

Lyndon Rowe
Chairman
Economic Regulation Authority
PO Box 8469
PERTH BC WA 6849

30 July 2014

Dear Lyndon

RE: Commercial-in-Confidence - ATCO Gas Australia Pty Ltd revised forecast for unaccounted for gas (UAFG) costs for proposed revisions to its Access Arrangement for 2014 -2019

ATCO Gas Australia, (AGA) provided the Economic Regulation Authority (ERA) with proposed revisions to its Access Arrangement on 17 March 2014. The proposed revisions included a forecast cost of unaccounted for gas (UAFG) based on the gas price under the current gas replacement contract escalated for CPI. The current gas replacement contract expired on 30 June 2014.

This letter provides a revised forecast cost of UAFG based on new contractual arrangements resulting from the recent competitive tender process conducted to establish a gas supply contract for the AA4 period.

An expression of interest followed by a closed tender process was conducted with four bidders responding to the tender. [REDACTED]

[REDACTED] The proposals were evaluated against set criteria established by AGA as fundamental requirements in the provision of UAFG supply that included price, gas supply portfolio diversity, and the ability to meet terms of supply (contract conditions, term, availability to all sub-networks).

The proposal from [REDACTED] was considered the best proposal [REDACTED] and represented an approximate 7% cost savings compared to the nearest comparator.

The new UAFG Agreement reduces the forecast cost of UAFG from \$67.7m (30 Jun 2014 dollars) to \$43.7m.

AGA requests that its proposed revisions to the Access Arrangement be updated to include this latest information in relation to the cost of UAFG.

Attached to this letter is the revised sections of the Access Arrangement information submitted on the 31st March 2014, including the replacement Table 10 (Forecast operating



cost for 2014 to 2019) Table 21 (Forecast UAFG for 2014 to 2019 (including calendar year 2013 forecast), Table 97 (AA4 Haulage Reference Tariffs and charging parameters) and Table 98 (Average price impacts by Reference Tariff customer class over AA4). Please note that the Reference Tariff contained in Table 98 incorporates the impacts of removing the carbon tax from Reference Tariffs for the period of 1 July 2014 to 1 January 2015 consistent with the assumptions contained in the previously submitted tariff model about when the AA4 Reference tariffs were to take effect.

The table below presents the change in the cost of UAFG compared to the initial proposal. Note that the revised forecast excludes carbon tax.

\$million real as at 30 June 2014	2014H	2015	2016	2017	2018	2018	Total
Initial proposal	6.9	11.7	12.0	12.2	12.4	12.6	67.7
Revised proposal	4.4	7.6	7.7	7.9	8.0	8.1	43.7
Savings	2.5	4.1	4.3	4.3	4.4	4.5	24.0

Note: 2014 is for the period 1 July to 31 December.

Please find included with this letter an updated Tariff Model incorporating the changes to the cost of UAFG.

If you have any further questions about these changes, or the ability to incorporate these changes in your Draft Decision, please call Sally McMahon, General Manager Regulatory and Risk (08) 6163 5007.

Yours sincerely,

Alan Dixon
President

cc by email: Tyson Self (Tyson.Self@erawa.com.au)



Attachment 1: Revised forecast Unaccounted for gas (UAFG) costs for the proposed revisions for the AA4 regulatory period

6.3 Forecast operating expenditure summary

Table 10: Forecast operating cost for 2014 to 2019

\$ million real at 30 June 2014	Jul to Dec 2014	2015	2016	2017	2018	2019	TOTAL
Network	15.3	31.4	33.0	33.6	34.5	35.3	183.1
UAFG	4.4	7.6	7.7	7.9	8.0	8.1	43.7
Corporate	11.5	23.9	22.8	23.6	24.8	25.5	132.2
Information technology	5.3	11.1	12.1	12.6	13.1	12.9	67.1
Total operating expenditure	36.5	74.0	75.7	77.7	80.4	81.8	426.1

6.9 Unaccounted for gas (UAFG)

Table 21: Forecast UAFG for 2014 to 2019 (including calendar year 2013 forecast)

Year	UAFG rate as % of throughput	Throughput (TJs)	UAFG Total Cost (\$ million real at 30 June 2014)
2014	2.67%	14,749.1	4.4
2015	2.66%	27,916.2	7.6
2016	2.66%	28,349.5	7.7
2017	2.65%	28,988.8	7.9
2018	2.62%	29,753.0	8.0
2019	2.60%	30,574.3	8.1

6.9.1 UAFG Strategy

(a) Cost of gas

ATCO Gas Australia forecast cost of gas for the AA4 period reflects the contract arrangements entered into with [REDACTED] for the period 1 July 2014 to 31 December 2019. These arrangements were finalised after the completion of a competitive tender process. Four proposals were received and evaluated against set criteria. The new UAFG arrangements result in a reduced forecast UAFG cost per GJ compared to the AA3 period.

To the extent that the actual cost of gas varies to that forecast (higher or lower) ATCO Gas Australia will seek to pass through the variation through an increase or decrease in tariffs. The tariff variation mechanism is outlined in Chapter 12 (Reference Tariffs).



12.7 Proposed Reference Tariffs for AA4

Table 97: AA4 Haulage Reference Tariffs and charging parameters

Charging parameter (\$ real at 30 June 2014)	Units	July to Dec 2014	2015	2016	2017	2018	2019
Reference tariff A1							
Standing charge	\$/year	46,168.92	47,401.64	48,667.27	49,966.70	51,300.82	52,670.57
Demand charge							
First 10 km	\$/GJ km	194.59	199.78	205.12	210.59	216.21	221.99
Distance > 10 km	\$/GJ km	102.42	105.15	107.96	110.84	113.80	116.84
Usage charge							
First 10 km	\$/GJ km	0.04128	0.04239	0.04352	0.04468	0.04587	0.04710
Distance > 10 km	\$/GJ km	0.02063	0.02118	0.02174	0.02232	0.02292	0.02353
Reference tariff A2							
Standing charge	\$/Year	25,561.56	26,244.06	26,944.78	27,664.22	28,402.86	29,161.22
First 10 TJ	\$/GJ	2.47	2.54	2.60	2.67	2.74	2.82
Volume > 10 TJ	\$/GJ	1.32	1.36	1.40	1.43	1.47	1.51
Reference tariff B1							
Standing charge	\$/Year	1,287.65	1,322.03	1,357.33	1,393.57	1,430.78	1,468.98
First 5 TJ	\$/GJ	4.92	5.05	5.19	5.32	5.47	5.61
Volume > 5 TJ	\$/GJ	4.22	4.33	4.45	4.56	4.69	4.81
Reference tariff B2							
Standing charge	\$/Year	322.66	337.46	346.47	355.72	365.22	374.97
First 100 GJ	\$/GJ	8.21	8.36	8.58	8.81	9.04	9.29
Volume > 100 GJ	\$/GJ	4.89	4.98	5.11	5.25	5.39	5.53
Reference tariff B3							
Standing charge	\$/Year	70.11	130.11	133.58	137.15	140.81	144.57
First 2 GJ	\$/GJ	13.78	-	-	-	-	-
Volume > 2 < 10 GJ	\$/GJ	13.78	9.61	9.87	10.13	10.40	10.68
Volume > 10 GJ	\$/GJ	5.95	4.15	4.26	4.37	4.49	4.61



12.7.1 Average prices

Table 98: Average price impacts by Reference Tariff customer class over AA4

Annual tariff increase (%)	2015	2016	2017	2018	2019	Average annual % change
A1	2.5%	1.4%	4.5%	0.7%	0.6%	1.9%
A2	2.5%	2.9%	2.3%	1.9%	1.9%	2.3%
B1	2.3%	3.2%	3.0%	3.0%	2.9%	2.9%
B2	3.7%	4.8%	4.5%	4.3%	4.2%	4.3%
B3	-2.5%	2.9%	2.6%	2.5%	2.5%	1.6%
All customer average %	-1.6%	1.1%	2.3%	2.3%	2.2%	1.2%

