



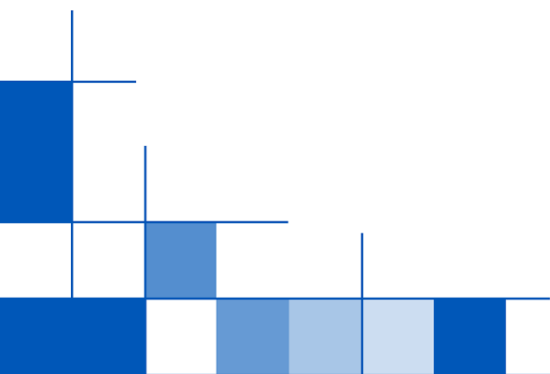
# TARIFF VARIATION REPORT 2019

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## 2014-2019 ACCESS ARRANGEMENT

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**Contact Person**

Matthew Cronin  
General Manager - Strategy & Regulation  
Phone: 08 6163 5000  
Email: [matthew.cronin@atcogas.com.au](mailto:matthew.cronin@atcogas.com.au)

**ATCO Gas Australia**

ACN 089 531 975  
81 Prinsep Road  
Jandakot WA 6164  
Phone: +61 8 6163 5000  
Website: [www.atcogas.com.au](http://www.atcogas.com.au)

**Postal Address**

Locked Bag 2  
Bibra Lake DC WA 6965

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## 1. Introduction

This variation report details the varied tariff components of the natural gas haulage reference tariffs that will apply from 1 January 2019 to 31 December 2019.

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 2019 have been recalculated to reflect the X-Factor<sub>2019</sub> and the annual CPI adjustment.

## 2. X-Factor calculation

The X-Factor<sub>2019</sub> is the price change from 1 January 2018 to 1 January 2019 after including approved cost pass-through events and the annual update of the trailing average debt risk premium for 2019, in 30 June 2014 dollars.

The X-Factor<sub>2019</sub> value applied to haulage tariffs is -11.135%.

The X-Factor<sub>2019</sub> has been calculated using an updated trailing average debt risk premium (DRP) of 2.309%.

The X-Factor<sub>2019</sub> also includes the following cost pass-through events:

- \$5,040 operating expenditure for gas quality sampling due to the installation of a new physical gate point at Russell Road, Munster.
- \$98,625 operating expenditure to comply with the National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015 to apply from 1 July 2016, which was legislated in 2015.

### 2.1 Annual update of trailing average debt risk premium

There is an automatic annual adjustment to the rate of return for the revised debt risk premium. The trailing average debt risk premium has been updated to incorporate DRP<sub>2019</sub>.

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

**Table 2.1:2019 trailing average debt risk premium**

	DRP <sub>t</sub>
Calendar year 2010: DRP <sub>2010</sub>	2.127%
Calendar year 2011: DRP <sub>2011</sub>	2.371%
Calendar year 2012: DRP <sub>2012</sub>	3.172%
Calendar year 2013: DRP <sub>2013</sub>	3.068%
Calendar year 2014: DRP <sub>2014</sub>	2.250%
Calendar year 2015: DRP <sub>2015</sub>	1.953%
Calendar year 2016: DRP <sub>2016</sub>	2.467%
Calendar year 2017: DRP <sub>2017</sub>	2.326%
Calendar year 2018: DRP <sub>2018</sub>	1.689%
Calendar year 2019: DRP <sub>2019</sub>	1.663%
<b>2019 TRAILING AVERAGE</b>	<b>2.309%</b>

## 3. Cost pass-through events

### 3.1 Physical gate point at Russell Road, Munster

The 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 (ATCO) submitted its November 2014 access arrangement proposal<sup>1</sup>, and were not provided for in the ERA's Final Decision.

Physical gate point costs are cost pass-through events defined at clause 2.1(b) of Annexure B of the access arrangement. Clause 2.1(b) is noted below:

*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;*

ATCO 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) as:

- gas sampling and analysis is required to meet Gas Standards legislated requirements; and
- the provider of gas sampling services is selected by a competitive tender process to minimise costs.

The Munster physical gate point came into operation on 29 April 2016.

The amount of gas sampling and analysis costs related to the Russell Road, Munster interconnection to the end of September 2018 not included in prior Tariff Variation Notices is \$5,040.

### 3.2 National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015

On 1 July 2016 the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015 (the Safeguard Mechanism)* came into effect having been signed into force by the Federal Minister for the environment on 7 October 2015.

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<sup>1</sup> 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.

The Safeguard Mechanism creates a baseline of carbon emissions based on historical data and emissions formulas contained within it. If in future the emitter has emissions greater than the baseline a liability arises in connection with those increased emissions. The liability can be acquitted by purchasing Australian Carbon Credit Units (ACCUs) equivalent to the liability arising from those increased emissions.

The implementation of the Safeguard Mechanism and the consequent liability imposed on ATCO gives rise to a cost pass-through event under clause 2.1(d) of Annexure B of the access arrangement. Clause 2.1(d) is noted below:

### *2.1 Cost Pass-Through Events*

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

*...(d) ATCO Gas Australia incurs Conforming Capital Expenditure or Conforming Operating Expenditure as a direct result of any Law that imposes a fee or Tax on greenhouse gas emissions or concentrations; and for avoidance of doubt; this expenditure includes only direct capital or direct operating expenditure associated with preparation for, compliance with the Laws which implement, and the participation in, the Emissions Trading Scheme; and liability only for direct capital or direct operating expenditure transferred to ATCO Gas Australia from another entity as a direct result of acting in accordance with the Emissions Trading Scheme.*

The ACCU liability related to the Mid-West and South-West Gas Distribution Systems and the Kalgoorlie distribution network for the year ended 30 June 2017 was 6,023 ACCU's. The ACCU liability is shown at Appendix 2, being the difference between the calculated "Baseline Emissions Number" and the "Covered Emissions", in a screen shot of the Clean Energy Regulator's Client Portal. The ACCU liability was met on 14 February 2018 by the surrendering of 6,023 ACCU's.

The purchase of the 6,023 ACCU's cost \$99,379. After deduction of the amount related to the Kalgoorlie distribution network (0.76%) the cost pass through amount related to the Mid-West and South-West Gas Distribution Systems is \$98,625

## 4. CPI adjustment

In accordance with the formulas provided in clause 1.3 of Annexure B of the Revised Access Arrangement for the Mid-West and South-West Gas Distribution Systems, haulage tariffs have been adjusted to reflect CPI All Groups, Weighted Average of Eight Capital Cities. The following CPI values have been applied:

**Table 4.1: CPI All Groups, Weighted Average of Eight Capital Cities**

DATE	CPI INDEX
March 2013	102.4
September 2014	106.4
September 2015	108.0
September 2016	109.4
September 2017	111.4
September 2018	113.5



## 5. Proposed Haulage Tariffs and varied Tariff Components

The varied reference tariffs, excluding GST, are listed below and will be applicable from 1 January 2019. Details of the individual calculations are provided in the attached spreadsheet.

### 5.1 Varied reference tariff A1

The following charges will apply from 1 January 2019:

1. the Standing Charge is \$32,444.85 divided by 365;
2. the Demand Charge Rate is:
  - a) \$136.75 for the first 10 kilometres of the Interconnection Distance; and
  - b) \$71.98 for any part of the Interconnection Distance in excess of 10 kilometres;
3. the Usage Charge Rate is:
  - a) \$0.02893 per Gigajoule per kilometre for the first 10 kilometres of the Interconnection Distance; and
  - b) \$0.01458 per Gigajoule per kilometre for any part of the Interconnection Distance in excess of 10 kilometres.

### 5.2 Varied reference tariff A2

The following charges will apply from 1 January 2019:

1. The Standing Charge is \$17,952.00 divided by 365;
2. the Usage Charge Rate is:
  - a) \$1.74 per Gigajoule for the first 10 Terajoules of gas delivered to the User at a Delivery point per year; and
  - b) \$0.93 per Gigajoule for usage in excess of the first 10 Terajoules of gas delivered to the User at a Delivery point per year.

### 5.3 Varied reference tariff B1

The following charges will apply from 1 January 2019:

1. the Standing Charge is \$907.55 divided by 365;
2. the Usage Charge Rate is:
  - a) \$3.45 per Gigajoule for the first 5 Terajoules of gas delivered to the User at a Delivery point per year; and
  - b) \$2.97 per Gigajoule for any usage in excess of the first 5 Terajoules of gas delivered to the User at a Delivery Point per year.

#### 5.4 Varied reference tariff B2

The following charges will apply from 1 January 2019:

1. the Standing Charge is \$226.74 divided by 365;
2. the Usage Charge Rate is:
  - a) \$5.77 per Gigajoule for the first 274 Megajoules per day of gas delivered to the User at a Delivery point; and
  - b) \$3.44 per Gigajoule for any usage in excess of the first 274 Megajoules of gas delivered to the User at a Delivery Point.

#### 5.5 Varied reference tariff B3

The following charges will apply from 1 January 2019:

1. the Standing Charge is \$116.84 divided by 365;
2. the Usage Charge Rate is:
  - a) \$0.00 per Gigajoule for the first 5 Megajoules per day of gas delivered to the User at a Delivery Point;
  - b) \$4.89 per Gigajoule for the next 22 Megajoules per day of gas delivered to the User at a Delivery Point; and

\$2.11 per Gigajoule for any usage in excess of the first 27 Megajoules per day of gas delivered to the User at a Delivery Point