

21 November 2022

Mr Steve Edwell  
Chair  
Economic Regulation Authority  
Level 4, Albert Facey House  
469 Wellington Street  
PERTH WA 6000

*Submitted via email: records@erawa.com.au*

Dear Mr Edwell

**Re: Reference Tariff Variation for period beginning 1 January 2023**

In accordance with the Revised Access Arrangement (approved by the Economic Regulation Authority on 15 November 2019), ATCO has calculated the reference tariffs that will come into effect on 1 January 2023. The attached reference tariff schedule (see Attachment 1) details the revised reference tariffs that will apply from 1 January 2023 and tariff variation report (see Attachment 2) provides information to support the proposed variations to the reference tariffs.

On 1 January 2023, haulage reference tariffs will increase by 7.3%. Ancillary reference services will also increase by 7.3%.

As provided for in the tariff variation mechanism, ATCO has varied its reference tariffs to account for:

- movements in inflation;
- the annual update of the debt risk premium (DRP); and
- cost pass-through events described in the tariff variation mechanism for the periods 1 October 2021 to 30 September 2022 related to:
  - **Superannuation guarantee costs** – Increased legislated superannuation guarantee costs from 1 October 2021 to 30 June 2022 due to the increase in the superannuation percentage from 9.5% to 10.0% and from 1 July to 30 September 2022 due to the increase in the superannuation percentage from 9.5% to 10.5%.
  - **Modern Slavery Act 2018 compliance** – Annual subscription for software to efficiently implement modern slavery legislation compliance requirements.
  - **Construction training fund levy** – Amendments to the levy coverage in 2018 extended coverage that included ATCO Gas. ATCO has continued to make to make levy payments.
  - **Australian Taxation Office Single Touch Payroll requirements phase 2** – The ATO has made amendments to its requirements to require additional information. ATCO has incurred costs complying with these new requirements.
  - **Building and Construction Industry (Security of Payment) Act 2021** - The Act applies to all constructions contracts entered into after the date of commencement (Phase 1 being 1 August 2022) to enhance payment protections for contractors. ATCO has incurred costs to ensure compliance with the Act.

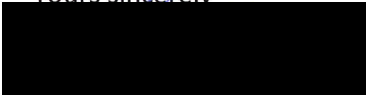
- **Work Health and Safety Act 2020** – The Act came into effect on 31 March 2022 and the related code of practice was published on 26 August 2022. Section 4 of the Act defines “health” to include psychological health. ATCO commissioned training to ensure awareness of its obligations with regard to the Act and Code of Practice.

Similar to last year, ATCO has applied the tariff variation mechanism formulas in good faith, as we intended in our response to the AA5 Draft Decision. This means that we have effectively excluded the fixed component of the B3 reference tariff from the overall constraint formula consistent with the calculation of the “X factor” in the final decision tariff model.

It is requested that in order to allow sufficient time for changes to ATCO’s billing system, the retail market hub and retailers’ systems to account for the tariff variation that the ERA advise of its decision before the end of November.

If you have any questions or would like to discuss this tariff variation further please contact me or Hugh Smith, General Manager Regulation.

Yours sincerely



**John Ivulich**  
Chief Financial Officer

Attachment 1: 2023 Reference Tariffs

Attachment 2: 2023 Tariff Variation Report



# ATTACHMENT 1: 2023 REFERENCE TARRIFS

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FROM 1 JANUARY 2023

EIM# 109066988

**PUBLIC**

21/11/2022

## 2023 REFERENCE TARIFFS

FROM 1 JANUARY 2023

**Table 1: Haulage reference tariffs**

Charging parameter	Units	Varied Tariffs (\$ nominal GST exclusive)
<b>Reference tariff A1</b>		
Standing charge	\$/year	37,912.49
Demand charge		
First 10 km	\$/GJ km	159.79
Distance > 10 km	\$/GJ km	84.11
Usage charge		
First 10 km	\$/GJ km	0.03380
Distance > 10 km	\$/GJ km	0.01703
<b>Reference tariff A2</b>		
Standing charge	\$/Year	20,976.86
First 10 TJ per year	\$/GJ	2.04
Volume > 10 TJ per year	\$/GJ	1.08
<b>Reference tariff B1</b>		
Standing charge	\$/Year	1,060.60
First 5 TJ per year	\$/GJ	4.03
Volume > 5 TJ per year	\$/GJ	3.46
<b>Reference tariff B2</b>		
Standing charge	\$/Year	266.16
First 274 MJ per day	\$/GJ	6.75
Volume > 274 MJ per day	\$/GJ	4.02
<b>Reference tariff B3</b>		
Standing charge	\$/Year	132.18
First 5 MJ per day	\$/GJ	-
Volume > 5 and < 27 MJ per day	\$/GJ	6.20
Volume > 27 MJ per day	\$/GJ	4.14

**Table 2: Ancillary reference tariffs**

Ancillary reference service	Varied Tariffs (\$ nominal GST exclusive)
Applying a Meter Lock	55.26
Removing a Meter Lock	30.06
Deregistering a Delivery Point	137.81
Disconnecting a Delivery Point	110.13
Reconnecting a Delivery Point	155.90
Special Meter Reading	14.41

### Notes

This reference tariff schedule:

- is to be read in conjunction with Annexures A and C of the Revised Access Arrangement for the ATCO Gas Australia Mid-West and South-West Gas Distribution Systems (dated 15 November 2019)
- does not supersede or amend any tariff variation or reference tariff published by the Economic Regulation Authority



# **ATTACHMENT 2: TARIFF VARIATION REPORT**

## **TARIFF VARIATION 1 JANUARY 2023**

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**GAS DIVISION**

Access Arrangement 2020-24

**PUBLIC**

21/11/2022

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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 2023 to 31 December 2023.

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 2023 have been re-calculated to reflect the X-Factor<sub>2023</sub> and the annual CPI adjustment.

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## 2. CPI ADJUSTMENT

In accordance with the formulas provided in the Revised Access Arrangement for the Mid-West and South-West Gas Distribution Systems:

- haulage tariffs have been adjusted to reflect inflation (per clause 1.3 of Annexure B); and
- reference tariffs associated with ancillary services have been adjusted to reflect inflation (per clause 2 of Annexure C).

Inflation was applied using the CPI All Groups, Weighted Average of Eight Capital Cities. The following CPI values applied:

**Table 2.1: CPI All Groups, Weighted Average of Eight Capital Cities**

Date	CPI Index
September 2018	113.5
September 2020	116.2
September 2021	119.7
September 2022	128.4



### 3. X-FACTOR CALCULATION

The X-Factor is the average rate of change in tariffs before adjustments for inflation. The X-Factor is re-calculated each year to include approved cost pass-through events and the annual update of the trailing average debt risk premium.

The X-Factor<sub>2023</sub> value applied to haulage tariffs is -0.02%.

The X-Factor<sub>2023</sub> has been calculated using an updated trailing average debt risk premium (DRP) of 1.997%.

The X-Factor<sub>2023</sub> also includes the cost pass-through events shown in Table 3.1.

**Table 3.1:** Cost pass-through events (\$ actual)

	1. Allocation between ATCO entities			2. Allocation between ATCO Gas Australia services				3. Allocation between opex and capex	
	Total	Other ATCO entities	ATCO Gas Australia	Non-Pipeline services	Albany Kalgoorlie	Non-reference services	Reference services	Opex	Capex
Increased superannuation guarantee charge	285,474	-	285,474	7,385	-	9,410	268,679	193,161	75,518
Modern Slavery Act 2018	68,278	42,674	25,604	94	499	154	24,857	24,857	
Construction Industry Training Fund levy	168,409	-	168,409	133,694	329	-	34,387	-	34,387
Australian Taxation Office Single Touch Payroll compliance	107,640	19,685	87,955	324	1,373	528	85,730	-	85,730
Building and Construction Industry (Security of Payment) Act 2021	132,062	-	132,062	467	2,572	793	128,210	128,210	-
Work Health and Safety Act 2020 (WHS Act) compliance	4,125	-	4,125	15	80	25	4,005	4,005	-
<b>Total</b>	<b>765,988</b>	<b>62,359</b>	<b>703,629</b>	<b>141,999</b>	<b>4,853</b>	<b>10,910</b>	<b>545,868</b>	<b>350,233</b>	<b>195,634</b>

#### 3.1 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>2023</sub>.

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

**Table 3.2:** 2023 trailing average debt risk premium

	<b>DRP<sub>t</sub></b>
Calendar year 2014: <b>DRP</b> <sub>2014</sub>	2.250%
Calendar year 2015: <b>DRP</b> <sub>2015</sub>	1.953%
Calendar year 2016: <b>DRP</b> <sub>2016</sub>	2.467%
Calendar year 2017: <b>DRP</b> <sub>2017</sub>	2.326%
Calendar year 2018: <b>DRP</b> <sub>2018</sub>	1.689%
Calendar year 2019: <b>DRP</b> <sub>2019</sub>	1.663%
Calendar year 2020: <b>DRP</b> <sub>2020</sub>	1.770%
Calendar year 2021: <b>DRP</b> <sub>2021</sub>	2.075%
Calendar year 2022: <b>DRP</b> <sub>2022</sub>	1.562%
Calendar year 2023: <b>DRP</b> <sub>2023</sub>	2.215%
<b>2022 TRAILING AVERAGE</b>	<b>1.997%</b>

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## 4. COST PASS-THROUGH EVENTS

### 4.1 Superannuation guarantee charge increase

On 1 July 2021, the Superannuation Guarantee charge increased from 9.5% to 10%, with a further increase from 10% to 10.5% on 1 July 2022. These increases were not included in the forecast costs for the fifth access arrangement period (2020 to 2024).

The changes to the Superannuation Guarantee percentage are a change in law and, therefore, a cost pass-through event pursuant to clause 2.1 (iii) of Annexure B of the revised access arrangement.

#### Legislative context

The *Superannuation Guarantee (Administration) Act 1992* (the Act) at clause 19(2) sets out the Superannuation Charge percentage. The percentages were set in 2014 by amendment to the *Superannuation Guarantee (Administration) Act 1992* via Schedule 6 of the *Minerals Resource Rent Tax Repeal and Other Measures Bill 2014*. The table at clause 19(2) of the Act states the Superannuation Guarantee charge increased from 9.5% to 10% on 1 July 2021 and 10.5% on 1 July 2022.

Although the forecast superannuation guarantee charge percentage has been specified in legislation since 2014, there has been no certainty the law will stand as legislated. For example, The proposed 2014 increase in the superannuation guarantee charge was deferred by the Abbott Government following its election in 2014.

The history of amendments to the Superannuation Guarantee percentage and the apparent power of the Government of the day to alter the timing and amount of the percentage mean that the Superannuation Guarantee percentage cannot be considered to be in force until confirmed by the Government of the day. Therefore, the change of the Superannuation Guarantee percentage from 9.5% to 10% and from 10% to 10.5% is a change in the law at the date of the change for the purpose of being a cost pass-through event pursuant to clause 2.1 (iii) of Annexure B of the revised access arrangement.

Due to the uncertainty around the Superannuation Guarantee changes, increases in the Superannuation Guarantee percentage were not included in the forecast costs for the access arrangement review period 2020 to 2024.

#### Impact on ATCO

About 85 of ATCO Gas' employment contracts are covered by an enterprise bargaining agreement which includes the following obligation in clause 19(a):

*"The Company will contribute, on the Employee's behalf, an amount prescribed by the Superannuation Guarantee (Administration) Act 1992 (Cth) into a complying superannuation fund of the Employee's choice."*

For the other approximately 350 employment contracts, ATCO Gas has been compelled to increase the overall labour costs, to include the Superannuation Guarantee percentage increase, due to labour market conditions. Western Australia is currently experiencing a surge in infrastructure activity, as is elsewhere in Australia, causing a shortage of skilled personnel.

If ATCO were to pass on the cost of the Superannuation Guarantee percentage increase in the form of a cut to take-home pay, it would inevitably result in the loss of skilled staff, not to mention the

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impact on overall staff morale. The consequential effect would be a deleterious effect on ATCO Gas' ability to provide services in a safe and efficient manner due to the lack of experienced staff. It is in the long-term interests of consumers for ATCO Gas to retain experienced staff to provide safe and reliable services at the lowest sustainable cost.

Only costs related to employees on the Mid-West and South-West Gas Distribution Network have been included. Amounts for non-pipeline and non-reference services have been deducted from the total costs incurred based on hours timesheeted to services. The remaining amount relating to reference services has been allocated between operating and capital expenditures based on timesheeted hours. The cost pass-through amount relating to ATCO Gas' Mid-West and South-West Gas Distribution network is \$193,161 operating expenditure and \$75,518 capital expenditure.

The cost pass-through amount has increased relative to the prior year (\$28,188 operating expenditure and \$16,162 capital expenditure) amount as prior year related to only a three-month period of a 0.5% increase in the superannuation guarantee charge. The current year cost pass-through amount, however, is comprised of a 0.5% increase for a period of 9 months and a 1.0% increase for a period of 3 months, causing an increase in the cost pass-through amount.

## 4.2 Commonwealth Modern Slavery Act 2018

The Commonwealth Modern Slavery Act 2018 (the Act) entered into force on 1 January 2019. The Act established a national Modern Slavery Reporting Requirement (Reporting Requirement). This Reporting Requirement applies to large businesses and other entities in the Australian market with annual consolidated revenue of at least AUD\$100 million.

Entities required to comply with the Reporting Requirement, including ATCO Gas Australia, must prepare annual Modern Slavery Statements. These statements must set out the reporting entity's actions to assess and address modern slavery risks in their global operations and supply chains.<sup>1</sup> The Australian Government publishes these statements through an online central register. The first reporting cycle was the year ended 30 June 2021.

The *Commonwealth Modern Slavery Act 2018* is a change in law and, therefore a cost pass-through event pursuant to clause 2.1 (iii) of Annexure B of the revised access arrangement.

To efficiently implement the reporting requirements, ATCO has invested in software to compile and collate the necessary supplier data. Software was purchased [REDACTED] 37.5% of the total cost was allocated to ATCO Gas Australia based on an equal weighting of the number of suppliers and purchase value compared to the ATCO Australia Group of companies utilising the software. A further 1.95% of the 37.5% was deducted as an estimate of the costs related to Albany and Kalgoorlie based on the number of delivery points consistent with the regulatory accounts cost allocation method. The net amount allocated to the Mid-West and South-West Gas Distribution Network is \$25,604. An amount of \$94 was deducted as relating to non-pipeline services and \$154 related to non-reference services based on timesheeted hours. The net amount relating to reference services is \$24,857.

<sup>1</sup> Guidance on the reporting requirements can be found on the Australian Border Force website. At the following website link. [https://modernslaveryregister.gov.au/resources/modern-slavery-reporting-entities\\_guidance.pdf](https://modernslaveryregister.gov.au/resources/modern-slavery-reporting-entities_guidance.pdf)

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### 4.3 Construction Industry Training Fund

The *Building and Construction Industry Training Fund and Levy Collection Act 1990* (the Act) was assented to in December 1990. The associated regulations, which define the scope of activities subject to the Building and Construction Industry Training Fund (CITF) Levy, were amended by the Building and Construction Industry Training Fund and Levy Collection Amendment Regulations 2018, effective from 1 October 2018. The effect of the amended regulations was to broaden the scope of activities subject to the regulations such that ATCO Gas construction activities were now subject to the levy.

The training levy is calculated at 0.2 per cent of the total value of construction and is to be paid prior to the start of the project. The project owner is responsible for payment of the levy and reporting of project details to the Construction Training Fund (CTF), which administers the levy. Generally, the project owner is the head contractor where they are engaged to carry out or cause to be carried out, all of the construction work.

Building and Construction Industry Training Fund and Levy Collection Amendment Regulations 2018 are a change in law and, therefore, a cost pass-through event pursuant to clause 2.1 (iii) of Annexure B of the revised access arrangement.

Construction activities subject to the levy are:

- Construction of new assets where the value of the works relating to those assets exceeds \$20,000; and
- Works relating to replacement, alteration, renovation, reconfiguration or relocation – a threshold of \$10 million applies.

At ATCO, this means the CTF Levy amounts that we are seeking to recover through this tariff variation relate to growth projects, reinforcement projects, mains extensions and open trench works to reticulate subdivisions. Because the CTF Levy applies to projects that are directly related to haulage reference services on our gas distribution network, an allocation to non-reference services is not required. Examples of our non-reference services include, disconnecting a service in the street or relocating a gas meter. These projects do not fall within the scope of the CTF Levy.

The total amount paid to the CTF from July 2020 to June 2022, not previously claimed in previous tariff variation mechanisms, is \$168,409. Of that amount, \$133,694 was allocated to non-pipeline services, a further \$329 was related to projects in Albany and Kalgoorlie, leaving a net amount of \$34,387 as a cost to the Mid-West and South-West Gas Distribution Network as a cost pass-through event.

These amounts have been treated as capital expenditure consistent with the accounting treatment of the expenditure.

### 4.4 Australian Taxation Office Single Touch Payroll requirements phase 2

The Australian Tax Office (ATO) introduced a mandatory reporting change for all employers with more than 20 employees called Single Touch Payroll (STP) effective 1st July 2018. These changes were implemented by ATCO in 2018. In 2020 The Government announced that STP would be expanded to include additional information. The mandatory start date for STP Phase 2 reporting was 1 January 2022.

To comply with ATO requirements, ATCO was required to implement an expansion of the existing STP system to include reporting of additional information as mandated by the ATO employer

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reporting guidelines. ATCO incurred additional costs for the development of software to implement the required changes, as well as advice to ensure ATCO correctly implemented the required changes to its payroll system.

The amended ATO Single Touch payroll requirements are a change in law and, therefore a cost pass-through event pursuant to clause 2.1 (iii) of Annexure B of the revised access arrangement.

Amounts have been allocated to ATCO Gas Australia and other ATCO entities based on employee numbers as at 31 December 2021. Costs relating to ATCO Gas Australia have been allocated based on employee timesheeted hours to non-pipeline services and non-reference services. Costs have been allocated to Albany and Kalgoorlie based on the number of MIRNS (delivery points). The net amount related to the Mid-West and South-West Gas Distribution Network reference services is \$85,730. These bases of allocation are consistent with the allocation of total operating costs to these services in the Cost Allocation Methodology (CAM). These amounts have been treated as capital expenditure consistent with the accounting treatment of the project costs.

These amounts have been recorded as capital expenditure.

#### **4.5 Building and Construction Industry (Security of Payment) Act 2021**

In July 2021, the *Building and Construction Industry (Security of Payment) Act 2021 (SOPA)* came into force introducing new laws to enhance payment protections for contractors. The Act applies to all construction contracts (written, oral or a combination of both) entered into after the date of commencement (Phase 1 being 1 August 2022) in which a person agrees to undertake 'construction work' and/or supply of 'related goods and services' within Western Australia.

The *Building and Construction Industry (Security of Payment) Act 2021* is a change in law and, therefore, a cost pass-through event pursuant to clause 2.1 (iii) of Annexure B of the revised access arrangement.

In response to the SOPA requirements, ATCO took the following actions:

- An IT solution was developed to deal with SOPA claims. Process flow analysis was undertaken to determine the best way to utilise the software.
- Contracted a Change Manager to:
  - Assist with management of the project as it required changes to processes within a defined timeframe while internal resources were stretched.
  - Implement a change process to ensure new processes were adopted, such as payment approval within SOPA timeframes to allow compliance with SOPA.
- Adjust payment terms to 20 business days to meet the legislative requirements, as well as making more regular payment runs.
- Commissioned limited legal advice about ATCO's obligations under SOPA and any changes required as result of the new obligations.

A total of \$132,062 costs specific to ATCO Gas Australia were incurred. Costs have been allocated based on employee timesheeted hours non-pipeline services, and non-reference services. Costs have been allocated to Albany and Kalgoorlie based on the number of MIRNS (delivery points). These bases of allocation are consistent with the allocation of total operating costs to these services in the Cost Allocation Methodology (CAM). The net amount related to the Mid-West and South-West Gas Distribution Network reference services is \$128,210.

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Costs are operating costs for the purpose of the tariff variation consistent with ATCO's accounting treatment of the costs.

#### **4.6 Work Health and Safety Act 2020**

The Work Health and Safety Act 2020 and accompanying regulations came into effect on 31 March 2022. The Work Health and Safety Act and regulations establishes the duties of the Person conducting the Business or Undertaking (PCBU) regarding workers and others psychological health.

The Work Health and Safety Act section 17 contains provisions that establish the principles to be followed when managing the risk of psychological harm. Furthermore, section 4 of the Work Health and Safety Act defines health to include psychological health.

WorkSafe WA also released on 26 August 2022 an 'approved code of practice' regarding psychosocial hazards titled, 'Psychosocial hazards in the workplace' (Code of Practice). It sets out the minimum requirements for a PCBU to comply with its obligations for psychological health under the provisions of the WHS Act.

Section 275 confirms the legal status of the Code of Practice.

In response to the Work Health and Safety Act and Code of Practice, ATCO initiated a series of workshops to ensure supervisors and others are aware of their obligations under the Work Health and Safety Act and Code of Practice, as well as understanding what is "psychological health". The total cost of the workshops was \$4,125. All of the costs related to ATCO Gas Australia.

Costs have been allocated based on employee timesheeted hours to non-pipeline services and non-reference services. Costs have been allocated to Albany and Kalgoorlie based on the number of MIRNS (delivery points). These bases of allocation are consistent with the allocation of total operating costs to these services in the Cost Allocation Methodology (CAM). The net amount related to the Mid-West and South-West Gas Distribution Network reference services is \$4,005.

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## 5. PROPOSED HAULAGE TARIFFS AND VARIED TARIFF COMPONENTS

The varied reference tariffs, excluding GST, are listed below and will be applicable from 1 January 2023. 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 2023:

1. the Standing Charge is \$37,912.49 divided by 365;
2. the Demand Charge Rate is:
  - a) \$159.79 for the first 10 kilometres of the Interconnection Distance; and
  - b) \$84.11 for any part of the Interconnection Distance in excess of 10 kilometres;
3. the Usage Charge Rate is:
  - a) \$0.03380 per Gigajoule per kilometre for the first 10 kilometres of the Interconnection Distance; and
  - b) \$0.01703 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 2023:

1. The Standing Charge is \$20,976.86 divided by 365;
2. the Usage Charge Rate is:
  - a) \$2.04 per Gigajoule for the first 10 Terajoules of gas delivered to the User at a Delivery point per year; and
  - b) \$1.08 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 2023:

1. the Standing Charge is \$1,060.60 divided by 365;
2. the Usage Charge Rate is:
  - a) \$4.03 per Gigajoule for the first 5 Terajoules of gas delivered to the User at a Delivery point per year; and
  - b) \$3.46 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 2023:

1. the Standing Charge is \$266.16 divided by 365;
2. the Usage Charge Rate is:



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- a) \$6.75 per Gigajoule for the first 274 Megajoules per day of gas delivered to the User at a Delivery point; and
  - b) \$4.02 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 2023:

1. the Standing Charge is \$132.18 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) \$6.20 per Gigajoule for the next 22 Megajoules per day of gas delivered to the User at a Delivery Point; and
  - c) \$4.14 per Gigajoule for any usage in excess of the first 27 Megajoules per day of gas delivered to the User at a Delivery Point.