Economic Regulation Authority

Final decision on access arrangement for the Mid-West and South-West Gas Distribution Systems (2025 to 2029)

Attachment 3: Revenue and tariffs

8 November 2024

D283305

Acknowledgement of Country

At the ERA we value our cultural diversity and respect the traditional custodians of the land and waters on which we live and work.

We acknowledge their continuing connection to culture and community, their traditions and stories. We commit to listening, continuously improving our performance and building a brighter future together.

Economic Regulation Authority

Level 4, Albert Facey House

469 Wellington Street, Perth WA 6000

Telephone 08 6557 7900

Email info@erawa.com.au

Website www.erawa.com.au

This document can also be made available in alternative formats on request.

National Relay Service TTY: 13 36 77

Contents

Note ii

Attachment 3. Summary 1

Regulatory requirements 4

ERA draft decision 7

Total revenue 7

Allocation of total revenue 8

Reference tariffs 8

Tariff variation mechanism 11

ATCO response to draft decision 13

Total revenue 13

Reference tariffs 13

Tariff variation (cost pass through) mechanism 15

Submissions to the ERA 16

Final decision 18

Total revenue 19

Allocation of total revenue 20

Reference tariffs 20

Tariff variation mechanism 37

List of appendices

Appendix 1 List of Tables 43

Note

This attachment forms part of the ERA's final decision on the access arrangement for the Mid-West and South-West Gas Distribution Systems. It should be read in conjunction with all other parts of the final decision, which is comprised of the following document and attachments:

- Final decision on access arrangement for the Mid-West and South-West Gas Distribution Systems (2025 to 2029) – Overview, 8 November 2024:
  - Attachment 1: Access arrangement and services
  - Attachment 2: Demand
  - Attachment 3: Revenue and tariffs (this document)
  - Attachment 4: Regulatory capital base
  - Attachment 5: Operating expenditure
  - Attachment 6: Depreciation
  - Attachment 7: Return on capital, taxation, incentives
  - Attachment 8: Other access arrangement provisions
  - Attachment 9: Service terms and conditions

Attachment 3. Summary

ATCO's revised proposal included a total revenue requirement for AA6 of $1,487.1 million (nominal), which was 22 per cent higher than the ERA's draft decision requirement of $1,217.6 million (nominal). The main reasons for the $269.5 million increase in ATCO's revised total revenue include a $121.6 million increase in operating expenditure and a $97 million increase for accelerated depreciation.

The ERA has approved a total revenue requirement of $1,374.6 million (nominal) for this final decision, driven largely by accepting a higher 2023 base operating expenditure value (including correction of an error in corporate operating expenditure), accepting some short term incentive payments, approving some step changes in operating costs, approving additional information technology investment and allowing $41.7 million for accelerated depreciation.

Tariff structures

ATCO offers the following gas haulage reference services for its distribution network:

- A1 service (major industrial customers consuming more than 35 terajoules a year).
- A2 service (large customers consuming between 10 and 35 terajoules year).
- B1 service (medium customers consuming less than 10 terajoules a year).
- B2 service (small-use commercial or large residential customers).
- B3 service (small-use residential customers).

In this final decision, the haulage reference tariff classes remain the same as the current (AA5) access arrangement, with amendments to the reference tariff structure for the B3 Service.

In its draft decision, the ERA required ATCO to demonstrate why a declining block tariff structure remained appropriate for B3 reference tariff customers. A block tariff structure charges more for an initial amount – or block – of gas, and then less for further consumption – effectively incentivising the consumption of more gas. ATCO's revised proposal was to retain a block tariff structure for B3 customers.

The ERA considers that ATCO did not sufficiently demonstrate that the benefits of retaining a declining block tariff structure substantially outweighed the detriments of moving to a flat tariff structure. The ERA considers that a flat tariff structure, where all gas consumed is charged at the same price, sends a neutral price signal to customers, encouraging them to maintain or perhaps even reduce their gas use. This would better meet the revised national gas objective, which now includes a direct consideration of emissions reduction and energy efficiency.

For the other (non-B3) reference services, the ERA has accepted ATCO's revised proposal to maintain a declining block tariff structure, noting ATCO's reasoning of specific commercial considerations for non-B3 customers and the need for further stakeholder engagement. The ERA expects ATCO to undertake further consultation on efficient tariff structures with retailers and other non-B3 customers during AA6. ATCO's proposal for the next (AA7) access arrangement should be informed by this stakeholder consultation and must demonstrate that the proposed tariff structure for AA7 best achieves the amended national gas objective.

Tariff path

In the draft decision, the ERA noted that it would consider using a smoothed tariff path if price increases were to be materially higher in the final decision.

Given the increase in revenue since the draft decision, adopting a one-off step increase in 2025 would result in price increases of 25.3 per cent for all customers, which is much higher than the 12.5 per cent step increase set out in the draft decision. For this reason, the ERA has decided to apply a smoothed real price tariff path.

The ERA's final decision is to set tariff increases at 7.8 per cent per year for AA6. Due to rebalancing the usage charges for B3 customers, the average B3 network bill increases by 7 per cent in 2025, with tariffs increasing by 7.8 per cent thereafter. The ERA considers that its decision to smooth the tariff path satisfies the requirements for tariffs under the regulatory framework, including the *National Gas Access (WA) (Local Provisions) Regulations 2009*, which requires the access arrangement to deliver uniform tariffs for small use customers; and consideration of the impact of reference tariffs, including the method to determine and vary them, on small use customers and retailers.

Tariff variation

Reference service tariffs are varied during the access arrangement period in accordance with the tariff variation mechanism. For ancillary reference services, tariffs are updated for actual inflation. For haulage reference services, tariffs are updated for inflation, the debt risk premium (that varies annually) and cost pass through events.

Cost pass through events are defined events that incur costs that cannot be (and have not been) reasonably forecast; are beyond the control of the service provider; and relate to the provision of reference services. The tariff variation (cost pass through event) mechanism allows these costs to be recovered through an adjustment to the reference tariffs during the access arrangement period.

For AA6, ATCO included a fifth, and new, cost pass through event for regulatory changes to address emissions reductions and incorporate other gases; and retained the existing four cost pass through events from the current (AA5) access arrangement with some proposed drafting amendments.

The ERA has not approved ATCO's new cost pass through event; and has maintained its draft decision position to delete the cost pass through event for emissions control laws (cost pass through event four) from the access arrangement on the basis that:

- The changes to the regulatory framework to include other gases (once effective in Western Australia) is not a change in law that requires ATCO to include other gases; rather it will allow ATCO the discretion to transport other gases through its distribution system if it chooses to do so. The cost pass through event (tariff variation) mechanism is not designed for complex cost assessments of discretionary expenditure.
- ATCO's proposed amendments to the cost pass through event for emissions control laws add unnecessary complexity to the access arrangement. The intent of this cost pass through event is to recover any conforming capital expenditure related to laws covering greenhouse gas emissions that was not (or could not have been) reasonably forecast; is beyond ATCO's control; and is related to the provision of reference services. The existing cost pass through event for a change in law or tax change provides for this, making the emissions control laws cost pass through event unnecessary.

Summary of required amendments:

3.1 The values for total revenue (nominal) must reflect the values as set out in Table 3.11 of this Final Decision Attachment 3.

Annexure A of the proposed revised access arrangement, which details the haulage reference service tariffs, must be amended to reflect the tariffs set out in Table 3.16 of this Final Decision Attachment 3.

Annexure C of the proposed revised access arrangement, which details the ancillary reference service tariffs, must be amended to reflect the tariffs set out in Table 3.18 of this Final Decision Attachment 3.

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

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

Regulatory requirements

1. The *National Gas Access (WA) Act 2009* implements a modified version of the National Gas Law (NGL) and National Gas Rules (NGR) in Western Australia. The rules referenced in this decision are those that apply in Western Australia.[1]

2. Section 24 of the NGL sets out revenue and pricing principles to guide the construction of reference tariffs.[2] This primarily involves determining a total revenue amount that is needed by the service provider to recover the efficient costs incurred in operating the pipeline. Once total revenue for the pipeline is determined, reference tariffs can be determined to recover this revenue (that is, the reference tariffs are set to recover the service provider's efficient costs).

3. The NGR sets out specific provisions relating to the determination of each of the respective building blocks that together determine total revenue.[3] In addition to these provisions, rule 93 requires total revenue to be allocated between reference services and other pipeline services in the ratio in which costs are allocated between these services:

   - Costs that are directly attributed to reference services must be allocated to those services.
   - Costs that are directly attributed to other pipeline services (that are not reference services) must be allocated to those services.
   - Other costs (that are not directly attributed to a reference or other pipeline service) must be allocated between reference and other pipeline services on a basis determined or approved by the regulator. The basis on which this occurs must be consistent with the revenue and pricing principles.
   - Costs for the provision of rebateable services may be allocated to reference services if there is a rebate mechanism to apply an appropriate portion of the revenue from the sale of rebateable services to reduce the reference tariff.[4]

4. Each reference service must have a reference tariff. There must also be a mechanism to vary the reference tariff over the course of the access arrangement period. The NGR sets out the following provisions for the calculation of reference tariffs and the development of a tariff variation mechanism:

   - Provisions for revenue equalisation (rule 92):
     – The reference tariff variation mechanism must be designed to equalise (in terms of present values) forecast revenue from reference services for the access arrangement period and the portion of total revenue allocated to reference services for the access arrangement period.

---

1 The current rules that apply in Western Australia are available from the Australian Energy Market Commission: AEMC, 'National Gas Rules (Western Australia)' (online) (accessed November 2024).
At the time of this decision, *National Gas Rules – Western Australia version 12 (1 February 2024)* was in effect.

2 The NGL as implemented in Western Australia is set out as a note in the *National Gas Access (WA) Act 2009*. See: Western Australian Legislation (online) (accessed November 2024).
At the time of this decision, *National Gas Access (WA) Act 2009, 25 January 2024 was in effect.*

3 The specific provisions relating to each of the building block components are discussed in the relevant attachments to the ERA's decision.

4 A rebateable service is a service that is not a reference service and substantial uncertainty exists concerning the extent of the demand for the service or of the revenue to be generated from the service.

  - Where there is an interval of delay between the revision commencement date for an access arrangement and the date on which revisions to the access arrangement commence, reference tariffs in force at the end of the previous access arrangement period must continue without variation for the interval of delay. When fixing the reference tariff for the new access arrangement period there may be an adjustment for any under/over recovery that resulted from the continuation of reference tariffs from the previous access arrangement period during the interval of delay.
- Provisions for distribution pipeline tariffs (rule 94):
  - Customers for reference services provided by means of a distribution pipeline must be divided into tariff classes. The need to group customers together on an economically efficient basis and the need to avoid unnecessary transaction costs must be considered when establishing a tariff class.
  - For each tariff class, the revenue expected to be recovered should lie on or between an upper bound representing the stand-alone costs of providing the reference service to customers in that tariff class and a lower bound representing the avoidable cost of not providing the reference service to those customers.
  - The tariff for a tariff class must consider the long run marginal cost for providing the reference service. Where the tariff consists of two or more charging parameters, each parameter must consider the long run marginal cost for the service element to which the charging parameter relates.
  - The tariff for a tariff class must also consider the transaction costs associated with the tariff (or charging parameter) and whether customers belonging to the tariff class are able, or likely to, respond to price signals.
- Provisions for prudent discounts (rule 96):
  - Despite other tariff provisions, the regulator may approve a discount for a particular user or prospective user, or a particular class of users or prospective users.
  - To approve a discount, the regulator must be satisfied that the discount is necessary to respond to competition from other pipeline service providers or other sources of energy, or to maintain efficient use of the pipeline. It must also be satisfied that the provision of a discount is likely to result in tariffs that are lower than they would have otherwise been.
  - Where a discount is approved, the regulator may also approve the allocation of the cost (or part of the cost) of providing the discount to the costs of providing a service in one or more future access arrangement periods.
- Provisions for reference tariff variation (rule 97):
  - The reference tariff variation mechanism may provide for variation of a reference tariff in a variety of forms, including one or more of the following: a schedule of fixed tariffs, a formula in the access arrangement, a cost pass through for a defined event, or the sale of rebateable services (as contemplated under rule 93).

- When deciding whether the reference service tariff variation mechanism is appropriate, the regulator must consider the need for efficient tariff structures, the possible effects of the mechanism on administrative costs, any existing regulatory arrangements in place before operation of the mechanism, the desirability of consistency between regulatory arrangements within and beyond the relevant jurisdiction, the risk-sharing arrangements in the access arrangement, and any other factor considered to be relevant.
- The reference tariff variation mechanism must give the regulator adequate oversight or powers of approval over the variation of the reference tariff.
- Except as provided by the reference tariff variation mechanism, a reference tariff cannot vary during an access arrangement period.

5. Further to the framework established by the NGL and NGR, the ERA must also consider the legislative requirements set out in the *National Gas Access (WA) (Local Provisions) Regulations 2009* that apply to distribution pipelines in Western Australia.[5] Under these Regulations the ERA must:

   - Ensure that the access arrangement delivers uniforms tariffs for small use customers so that the reference tariff does not vary based on the geographical location of the delivery point to which the gas is delivered.
   - Consider the possible impact of the proposed reference tariffs, the method of determining the tariffs and the reference tariff variation mechanism on small use customers and retailers when assessing the access arrangement.

6. The NGR requires the following revenue and tariff information to be included in the service provider's Access Arrangement Information (AAI):[6]

   - Information on the proposed approach to set the reference tariffs, including the suggested basis for the reference tariffs (including the method used to allocate costs and a demonstration of the relationship between costs and tariffs), and a description of any pricing principles employed (rule 72(1)(j)).
   - The service provider's rationale for any proposed reference tariff variation mechanism (rule 72(1)(k)).
   - The total revenue to be derived from pipeline services for each year of the access arrangement period (rule 72(1)(m)).

7. In addition, AAI must state the basis on which financial information is provided. Under the NGR, financial information must be provided on a nominal or real basis, or some other recognised basis for dealing with the effects of inflation (rule 73).

---

5 *National Gas Access (WA) (Local Provisions) Regulations 2009*, Part 2, regulations 4 to 7.

6 AAI is information that is reasonably necessary for users (including prospective users) to understand the background to the access arrangement; and the basis and derivation of the various elements of the access arrangement.

ERA draft decision

8. The ERA set out the following draft decision required amendments:

3.1 The values for total revenue (nominal) must reflect the values as set out in Table 3.7 of [Draft Decision Attachment 3].

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 [Draft Decision Attachment 3].

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.

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 [Draft Decision Attachment 3].

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.

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.

Total revenue

9. ATCO proposed a total revenue requirement for AA6 of $1,451.7 million. The ERA's draft decision determined a total revenue requirement of $1,217.6 million based on its decisions for each of the building block components of total revenue (Table 3.1).

Table 3.1: ERA draft decision total revenue building blocks for AA6 ($ million nominal)

Building block	2025	2026	2027	2028	2029	Total
Regulatory operating expenditure	68.21	72.10	77.25	81.94	85.34	384.83
Operating expenditure	66.52	69.88	74.82	79.38	82.65	373.25
Return on working capital	1.69	2.21	2.43	2.56	2.69	11.58
Return on capital base	119.51	124.34	129.16	134.26	138.78	646.05
Regulatory depreciation	22.76	32.79	34.86	36.50	36.47	163.38
Depreciation	63.66	75.35	79.07	82.45	83.97	384.51
Accelerated depreciation	-	-	-	-	-	-
Inflationary gain	(40.91)	(42.56)	(44.21)	(45.96)	(47.50)	(221.13)
Regulatory corporate income tax	3.06	4.72	4.95	5.16	5.43	23.32
Corporate income tax	6.12	9.45	9.90	10.33	10.85	46.65
Imputation credits	(3.06)	(4.72)	(4.95)	(5.16)	(5.43)	(23.32)
Total revenue (unsmoothed)	**213.54**	**233.96**	**246.22**	**257.86**	**266.01**	**1,217.58**

Allocation of total revenue

10. The forecast revenues from reference tariffs for haulage and ancillary services are derived to equalise (in terms of present value) the portion of total revenue allocated to these services. The allocation of total revenue in the ERA's draft decision (in terms of present value) is set out in Table 3.2.

Table 3.2: ERA draft decision total revenue allocated to reference services for AA6

	Nominal $ millions (present value)
Total revenue (unsmoothed)	**915.07**
Allocation to haulage reference services	898.74
Allocation to ancillary reference services	16.29

Reference tariffs

Haulage reference services

11. The ERA's determinations on revenue and demand forecasts in the draft decision led to more moderate tariff increases (than proposed by ATCO), with the increases largely driven by rising inflation and increased cost of capital.

12. The ERA amended the tariff structure of the B3 tariff class (residential customers) to adjust the fixed charge to recover the fixed costs associated with the B3 service. Adjustments were made to reduce the variable charges imposed on the B3 tariff class and to change the tariff structure to a flat tariff structure (as opposed to ATCO's proposed continuation of the declining block structure) to better reflect cost drivers. The ERA further considered that the change in tariff structure could also send price signals to customers to conserve (or not increase) their gas use, which would reduce carbon emissions and be consistent with the amended national gas objective to reduce emissions to help achieve Australia's emissions reduction targets.

13. In its draft decision the ERA proposed a one-off increase in tariffs in the first year of the access arrangement period followed by no real price increases for the remaining years (that is, tariffs would increase by inflation only). The ERA noted that it may consider using other tariff smoothing approaches in its final decision if price increases are determined to be materially higher than the price increases determined in the draft decision (for example, by allowing some accelerated depreciation of the pipeline).

14. Table 3.3 shows the tariff increases (in real terms) on 1 January 2025; and Table 3.4 sets out the ERA's haulage reference service tariffs (in nominal terms) as determined by the draft decision (these tariffs were indicative as they included forecast inflation and would vary based on the tariff variation mechanism to adjust the tariffs for actual inflation).

Table 3.3: ERA draft decision tariff path compared to ATCO's proposal – real annual percentage change in tariffs (%)

	Price change on 1 January 2025	
	ATCO proposal	**ERA draft decision**
A1, A2, B1 and B2	38.6	**12.5**
B3 standing charge	24.7	**21.9**
B3 volume up to 9.855 GJ	69.3	**(21.1)**
B3 volume above 9.855GJ	62.3	**(9.0)**

Table 3.4: ERA draft decision haulage reference service tariffs for AA6 ($ 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

Charging parameter	2025	2026	2027	2028	2029
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

Ancillary reference services

15. The ancillary reference service tariffs were calculated to recover the operating cost to provide these services. In its draft decision, the ERA determined that ATCO's proposed unit rates for these services (excluding the permanent disconnection service) were between 16 per cent and 60 per cent higher than recent unit rates incurred in 2022 for these services and hence reduced the costs for these services. This in turn reduced the ERA's determined tariffs for these services compared to ATCO's proposed tariffs.

16. The permanent disconnection service is a new ancillary reference service for AA6. The ERA assessed ATCO's actual disconnection costs and determined a lower unit rate (tariff) for the permanent disconnection service. The ERA considered that the best possible forecast of a unit rate for the permanent disconnection service was a two-year average of the 2020 and 2021 years where the volumes undertaken were consistent with the forecast volumes to be undertaken in AA6.

17. The ERA's draft decision ancillary reference service tariffs for 1 January 2025 are set out in Table 3.5 (these tariffs are indicative as they include forecast inflation and will vary based on the tariff variation mechanism to adjust the tariffs for actual inflation).

Table 3.5: ERA draft decision ancillary reference service tariffs for AA6 ($ nominal, 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

Tariff variation mechanism

18. The ERA considered ATCO's proposed tariff variation mechanism for haulage and ancillary reference services and noted the following:

- The mechanism to apply in AA6 for haulage reference services is like the mechanism that currently applies in AA5. That is, the mechanism allows average prices to increase by the annual change in the CPI (all groups, weighted average of eight capital cities), plus or minus an X-factor that is varied for debt risk premium updates and cost pass through events. For AA5 the B3 standing charge was excluded from the mechanism, but for AA6 the B3 standing charge will be included.
- The mechanism to apply in AA6 for ancillary reference services is materially unchanged from AA5.[7]

B3 standing charge

19. The ERA considered that there was no reason to exclude the B3 standing charge from the tariff variation mechanism – both fixed and variable costs should be subject to variation during an access arrangement period to calculate a tariff that reflects the cost of providing the reference service.

Cost pass through events

20. For AA6, ATCO included a fifth, and new, cost pass through event for regulatory changes to address emissions reductions and incorporate other gases; and retained the existing four cost pass through events from the current access arrangement with some proposed drafting amendments.

21. ATCO's proposed amendments to the cost pass through event for emissions control laws were not approved by the ERA on the basis that the proposed amendments added unnecessary complexity to the access arrangement. The intent of the cost pass through is for ATCO to be able to recover any conforming capital or operating expenditure related to laws covering greenhouse gas emissions that was not (or could not have been) reasonably forecast; was beyond the control of ATCO; and was related to the provision of reference services. The ERA considered that the existing cost pass through event for changes in law or tax would cover this expenditure and the cost pass through event could therefore be deleted (rather than amended).[8]

22. ATCO's proposed new cost pass through event aimed to address the uncertainties surrounding the adoption of legislative changes to the regulatory framework in Western Australia to address emissions reduction and include gases other than natural gas. The ERA did not approve this additional cost pass through event on the basis that it was not needed given the existing cost pass through event for changes in law or tax. That is, the proposed changes to the regulatory framework to include other gases is not a change in law that will obligate ATCO to include other gases. Rather it will allow ATCO

---

7 ATCO made some minor drafting changes to the tariff variation mechanism provisions in Annexure C to delete clause 2(b), which allowed ATCO to use a substitute index in place of the consumer price index (CPI all groups, weighted average of eight capital cities) during AA5.
See: ATCO, Reference Tariff Variation for period beginning 1 January 2021, 4 December 2020 (online) (accessed November 2024).

8 Cost pass through event three (iii) covers conforming capital or operating expenditure resulting from a change in law or tax change.

to transport other gases through the distribution system. However, if there was a requirement that ATCO must include other gases, then the existing cost pass through event for a change in law or tax would be applicable.

23. In circumstances where other gases are permitted and ATCO elects to incur operating and/or capital expenditure for inclusion of those gases, there would need to be a detailed assessment of the expenditure to ensure only conforming expenditure was included in total revenue and recovered through reference tariffs. The ERA considered that this type of detailed assessment should not occur as part of the tariff variation mechanism (cost pass through event) process. That is, the cost pass through event mechanism is not designed for complex cost assessments that include discretionary expenditure, and/or require engagement with stakeholders, before a determination can be made by the ERA.

ATCO response to draft decision

Total revenue

24. ATCO did not accept the ERA's draft decision required amendment 3.1 to include a total revenue value of $1,217.6 million (nominal) and has instead proposed a revised value of $1,487.1 million (nominal). ATCO's revised revenue is $35.4 million (2.4 per cent) higher than its initial proposal of $1,451.7 million (nominal).

25. ATCO's revised total revenue requirement applies the building block approach on a post-tax basis, with amended values being consistent with the building block values of its revised proposal. Table 3.6 details ATCO's revised building blocks for total revenue.

Table 3.6: ATCO revised proposed total revenue requirement for AA6 ($ million nominal)

Building blocks	2025	2026	2027	2028	2029	Total
Forecast operating expenditure	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**

Source: ATCO, 2025-29 Revised Plan, 10 June 2024, p. 273, Table 14.24.

Reference tariffs

Haulage reference service tariffs

26. ATCO did not accept the ERA's draft decision required amendment 3.2 to amend the haulage reference service tariffs. ATCO instead revised its proposed tariffs to be consistent with its demand forecasts and the total revenue amount in its revised proposal. ATCO's revised haulage reference service tariffs are shown in Table 3.7 (on page 14 below).

Haulage reference service tariff structure

27. ATCO retained a declining block structure for usage charges for each tariff class of customers (A1, A2, B1, B2 and B3) and did not adopt the ERA's draft decision required amendment to move the B3 tariff structure to a flat usage component where customers would pay the same rate per megajoule.

Table 3.7: ATCO revised proposed haulage reference service tariffs for AA6 ($ 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	260.84	275.14	290.51	306.73
Distance > 10 km	129.91	137.16	144.82	152.92	306.73
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 km	3.15	3.33	3.51	3.70	3.91
Distance > 10 km	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	7.25	7.65	8.08	8.53
Volume > 9.855 GJ	5.95	6.28	6.63	7.00	7.39

Source: ATCO, 2025-29 Revised Plan (Access Arrangement Information), 10 June 2024, p. 269, Table 14.21

Ancillary reference service tariffs

28. ATCO did not accept the ERA's draft decision required amendment 3.4 to amend the ancillary reference service tariffs as set out in the draft decision. ATCO has instead revised its proposed tariffs based on its latest AA6 cost forecast, which uses the ancillary service costs reported in the 2023 Regulatory Information Notice (RIN) as a starting point.[9]

29. Table 3.8 sets out ATCO's revised tariffs for ancillary reference services for AA6, which are indicative tariffs only given the tariffs will change due to the operation of the tariff variation mechanism.

Table 3.8: ATCO revised proposed ancillary service tariffs for AA6 ($ nominal ex GST)

Ancillary services	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	1,207.33	1,302.21	1,334.90
Special meter reading	10.38	10.64	10.91	11.18	11.47

Source: ATCO, 2025-29 Revised Plan, 10 June 2024, p. 270, Table 14.22.

Tariff variation (cost pass through) mechanism

30. ATCO did not accept the ERA's draft decision required amendments to delete the cost pass through event for changes to emissions control laws (cost pass through event four); and the cost pass through event for regulatory changes for emissions control and other gases (cost pass through event five). ATCO instead proposed revised drafting for these cost pass through events for the following reasons:

- Cost pass through event four must be retained as it covers scenarios that may not be captured by the cost pass through event for a change in law or tax (cost pass through event three).[10]
- The recent regulatory change in Western Australia to implement the new national gas objective and expected change to incorporate renewable gases into the regulatory framework is a primary reason to retain cost pass through event five in its amended form. By not allowing a mechanism to recover costs associated with other (renewable) gases, there is no financial incentive for ATCO to invest in other gases because there is no ability to recover the expenditure.[11]

[9] ATCO, *2025-29 Revised Plan*, 10 June 2024, p. 47.

[10] ATCO, *2025-29 Revised Plan*, 10 June 2024, p. 49.

[11] ATCO, *2025-29 Revised Plan*, 10 June 2024, pp. 49-50.

Submissions to the ERA

31. Several submissions received in response to ATCO's initial proposal and the ERA's issues paper addressed revenue and tariffs.

- Stakeholders raised concerns about ATCO's proposed tariff path for haulage reference services, and considerable concern about the tariff impact on residential and small business (B3) customers.[12]
- Stakeholders also questioned ATCO's proposed tariffs for ancillary reference services and made specific mention of the high tariff for the new permanent disconnection ancillary reference service.[13] The submissions highlighted the need for a thorough assessment of ATCO's proposed ancillary reference tariffs to ensure the tariffs are cost reflective of the ancillary services being provided. While there was support for a user-pays tariff for the permanent disconnection service, the high tariff may affect customers' decisions to use the service.

32. The ERA addressed these matters as part of its draft decision considerations.

33. Additional comments related to revenue and tariffs were received in submissions in response to the draft decision and ATCO's revised proposal, and included the following:

- AGL Energy expressed concern about the separation between the ERA's decision on network tariffs and the Western Australian Government process for setting retail gas tariffs for small use customers. AGL was "strongly of the opinion that there needs to be a clear link between these decisions" otherwise there could be a decline in retail gas competition.[14]
- Alinta Energy stated:

  > We consider that a smoothed tariff path, rather than a path reflecting a steep one-off increase at the start of AA6, would moderate impacts to both consumers and retailers, while preserving ATCO's opportunity to recover its efficient costs as set out under the NGR. Implementing an uneven tariff path as set out in the ERA's Draft Decision would place an unreasonable burden on retailers in the current regulatory environment, where there is no direct pass through of network tariff increases to customers. In turn, consumers would be impacted as retailers act to moderate their competitive market offers.[15]

- Wesfarmers Kleenheat Gas noted the ERA's draft decision to increase the fixed standing charge for B3 customers to reflect the avoidable cost of connecting these customers and to provide efficient price signals to new customers. However, it considered this would not be the case given there is a regulated maximum fixed supply charge that was currently lower than the ERA's approved charge.[16]

[12] Submissions from: AGL Energy, Alinta Energy, Kleenheat, Origin Energy, Synergy, WA Council of Social Service, and WA Expert Consumer Panel.

[13] Submissions from: AGL Energy, Alinta Energy, Housing Industry Association, Origin Energy, Synergy, WA Council of Social Service and WA Expert Consumer Panel.

[14] AGL Energy, *Submission on ERA draft decision and ATCO revised proposal*, 8 July 2024.

[15] Alinta Energy, *Submission on ERA draft decision and ATCO revised proposal*, 9 July 2024, p. 16.

[16] Kleenheat, *Submission on ERA draft decision and ATCO revised proposal*, 8 July 2024.

- The WA Council of Social Service (WACOSS) remained concerned about the impact of a one-off increase on gas consumers on low incomes and did not support ATCO's revised tariff proposal. WACOSS also recognised the potential impacts on retailers. It submitted:

  > While the WA State Government sets the limit for retail tariffs, ATCO's revised proposed tariffs would put considerable price pressure on retailers, which is likely to result in less discounts for consumers and other increased fees to recoup retailer losses.[17]

- The TRAC Partners report, commissioned by the WA Expert Consumer Panel, commented on each of the ERA's draft decision required amendments and ATCO's response to them.[18] In summary, TRAC:
  - Considered that minimising the tariff increase from 2024 to 2025 should be a key goal given the cost of living pressures that customers are currently experiencing.
  - Did not consider the reasoning provided by ATCO justified its decision to maintain declining block tariff structures.
  - Focused on the tariff level and structure for the permanent disconnection ancillary reference service, where it questioned whether the proposed tariff reflected the efficient costs of providing the service.
  - Considered that revised cost pass through event four was too broad, making it difficult to know what circumstances would apply; and that other mechanisms may be available to replace revised cost pass through event five.

34. The ERA has considered these latest comments as part of its final decision considerations below.

[17] WA Council of Social Service, *Submission on ERA draft decision and ATCO revised proposal*, 5 July 2024, p. 2.

[18] WA Expert Consumer Panel, *TRAC Partners Technical Report on ERA draft decision and ATCO revised proposal*, 8 July 2024, pp. 43-51.

Final decision

35. The ERA's consideration of elements related to ATCO's proposed revenue and tariffs for AA6 is set out below and covers:

- ATCO's total revenue allowance and the allocation of this allowance between reference and non-reference services.
- The reference tariffs to be charged by ATCO to recover its allowed revenue, including the structure of the tariffs and tariff path.
- ATCO's tariff variation mechanism that will be used to vary reference tariffs during the access arrangement period.

36. ATCO's basis of financial information is set out in section 14.2 of its Revised Plan.[19] Financial information is provided in both nominal and real terms, with all financial information expressed in constant real prices as at 31 December 2023. ATCO stated:

> 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 [ATCO's Revised] Plan (which are also calculated as prescribed by the [ERA's] 2022 Rate of Return Instrument).

37. Table 3.9 shows the Consumer Price Index (CPI) and inflation values used by ATCO provide the financial information in its revised proposal.

Table 3.9: ATCO actual and forecast CPI and inflation rates

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Actual					Forecast					
December CPI	116.2	117.2	121.3	130.8	136.1						
Inflation (%)	1.84	0.86	3.50	7.83	4.05	3.80	2.51	2.51	2.51	2.51	2.51

Source: ATCO, Revised Plan 2025-2029, 10 June 2024, Table 14.1, p. 257.

38. The ERA has provided its financial information using the CPI and inflation values in Table 3.10, which has revised forecast inflation from 2024 onwards consistent with the estimate used to calculate the rate of return for this final decision.

[19] ATCO, 2025-29 Revised Plan, 10 June 2024, pp. 256.

Table 3.10: ERA actual and forecast CPI and inflation rates

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Actual					Forecast					
December CPI	116.2	117.2	121.3	130.8	136.1						
Inflation (%)	1.84	0.86	3.50	7.83	4.05	2.24	2.24	2.24	2.24	2.24	2.24

Source: ERA, Final Decision GDS Tariff Model, November 2024.

Total revenue

39. Table 3.11 sets out the ERA's final decision total revenue for the building block components determined elsewhere in the final decision. As there was no incentive scheme that operated in AA5, no increment or decrements have affected AA6 revenue.

Table 3.11: ERA final decision total revenue building blocks for AA6 ($ million nominal)

Building block	2025	2026	2027	2028	2029	Total
Regulatory operating expenditure	85.29	91.43	96.25	103.19	105.07	481.23
Operating expenditure	83.68	89.13	93.69	100.43	102.18	469.11
Return on working capital	1.61	2.30	2.56	2.76	2.89	12.12
Return on capital base	113.17	118.19	123.42	127.29	130.82	612.89
Regulatory depreciation	34.73	47.73	53.40	55.61	57.00	248.47
Depreciation	63.01	77.43	84.60	87.86	90.19	403.09
Accelerated depreciation	7.97	8.14	8.33	8.51	8.70	41.65
Inflationary gain	(36.24)	(37.85)	(39.53)	(40.76)	(41.90)	(196.27)
Regulatory corporate income tax	4.77	6.46	6.72	6.92	7.18	32.04
Corporate income tax	9.54	12.92	13.43	13.84	14.36	64.08
Imputation credits	(4.77)	(6.46)	(6.72)	(6.92)	(7.18)	(32.04)
Total revenue (unsmoothed)	**237.96**	**263.81**	**279.79**	**293.00**	**300.07**	**1,374.63**

Source: ERA, Final Decision GDS Tariff Model, November 2024.

Required Amendment

3.1 The values for total revenue (nominal) must reflect the values as set out in Table 3.11 of this Final Decision Attachment 3.

Allocation of total revenue

40. The forecast revenues from reference tariffs for haulage and ancillary services discussed below are derived to equalise (in terms of present value) the portion of total revenue allocated to these services. The portion of total revenue allocated to these services is provided in present value terms in Table 3.12. The total revenue (unsmoothed) amount of $1,045.70 million reflects the present value of the total shown in Table 3.11 above.

41. Ancillary reference services revenue is equal to the direct costs that are forecast as operating expenditure and is easily identifiable. Hence, ancillary reference services revenue can be subtracted from total revenue (unsmoothed) to determine the amount of total revenue to be allocated to haulage reference tariffs.

Table 3.12: ERA final decision total revenue allocated to reference services for AA6

	Nominal $ millions (present value)
Total revenue (unsmoothed)	1,045.70
Allocation to haulage reference services	1,024.66
Allocation to ancillary reference services	21.04

Source: ERA, Final Decision GDS Tariff Model, November 2024.

Reference tariffs

Haulage reference services

Form of price control

42. ATCO's initial and revised proposal retains the form of price control from the last access arrangement period, which places a constraint on 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). This mechanism allows average prices to increase by the annual change in CPI (weighted average across eight capital cities), plus or minus an X-factor that is varied for debt risk premium updates and cost pass-through items (see Tariff variation mechanism at paragraph 92).

43. The ERA did not receive any submissions that proposed an alternative preferable price control. In the absence of any submissions, the ERA considers that there are no other valid reasons to change its draft decision position, which was to approve ATCO's proposed price control.

Tariff structure (flat vs block variable charges)

44. The NGR requires that customers of reference services provided by means of a distribution pipeline be divided into tariff classes. Each charging parameter for a tariff class must take into account:

- The long run marginal cost for the element of the reference service to which the charging parameter relates.

- Transaction costs associated with the tariff or each charging parameter.
- Whether customers belonging to the relevant tariff class are able or likely to respond to price signals. [20]

45. There are two common tariff structures that a service provider could consider for variable charges:

- **Block tariff:** Under a block tariff structure, defined quantities of gas consumed, have either an increasing or decreasing price per unit volume charge. A declining block tariff structure has the first consumption block of gas that is consumed by customers set at a higher price than the subsequent block; whereas an inclining block tariff structure has the first consumption block the lowest with subsequent blocks priced progressively higher.
- **Flat tariff:** Under a flat tariff structure customers pay a steady, or flat, rate per unit of gas consumed. When shifting from a declining block tariff to a flat tariff, customers who consume smaller volumes of gas may benefit. In principle, small volume customers would pay a lesser rate per unit of gas. Customers who consume a larger amount that would have benefitted from a subsequent tariff block would be worse off.

ATCO's proposed tariff structure

46. ATCO's current and proposed tariffs for haulage reference services comprise a fixed charge and declining block usage charge components for each tariff class of customer (A1, A2, B1, B2 and B3).

47. In its issues paper, the ERA asked whether ATCO's current and proposed declining block tariff structure is consistent with the new national gas objective, which incorporates a specific emissions reduction objective, or whether an alternative tariff structure should be considered which may better meet the new objective. Considering submissions, the ERA's draft decision amended the usage charges for B3 (residential customers) to a flat tariff structure. The ERA considered that this would better meet the national gas objective by reducing the inefficiency and inequity from declining block tariffs (discussed below at paragraph 63). The ERA required ATCO to demonstrate why usage tariffs for other reference services should remain as declining block tariffs instead of moving to a flat tariff structure.

48. ATCO did not adopt the flat tariff structure for usage charges for B3 customers as required by the ERA's draft decision. ATCO also did not amend the tariff structure for the other reference tariffs and has instead retained the tariff structures it initially proposed. That is, ATCO's proposed tariffs for haulage reference services comprise a fixed charge and declining block usage charge component for each tariff class of customer (A1, A2, B1, B2 and B3).

49. In support of its proposal to retain declining block tariffs, instead of moving to a flat tariff structure, ATCO submitted:

> 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.
>
> …

[20] NGR, rule 94.

> 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.[21]

50. In support of ATCO maintaining the B3 tariff structure of a fixed charge and a variable two-usage band declining block tariff structure, ATCO submitted:

> 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.[22]

51. ATCO claimed the reasons to maintain a declining block structure for tariff classes A1, A2, B1 and B2 are the same reasons for the B3 tariff class, with additional commercial considerations. ATCO submitted:

> 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.[23]

52. Regarding B1 and B2 tariff classes, ATCO submitted:

> 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

---

[21] ATCO, *2025-29 Revised Plan*, 10 June 2024, p. 41.

[22] ATCO, *2025-29 Revised Plan*, 10 June 2024, p. 43.

[23] ATCO, 2025-29 Revised Plan, 10 June 2024, p. 46.

> and LPG, increasing utilisation of the network by over 2 petajoules, while also reducing emissions by 80,000 tonnes per year.
>
> 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.[24]

ERA considerations

53. The ERA's draft decision required ATCO to demonstrate why a declining block tariff structure remains appropriate. In response, ATCO stated that for B3 customers there had been insufficient time to consult with stakeholders; and that there may be undesired and unintended effects on low-use and vulnerable customers if a flat tariff structure were to be adopted. Several submissions also raised concerns regarding vulnerable customers and the potential effects from tariff structure changes. For example, WACOSS submitted that it did not support tariff increases as it has an "inequitable impact on consumers on low incomes as they typically have less control over their energy source."[25]

54. Under ATCO's revised B3 tariffs, the first 9.855 gigajoules consumed in 2025 (first charging tier) is priced at $6.86 per gigajoule, with volumes greater than 9.855 gigajoules (second charging tier) priced at $5.95 per gigajoule. The ERA considers the difference between the charging tiers of $0.90 per gigajoule to be marginal, and hence the impact of moving B3 customers to a flat tariff structure, which would lower the first 9.855 gigajoule price, would also be marginal. For context, the ERA forecasts that the average B3 customer will consume around 12.8 gigajoules per year in 2025. The flat tariff structure may also benefit some vulnerable customer groups, for example, low-use vulnerable customers. In principle, low-use customers would pay a lesser rate per unit of gas than under a declining block tariff structure. This reasoning was supported in the TRAC Partners report, which submitted that "it is self-evident that adopting a flat usage tariff structure will be more favourable to vulnerable customers (than retaining a declining block tariff structure) when considered from the perspective of the unit cost of gas per customer."[26]

55. ATCO also submitted that there was uncertainty as to whether changes in tariffs would be passed through by retailers, and if not, adopting a flat tariff would be ineffective. Some submissions raised similar concerns that without retailers adjusting competitive offers or the maximum retail tariff for small use customers changing, price signals will not get through to customers. For example:

    - Kleenheat submitted that given the retail gas tariffs are separately set by the Western Australian State Government, changes to tariff structure would not provide a price signal to customers and would only attribute to a bigger misalignment.[27]
    - AGL raised concerns about the separation between the ERA's decision on network tariffs and the Western Australian Government process for setting the maximum gas price for small customers.[28]

---

24 ATCO, *2025-29 Revised Plan*, 10 June 2024, p. 46.

25 WA Council of Social Service, *Submission on ERA draft decision and ATCO revised proposal*, 5 July 2024, p. 2.

26 WA Expert Consumer Panel, *TRAC Partners Technical Report on ERA draft decision and ATCO revised proposal*, 8 July 2024, p. 47.

27 Kleenheat, *Submission on ERA draft decision and ATCO revised proposal*, 8 July 2024.

28 AGL Energy, *Submission on ERA draft decision and ATCO revised proposal*, 8 July 2024.

56. While the ERA notes the regulated (gazetted) maximum gas retail tariff for small use customers is set by the Western Australian State Government, this should not mean that ATCO and the ERA disregard tariff structures as the price signals are felt by retailers who can pass on these signals to contestable customers to ensure efficient use of energy. Similar to retailer concerns regarding increases to the fixed charge for B3 customers being misaligned with the gazetted maximum fixed retail charge (discussed below at paragraph 65), retailers may use this information to support discussions with the State Government about concerns with the gazetted tariffs.

57. Although not addressed in ATCO's revised proposal, a declining block structure is intended to encourage the use of gas. A flat tariff structure may have the benefit of sending price signals to customers to conserve their gas use (or not increase), which would reduce carbon emissions and be consistent with the amended national gas objective to reduce emissions to help achieve Australia's emissions reduction targets. This is supported by TRAC Partners, who submitted "a flat usage tariff structure could better assist in complying with the second limb of the [national gas objective] (when compared with a declining block structure)."[29]

58. ATCO has retained its use of a declining block tariff structure to better reflect its cost drivers. ATCO submitted that the existing B3 tariff structure, comprising a fixed charge and variable two-usage band declining block tariff, allows fixed charges to be set to recover a portion of fixed costs; the balance of fixed costs to be recovered by the first usage band; and the approximate cost of incremental gas hauled to be covered by the second usage band.[30] However, since ATCO's B3 costs are predominantly fixed and variable costs (such as, for example, unaccounted for gas) do not fluctuate significantly with usage, it is unclear how offering lower tariffs to high-usage B3 customers accurately reflects the costs incurred by ATCO. By maintaining a declining block tariff for B3 customers, inefficiencies and inequities arise within the tariff class. That is, low-usage B3 customers end up paying more per unit of gas for variable costs compared to high-usage B3 customers, despite high and low-usage customers having similar variable costs.

59. For tariff classes A1, A2, B1 and B2, ATCO has retained a declining block tariff structure in its revised proposal. The reasons provided by ATCO mirror the reasons for retaining declining block structure for the B3 tariff class, with additional commercial considerations.[31] These included:

- Contractual arrangements between retailers and A1 and A2 tariff customers. Misalignment of charges to retailers and revenue from the end user may occur due to binding terms and committed durations of the contracts not allowing adjustment.
- Demand and usage charges for A1 customers are reflective of 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.
- Commercial decisions of B1 and B2 customers to use gas as an energy source have been based on the prevailing tariff structure. Changes to the tariff structure may create an incentive for customers to consider adopting alternative energy sources, such as diesel or LPG.

---

[29] WA Expert Consumer Panel, *TRAC Partners Technical Report on ERA draft decision and ATCO revised proposal*, 8 July 2024, p. 47.

[30] ATCO, *2025-29 Revised Plan*, 10 June 2024, p. 41.

[31] ATCO, *2025-29 Revised Plan*, 10 June 2024, p. 46.

Final decision on tariff structure

60. The ERA did not adjust the declining block reference tariffs for the A1, A2, B1 and B2 reference services in the draft decision on the basis that customers of these services are not as homogenous as B3 customers; and that there may be other specific factors that need consideration before making any tariff structure adjustments. The ERA maintains this position and accepts ATCO's revised proposal to maintain a declining block tariff structure given the commercial considerations noted by ATCO and the need for further consultation. The ERA expects ATCO to undertake further consultation on efficient tariff structures with retailers and other non-B3 customers during AA6. ATCO's proposal for the next (AA7) access arrangement should be informed by this stakeholder consultation and must demonstrate that the proposed tariff structure for AA7 best achieves the amended national gas objective.

61. For B3 customers, the ERA maintains its draft decision position to move these customers to a flat tariff usage structure, noting that while ATCO expressed concern about the implications of the tariff changes on vulnerable B3 customers, it was also doubtful about retailers passing on the tariff changes to their (B3) customers.

62. B3 tariff class customers are relatively homogenous and there is only a small dollar difference between the proposed two usage charges. The ERA notes that the average B3 customer in this final decision would pay $10.44 less over the AA6 period than they would have paid had the usage tariffs remained as a declining block tariff structure in AA6. While the ERA appreciates stakeholder concerns regarding the price effect on vulnerable customers, it is important to note that these customers will consume gas across the spectrum from low to high usage (that is, vulnerable customers are not all high usage residential customers). Vulnerable customers who consume lower quantities of gas will be better off under a flat tariff structure if retailers pass on the changes, which they should at least for contestable customers.

63. The ERA's final decision to move the B3 tariff class to a flat usage tariff structure creates a neutral price signal, compared to the existing declining block tariff structure that may encourage further gas consumption. The ERA considers this is a modest step that better supports the national gas objective to reduce greenhouse gas emissions. That is, a flat usage tariff eliminates the incentive for high-usage customers to consume more, as they no longer receive discounted rates for higher volumes. Additionally, a consistent (neutral) price signal for all customers (as is created under a flat usage tariff) incentivises more efficient energy use and addresses pricing inequities. That is, high-usage B3 customers may reduce their consumption to avoid higher costs, while low-usage customers benefit from more equitable pricing.

64. ATCO is concerned about additional administrative costs if there is a change to the tariff structure. However, the ERA considers it unlikely that a change to a flat tariff structure will result in a material increase in transaction costs. Both ATCO and retailers have already implemented a change from a three-usage band structure to a two-usage band structure for B3 customers. In the case of a move to a flat tariff structure, the ERA considers that the existing two-usage band structure can remain by setting the same price for both usage bands.

B3 fixed (standing) charge

65. The ERA's draft decision amended the tariff structure of the B3 tariff class (residential customers) to adjust the fixed charge to recover the fixed costs associated with providing the B3 service. These adjustments reduced the variable charges imposed on the B3 tariff class.

66. In its Revised Plan, ATCO agreed in principle that the fixed charge for the B3 tariff class should reflect the fixed costs of providing the B3 service. However, ATCO submitted that "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."[32]

67. ATCO has reviewed the B3 fixed cost calculation and submits that by "including an annual repayment of the capital cost to connect a new customer, and the incremental operating cost of a new customer, [this] results in a fixed charge of approximately $188 per year."[33] This compares with ATCO's proposed fixed charge of $178.

68. In response to an information request, ATCO provided its calculations for the avoidable costs of connecting a B3 customer.[34] The ERA has reviewed these calculations and notes that ATCO has used:

- A forecast of B3 greenfields and brownfields connections, with a weighting of 97 per cent and 3 per cent, respectively.
- Capital costs covering mains and feeder metering equipment; and capital costs covering meter and service pipes.
- Incremental operating expenditure that excludes corporate costs.
- A real after tax Weighted Average Cost of Capital (WACC) estimate of 4.54 per cent; and a 25-year discount period for both gas mains and meters.

69. The ERA has used the demand and expenditure amounts, and updated the WACC, as determined elsewhere in this final decision to calculate a fixed cost of approximately $196 per year (using ATCO's calculation method).

70. Consistent with the ERA's tariff path considerations (discussed below at paragraph 73), the ERA has decided to not manually adjust the B3 fixed charge. That is, the ERA has decided to apply a uniform smoothed tariff path across all tariff classes and tariff components, which includes the B3 fixed charge. The ERA notes that under its approved tariff path for AA6, the B3 fixed charge will increase to a level that covers the ERA's calculated B3 fixed cost (of $196) by the end of AA6.

71. The ERA notes the concerns raised in submissions about the fixed charge being significantly greater than the maximum gazetted charge. As of 1 July 2024, the maximum gazetted supply (fixed/standing) charge is 25.90 cents per day, which equates to an annual charge of $94.54.[35] This compares with the current (2024) B3 standing charge approved under the access arrangement tariff variation mechanism of $139.28 per year.[36] As submitted by Kleenheat, "increasing the B3 fixed standing charge [will] not provide a price signal to customers and [will] only attribute to a bigger misalignment against the [gazetted] fixed supply charge."[37] While this is the case, the ERA considers that the fixed charge should reflect ATCO's cost drivers and recover the avoidable costs of connecting B3 customers. The existence of regulated (gazetted) maximum prices for small use customers that are set by the Western Australian

32 ATCO, *2025-29 Revised Plan*, 10 June 2024, p. 40.

33 ATCO, *2025-29 Revised Plan*, 10 June 2024, p. 40.

34 ERA Information Request (ERA17), 17 September 2024.

35 Government of Western Australia, 'Household gas pricing', 1 July 2024 (online) (accessed November 2024).

36 ERA, 'Tariff Variations (Mid-West and South-West Gas Distribution Systems)' (online) (accessed November 2024).

37 Kleenheat, *Submission on ERA draft decision and ATCO revised proposal*, 8 July 2024.

Government is not reason to deviate away from setting efficient charges under the access arrangement.

72. While the ERA acknowledges that increases to the fixed charge above the Government's gazetted charge will directly impact retailers' operations, these increases are price signals that can be used by retailers to advocate for a review of the State Government's gazetted tariff structure, which may result in, for example, an increase in the fixed charge with lower usage charges. In any case, the ERA has not made any adjustments to the B3 fixed charge in this final decision, given the charge will be approximately the value calculated for the avoidable fixed cost of connecting a B3 customer by the end of AA6 (by applying a uniform price increase across all tariff classes and charging parameters). The provision of a uniform price increase during AA6 will allow ATCO an opportunity to recover sufficient revenue, as forecast, to operate its distribution system.

Tariff path

73. The ERA's draft decision considered various tariff path options to allow ATCO the opportunity to recover required revenue during AA6, including:

- A one-off real price increase in 2025 and no real price increases in the remaining years of AA6 (ATCO's tariff path proposal).
- A smoothed real price increase for each year of AA6 (that is, the same percentage increase in tariffs each year).
- Combinations of the above options.

74. The ERA maintained ATCO's proposed one-off step increase in 2025 given the draft decision resulted in a significantly more modest step increase than ATCO's proposal. However, the ERA noted that if the final decision resulted in a materially higher step increase, it would select a smoothed real price tariff path option instead.[38]

75. While ATCO has not changed its tariff path option, it has amended the price path in its revised proposal "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."[39] ATCO set out its reasons for making this decision as follows:

> 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.

[38] ERA, *Draft decision on revisions to the access arrangement for the Mid-West and South-West Gas Distribution Systems – Attachment 3: Revenue and tariffs*, 24 April 2024, paragraph 55, p. 19.

[39] ATCO, *2025-29 Revised Plan*, 10 June 2024, p. 37.

- Minimises tariff variability between access arrangement periods by setting the 2029 cost of service within approximately 3% of the expected tariff revenue.

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%.[40]

76. ATCO further stated that it had "rebalanced revenue to better approximate the costs of serving each tariff class by limiting the tariff increase to the B3 tariff class in 2025." ATCO submitted:

> 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.[41]

77. Several submissions in response to the ERA's draft decision and/or ATCO's revised proposal commented on the price path for AA6.

- AGL reiterated its preference for a "smoother glide path in respect of the changes in network charges, rather than sharp peaks and troughs over the upcoming period and leading into the next period." AGL expressed their concerns about the separation of the ERA's decision on ATCO's network tariffs and the State Government's process for setting (regulating) maximum gas prices for small use customers. AGL is of the opinion that there needs to be a clear link between these decisions and processes.[42]
- Alinta did not agree with the ERA's position of maintaining ATCO's proposed one-off price step increase and option for using a real price smoothing approach if the final decision resulted in a materially higher step increase. Alinta considered that "aside from cases where the forecast price increases are immaterial, the quantum of the increases should not be the main consideration in determining the tariff path." Alinta also disagreed with the results of the Patterson Research Group survey being cited by the ERA to "sufficiently support that [the ERA's tariff path] would best serve consumer interests." Alinta submitted the ERA's tariff path placed an "unreasonable burden" of the price increases on retailers given there is no direct pass through of network tariff increases to customers under the *Energy Coordination (Gas Tariffs) Regulations 2000*.[43]
- TRAC Partners, on behalf of the WA Expert Consumer Panel, submitted that "at a time when customers are experiencing increasing cost of living pressures …

[40] ATCO, *2025-29 Revised Plan*, 10 June 2024, p. 38.

[41] ATCO, *2025-29 Revised Plan*, 10 June 2024, pp. 43-44.

[42] AGL Energy, *Submission on ERA draft decision and ATCO revised proposal*, 8 July 2024.

[43] Alinta Energy, *Submission on ERA draft decision and ATCO revised proposal*, 9 July 2024, pp. 5-8.

minimising the level of the increase in the tariff from 2024 to 2025 should be a key goal." The report noted while the ERA's draft decision indicated that it would consider a smooth tariff path option for the final decision if the price increase was "materially higher", the ERA did not quantify this. However, it is noted that the survey findings of the Patterson Research Group "indicated that customers would be comfortable with a one-off step increase of no more than 11%."[44]

- WACOSS reiterated its concern over the impact of a one-off price increase on vulnerable customers (compared to a smoother price path), and that "changes to network tariffs should be accompanied by protections for customers who are experiencing or may experience energy stress." It did not support ATCO's revised tariff path and submitted that, "while the State Government sets the limit for retail tariffs, ATCO's revised proposed tariffs would put consideration price pressure on retailers, which is likely to result in less discounts for consumers and other increased fees to recoup retailer losses."[45]

78. The ERA acknowledges that the State Government's regulation of maximum gas retail prices for small use customers constrains retailers' operations and may affect retailers' competitive offers over time if the disparity between network tariffs (set under the access arrangement) and retail prices (set by the State Government) continues to widen. While the ERA must have regard to the possible impact of the tariffs set under the access arrangement on small use customers and retailers,[46] the ERA must also seek to establish efficient tariffs which reflect the cost drivers of ATCO so that it can continue to earn sufficient revenue to provide services and maintain and operate the network.

79. The ERA recognises the additional pressures that price increases place on consumers living on low incomes and/or experiencing other forms of vulnerability. As indicated in the draft decision, the ERA seeks to ensure tariff increases are limited to only those that are necessary so that gas users are not paying more than required and ATCO can recover its costs. The ERA notes that vulnerable customers are supported through specific programs, such as for example, the Western Australian Government's Hardship Utility Grant Scheme.[47] Additionally, all gas retailers supplying residential customers must, as part of their licensing requirements, have a financial hardship policy to assist their customers.[48]

80. Consistent with its draft decision position, the ERA has considered the effect of its final decision on prices for 2025. Adopting a one-off step increase in 2025 would result in price increases of 25.3 per cent for all customers. This step increase is materially higher than the step increase of 12.5 per cent determined under the draft decision. For this reason, the ERA has decided to apply a smoothed real price tariff path option.

81. Table 3.13 shows the tariff increases (in real terms) on 1 January 2025 and for subsequent years based on the ERA's final decision considerations, compared to ATCO's initial and revised proposals and the ERA's draft decision. The tariff increases

44 WA Expert Consumer Panel, *TRAC Partners Technical Report on ERA draft decision and ATCO revised proposal*, 8 July 2024, p. 46.

45 WA Council of Social Service, Submission on ERA draft decision and ATCO revised proposal, 5 July 2024, p. 2.

46 See: *National Gas Access (WA) (Local Provisions) Regulations 2009*, Part 2, regulations 4 to 7.

47 Government of Western Australia, 'Hardship Utility Grant Scheme, 19 August 2024 (online) (accessed November 2024).

48 ERA, 'Financial Hardship Policies' (online) (accessed November 2024).

are set at 7.8 per cent, with adjustments to the B3 usage (volume) tariff in 2025 to reflect the ERA's final decision to change the B3 tariff structure.

82. A consequence of the ERA's decision to change the B3 tariff structure from a declining block usage tariff to a flat usage tariff, is that the percentage change in the 'B3 volume above 9.855GJ' tariff for 2025 is materially higher compared to the 'B3 volume up to 9.855GJ' tariff. The ERA has rebalanced this tariff so that subsequent B3 (usage) tariff increases are equal (at 7.8 per cent). For the average B3 customer, the network bill increase in 2025 will be 7 per cent. For subsequent years, the tariff increase for B3 customers will be the same as other tariff classes at 7.8 per cent. However, a very small cohort of customers with high usage will experience the 18.9 per cent increase in the 'B3 volume above 9.855GJ' tariff in 2025. The ERA considers that its final decision to smooth the tariff path satisfies the requirements for tariffs under the NGL and NGR, as well as the *National Gas Access (WA) (Local Provisions) Regulations 2009*, which requires the access arrangement to deliver uniform tariffs for small use customers; and consideration of the impact of reference tariffs, including the method to determine and vary them, on small use customers and retailers.

83. In its revised proposal, ATCO reduced the increase for the B1 fixed charge by $2.65 in the tariff model. ATCO provided no reasons for this adjustment. The ERA has not applied this same adjustment in determining its tariff path on the basis that there was no reasonable justification for doing so and, in any case, the ERA's final decision tariff increase would be below ATCO's proposed B1 fixed charge.

Table 3.13: ERA final decision tariff path compared to ATCO's proposals and ERA draft decision – real annual percentage change in tariffs (%)

	ATCO proposal	ERA draft decision	ATCO revised proposal	ERA final decision
Price change on 1 January 2025 (%)				
A1, A2, B1 and B2	38.6	**12.5**	42.4	7.8
B3 standing charge	24.7	**21.9**	32.4	7.8
B3 volume up to 9.855GJ	69.3	**(21.1)**	32.4	2.8
B3 volume above 9.855GJ	62.3	**(9.0)**	32.4	18.9
Subsequent annual price changes (%)				
A1, A2, B1 and B2	0.0	**0.0**	3.0	7.8
B3 standing charge	0.0	**0.0**	3.0	7.8
B3 volume up to 9.855GJ	0.0	**0.0**	3.0	7.8
B3 volume above 9.855GJ	0.0	**0.0**	3.0	7.8

Source: ERA, Final Decision GDS Tariff Model, November 2024.

Stand-alone and incremental tariff considerations

84. The NGR requires the expected revenue from each tariff class to be between an upper bound representing the stand-alone costs of providing the reference service to customers in that tariff class and a lower bound representing the avoidable cost of not

providing the reference service to those customers.[49] The ERA's final decision tariffs and demand forecasts provide for the expected revenue to lie between the stand-alone costs and the avoidable costs (Table 3.14).

Table 3.14: ERA final decision haulage reference service compliance with rule 94(3) of the NGR for AA6 ($ million real at 31 December 2023)

Tariff class	Upper bound: stand-alone costs	Expected revenue from tariff	Lower bound: avoidable costs
A1	294.1	44.6	3.1
A2	431.6	33.8	0.7
B1	636.2	74.5	10.4
B2	644.2	69.1	9.1
B3	1,206.7	1,014.1	168.6
Total		**1,236.2**	

Source: ERA, Final Decision GDS Tariff Model, November 2024.

Final decision haulage reference tariffs

85. Table 3.15 and Table 3.16 show the nominal and real haulage reference tariffs calculated by the ERA for AA6, respectively. These tariffs are based on the ERA's final decision calculation of total revenue and the allocation of that revenue to haulage reference services (see paragraph 40 above). The calculated tariffs are indicative and will vary based on the tariff variation mechanism (see paragraph 92 below). That is, the operation of the tariff variation mechanism will change the prices due to actual inflation, the annual update of the debt risk premium and cost-pass through events.

Required Amendment

3.2 Annexure A of the proposed revised access arrangement, which details the haulage reference service tariffs, must be amended to reflect the tariffs set out in Table 3.16 of this Final Decision Attachment 3.

[49] NGR, rule 94(3).

Table 3.15: ERA final decision haulage reference service tariffs for AA6 ($ nominal, ex GST) – indicative only

Charging parameter	2025	2026	2027	2028	2029
Reference tariff A1					
Standing charge	44,212.75	48,745.58	53,743.13	59,253.03	65,327.84
Demand charge					
First 10 km	186.36	205.46	226.53	249.76	275.36
Distance > 10 km	98.09	108.14	119.23	131.45	144.93
Usage charge					
First 10 km	0.03942	0.04346	0.04792	0.05284	0.05826
Distance > 10 km	0.01986	0.02190	0.02415	0.02662	0.02935
Reference tariff A2					
Standing charge	24,451.30	26,958.13	29,721.96	32,769.15	36,128.74
First 10 TJ	2.38	2.63	2.90	3.19	3.52
Volume > 10 TJ	1.26	1.39	1.53	1.69	1.86
Reference tariff B1					
Standing charge	1,236.85	1,363.66	1,503.47	1,657.61	1,827.55
First 5 TJ	4.70	5.18	5.71	6.30	6.94
Volume > 5 TJ	4.03	4.45	4.91	5.41	5.96
Reference tariff B2					
Standing charge	310.39	342.21	377.29	415.97	458.62
First 100 GJ	7.86	8.67	9.56	10.55	11.63
Volume > 100 GJ	4.69	5.17	5.70	6.29	6.93
Reference tariff B3					
Standing charge	153.57	169.31	186.66	205.80	226.90
First 9.855 GJ	5.32	5.87	6.47	7.13	7.86
Volume > 9.855 GJ	5.32	5.87	6.47	7.13	7.86

Source: ERA, Final Decision GDS Tariff Model, November 2024.

Table 3.16: ERA final decision haulage reference service tariffs for AA6 ($ real as at 31 December 2023, ex GST) – indicative only

Charging parameter	2025	2026	2027	2028	2029
Reference tariff A1					
Standing charge	42,296.64	45,611.33	49,185.78	53,040.35	57,197.00
Demand charge					
First 10 km	178.28	192.25	207.32	223.57	241.09
Distance > 10 km	93.84	101.19	109.12	117.67	126.89
Usage charge					
First 10 km	0.03771	0.04067	0.04386	0.04730	0.05101
Distance > 10 km	0.01900	0.02049	0.02210	0.02383	0.02570
Reference tariff A2					
Standing charge	23,391.62	25,224.77	27,201.58	29,333.30	31,632.08
First 10 TJ	2.28	2.46	2.65	2.86	3.08
Volume > 10 TJ	1.21	1.30	1.40	1.51	1.63
Reference tariff B1					
Standing charge	1,183.25	1,275.98	1,375.98	1,483.81	1,600.09
First 5 TJ	4.50	4.85	5.23	5.64	6.08
Volume > 5 TJ	3.86	4.16	4.49	4.84	5.22
Reference tariff B2					
Standing charge	296.94	320.21	345.30	372.36	401.54
First 100 GJ	7.52	8.11	8.75	9.44	10.18
Volume > 100 GJ	4.49	4.84	5.22	5.63	6.07
Reference tariff B3					
Standing charge	146.91	158.42	170.83	184.22	198.66
First 9.855 GJ	5.09	5.49	5.92	6.38	6.88
Volume > 9.855 GJ	5.09	5.49	5.92	6.38	6.88

Source: ERA, Final Decision GDS Tariff Model, November 2024.

Ancillary reference services

86. ATCO did not accept the ERA's draft decision required amendment 3.4 to amend the ancillary reference service tariffs as set out in the draft decision. ATCO has instead revised its proposed tariffs based on its latest AA6 cost forecast, which uses the ancillary service costs reported in the 2023 RIN as a starting point. ATCO stated that 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 [Regulatory Information Notice] were reallocated to ancillary services costs from other areas of opex in the 2023 [Regulatory Information Notice] data.
- Known real cost increases due to contract renegotiation.[50]

87. Ancillary reference service tariffs are calculated to recover the operating cost to provide these services. ATCO's revised proposed tariffs are based on its latest AA6 operating cost forecast, which the ERA has considered in Final Decision Attachment 5. The ERA has accepted ATCO's unit rates for all ancillary reference services, except for the permanent disconnection service. For the permanent disconnection service, the ERA has applied the 2023 actual unit rate of $1,010.91 (in real 2023 dollars), compared to ATCO proposed rate of $1,136.11.

88. Table 3.17 and Table 3.18 set out the ancillary refence service tariffs as determined by the ERA in this final decision in nominal and real dollars, respectively. These tariffs are only indicative because they include a forecast of inflation that will be updated for actual inflation via the tariff variation mechanism.

50 ATCO, *2025-29 Revised Plan*, 10 June 2024, p. 47.

Table 3.17: ERA final decision ancillary reference service tariffs for AA6 ($ nominal, ex GST) – indicative only

Ancillary service	2025	2026	2027	2028	2029
Applying a meter lock	42.59	43.55	44.52	45.52	46.54
Removing a meter lock	29.04	29.69	30.36	31.04	31.73
Deregistering a delivery point	158.20	161.74	165.36	169.07	172.85
Disconnecting a delivery point	98.56	100.77	103.02	105.33	107.69
Reconnecting a delivery point	209.34	214.03	218.82	223.73	228.74
Permanent disconnection	1,056.70	1,080.37	1,104.57	1,129.32	1,154.61
Special meter reading	10.20	10.43	10.66	10.90	11.15

Source: ERA, Final Decision GDS Tariff Model, November 2024.

Table 3.18: ERA final decision ancillary reference service tariffs for AA6 ($ real at 31 December 2023, ex GST) – indicative only

Ancillary service	2025	2026	2027	2028	2029
Applying a meter lock	40.75	40.75	40.75	40.75	40.75
Removing a meter lock	27.78	27.78	27.78	27.78	27.78
Deregistering a delivery point	151.34	151.34	151.34	151.34	151.34
Disconnecting a delivery point	94.29	94.29	94.29	94.29	94.29
Reconnecting a delivery point	200.27	200.27	200.27	200.27	200.27
Permanent disconnection	1,010.91	1,010.91	1,010.91	1,010.91	1,010.91
Special meter reading	9.76	9.76	9.76	9.76	9.76

Source: ERA, Final Decision GDS Tariff Model, November 2024.

Required Amendment

3.3 Annexure C of the proposed revised access arrangement, which details the ancillary reference service tariffs, must be amended to reflect the tariffs set out in Table 3.18 of this Final Decision Attachment 3.

89. The ERA notes several submissions commented on the proposed tariff for the permanent disconnection service. Most submissions considered ATCO's initial proposed (nominal) tariff for 2025, of $1,184.80 (excluding GST), was "too high".[51] ATCO's revised 2025 tariff for the permanent disconnection service was

[51] Submissions from AGL Energy, WA Expert Consumer Panel, Origin Energy, Stewart Lee, Building and Energy WA, WA Council of Social Service.

$1,208.88 (excluding GST), which compares to the ERA's final decision tariff of $1,056.70 (excluding GST).[52]

90. In response to ATCO's revised proposal, TRAC Partners raised several points for consideration, including:[53]

- Whether the tariff level for the permanent disconnection service reflects the efficient costs of providing the service.
- Whether adopting a fully cost reflective user pays tariff for the permanent disconnection service is consistent with the emissions reduction and safety limbs of the national gas objective.

91. The ERA's consideration of these points is set out as follows:

- The ERA assessed the unit rates for providing ancillary reference services and has determined and applied efficient unit costs in this final decision. That is, the efficient costs of providing ancillary reference services, including the permanent disconnection service, are reflected in the ERA's final decision ancillary reference service tariffs (refer Table 3.17 and Table 3.18 above).
- The ERA does not consider a fully cost reflective user pays tariff for the permanent disconnection service is inconsistent with the safety and emissions reduction objectives of the national gas objective.
  - The permanent disconnection service is mandatory in instances where a property is to be demolished, which ensures the safety of demolition contractors and the remaining gas network. In this circumstance the property owner should be held responsible to cover the full cost of the service as it is the property owner who receives the direct benefit of the disconnection (i.e. the benefit of being able to redevelop their property).
  - The permanent disconnection service is not a mandatory service in circumstances where a decision is made to stop using an existing gas supply connection. For example, if a customer decides to electrify their property to contribute to emissions reductions, a "temporary disconnection" can be performed (i.e. the customer can simply close their retail gas account and does not need to request a permanent disconnection service).[54]
- The ERA considers a cost reflective user pays tariff structure for ancillary reference services, including the permanent disconnection service, is most appropriate given the benefit of these services is retained by the user requesting the service (i.e. the retailer or end use customer requesting a specific ancillary reference service receives the direct benefit of that service).

[52] Refer paragraphs 28 and 29; and Table 3.8 of this document.

[53] WA Expert Consumer Panel, *TRAC Partners Technical Report on ERA draft decision and ATCO revised proposal*, 8 July 2024, pp. 47-49.

[54] Whether the gas meter is deregistered and removed from the property is a decision for the retailer. In this instance, the ERA understands that the service pipe from the gas mains to the property would be capped and remain in-situ. Noting previous considerations in the ERA's Draft Decision Attachment 9 (paragraphs 105 to 107), the ERA has not been informed of any additional safety risks in these circumstances.

Tariff variation mechanism

92. The NGR requires ATCO to include a reference tariff variation mechanism to vary reference tariffs over the course of the access arrangement period. The mechanism must be designed to equalise (in terms of present values):

- The forecast revenue from reference services over the access arrangement period.
- The portion of total revenue allocated to reference services for the access arrangement period.

93. ATCO's proposed reference tariff variation mechanism for haulage and ancillary reference services is set out in Annexure B and C of the access arrangement, respectively. The tariff variation mechanism to apply in AA6:

- For haulage reference services, is like the mechanism that currently applies in AA5. The mechanism allows average prices to increase by the annual change in the consumer price index (all groups, weighted average of eight capital cities), plus or minus an X-factor that is varied annually for debt risk premium updates and cost pass through events. For AA5 the B3 standing charge was excluded from the mechanism, but for AA6 the B3 standing charge will be included.
- For ancillary reference services, is materially unchanged from the mechanism that currently applies in AA5. That is, the mechanism will continue to adjust ancillary reference tariffs annually by the movement in the consumer price index (all groups, weighted average of eight capital cities).

94. Cost pass through events are defined events that incur costs that cannot be (and have not been) reasonably forecast; are beyond the control of the service provider; and relate to the provision of reference services. The tariff variation (cost pass through event) mechanism allows these costs to be recovered through an adjustment to the reference tariffs during the access arrangement period.

95. ATCO's proposed cost pass through events to apply in AA6 are set out in Annexure B (clause 2.1) of the access arrangement and include revised drafting for cost pass through events four (iv) and five (v) as shown in Table 3.19.

Table 3.19: ATCO revised proposed cost pass through events for AA6

Revised cost pass through event for AA6[55] (as specified in Annexure B, clause 2.1 of the access arrangement)
(i) ATCO incurs [Higher Heating Value] Costs that constitute Conforming Capital Expenditure or Conforming Operating Expenditure
(ii) ATCO incurs Physical Gate Point Costs that constitute Conforming Capital Expenditure or Conforming Operating Expenditure
(iii) ATCO incurs Conforming Capital Expenditure or Conforming Operating Expenditure as a result of a Change in Law or Tax Change
(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
(v) 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 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: A) is conforming expenditure pursuant to those amendments; and B) is the subject of a business case submitted by ATCO and provisionally approved by the ERA in the AA6 access arrangement revision process; and C) is consistent with (or less than) the relevant amount provisionally approved by the ERA

Source: *ATCO, Access Arrangement for the Mid-West and South-West Gas Distribution Systems, 10 June 2024. ATCO, 2025-29 Revised Plan, 10 June 2024, Sections 6.7 and 6.8.*

Cost pass through event four (iv)

96. ATCO rejected the ERA's draft decision required amendment 3.5 to delete cost pass through event four (iv) from the proposed access arrangement. ATCO submitted that this cost pass through event must be retained because it covers scenarios that may not be captured by cost pass through event three (iii). ATCO stated:

> 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.[56]

[55] Marked-up revisions show the additional drafting amendments between ATCO's initial proposal (September 2023) and revised proposal (June 2024).

[56] ATCO, *2025-29 Revised Plan*, 10 June 2024, p. 48.

97. To support its position, ATCO provided a specific example of it becoming subject to the Federal Government's Safeguard Mechanism.[57]

98. The ERA notes that ATCO is seeking to avoid any interpretation arguments that cost pass through event three (iii) does not apply in circumstances that involve costs incurred because of the Safeguard Mechanism. The ERA does not consider that there would be an interpretation dispute if ATCO were to become subject to the Safeguard Mechanism and incurred relevant expenditure to comply with the obligations imposed under that mechanism.[58] Consistent with the draft decision, the ERA maintains that cost pass through event three (iii) would cover such expenditure and provide ATCO with the opportunity to recover the expenditure, subject to ATCO supplying a relevant variation report to substantiate the expenditure as being complying expenditure and the ERA approving it.

99. ATCO's revised drafting changes to cost pass through event four (iv), and the reasons given to support the changes, add unnecessary complexity to the access arrangement. The intent of the cost pass through is for ATCO to be able to recover any conforming expenditure related to laws covering greenhouse gas emissions, including laws that relate to other (renewable) gases, that was not (or could not have been) reasonably forecast; is beyond the control of ATCO; and is related to the provision of reference services. The ERA maintains that existing cost pass through three (iii) provides for this. The ERA requires cost pass through four (iv) to be deleted from the access arrangement.

Required Amendment

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

Cost pass through event five (v)

100. ATCO rejected the ERA's draft decision required amendment to delete cost pass through event five (v) from the access arrangement and has instead amended the drafting of the cost pass through event (refer Table 3.19 for amended drafting). ATCO cited the recent regulatory change in Western Australia to implement the new national gas objective and expected change to incorporate renewable gases into the regulatory framework, as the primary reason to retain the cost pass through in its amended form. ATCO submitted:

> 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).

[57] ATCO, *2025-29 Revised Plan*, 10 June 2024, pp. 48-49.

[58] The ERA considers that relevant expenditure may include the purchase of Australian carbon credit units (ACCUs) or Safeguard Mechanism Credit Units (SMCUs), or other efficient expenditures to avoid or mitigate the need to purchase such units.

> 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 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.[59]

101. ATCO further claimed that by not allowing a mechanism to recover costs associated with other (renewable) gases, there is no financial incentive for ATCO to invest in other gases because there is no ability to recover the expenditure.

102. While ATCO appeared confident that amendments to incorporate other (renewable) gases into the regulatory framework will be implemented in Western Australia prior to the ERA's final decision, if this did not occur ATCO has stated that the amended cost pass through is needed to recover relevant expenditure that is rejected by the ERA for reason that there is no legislation for the inclusion of renewable gases.[60] ATCO submitted that it was not aware of any other efficient mechanism to recover capital and operating expenditure associated with renewable gases, once the relevant legislation is implemented in Western Australia, other than to reopen the access arrangement under rule 65 of the NGR. The reopening of the access arrangement would incur unnecessary costs and would not be in the interest of consumers, given the relevant expenditure can be (provisionally) assessed and approved by the ERA as part of the current review process.

103. ATCO further acknowledged the ERA's concern about complex cost assessments and the need for costs to be carefully scrutinised before there is a tariff variation. ATCO submitted only costs incurred once the amendments to incorporate renewable gases have been implemented, and that are assessed as conforming expenditure in accordance with those amendments, should be captured. ATCO's revised drafting of cost pass through event five (v) aims to address these points.

104. The ERA notes that there are other provisions within the NGR that could be used to recover the expenditure that ATCO seeks to recover via its proposed cost pass through event. These mechanisms include:

- **Trigger event:** Rule 51 allows for the acceleration of the review submission date in the access arrangement due to a specified trigger event, which could, in this instance, be the implementation of legislation to include other gases in Western Australia.
- **Advance determination on future capital expenditure:** Rule 80 allows the service provider to apply to the regulator to make an (advance) determination to the effect that, if capital expenditure is made in accordance with proposals made by the service provider and specified in the determination, the expenditure will meet the new capital expenditure criteria.
- **Speculative capital expenditure account:** Rule 84 provides for the creation of a notional fund (the "speculative capital expenditure account") to add amounts of

59 ATCO, *2025-29 Revised Plan*, 10 June 2024, pp. 49-50.

60 If the legislative amendments are not in place prior to the ERA's final decision, ATCO expects the legislative amendments to be implemented shortly after (that is, early into the next access arrangement period (AA6)).

non-conforming capital expenditure, to the extent that it is not recovered through a surcharge on users or a capital contribution.

- **Incentive mechanism:** Rule 98 provides for the inclusion of one or more incentive mechanisms to encourage efficiency in the provision of services by the service provider. The incentive mechanism may be proposed by the service provider, or the regulator may require the inclusion of one.

105. The TRAC Partners Report suggested the advanced determination on future capital and the creation of a speculative expenditure account as two options available to replace ATCO's proposed cost pass through event five (v).[61] The ERA does not consider these options to be feasible for the following reasons:

- *Advance determination:* Given ATCO's reasons for seeking a cost pass through event for renewable gases expenditure, applying for an advance determination would need to wait until the necessary legislative changes to incorporate other gases are implemented in Western Australia. In any case, the advance determination can only apply to ATCO's capital expenditure for renewable gases, so ATCO would not receive any assurances on its operating expenditure for renewable gases.
- *Speculative expenditure account:* Such an account may not be fit purpose in this instance given the following observations. In addition, like the advance determination option (above), the speculative capital expenditure account option only applies to capital expenditure.
  - The speculative capital expenditure account is created to notionally hold non-conforming capital expenditure that is not recovered through a surcharge or capital contribution. When the capital expenditure becomes compliant with the relevant expenditure rules, the expenditure can be withdrawn from the account and rolled into the capital base at the commencement of the next access arrangement period.
  - Non-conforming capital expenditure is capital expenditure that does not comply with the new capital expenditure criteria (set out rule 79 of the NGR). Capital expenditure covers costs and expenditure of a capital nature incurred to provide, or incurred in providing, pipeline services. Applying these definitions to the provisions for the speculative capital expenditure account means that where a service provider's proposed capital expenditure is non-conforming because it does not comply with the new capital expenditure criteria, to be added to the speculative capital expenditure account, the expenditure must be costs or expenses incurred to provide (or in providing) pipeline services.
  - Pipeline services are services provided by means of a pipeline (including a haulage service and a service providing for or facilitating the interconnection of pipelines) and services ancillary to services provided by means of a pipeline. At present pipeline services that include gases other than natural gas (i.e. other renewable gases, such as hydrogen and biomethane) do not and cannot exist due to the current laws applying in Western Australia.

[61] WA Expert Consumer Panel, *TRAC Partners Technical Report on ERA draft decision and ATCO revised proposal*, 8 July 2024, pp. 50-51.

106. Regardless of the other provisions available to recover capital and/or operating expenditures for renewable gases, the ERA maintains the positions set out in the draft decision that:

- Once the necessary legislative changes to incorporate other gases become effective in Western Australia, this does not compel ATCO to include other gases. That is, the changes to the regulatory framework to include other gases is not a change in law that requires ATCO to include other gases; rather it will allow ATCO the discretion to transport other gases through its distribution system if it chooses to do so.[62]
- The cost pass through event (tariff variation) mechanism is not designed for complex cost assessments of discretionary expenditure.

107. For these reasons, the ERA requires cost pass through five (v) to be deleted from the access arrangement.

Required Amendment

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

[62] If the changes to the regulatory framework to include other gases were a change in law that obligates ATCO to include other gases, the existing cost pass through event for a change in law or tax would be applicable.

Appendix 1 List of Tables

Table 3.1: ERA draft decision total revenue building blocks for AA6 ($ million nominal) 7
Table 3.2: ERA draft decision total revenue allocated to reference services for AA6 8
Table 3.3: ERA draft decision tariff path compared to ATCO's proposal – real annual percentage change in tariffs (%) 9
Table 3.4: ERA draft decision haulage reference service tariffs for AA6 ($ nominal, ex GST) – indicative only 9
Table 3.5: ERA draft decision ancillary reference service tariffs for AA6 ($ nominal, ex GST) – indicative only 10
Table 3.6: ATCO revised proposed total revenue requirement for AA6 ($ million nominal) 13
Table 3.7: ATCO revised proposed haulage reference service tariffs for AA6 ($ nominal, ex GST) 14
Table 3.8: ATCO revised proposed ancillary service tariffs for AA6 ($ nominal ex GST) 15
Table 3.9: ATCO actual and forecast CPI and inflation rates 18
Table 3.10: ERA actual and forecast CPI and inflation rates 19
Table 3.11: ERA final decision total revenue building blocks for AA6 ($ million nominal) 19
Table 3.12: ERA final decision total revenue allocated to reference services for AA6 20
Table 3.13: ERA final decision tariff path compared to ATCO's proposals and ERA draft decision – real annual percentage change in tariffs (%) 30
Table 3.14: ERA final decision haulage reference service compliance with rule 94(3) of the NGR for AA6 ($ million real at 31 December 2023) 31
Table 3.15: ERA final decision haulage reference service tariffs for AA6 ($ nominal, ex GST) – indicative only 32
Table 3.16: ERA final decision haulage reference service tariffs for AA6 ($ real as at 31 December 2023, ex GST) – indicative only 33
Table 3.17: ERA final decision ancillary reference service tariffs for AA6 ($ nominal, ex GST) – indicative only 35
Table 3.18: ERA final decision ancillary reference service tariffs for AA6 ($ real at 31 December 2023, ex GST) – indicative only 35
Table 3.19: ATCO revised proposed cost pass through events for AA6 38