amendment 9.1, 9.3 and 9.4 without further amendment.

In the following sections we detail our response to Requirement Amendment 9.2 and 9.5.

13.3.1 ERA REQUIRED AMENDMENT 9.2

> **ERA REQUIRED AMENDMENT 9.2:**
>
> ATCO must amend proposed new clauses 5.5(d) and 5.9 of the Template Service Agreement to require the service provider to act reasonably in imposing conditions precedent and charges. The amended drafting is set out at paragraph 50 of this draft decision attachment.
>
> **ATCO GAS AUSTRALIA RESPONSE: DO NOT ACCEPT**
>
> ATCO agrees to the ERA's proposed amendment to clarify that it will include only "reasonable" conditions precedent into a specific agreement. ATCO considers the inclusion of "reasonable" in respect of determining its charges is generally unnecessary given the requirement to be "in accordance with the requirement of any applicable Law". However, ATCO acknowledges that it may not always be dealt with at law and has therefore included a reasonableness requirement for those circumstances where there is no requirement in any applicable Law.

BACKGROUND

ATCO agrees to the ERA's proposed amendment to clarify that it will include only "reasonable" conditions precedent into a specific agreement.

In respect of charges, ATCO considers the inclusion of "reasonable" is unnecessary given the requirement to be "in accordance with the requirement of any applicable Law".

If, as expected, the interconnection provisions of the NGR come into force in WA then they will regulate the determination of these costs. The proposed drafting for NGR 38(3) provides that the fee must be based on the directly attributable cost of:

> *Constructing, operating and maintaining the interconnection; and*

Where gas is to be injected at the interconnection point, installing, operating and maintaining metering and gas quality monitoring equipment required to be installed as a result of the interconnection.

ATCO considers that where the law governs the fee that we can charge, these requirements should stand on their own and there is no need for additional requirements, such as the proposed element of reasonableness. Further, we note that there will also be a requirement us to set out in our interconnection policy information about how interconnection fees will be calculated and recovered NGR 39(2).

However, we acknowledge that the charges may not always be dealt with at law. We therefore propose including a reasonableness requirement for those circumstances where there is no requirement in any applicable Law.

REVISED AMENDMENTS TO TEMPLATE SERVICE AGREEMENT

ATCO proposes revising the Template Services Agreement as per Table 13.1.

Table 13.1: Proposed Template Services Agreement revisions

CLAUSE	AMENDMENT
Clause 5.5(d)	"If <Counterparty> requests <Service Provider> to construct facilities to service a new Delivery Point, <Service Provider> will process that request in accordance with any applicable Laws. Depending on the nature and scale of facilities required, <Service Provider> may require entry into a specific agreement relating to the construction of those facilities (and that agreement may include reasonable conditions precedent, such as obtaining all relevant approvals). <Service Provider> will ensure its charges for constructing such facilities are reasonable or otherwise determined ~~its charges for constructing such facilities~~ in accordance with the requirements of any applicable Laws."
Clause 5.9(b)	"an agreement in place between <Service Provider> and <Counterparty> (and/or the operator referred to in clause 5.9(a)) relating to the construction of those facilities and any modifications required to the ATCO GDS to connect the new Receipt Point or Physical Gate Point (including the amounts <Service Provider> will charge for making the required modifications to the ATCO GDS and supervising the design, construction and commissioning process). <Service Provider> will ensure its charges relating to establishment of the new Receipt Point or Physical Gate Point are reasonable or otherwise determined ~~its charges relating to establishment of the new Receipt Point or Physical Gate Point~~ in accordance with the requirements of any applicable Laws."

13.3.2 ERA REQUIRED AMENDMENT 9.5

ERA REQUIRED AMENDMENT 9.5:

ATCO must review the terms and conditions set out in the Permanent Disconnection Contract to identify any improvements that can clarify and/or resolve the matters raised in submissions to the ERA with respect to the permanent disconnection service. As a minimum, the terms and conditions for the permanent disconnection service must:

a. clarify the service options for disconnection (whether temporary or permanent) and clearly set out the circumstances where the permanent disconnection service is required; and

b. clarify the extent to which property will be repaired or reinstated with respect to disturbances to paving, concrete, bitumen and other things that form part of a property crossover/verge.

ATCO GAS AUSTRALIA RESPONSE: ACCEPT

ATCO has revised the Permanent Disconnection Contract taking into account the ERA's required amendments and other suggestions.

BACKGROUND

ATCO agrees with the ERA's Draft Decision and has revised the Permanent Disconnection Contract to address the ERA's concerns – see clauses 2, 3, 30, 31 and 32.

WHEN IS THE PERMANENT DISCONNECTION SERVICE REQUIRED?

ATCO confirms that the only circumstance in which the Permanent Disconnection Service is required to be obtained, is for property demolitions. These form the majority of the Permanent Disconnection Services performed by ATCO.

In all other circumstances, the Permanent Disconnection Service is optional. An end use customer may elect to obtain the Permanent Disconnection Service if it wishes to permanently disconnect from the GDS.

If the end use customer simply wants to cease supply of gas to their property, they do not require the Permanent Disconnection Service and should instead contact their retailer.

ATCO has clarified these points in the Permanent Disconnection Contract at clauses 2 and 3, expressly stating that the Permanent Disconnection Service is only required for demolitions or if an end use customer elects to permanently disconnect from the GDS. Further, that an end use customer should contact their retailer if they simply want to cease the supply of gas to their property (e.g., If they want to electrify).

ATCO does not consider any further detail regarding different (temporary and permanent) disconnection options should be included in the Permanent Disconnection Contract. Instead, we include this information on our website to direct customers to the different options. Alternate disconnection services, if required, would be sought from ATCO by the retailer. Conversely, the Permanent Disconnection Contract is for end users (and authorised representatives). Therefore, while we include information on our website regarding disconnection options, the end user should ultimately contact their retailer to discuss or request the alternate disconnection services.

HOW WILL ATCO REPAIR OR REINSTATE THE PROPERTY FOLLOWING THE PERMANENT DISCONNECTION SERVICE?

ATCO notes that the Permanent Disconnection Service is generally performed outside of the property boundary – by cutting and capping the service pipe at the main. It is only on occasion that works are required inside or on the property boundary. Therefore, damage is rarely sustained on the property as a result of the Permanent Disconnection Service.[158]

Where the Permanent Disconnection Service is performed on the property, consistent with good industry practice, ATCO:

- back fills the ground to approximately the same level; and
- if it has not acted reasonably in performing the service, at the end user's request, reinstates any damage it has caused.

We note that the Permanent Disconnection Service is mostly obtained in the context of a property demolition. As noted, the Permanent Disconnection Service is required before a property may be demolished. This means that even if damage is caused on the property, it is not generally of concern to the end user. However, we note that while we do not reinstate every time damage is sustained, for the above-mentioned reasons, if the end user requires it, then we will do so.

It is for these reasons that we did not initially include in the Permanent Disconnection Contract an obligation for us to backfill or to repair or reinstate the property.

ATCO has revised the Permanent Disconnection Contract at clauses 30, 31 and 32 to address this. We have clarified that we will backfill any ground on the property and, if damage is caused on the property, at the request of the end user, we will reinstate to the extent we have failed to act reasonably in performing the service. As noted above, reinstating any damage on the property is done at the request of the end user to address potential inefficiencies and the fact that the service is mostly in the context of property demolitions and an end user does not typically require us to reinstate the property.

STAKEHOLDER FEEDBACK

ATCO notes stakeholder submissions that the Permanent Disconnection Service charge hinders a customer's ability to elect to cease gas supply and electrify their homes. We wish to correct this point and confirm that, as noted above, the Permanent Disconnection Service is not required if an end use customer wishes to electrify. The Permanent Disconnection Service is only required if an end use customer wishes to permanently disconnect from the network (or due to a demolition). If an end use customer wishes to electrify, they may contact their retailer and simply cease the supply of gas to their property.

[158] ATCO has not included in the Permanent Disconnection Contract any reference to damage sustained outside of the property. ATCO confirms that it will reinstate such damage in accordance with the law and refers to section 53 of the *Energy Operators (Powers) Act 1979* (WA) which requires reinstatement of streets or pavements.

AMENDMENTS TO PERMANENT DISCONNECTION CONTRACT

Table 13.2: Amendments to the Permanent Disconnection Contract

CLAUSE	AMENDMENT
Clause 2(a)	ATCO has clarified that the Permanent Disconnection Service is only required for property demolitions – the property must be permanently disconnected from the network before demolition can occur. In these instances, the Permanent Disconnection Contract will generally be entered into by an authorised representative of the end use customer (typically a demolition company) as opposed to ATCO contracting directly with the end use customer.
Clause 2(b)	ATCO has clarified that the Permanent Disconnection Service may be obtained by an end use customer if they wish to (voluntarily) permanently disconnect their property from the GDS.
Clause 3	ATCO has clarified that the Permanent Disconnection Service is not required if an end use customer simply wishes to cease the supply of Gas to their property (e.g., to electrify their property). An end use customer can cease the supply of Gas to their property by contacting their retailer (who would obtain the relevant service from ATCO). The Permanent Disconnection Service in these circumstances is optional.
Clause 30, 31 and 32	ATCO has clarified that: • If the service is performed inside the property boundaries it will back fill the ground; and • If any damage is caused inside the property boundaries where it has failed to act reasonably in performing the service, it will, at the end user's request, reinstate or make good (or elect to pay compensation for) the damage.

PART C |
Our Revised Proposal

ATCO

14. ACCESS ARRANGEMENT INFORMATION

14.1 OVERVIEW

This document comprises the Access Arrangement Information (AAI) for the revised access arrangement for the Mid-West and South-West Gas Distribution Systems (GDS) that was proposed by the ERA and given effect on 15 November 2019, pursuant to the National Gas Rules, Rule 64(4).

The purpose of this document is to:

1. set out the information necessary for users and prospective users to understand the background to the access arrangement for the GDS and
2. to enable users and prospective users to understand the derivation of the elements of the access arrangement for the GDS for the sixth access arrangement period (AA6) – 1 January 2025 to 31 December 2029. The provision of this AAI is also necessary for compliance with the NGR.

The GDS consists of gas reticulation networks servicing Geraldton, Bunbury, Busselton, Harvey, Pinjarra, Brunswick Junction, Capel, and the Perth greater metropolitan area (including Mandurah). These combined networks supply over 785,000 customers through nearly 14,500 kilometres of pipeline.

14.2 BASIS OF FINANCIAL INFORMATION

Financial information in this document is provided on both a nominal and real basis. All real financial information is expressed in constant prices as at 31 December 2023.

The forecast costs within this document have been prepared in accordance with the method described in our *'Regulatory Cost Allocation Method', (see Attachment 01.006*) to ensure that costs associated with providing non-reference services are not included in the forecasts presented in this document.

Where necessary, to express financial values in dollar values of 31 December 2023, financial values prior to December 2023 were escalated at the rate of inflation as measured by the Consumer Price Index (All Groups, Weighted Average of Eight Capital Cities) as published by the Australian Bureau of Statistics.

Financial values after 31 December 2023 up to 31 December 2024 are de-escalated at the rate of inflation based on the Reserve Bank of Australia's May 2024 Statement on Monetary Policy.

Financial values after 31 December 2024 are de-escalated using the forecast rate of inflation from the weighted average cost of capital (**WACC**) parameter estimates used in the Plan (which are also calculated as prescribed by the 2022 Rate of Return Instrument (**RORI**))[159].

Table 14.1 shows the consumer price index and inflation values used to provide financial information in this document.

[159] ERA, 2022 Final Gas Rate of Return Instrument, December 2022, section 8.1

Table 14.1: Actual and forecast consumer price index and inflation rates

	2019 (A)	2020 (A)	2021 (A)	2022 (A)	2023 (A)	2024 (F)	2025 (F)	2026 (F)	2027 (F)	2028 (F)	2029 (F)
December CPI	116.2	117.2	121.3	130.8	136.1						
Inflation rate (%)	1.84%	0.86%	3.50%	7.83%	4.05%	3.80%	2.51%	2.51%	2.51%	2.51%	2.51%

14.3 AA5 EXPENDITURE AND PIPELINE USAGE

The AAI is required to detail our expenditures and pipeline usage over the current Access Arrangement period (AA5). This information is presented in the tables below.

Table 14.2: AA5 Capex actual/Forecast by Asset Class ($M real as at 31 December 2023)

CATEGORY	2020	2021	2022	2023 (F)	2024 (F)	TOTAL AA5		
						ACTUAL	APPROV.	*$VAR*
High pressure mains - steel	4.4	4.7	4.7	1.7	3.1	18.6	15.1	*3.5*
High pressure mains - polyethylene	0.7	-0.2	0.0	0.0	0.0	0.5	0.0	*0.5*
Medium pressure mains	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*0.0*
Medium and low pressure mains	31.4	37.4	38.9	37.2	36.0	180.9	205.7	*-24.8*
Low pressure mains	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*0.0*
Regulators	1.6	1.2	1.7	1.6	2.0	8.1	4.5	*3.6*
Secondary gate stations	0.1	0.0	0.0	0.2	0.2	0.5	0.4	*0.1*
Buildings	0.4	0.3	0.4	0.7	0.3	2.0	3.2	*-1.2*
Meter and services pipes	24.9	27.5	27.4	29.9	27.6	137.3	177.8	*-40.5*
Equipment and vehicles	1.1	0.8	0.9	0.6	1.2	4.6	4.9	*-0.3*
Vehicles	3.3	2.6	1.6	1.5	2.9	11.9	18.7	*-6.7*
Information technology	2.8	8.2	7.6	7.3	5.7	31.6	41.3	*-9.7*
Telemetry and monitoring	0.8	1.1	0.9	0.7	0.5	4.1	8.8	*-4.8*
Full retail contestability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*0.0*
Land	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*0.0*
Equity raising costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*0.0*
TOTAL	**71.5**	**83.6**	**84.1**	**81.5**	**79.5**	**400.1**	**480.4**	***-80.3***

Table 14.3: AA5 Opex actual and forecast ($M real as at 31 December 2023)

CATEGORY	2020	2021	2022	2023	2024(F)	TOTAL AA5		%VAR
						ACTUAL	APPROV.	
Network	32.0	35.3	36.1	40.5	41.1	185.1	196.8	-6%
Corporate	20.0	19.1	24.5	23.4	23.6	110.7	92.4	20%
Information Technology	7.8	8.8	4.7	5.6	6.7	33.7	41.5	-19%
UAFG	2.7	3.8	3.3	3.0	4.3	17.1	25.7	-33%
Ancillary Services	1.6	0.9	0.9	2.0	3.1	8.4	19.8	-57%
[redacted]	0.0	7.7	4.8	4.3	-	16.8	0.0	
TOTAL	**64.1**	**75.7**	**74.4**	**78.9**	**78.8**	**371.9**	**376.2**	***-1%***

Table 14.4: Minimum, maximum, and average demand for AA5 (TJ / day)

DEMAND AA5	2020	2021	2022	2023	2024 (F)
Average	74	78	76	78	82
Minimum	44	38	37	35	40
Maximum	112	126	118	125	119

Table 14.5: Average customer numbers by tariff class for AA5 (average for year)

TARIFF CLASS	2020	2021	2022	2023 (F)	2024 (F)
A1	74	74	73	71	68
A2	106	104	104	104	105
B1	1,808	1877	1,940	1,995	2,046
B2	12,130	12,229	12,429	12,633	12,819
B3	744,038	751,397	761,658	772,819	781,628
TOTAL	**758,155**	**765,679**	**776,204**	**787,621**	**796,665**

14.4 OPENING CAPITAL BASE

Table 14.6: Opening capital base ($ millions real as at 31 December 2023)

	2019	2020	2021	2022	2023	2024
Opening capital base 2019 before adjustment	1,492.8					
Benefit from the difference between the estimated and actual 2019 capex	-1.8					
Opening capital base	1,491.0	1,509.1	1,525.8	1,544.0	1,561.2	1,574.3
Capex (net)	81.5	71.5	83.6	84.1	81.5	80.5
Depreciation	-62.3	-54.0	-64.8	-66.5	-68.0	-70.7
Asset disposals	-1.0	-0.7	-0.6	-0.4	-0.3	0.0
CLOSING CAPITAL BASE	**1,509.1**	**1,525.8**	**1,544.0**	**1,561.2**	**1,574.3**	**1,584.1**

14.5 PROJECTED CAPITAL BASE

Table 14.7: Projected capital base ($ millions real as at 31 December 2023)

	2025	2026	2027	2028	2029
Opening Capital Base	1,584.1	1,606.2	1,629.4	1,629.3	1,623.6
Capex (net)	99.8	113.6	95.8	91.6	89.2
Depreciation - straight line	-60.2	-72.9	-78.4	-79.7	-79.9
Depreciation – accelerated	-17.5	-17.5	-17.5	-17.5	-17.5
Asset Disposals	0.0	0.0	0.0	0.0	0.0
CLOSING CAPITAL BASE	**1,606.2**	**1,629.4**	**1,629.3**	**1,623.6**	**1,615.4**

14.6 FORECAST CAPITAL EXPENDITURE

Table 14.8: Forecast AA6 Capex by Asset Class ($M real as at 31 December 2023)

ASSET CLASS	2025	2026	2027	2028	2029	TOTAL AA6
High pressure mains - steel	2.5	3.0	6.4	4.8	5.5	**22.3**
Medium and low pressure mains	37.6	37.8	39.9	38.7	38.3	**192.4**
Regulators	3.0	2.5	2.5	2.5	2.5	**13.0**
Secondary gate stations	0.8	1.3	1.9	3.1	2.5	**9.6**
Buildings	1.7	3.5	0.5	0.4	0.5	**6.6**
Meter and services pipes	29.1	30.6	31.4	32.5	32.6	**156.1**
Equipment and Vehicles	1.0	0.9	0.9	0.9	0.9	**4.7**
Vehicles	3.4	2.3	1.4	2.4	2.8	**12.3**
Information technology	19.3	28.5	9.4	4.7	2.1	**64.0**
Telemetry and monitoring	1.5	3.3	1.7	1.6	1.6	**9.6**
TOTAL ACTUAL CAPEX	**99.9**	**113.7**	**96.0**	**91.7**	**89.4**	**490.7**

14.7 FORECAST OF DEPRECIATION

Table 14.9: AA6 forecast depreciation ($ millions real as at 31 December 2023)

ASSET CATEGORIES	2025	2026	2027	2028	2029
High pressure mains - steel	4.3	4.4	4.4	4.5	4.5
High pressure mains - PE	-0.1	0.1	0.1	0.1	0.1
Medium pressure mains	7.0	7.0	7.0	7.0	7.0
Medium/low pressure mains	14.6	15.3	15.9	16.6	17.2
Low pressure mains	1.7	1.7	1.7	1.7	1.7
Regulators	1.6	1.7	1.0	1.0	1.1
Secondary gate stations	-1.3	0.2	0.2	0.3	0.3
Buildings	1.0	1.0	1.1	1.1	1.1
Meter and services pipes	28.7	29.0	29.5	29.4	29.4
Equipment and vehicles	1.0	1.0	1.0	1.0	0.9
Vehicles	1.5	1.9	1.8	1.8	1.8
Information technology	0.0	9.2	13.8	14.2	13.6
Telemetry and monitoring	0.4	0.6	0.9	1.0	1.1
Full retail contestability	-0.2	0.0	0.0	0.0	0.0
Land	0.0	0.0	0.0	0.0	0.0
Equity raising costs	0.0	0.0	0.0	0.0	0.0
SUB-TOTAL: Straight line Depreciation	**60.2**	**72.9**	**78.4**	**79.7**	**79.9**
Plus Accelerated depreciation	24.9	17.0	16.5	14.2	14.7
TOTAL DEPRECIATION	**77.7**	**87.5**	**88.0**	**88.1**	**87.3**

14.8 FORECAST DEMAND

Table 14.10: AA6 Total Demand Forecast – Haulage Reference Services

TARIFF CLASS	2024	2025	2026	2027	2028	2029
A1 TARIFF						
Average Customer Base	68	66	66	65	64	63
Demand (TJ)	12,150	13,178	13,379	13,877	13,855	13,821
A2 TARIFF						
Average Customer Base	105	104	104	104	104	104

TARIFF CLASS	2024	2025	2026	2027	2028	2029
Demand (TJ)	1,898	1,900	1,886	1,882	1,877	1,873
B1 TARIFF						
Average Customer Base	2,046	2,095	2,145	2,196	2,249	2,303
Demand (TJ)	2,166	2,155	2,144	2,134	2,123	2,112
B2 TARIFF						
Average Customer Base	12,819	13,009	13,202	13,397	13,631	13,903
Demand (TJ)	1,310	1,301	1,292	1,282	1,276	1,274
B3 TARIFF						
Average Customer Base	781,628	788,369	796,364	805,627	815,553	825,813
Demand (TJ)	10,069	9,806	9,599	9,420	9,262	9,120
TOTAL						
Average Customer Base	**796,665**	**803,643**	**811,880**	**821,389**	**831,600**	**842,186**
Demand (TJ)	**27,592**	**28,340**	**28,299**	**28,594**	**28,392**	**28,199**

* Compound Annual Growth Rate

Table 14.11: AA6 Total Demand Forecast – Ancillary Services

ANCILLARY SERVICE	2024	2025	2026	2027	2028	2029
Applying a Meter Lock	9,409	9,504	9,615	9,733	9,855	9,409
Removing a Meter Lock	8,474	8,568	8,672	8,781	8,892	8,474
Deregistering a delivery point	2,050	2,071	2,095	2,120	2,147	2,050
Disconnecting a Delivery Point	3,153	3,185	3,223	3,262	3,303	3,153
Reconnecting a Delivery Point	3,075	3,106	3,142	3,181	3,221	3,075
Permanent disconnection	1,323	1,337	1,352	1,369	1,386	1,323
Special meter reads	102,488	103,527	104,731	106,022	107,356	102,488

* Compound Annual Growth Rate – from 2024 to 2029

14.9 FORECAST OPERATING EXPENDITURE

Table 14.12: Forecast AA6 opex ($million real as at 31 December 2023)

FORECAST OPEX	2025	2026	2027	2028	2029	TOTAL
Base year opex	66.4	66.4	66.4	66.4	66.4	**332.2**
Step changes	3.7	5.8	7.0	11.9	10.2	**38.6**
Input cost escalation	0.9	1.4	1.9	2.5	3.0	**9.6**
Output growth escalation	0.9	1.3	1.8	2.4	3.0	**9.3**
UAFG	6.0	5.9	5.9	5.9	5.9	**29.6**
Ancillary services	4.3	4.4	4.4	4.5	4.6	**22.2**
TOTAL	**82.2**	**85.2**	**87.5**	**93.7**	**93.0**	**441.6**

14.10 RATE OF RETURN

- The AAI must include the allowed rate of return for each regulatory year of the access arrangement period.
- The ERA's 2022 Rate of Return Instrument (RORI) details the approach we must follow for calculating the rate of return under the NGR.
- The rate of return, based on the Weighted Average Cost of Capital (WACC), provides for a return on the regulatory asset base.
- Table 14.13 shows the rate of return parameters for AA6.

Table 14.13: Rate of return estimate

PARAMETER	VALUE
Inflation rate	2.51%
Cost of debt	
Debt risk-free rate - 5-year interest rate swap (effective yield)	4.18%
Debt issuing cost (0.165%) + hedging (0.123%)	0.29%
Debt Risk Premium (**DRP**) (10-year average)	1.94%
Cost of debt	**6.40%**
Cost of equity	
Risk-free rate	4.20%
Market Risk Premium	6.10%
Beta	0.7
Nominal after tax cost of equity	**8.47%**
Debt proportion	55%

PARAMETER	VALUE
Equity proportion	45%
Nominal after tax rate of return	**7.33%**
Real after tax rate of return	**4.71%**

14.11 ESTIMATED COST OF INCOME TAX

- The expected statutory income tax for each regulatory year of the access arrangement period is 30%.
- As required by the gas rate of return guidelines, a value of 0.5 is used for the value of imputation credits.

Table 14.14: Estimate of corporate income tax ($million)

	2025	2026	2027	2028	2029
Estimated taxable income	51.9	51.9	51.9	51.9	51.9
Tax payable	15.6	15.6	15.6	15.6	15.6
Less value of imputation credits	-7.8	-7.8	-7.8	-7.8	-7.8
Est. of corporate income tax ($M nominal)	**7.8**	**7.8**	**7.8**	**7.8**	**7.8**
Deflator to $real 2023	0.9	0.9	0.9	0.9	0.9
Est. of corporate income tax ($M real 2023)	**7.3**	**7.3**	**7.3**	**7.3**	**7.3**

14.12 TAX ASSET LIVES

Table 14.15: Tax asset lives (years)

ASSET CATEGORIES	ASSET LIVES (YEARS)
CURRENT AND NEW ASSET CATEGORIES	
HP Mains - Steel	20
HP Mains - PE	20
Medium and Low Pressure Mains	20
Regulators	20
Secondary Gate Stations	20
Buildings	40
Meter and Services Pipes	15
Equipment and Vehicles	10
Information Technology	5

ASSET CATEGORIES	ASSET LIVES (YEARS)
Equity Raising Cost	5
Telemetry	10
HISTORICAL ASSET CATEGORIES (NO LONGER USED FOR NEW EXPENDITURE)	
Medium Pressure Mains	20
Low Pressure Mains	20

14.13 TAX ASSET BASE

Table 14.16: Roll forward of tax asset base over AA6 ($million nominal)

	2025	2026	2027	2028	2029
Opening value	675.9	713.6	762.1	786.2	804.7
Plus, capex (net)	106.3	124.0	107.3	105.1	105.0
Less, tax depreciation	-68.6	-75.4	-83.3	-86.6	-88.4
Less, asset disposals	0	0	0	0	0
Closing value	**713.6**	**762.1**	**786.2**	**804.7**	**821.4**

14.14 APPROACH TO SETTING TARIFFS

14.14.1 TARIFF CLASSES

Table 14.17: AA6 Tariff Classes for Haulage Reference Services

REFERENCE SERVICE	DESCRIPTION
A1	A1 is a pipeline service under which ATCO delivers gas to a user at a delivery point on the network, where the following preconditions were met at the time the user (then a prospective user), submitted an application for the service: • It was reasonably anticipated that the prospective user would take delivery of 35 TJ or more of gas during each year of the haulage contract; and • The prospective user requested a contracted peak rate of 10 GJ or more per hour; and • The prospective user requests user-specific delivery facilities.

REFERENCE SERVICE	DESCRIPTION

A2	A2 is a pipeline service under which ATCO delivers gas to a user at a delivery point on the network, where the following preconditions were met at the time the user (then a prospective user), submitted an application for the service:
	• Either (or both):
	  ○ it was reasonably anticipated that the prospective user would take delivery of 10 TJ or more of gas, but less than 35 TJ of gas, during each year of the haulage contract, or they requested a contracted peak rate of less than 10 GJ per hour; and
	  ○ an Above 10 TJ Determination was, or was likely to have been, made under the Retail Market Procedures (WA); and
	• The prospective user requests user-specific delivery facilities.

B1	B1 is a pipeline service under which ATCO delivers gas to a user at a delivery point on the network, where the following preconditions were met at the time the user (then a prospective user), submitted an application for the service:
	• Either:
	  ○ it was reasonably anticipated that the prospective user would take delivery of less than 10 TJ of gas during each year of the haulage contract; or
	  ○ requested a contracted peak rate of less than 10 GJ per hour; and
	• The prospective user requests user-specific delivery facilities or standard delivery facilities that include a standard meter with a badged capacity of 18 cubic meters per hour (m^3/h) or more.

B2	B2 is a pipeline service under which ATCO delivers gas to a user at a delivery point on the medium pressure/low pressure parts of the network using standard delivery facilities that include a standard meter with a badged capacity greater than or equal to 12 m^3/h and of less than 18 m^3/h.
B3	B3 is a pipeline service under which ATCO delivers gas to customers with a standard meter with a badged capacity of less than 12 m^3/h, typically residential or small business customers, supplied at medium or low pressures. End use customers who receive B3 reference services and who consume less than 1 TJ of gas per year are small-use customers as defined in the *National Gas Access (WA) (Local Provisions) Regulations 2009*.

Table 14.18: AA6 Ancillary Reference Services

REFERENCE SERVICE	DESCRIPTION
DISCONNECTIONS FOR RETAILER CREDIT CONTROL	
Applying a Meter Lock	Attaching a lock to the valve that comprises part of the standard delivery facilities to prevent gas from being received at the delivery point. This service is available at delivery points receiving the B2 or B3 haulage service.
Disconnecting a Delivery Point[160]	Physically disconnecting a delivery point to prevent gas from being delivered to the delivery point. This service is available at delivery points receiving the B2 or B3 haulage service.
RECONNECTIONS FOR RETAILER CREDIT CONTROL	
Removing a Meter Lock	Removing the lock that was applied to a valve comprising part of the standard delivery facilities to prevent gas from being received at the delivery point. This service is available at delivery points receiving the B2 or B3 haulage service.
Reconnecting a Delivery Point[161]	Reconnecting a delivery point to allow gas to be delivered to the delivery point. This service is available at delivery points receiving the B2 or B3 haulage service.
DISCONNECTIONS	
Deregistering a Delivery Point (or 'Deregistration')	A delivery point is permanently deregistered by: i) removing the delivery point (as per the Retail Market Procedures), ii) removing the delivery point from the Delivery Point Register and iii) for delivery points receiving the B2 or B3 haulage service, removing the meter (where ATCO considers necessary). For delivery points receiving the A1, A2 or B1 haulage service, removal of the meter set is a separate non-reference service ("Remove meter set and make safe service").
Permanent Disconnection[162] *(further information provided in Section 13.3.2)*	This service is for the permanent disconnection of the property from the GDS, generally by cutting and capping the service pipe at the main, under standard site conditions. This service is only available where there is no meter at the property or for delivery points that previously received the B2 or B3 haulage service and have also sought the "Deregistering a delivery point" service. This service is available to end users, property owners and those authorised on behalf of property owners. Where there is a meter present, the "Deregistering a delivery point" service is also required.
METER READING SERVICES	
Special Read	Request to perform a special read on a basic meter. This service is available at delivery points receiving the B1, B2 or B3 haulage service.

[160] The service has been renamed from 'Remove Regulator' in the reference service proposal to retain the reference service name from AA5 and provide clarity on the nature of the service

[161] The service has been renamed from 'Re-install Regulator' in the reference service proposal to retain the reference service name from AA5 and to provide clarity on the nature of the service

[162] The service has been renamed from 'Cut and cap' in the reference service proposal to provide clarity on the nature of the service

14.14.2 CHARGING PARAMETERS

Table 14.19: Haulage Services Tariff Structure

TARIFF CLASS	SERVICE ELEMENT	CHARGING PARAMETER
A1	Fixed charge for using the distribution system	Standing Charge ($/year)
	Fixed charge for the capacity of network utilised (reflecting maximum hourly quantity (**MHQ**))	Demand Charge ($/MHQ GJ/km)
	Variable charge based on throughput	Usage Charge ($/GJ/km)
	Charge to reflect the specific costs associated with the customer for service pipe, regulators, metering, and telemetry	User-specific Charge ($)
A2	Fixed charge for using the distribution system	Standing Charge ($/year)
	Variable charge based on throughput	Usage Charge ($/GJ)
	Charge to reflect the specific costs associated with the customer for service pipe, regulators, metering, and telemetry	User-specific Charge ($)
B1	Fixed charge for using the distribution system	Standing Charge ($/year)
	Variable charge based on throughput	Usage Charge ($/GJ) with two blocks
	Charge to reflect the specific costs associated with the customer for service pipe, regulators, metering, and telemetry	User-specific Charge ($)
B2	Fixed charge for using the distribution system	Standing Charge ($/year)
	Variable charge based on throughput	Usage Charge ($/GJ) with two blocks
B3	Fixed charge for using the distribution system	Standing Charge ($/year)
	Variable charge based on throughput	Usage Charge ($/GJ) with two blocks

Table 14.20: Ancillary Services Tariff Structure

ANCILLARY SERVICE	CHARGING PARAMETER
Applying a meter lock	Published tariff per activity
Removing a meter lock	Published tariff per activity
Deregistering a delivery point	Published tariff per activity
Disconnecting a delivery point	Published tariff per activity
Reconnecting a delivery point	Published tariff per activity
Special meter reading	Published tariff per activity
Permanent Disconnection	Published tariff per activity

14.14.3 REFERENCE TARIFFS AND COSTS

Table 14.21: Proposed haulage tariffs ($nominal ex-GST)

CHARGING PARAMETER	2025	2026	2027	2028	2029
REFERENCE TARIFF A1					
Standing charge	58,556.25	61,826.80	65,280.01	68,926.10	72,775.83
Demand charge					
First 10 km	246.80	260.58	275.14	290.51	306.73
Distance > 10 km	129.91	137.16	144.82	152.92	161.45
Usage charge					
First 10 km	0.05220	0.05512	0.05820	0.06145	0.06488
Distance > 10 km	0.02629	0.02776	0.02931	0.03095	0.03268
REFERENCE TARIFF A2					
Standing charge	32,383.78	34,192.51	36,102.26	38,118.67	40,247.71
First 10 TJ	3.15	3.33	3.51	3.70	3.91
Volume > 10 TJ	1.67	1.77	1.87	1.97	2.08
REFERENCE TARIFF B1					
Standing charge	1,635.29	1,726.63	1,823.07	1,924.89	2,032.40
First 5 TJ	6.21	6.57	6.93	7.32	7.73
Volume > 5 TJ	5.35	5.65	5.97	6.30	6.66
REFERENCE TARIFF B2					
Standing charge	411.09	434.05	458.29	483.89	510.93
First 100 GJ	7.31	7.72	8.15	8.61	9.09
Volume > 100 GJ	5.77	6.09	6.43	6.79	7.17

CHARGING PARAMETER	2025	2026	2027	2028	2029
REFERENCE TARIFF B3					
Standing charge	189.09	199.65	210.80	222.58	235.02
First 9.855 GJ	6.86	7.24	7.65	8.08	8.53
Volume > 9.855 GJ	5.95	6.28	6.63	7.00	7.39

Table 14.22: Ancillary services tariffs ($ nominal ex-GST)

ANCILLARY SERVICE	2025	2026	2027	2028	2029
Applying a meter lock	43.36	44.45	45.56	46.71	47.88
Removing a meter lock	29.56	30.31	31.07	31.85	32.64
Deregistering a delivery point	161.03	165.07	169.22	173.47	177.82
Disconnecting a delivery point	100.33	102.85	105.43	108.07	110.79
Reconnecting a delivery point	213.10	218.44	223.93	229.55	235.31
Permanent Disconnection	1,208.88	1,239.22	1,270.33	1,302.21	1,334.90
Special meter reading	10.38	10.64	10.91	11.18	11.47

Table 14.23: Expected revenue and cost allocation (Present value $ millions real as at 31 December 2023)

TARIFF CLASS	TOTAL COSTS ALLOCATED	STAND-ALONE COSTS	EXPECTED REVENUE	AVOIDABLE COSTS
A1	49.5	259.3	43.7	2.7
A2	31.9	378.0	33.6	0.6
B1	74.9	560.2	72.4	8.6
B2	57.3	565.4	59.6	7.6
B3	923.0	1,146.4	927.8	141.9
Ancillary services	20.1	20.1	19.4	17.5
Total revenue (unsmoothed)	1,156.6		1,156.6	

14.15 RATIONALE FOR PROPOSED TARIFF VARIATION MECHANISM

14.15.1 TARIFF VARIATION BY FORMULA (RULE 97)

We propose implementing a tariff variation mechanism that constrains the overall average movement in haulage reference service prices from one year to the next (referred to as a *weighted average price cap* or '*tariff basket*') as contemplated by Rule 97(2)(b).

This form of tariff variation was used during AA5 for all tariff classes, excluding the B3 standing charge. Therefore, it is a familiar method of tariff variation for our customers and the ERA. The 'tariff basket' is a common mechanism known for its administrative simplicity and positive incentive effects and is adopted by other regulated gas distribution networks.

In AA6, this form of tariff variation will apply to all tariff classes (and all tariff components). This is because all costs are expected to increase with inflation, both fixed and variable and therefore, the tariff variation formula will apply during AA6 in the same way to all tariff classes and charging parameters, including the B3 standing charge. The B3 standing charge is now included because real increases made in previous access arrangement periods do not continue, as the tariff now reflects the fixed cost of the service.

The tariff variation allows average prices to increase by the annual change in CPI, plus or minus the X-factor varied for debt risk premium updates and cost pass through items. The X-factor will be updated annually as part of the tariff variation process by amending the approved AA6 Final Decision tariff model for the debt risk premium and any cost pass through items (described in Section 14.15.2). The approved tariff model is then re-run to calculate the updated X-factor for the tariff variation year.

Using a price cap incentivises ATCO to increase customer connections and usage, generating additional revenue. In future access arrangement periods, customers benefit from costs being spread over more customers and volume. This growth is consistent with an access arrangement that includes accelerated depreciation due to an uncertain future. Adding more customers to the network ensures higher utilisation of the network and allows amortisation of the network over a greater number of customers, resulting in lower costs to individual customers.

In comparison, a revenue cap does not provide any incentive to grow the network for the benefit of customers; revenue remains constant regardless of the growth of the network. Therefore, a price cap form of control is preferable to incentivise network growth in the long-term interests of customers.

Ancillary reference services will be varied annually by the movement in CPI in the same manner as during AA5.

14.15.2 COST PASS THROUGH (RULE 97(1)(C))

The tariff variation mechanism allows for the cost of 'cost pass through' events to be recovered. Cost pass through events are defined events that:

- incur costs that cannot be, and have not able to have been, reasonably forecast;
- are beyond the control of ATCO; and
- relate to the provision of reference services.

The recovery of costs related to cost pass through events is made by varying the X-factor as described in the previous section. It is proposed that the cost pass through items defined in AA5 are retained for AA6 except for limited specific security of supply expenditure detailed at Annexure B clause 2.2(b)(ii) of the AA5 Access Arrangement, which applied only to certain costs incurred in the last 15 months of AA5.

A new cost pass through item is proposed due to the uncertain timing of proposed legislation changes relating to extending the regulatory framework to include renewable gases. These proposed

changes are expected to clarify and increase the scope of conforming expenditure as defined in the NGR.

In summary, the cost pass through events proposed for AA6 are:

- HHV and gate point costs related to new gas inflows to the network
- any costs relating to a change in law or tax change
- any costs associated with meeting ATCO's obligations under a law related to GHG emissions.
- any costs (as approved by the ERA) related to the extension of the regulatory environment to renewable gases.

14.16TOTAL REVENUE

The forecast building block total revenue for the provision of reference services over AA6 is $1,487 million (nominal), comprising the building blocks shown annually in Table 14.24.

Table 14.24: Total AA6 revenue ($million nominal)

BUILDING BLOCK	2025	2026	2027	2028	2029	TOTAL
Forecast opex	87.4	92.9	97.9	107.4	109.3	**494.9**
Return of the projected capital base	64.1	79.5	87.7	91.4	94.0	**416.5**
Less inflationary gain in return on assets	-41.3	-42.7	-44.4	-45.6	-46.6	**-220.6**
Accelerated depreciation	26.5	18.6	18.4	16.3	17.2	**97.0**
Return on the projected capital base	120.6	124.7	129.8	133.1	136.3	**644.5**
Return on working capital	1.7	2.8	2.9	3.1	3.3	**13.8**
Tax payable	15.6	16.3	16.7	16.3	17.2	**82.1**
Less value of imputation credits	-7.8	-8.2	-8.4	-8.2	-8.6	**-41.1**
TOTAL REVENUE (unsmoothed)	**266.7**	**283.9**	**300.6**	**313.8**	**322.0**	**1,487.1**

14.16.1 RETURN ON WORKING CAPITAL

Table 14.25: AA6 Return on Working Capital

RETURN ON WORKING CAPITAL	2025	2026	2027	2028	2029
Opening working capital ($million nominal)	23.0	37.6	39.7	42.8	44.5
WACC (% nominal)	7.33%	7.33%	7.33%	7.33%	7.33%
Return on working capital ($million nominal)	1.7	2.8	2.9	3.1	3.3
Deflator to $real 2023	0.940	0.917	0.894	0.872	0.851
Return on working capital ($million real 2023)	**1.6**	**2.5**	**2.6**	**2.7**	**2.8**

APPENDIX A

APPENDIX A

A1. ABBREVIATIONS

ABBREVIATION	DESCRIPTION
AA4 / AA5	ATCO's fourth/fifth Access Arrangement
AA5 FD	The ERA's Final Decision on ATCO's AA5 submission
AA6	ATCO's sixth Access Arrangement (2025-29)
ACQ	Annual Contract Quantity
AER	Australian Energy Regulator
AHI	Asset Health Index
ALARP	As low as reasonably practicable
ALS	Asset Lifecycle Strategies
AMP	Asset Management Plan
ATCO	ATCO Gas Australia
BST	Base Step Trend (method)
Capex	Capital Expenditure
CBD	Central Business District
CCUS	Carbon Capture Utilisation and Storage
CIBD	Commercial & Industrial and Builders & Developers
CO2	Carbon Dioxide
CO2-e	Carbon Dioxide Equivalent
CORE	Core Energy Group
CP	Corrosion Protection
CRG	Customer Reference Group
CSAT	Customer Satisfaction
DMIRS	Department of Mines, Industry Regulation and Safety
EDD	Effective Degree Day
EOL	End-of-life
ERA	Economic Regulation Authority
ERP	Enterprise Resource Planning
GDS	Gas Distribution System
GDO	Gas Distribution Officer
GHG	Greenhouse Gas
GIS	Geographic Information System

ABBREVIATION	DESCRIPTION
GSOO	Gas Statement of Opportunities
GSP	Gross State Product
HHV	Higher Heating Value
HIA	Housing Industry Association
HP	High Pressure
HPR	High pressure regulator
HR	Human Resources
ILI	Inline Inspections
IP	Intellectual Property
IT	Information Technology
KPI	Key Performance Indicator
kWh	Kilowatt hours
LNG	Liquefied Natural Gas
MHQ	Maximum Hourly Quantity
MIRN	Meter Identification Reference Number
MPR	Medium pressure regulator
MRP	Mains Replacement Prioritisation
NGER	National Greenhouse and Energy Reporting
NGL	National Gas Access (Western Australia) Law
NGR	National Gas Rules (WA)
NIS	Network Innovation Scheme
NPV	Net Present Value
Opex	Operating Expenditure
OPSO	Over-pressure shut-off
OT	Operational Technology
PE	Polyethylene
PGC	Portfolio Governance Committee
PIG	Pipeline Inspection Gauge
PMD	Pressure Monitoring Devices
PP&E	Property Plant & Equipment
PVC	Unplasticised Polyvinyl Chloride
RAB	Regulatory Asset Base
RORI	Rate of Return Instrument
RPP	Revenue and Pricing Principles

ABBREVIATION	DESCRIPTION
SaaS	Software as a Service
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SCADA	Supervisory Control and Data Acquisition
SOCI	Security of Critical Infrastructure Act 2018
TAB	Tax Asset Base
tCO2-e	Tonnes of Carbon Dioxide Equivalent
TJ	Terajoule
TRIFR	Total Recordable Injury Frequency Rate
UAFG	Unaccounted for Gas
WA	Western Australia
WACC	Weighted Average Cost of Capital