

03 November 2016

Rob Pullella
Executive Director Access
Economic Regulation Authority
Level 4, 469 Wellington Street
PERTH WA 6000

Dear Mr Pullella,

**RE: ATCO GAS AUSTRALIA PTY LTD: ACCESS ARRANGEMENT – REFERENCE
TARIFF VARIATION FOR PERIOD BEGINNING 1 JANUARY 2017**

ATCO Gas Australia (AGA) provides this tariff variation report in accordance with clause 3 of Annexure B of the Revised Access Arrangement for the ATCO Gas Australia Mid-West and South-West Gas Distribution Systems as released 25 October 2016. This variation report provides information to support the proposed variation to natural gas haulage reference tariffs, which will come into effect on 1 January 2017.

As provided for in Annexure B of the Access Arrangement, tariffs may be varied annually to account for:

- inflation (CPI: All Groups, Weighted Average of Eight Capital Cities)
- the annual update of the debt risk premium (DRP); and
- cost pass-through events described in section 2.1 of Annexure B.

The proposed 1 January 2017 tariff variation includes an adjustment for CPI and the annual update of the debt risk premium. AGA also submits one pass-through event under clause 2.1(b) of Annexure B, relating to a new physical gate point installed that came into operation in April 2016.

Attachment A contains AGA's variation report, which details the proposed haulage reference tariffs and varied tariff components in accordance with clause 3.1 of Annexure B of the Access Arrangement.

The proposed haulage reference tariffs, expressed as dollars per GJ, dollars per GJ per kilometre or annual standing charge are summarised in Table 1.

AGA also kindly requests that in order to allow sufficient time for the changes to be made to billing system information to be adjusted by both AGA and the retail market hub and to allow retailers sufficient time to adjust their customer billing system information, that the tariff variation report and final tariffs are processed and confirmed as soon as possible before the end of November.



Table 1: Proposed haulage reference tariffs and varied tariff components for 1 January 2017

Charging parameter	Units	Tariffs varied by formula applying from 1 January 2016 (\$ nominal)	Tariffs varied by formula to apply from 1 January 2017 (\$ nominal)
Reference tariff A1			
Standing charge	\$/year	42,220.77	38,925.90
Demand charge			
First 10 km	\$/GJ km	177.94	164.05
Distance > 10 km	\$/GJ km	93.66	86.35
Usage charge			
First 10 km	\$/GJ km	0.03776	0.03470
Distance > 10 km	\$/GJ km	0.01896	0.01749
Reference tariff A2			
Standing charge	\$/Year	23375.64	21,551.35
First 10 TJ	\$/GJ	2.26	2.08
Volume > 10 TJ	\$/GJ	1.21	1.12
Reference tariff B1			
Standing charge	\$/Year	1180.53	1,089.07
First 5 TJ	\$/GJ	4.49	4.14
Volume > 5 TJ	\$/GJ	3.86	3.56
Reference tariff B2			
Standing charge	\$/Year	295.07	272.04
First 100 GJ	\$/GJ	7.51	6.92
Volume > 100 GJ	\$/GJ	4.47	4.12
Reference tariff B3			
Standing charge	\$/Year	82.37	93.16
First 1.825 GJ	\$/GJ	-	-
Volume >1.825 <9.855 GJ	\$/GJ	13.29	10.46
Volume > 9.855 GJ	\$/GJ	5.73	4.51

Should you have any questions relating to this matter please do not hesitate to contact me.

Yours sincerely,

Simon Byrne
General Counsel

Attachment A: Variation Report

This variation report details the varied tariff components of the natural gas haulage reference tariffs that will apply from 1 January 2017 to 31 December 2017.

The varied tariff components have been determined in accordance with Annexure B of the Revised Access Arrangement for the Mid-West and South-West Gas Distribution Systems.

All haulage tariffs commencing 1 January 2017 have been recalculated to reflect the X-Factor₂₀₁₇ and the annual CPI adjustment.

X-Factor calculation

The X-Factor₂₀₁₇ is the price change from 1 January 2016 to 1 January 2017 after including approved cost pass-throughs and the annual update of the trailing average debt risk premium for 2017, in 30 June 2014 dollars.

The X-Factor₂₀₁₇ value applied to haulage tariffs is -8.984%.

The X-Factor₂₀₁₇ has been calculated using the following update of the trailing average debt risk premium (DRP):

- $DRP_{2017} = 2.785\%$.

The X-Factor₂₀₁₇ also includes the following cost pass-through:

- \$3,070 operating costs for gas quality sampling required due to the installation of a new physical gate point at Russell Road, Munster.

The new Munster physical gate point connects the Mid-West and South West Gas Distribution System with the Parmelia Gas Pipeline. The physical gate point was requested by APA in 2015, and an agreement to construct the new Munster interconnection was signed on 11 December 2015. As a result, the costs associated with the new physical gate point were unforeseen at the time ATCO Gas Australia submitted its November 2014 access arrangement proposal¹, and were not provided for in the ERA's Final Decision.

The capital costs of constructing the Munster physical gate point have been recovered directly from APA, and therefore are not included in this tariff variation. However, there are ongoing operating costs relating to the new physical gate point, which can be recovered under clause 2.1 (b) of Annexure B of the Access Arrangement:

¹ ATCO Gas Australia's *Response to the ERA's Draft Decision on required amendments to the Access Arrangement for the Mid-West and South-West Gas Distribution System* was submitted to the ERA on 27 November, 2014.



2.1 Cost Pass Through Events

For the purpose of this clause 2, each of the following is a "Cost Pass Through Event"...

...(b) ATCO Gas Australia incurs Physical Gate Point Costs that constitute Conforming Capital Expenditure or Conforming Operating Expenditure;

AGA must maintain the natural gas in its distribution system to a specific quality and odorant level as required by Division 2 of the *Gas Standards (Gas Supply and System Safety) Regulations 2000*. Regular testing of natural gas at and near the point where gas enters the distribution system from a transmission pipeline helps ensure gas being supplied to customers is of sufficient quality. In particular, odorant analysis is a critical component of network safety, as properly odorised gas allows leaks and faults to be detected.



The gas sampling and analysis costs are *such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services*, and therefore conform to National Gas Rule 91(1).

The Munster physical gate point came into operation on 29 April 2016. Table 2 shows the gas sampling and testing costs related to the new interconnection since it was commissioned. Samples relating to the new interconnection are taken at Russell Road, Munster and nearby Moylan Road, Wattleup.

Table 2: Munster² physical gate point sampling costs incurred July to September 2016

Invoice Number	Customer Sample ID	Billing Description	Date Received	Cost
118202	HS030 Russell Road, Munster	Mercaptan/THT Odorant Analysis	18/08/2016	██████
118202	HS065 Moylan Rd, Wattleup	Standard Gas Analysis	27/07/2016	██████
118019	Moylan Rd, Wattleup	Mercaptan/THT Odorant Analysis	15/07/2016	██████
118361	HS030 Russel Road, Munster	Standard Gas Analysis	26/08/2016	██████
118361	HS030 Russell Road, Munster	Total Sulphur (lamp method) ASTM D1072	30/08/2016	██████

² Samples relating to the new Munster interconnection are taken at Russell Road, Munster and nearby Moylan Road, Wattleup.

118361	HS030 Russell Rd, Munster	Standard Gas Analysis	15/09/2016	██████
118361	HS030 Russell Rd, Munster	Mercaptan/THT Odorant Analysis	15/09/2016	██████
118595	HS030 Russell Rd, Munster	Standard Gas Analysis	24/10/2016	██████
118595	HS030 Russell Rd, Munster	Mercaptan/THT Odorant Analysis	24/10/2016	██████
118595	HS030 Russell Rd, Munster	Hydrogen Sulphide	24/10/2016	██████
Total				\$3,070.00

Though AGA proposes the 1 January 2017 tariff variation only includes sampling costs already incurred from July to October 2016, AGA would like to highlight that the ongoing sampling cost associated with the new Munster physical gate point will be approximately \$13,260 per annum. The annual sampling schedule for Munster and indicative costs are summarised in Table 3.

Table 3: Forecast annual sampling costs relating to Munster physical gate point

Sample type	Cost	Times per year	Total cost
Odorant analysis	██████	12	██████
Hydrogen sulphide	██████	3	██████
Total sulphur	██████	3	██████
NG composition	██████	12	██████
Water dewpoint	██████	3	██████
Calculated hydrocarbon dewpoint	██████	3	██████
Onsite analysis	██████	3	██████
Total			\$13,260

CPI adjustment

In accordance with the formulas provided in clause 1.3 of Annexure B, haulage tariffs have been adjusted to reflect CPI All Groups, Weighted Average of Eight Capital Cities. The following CPI values have been applied:

- $CPI_{Mar2013} = 102.4$;
- $CPI_{Sep2014} = 106.4$;
- $CPI_{Sep2015} = 108.0$; and
- $CPI_{Sep2016} = 109.4$

Proposed Haulage Tariffs and varied Tariff Components in accordance with clause 1.3 of Annexure B

The varied reference tariffs, excluding GST, are listed below and will be applicable from 1 January 2017. Details of the individual calculations are provided in the attached spreadsheet.

Varied reference tariff A1

The following charges will apply from 1 January 2017:

- i. the Standing Charge is \$38,925.90 divided by 365;
- ii. the Demand Charge Rate is:
 - a) \$164.05 for the first 10 kilometres of the Interconnection Distance; and
 - b) \$86.35 for any part of the Interconnection Distance in excess of 10 kilometres;
- iii. the Usage Charge Rate is:
 - a) \$0.03470 per Gigajoule per kilometre for the first 10 kilometres of the Interconnection Distance; and
 - b) \$0.01749 per Gigajoule per kilometre for any part of the Interconnection Distance in excess of 10 kilometres.

Varied reference tariff A2

The following charges will apply from 1 January 2017:

- i. The Standing Charge is \$21,551.35 divided by 365;
- ii. the Usage Charge Rate is:
 - a) \$2.08 per Gigajoule for the first 10 Terajoules of gas delivered to the User at a Delivery point per year; and
 - b) \$1.12 per Gigajoule for usage in excess of the first 10 Terajoules of gas delivered to the User at a Delivery point per year.

Varied reference tariff B1

The following charges will apply from 1 January 2017:

- i. the Standing Charge is \$1,089.07 divided by 365;
- ii. the Usage Charge Rate is:
 - a) \$4.14 per Gigajoule for the first 5 Terajoules of gas delivered to the User at a Delivery point per year; and
 - b) \$3.56 per Gigajoule for any usage in excess of the first 5 Terajoules of gas delivered to the User at a Delivery Point per year.

Varied reference tariff B2

The following charges will apply from 1 January 2017:

- i. the Standing Charge is \$272.04 divided by 365;
- ii. the Usage Charge Rate is:
 - a) \$6.92 per Gigajoule for the first 274 Megajoules per day of gas delivered to the User at a Delivery point; and
 - b) \$4.12 per Gigajoule for any usage in excess of the first 274 Megajoules of gas delivered to the User at a Delivery Point.

Varied reference tariff B3

The following charges will apply from 1 January 2017:

- i. the Standing Charge is \$93.16 divided by 365;
- ii. the Usage Charge Rate is:
 - a) \$0.00 per Gigajoule for the first 5 Megajoules per day of gas delivered to the User at a Delivery Point;
 - b) \$10.46 per Gigajoule for the next 22 Megajoules per day of gas delivered to the User at a Delivery Point; and
 - c) \$4.51 per Gigajoule for any usage in excess of the first 27 Megajoules per day of gas delivered to the User at a Delivery Point.