Economic Regulation Authority

Final decision on revisions to the access arrangement for the Mid-West and South-West Gas Distribution Systems

Supplementary information: Stakeholder submissions summary

8 November 2024

D283432

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

This document summarises the matters raised by stakeholders as part of the ERA's review of the access arrangement for the Mid-West South-West Gas Distribution Systems, and how the ERA has responded to those issues.

This document has been prepared for the convenience of stakeholders and does not form part of the ERA's final decision.

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 revisions to the access arrangement for the Mid-West and South-West Gas Distribution Systems – Overview, 8 November 2024

- Attachment 1: Access arrangement and services
- Attachment 2: Demand
- Attachment 3: Revenue and tariffs
- 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

Summary of submissions

The following table sets out the major issues raised by stakeholders in their submissions following publication of the ERA's draft decision and ATCO's revised access arrangement proposal.

The table details how the ERA has responded to, or been informed by, this submission, as well as the relevant section of the final decision where interested parties can find more information.

Where possible, stakeholder submissions have been directly quoted, however, for brevity some have been paraphrased.

Submissions received

- AGL Energy (AGL)
- Alinta Energy
- Chamber of Minerals and Energy of Western Australia (CME)
- Kleenheat
- Synergy
- Western Australian Council of Social Service (WACOSS)
- WA Expert Consumer Panel[1]

All submissions are available to view on the ERA website.

[1] The WA Expert Consumer Panel included a technical report from TRAC Partners, which is where this summarised feedback has been taken from.

Accelerated depreciation

Issue raised	ERA response	More information
AGL		
Noted the ERA's position of accelerated depreciation as a reasonable regulatory tool and the draft decision regarding accelerated depreciation. Stated that as policy positions on gas usage have become more stable, and ATCO has proposed increased customer growth and capital expenditure, AGL supported the ERA's draft decision to not allow accelerated depreciation. Should the policy or environment for gas usage change substantially, AGL supported a further review of accelerated depreciation commensurate with the impact of that policy change.	The ERA has considered that ATCO's revised modelling plausibly demonstrated stranded asset risk occurring across multiple scenarios. The revised modelling also demonstrated the effects of accelerated depreciation on stranding risk for customers and the gas pipeline. The ERA considers that the demand status quo for ATCO's gas network will not prevail over the longer term and that there exists a risk for declining gas demand as energy systems work towards government emissions targets. However, the size and speed of such declines is unknown. As accelerated depreciation can be re-examined at each regulatory reset, adjustments (upwards or downwards) can be made as uncertainty becomes resolved through the passage of time and is appropriate for the uncertain environment. The ERA has balanced competing factors in determining the amount of accelerated depreciation for the AA6 period. In doing so it applied a 1 per cent tilt for the existing regulatory asset base and for AA6 capital expenditure, instead of ATCO's proposed 2 per cent tilt. The ERA considers that the 1 per cent tilt balances the interests of both the current and future customers, works towards the delivery of efficient prices over time and mitigates stranding risk.	Attachment 6
Alinta Energy		
Acknowledged the ERA's comprehensive analysis of ATCO's initial proposal and raised concerns with the revised proposal's methodology, requesting that the ERA examine these methodological points carefully.	See above. The ERA has considered ATCO's revised modelling with the assistance of Frontier Economics. Details of the ERA's analysis is contained in Attachment 6 and in the technical	Attachment 6 Frontier Economics final report

Issue raised	ERA response	More information
Retained its view that ATCO did not sufficiently demonstrate stranded asset risk and the justification for regulatory intervention. Considered that if accelerated depreciation is to be provided via a tilt, that the tilt-value should be kept low in the interests of consumers and retailers. Additionally, this provides for network efficiency as exposing a regulated business to some stranded asset risk may be desirable to reduce discretionary network expenditures given the current levels of uncertainty. Recommended that the ERA apply accelerated depreciation during a later access arrangement period if and when the case for accelerated depreciation is clearer.	annexure, along with Frontier's final report on accelerated depreciation modelling. The ERA has applied a 1 per cent tilt instead of ATCO's proposed 2 per cent tilt, balancing the interests of customers and retailers in promoting efficient prices. The ERA's analysis of the impact of deferring accelerated depreciation is contained in Attachment 6.	
CME		
Acknowledged that dynamic scenario modelling of demand and fuel switching is challenging and supported ATCO's efforts to address this concern in the revised proposal.	See above.	Attachment 6
Kleenheat		
Concerned that ATCO's revised proposal rejects the ERA's Draft Decision to remove the proposed accelerated depreciation. Maintained the belief that continuing straight line depreciation of the GDS in AA6 would not result in the asset being unrecoverable or reduce the incentives for efficient operation of the GDS, noting that ATCO's capital and operating strategy included elements such as investment in renewable gas that would prolong the use of the GDS which is inconsistent with the proposal to accelerate depreciation. Believed that there is strong gas policy support from the WA Government and while there is a net zero target by 2050, the pathway for Western Australia was still unclear. Considered that pre-empting the outcome places unnecessary cost pressures on current customers who are already facing significant increases in the AA6 rate of return.	See above. The ERA's analysis stranding risk and the impact of straight-line and accelerated depreciation is provided in Attachment 6.	Attachment 6

Issue raised	ERA response	More information
Synergy		
Referred back to its previous submission where Synergy noted that the accelerated depreciation has a direct impact on price shock and the step increase in tariffs.	See above.	Attachment 6
WACOSS		
Welcomed the ERA's decision to reject ATCO's proposal for accelerated depreciation. Considered that accelerated depreciation inappropriately transfers the costs and risk of stranded assets to consumers. Considered that to effectively and equitably manage the transition away from gas, gas networks need to engage in long-term planning which mitigates the risk for consumers and is consistent with a fossil gas free future. This includes avoiding investment that encourages network growth and investments that are not cost efficient. Considered that the revenue and pricing principles do not give a right to recover all costs, only that networks be offered the reasonable opportunity to recover at least efficient costs.	See above. The ERA disagrees that accelerated depreciation inappropriately transfers costs and risks to consumers. It is a regulatory tool that can assist with the management of asset stranding for customers and gas pipelines. The recovery of gas networks' costs is not guaranteed. When an appropriate amount is selected, accelerated depreciation can assist customers by promoting intergenerational equity, efficient pricing and network utilisation. This is achieved though the management of prices across the short and long run by reducing the risk of volatile prices for remaining customers. The considerations of the ERA regarding stranding risk and the reasonable opportunity to recover efficient costs is provided in Attachment 6. The ERA has applied a 1 per cent tilt for the accelerated depreciation amount for AA6. In doing so, it considers that it provides for a reasonable opportunity for ATCO to recover its efficiently incurred costs. This amount does not provide ATCO with a right to fully recover its costs as it does not remove all asset stranding risk for the gas pipeline.	Attachment 6
WA Expert Consumer Panel		
Recognised that the critical need to transition away from gas to renewables to reduce emissions.	See above.	Attachment 6

Issue raised	ERA response	More information
Engaged TRAC Partners for advice, but while their submission did not specifically endorse the advice, considered that matters raised by TRAC Partners would need to be addressed before AA6 was being capable of being accepted. **TRAC Partners:** Considered that accelerated depreciation should be removed: • The ERA and ATCO should apply the criteria detailed in the AER's paper on uncertainty. • The ERA should focus on asset stranding, noting that ATCO has not assessed whether specific parts of the network are more exposed to stranding risk. • The ERA and ATCO should have assessed whether other aspects of the AA6 Proposal warrant a change in approach if asset stranding risk has increased. • Further stakeholder engagement should be undertaken before consideration of an amount. Considered that if accelerated depreciation were to be allowed, consideration should be given to: • Including a mechanism to retain funds for future operations. • Capping the amount to avoid unacceptable price shocks. • Ensuring the recovery of accelerated depreciation is weighted towards the end of the AA6 period. **Asset lives** TRAC Partners considered that some asset category lives were shorter than other Eastern States pipelines.	The ERA is aware of the AER's information paper where, the AER states: *We [AER] will make our decisions on a case-by-case basis and review our approaches as required when new information becomes available. Our decisions will in large part be guided by jurisdictional climate change or decarbonisation policies that affect network service providers and energy users, technological developments in renewable energy, and stakeholders' views. We aim to retain flexibility and not foreclose opportunities in our regulatory decisions where possible.* The ERA makes its own decisions about the appropriate criteria for accelerated depreciation. Like the AER, the ERA will make decisions on a case-by-case basis informed by the information available at each regulatory reset. The ERA has considered asset stranding which is discussed in Attachment 6. Depreciation is the mechanism to recover past efficient capital expenditure rolled into the regulatory asset base. Depreciation is not a mechanism to fund new capital or operating expenditure. The ERA has applied a 1 per cent tilt which balances the interests of current and future customers and avoids the price impact of a 2 per cent tilt proposed by ATCO. Additionally, the ERA has not accepted the "front ended" accelerated depreciation payment profile and instead has evenly allocated the amounts across each year of the AA6 period. Further, global tariff smoothing mechanisms have been employed to moderate any price shocks that might otherwise occur. The ERA considers that ATCO's proposed economic lives are consistent with the range of assets lives used by other Australian gas distribution networks and the ERA has not been persuaded by a case to change from the current asset lives approved in past access arrangements.	

Capital expenditure

Issue raised	ERA response	More information
AGL		
AGL broadly considers the ERA's Draft Decision to be a reasonable decision on the basis of the economic climate, ATCO's proposed growth and expenditure.	Noted.	Attachment 4
Alinta Energy		
Alinta Energy supports the ERA's Draft Decision forecast of ATCO's capital expenditure for AA6. Alinta noted that the analysis detailed in the Draft Decision demonstrates a solid and thorough basis for the ERA's reductions to the forecast capital expenditure. Alinta does not consider that ATCO has sufficiently demonstrated that its revised proposals for AA6 capex meet the regulatory criteria for new capex. In total, ATCO's revised proposal for AA6 capex is $490.7 million, which exceeds the ERA's Draft Decision amount for AA6 capex by $47.6 million and even exceeds ATCO's own initial proposal by $24.9 million. Much of these differentials arise due to differences in forecasts for certain large AA6 programs such as ATCO's mains replacement program, other assets replacement program, enabling renewable gases program and information technology program. Alinta strongly recommends that the ERA applies suitable knowledge and assessment in evaluating the reasoning for, and costing of, all the proposed capex programs against the capex criteria and other relevant requirements. Alinta Energy's renewable gases expenditure comments are captured in a separate section below.	The ERA's technical consultant, EMCa has reviewed the revised proposal and provided its recommendation. The ERA's final decision takes all information into consideration. The final decision reduces capital expenditure in the network sustaining and IT categories when compared to the revised proposal. The ERA's increased demand forecast results in an increase in the network growth expenditure.	Attachment 4

Issue raised	ERA response	More information
WA Expert Consumer Panel		
Actual AA5 capital expenditure		
The WA ECP engaged TRAC Partners for advice, but while their submission did not specifically endorse the advice, they considered that the matters raised by TRAC Partners would need to be addressed before AA6 was being capable of being accepted. **TRAC Partners:** TRAC Partners raised two overarching points on the ERA's assessment of capital expenditure relating to: • Assessing capital expenditure against the National Gas Objective • Assessment of the appropriateness of a business as usual approach to capital expenditure. TRAC Partners also raised the following regarding AA5 capital expenditure: • Supports the ERA's draft decision to remove certain renewable gas capital expenditure included by ATCO in its initial proposal • Supports the ERA's draft decision to remove contingencies from expenditure forecasts • Encourage the ERA's experts to review the adequacy of additional information provided by ATCO in support of its expenditure.	The ERA notes that it has assessed capital expenditure against the criteria required by the National Gas Rules which is consistent with the National Gas Objective. The assessment has also included a review on the appropriateness of assessing a business as usual approach to capital expenditure, which is more relevant to forecast AA6 capital expenditure. The ERA notes that ATCO has accepted the ERA's draft decision to remove certain renewable gas expenditure from its initial proposal AA5 capital expenditure. The ERA has maintained its draft decision position and removed contingencies from ATCO's revised proposal AA5 capital expenditure forecast. The ERA and its technical consultant have reviewed the additional material provided by ATCO in its revised proposal when assessing ATCO's AA5 capital expenditure.	Attachment 4
Proposed AA6 capital expenditure		
TRAC Partners: As ATCO is undertaking competitive tender processes for a variety of contracted services, the ERA should enquire of ATCO closer to the final decision for up-to-date information on rates being proposed by contractors.	The ERA's technical consultant, EMCa has reviewed the revised proposal and provided its recommendation. The ERA's final decision takes all information into consideration. The final decision reduces capital expenditure in the network sustaining and IT categories when compared to the revised proposal. The ERA's increased demand forecast results in an increase in the network growth expenditure.	Attachment 4

Issue raised	ERA response	More information
The ERA's justification for capitalising the expenditure for ICT ERP replacement project (instead of including it as part of the forecast operating expenditure) does not appear to be strong. On growth expenditure, the TRAC partners notes that it does not seem consistent with the national gas objective that the existing users be required to fund part of the new growth capex as well as provide the service provider with an earlier recovery of capital costs (through accelerated depreciation). TRAC Partners Report submits that the ERA should challenge whether a mains replacement program of a similar magnitude to that incurred in the AA5 should be undertaken at times of claims of increased risk of declining utilisation of natural gas and increasing cost of living pressures. TRAC Partners made comments about ATCO's renewable gas proposal [Renewable gases is discussed in a section below]	Regarding the capitalising of ICT expenditure, the ERA notes the accounting standards, however, this is one of many considerations of a regulator in making its regulatory decisions. The capitalisation of ICT expenditure is included in the final decision, as given the early stages that the project is in and hence the uncertainty of expenditure, treating it as capital expenditure is appropriate and allows for an adjustment should the outcome be different to the draft decision approved expenditure. This adjustment is not permitted for operating expenditure, under the regulatory scheme. While the ERA has allowed an amount of accelerated depreciation for AA6, the inclusion of mains replacement program or growth capital expenditure is not incompatible with this decision. An amount of accelerated depreciation is to provide some level of minimisation of asset stranding risk which is a longer term issue. During AA6, the ERA expects demand to grow and that gas mains will still need to be replaced to ensure safe and effective operation of the pipeline. In the final decision, the ERA did not approve any of the renewable gas expenditure, given that laws such as the “other gases legislation” has not yet been passed in WA. Without this, the regulatory framework has not been expanded to cover biomethane or other renewable gases and as such none of the renewable gas expenditure was allowed under the NGR. Renewable gas expenditure is further discussed below.	

Cost recovery of disconnection services

<table>
<tr><th>Issue raised</th><th>ERA response</th><th>More information</th></tr>
<tr><td colspan="3">AGL</td></tr>
<tr><td>AGL notes the various ancillary services which ATCO offers, in particular those relating to locking, temporarily disconnecting or permanently disconnecting a supply of gas to a delivery point.

If ATCO is offering these services directly, then all costs (including AEMO fees) should be included in their charges to customers.

AGL is concerned that when customers are disconnected from gas, the retailer still continues to pay service fees for the connection, although it has no customer to pass those charges onto, leaving it with unrecoverable charges.</td><td>While the ERA considers that it addressed the matters raised by AGL in the draft decision (Draft Decision Attachment 9), the ERA did seek further information from AGL and ATCO to inform its final decision on the matter of unrecoverable costs.

Based on the additional information provided, the ERA does not consider the deregistration cost to be an unrecoverable cost for retailers. If and how a retailer chooses to recover the cost is a business decision for the individual retailer and may therefore vary between retailers.</td><td>Attachment 9</td></tr>
<tr><td colspan="3">WA Expert Consumer Panel</td></tr>
<tr><td>The WA ECP engaged TRAC Partners for advice, but while their submission did not specifically endorse the advice, they considered that the matters raised by TRAC Partners would need to be addressed before AA6 was being capable of being accepted.

TRAC Partners:

It is not clear that the level of the tariff reflects the efficient costs of providing this service.

A benchmarking comparison should be made of the tariffs for similar services offered on other distribution networks in Australia. It is not apparent why ATCO's cost for the same service is up to 22 per cent higher than for part of the Victorian distribution network.

The ERA should consider whether there are other safe, but lower cost, disconnection methods than the method ATCO has assumed to derive its proposed permanent disconnection tariff.</td><td>The ERA has assessed the unit rates for providing ancillary reference services, including the permanent disconnection service, and has determined and applied the efficient unit costs in the final decision.

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.

• The permanent disconnection service is not a mandatory service in circumstances where a decision is made to stop using an existing gas supply connection. Where a customer decides to electrify their property to contribute to emissions reductions, a temporary</td><td>Attachment 3</td></tr>
</table>

Issue raised	ERA response	More information
It is not clear that adopting a fully cost reflective, user pays, tariff for this service is consistent with the national gas objective, particularly the emissions reduction and safety limbs of the objective.	disconnection can be performed (that is, the customer can just elect to close their gas account). 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).	

Demand forecast

Issue raised	ERA response	More information
Alinta Energy		
ATCO's forecast decline in demand is inconsistent with the economic fundamentals affecting gas demand in WA, where Government policy towards natural gas remains favourable and consumer sentiment for retaining household gas appliances is strong. The methodology applied by ATCO to derive its B3 demand forecast does not appear to have used demographic and econometric variables, which would provide a more robust forecast that better reflects the current economic environment. In particular, the use of survey results that provide insights into consumer behaviour and preferences regarding future gas consumption are critical to determining penetration rates. Despite the increasing focus on reducing emissions, there is no evidence of a rapid shift from gas to all-electric households in WA. The permanent disconnection rate adopted by ATCO for AA6 should be revised downward accordingly.	The ERA considers that the impact of electrification on demand for ATCO's network during AA6 will be gradual and follow a similar pace as in recent years. For residential customers, the ERA expects that customers will continue to connect to the gas network, albeit at a slower rate, and will consume less gas using fewer and more efficient gas appliances than previous cohorts of residential customers. The ERA used econometric analysis to complement the historical trend-based demand forecast. For residential customers the ERA has forecast a slower decline in gas demand compared to ATCO's revised proposal.	Attachment 2

Issue raised	ERA response	More information
The consumer survey commissioned by the ERA results suggests that the rate of decline in gas consumption might be slower than the 1.80 per cent per annum per B3 customer projected by ATCO. Alinta Energy considers the B3 (residential) haulage reference service demand forecast in ATCO's Revised Plan to be significantly underestimated, despite ATCO having updated its demand forecasts using actual consumption and connection data through to December 2023. ATCO's systematic under-forecasting of gas demand for both AA4 and AA5 has returned ATCO considerably higher revenue than if forecasts had been more accurate.		
CME		
The CME supports consistency and alignment with existing multi-sector models, and so supports ATCO's efforts through Core Energy and Resources' (CORE) revised review of the outlook for industrial A1 and A2 tariff classes and the associated comparison with all third-party forecasts. The CME agrees with CORE that recent major announced movements in gas demand cannot be sufficiently linked to price elasticity and economic activity, but would like to highlight these decisions were inherently complex and not 'attributable to specific operational factors alone' and should not be taken directly to infer a lowering of gas prices from 2025. The CME understands the Australian Energy Market Operator is changing its 2025 survey to better capture information on gas consumption trends such as increasing electrification. If possible, the ERA should endeavour to access these insights on electrification to inform its final decision.	The ERA has used ATCO's 2022 survey results, which reflects 73 per cent of combined consumption for A1 and A2 tariff classes. The ERA used its consultant's multi-industrial sector econometric and gas price elasticity analysis framework for the ATCO distribution network as the basis to forecast gas demand for non-surveyed customers (the remaining 27 per cent consumption) in the A1 and A2 tariff classes. The ERA adjusted the results of the econometric analysis with respect to the historical demand trend and known changes since the draft decision. The ERA consultant's econometric and gas price elasticity analysis framework is considered preferable given that it reflects the distribution area of ATCO and not the whole state of Western Australia.	Attachment 2
WA Expert Consumer Panel		
The WA ECP engaged TRAC Partners for advice, but while their submission did not specifically endorse the advice, they considered that	The ERA has considered the broader policy environment and recognised that demand for gas is likely to fall to meet	Attachment 2

Issue raised	ERA response	More information
the matters raised by TRAC Partners would need to be addressed before AA6 was being capable of being accepted. **TRAC Partners:** Given the uncertainty of demand forecasts (relative to those adopted for AA5), regard should be had to the inclusion of a trigger event mechanism or a tariff variation mechanism that requires ATCO to revisit its demand if actual demand is above the approved forecasts by say 10 per cent. TRAC Partners noted that: • Concerns regarding using historical trend analysis and noted that caution should be applied to forecasting annual rates of change (particularly for disconnection rates and gross new customer rates) that rely on actual data from the years prior to 2020. This is primarily because of the changes in market circumstances (pre-COVID) and government policies that have occurred since 2021. • Commonwealth's Future Gas Strategy (April 2024) points to need for gas out to 2050 which could mean there is an ongoing role for gas for some time. • More weight should be placed on AEMO's Gas Statement of Opportunities than on other data sets. • Considers it not good regulatory practice to base decisions on forecast connection and disconnection rates based on the Patterson Research Group's report that the ERA commissioned to gauge the views of Western Australian home builders and developers on the installation of gas in new homes in AA6. • Considers that the forecast is better derived from a range of data sources and supports giving greater weight to data sets that are derived from independent sources. • Considers that use of econometric variables alone does not provide the best estimate of either forecast demand or forecast connections. ATCO's proposal to estimate a forecast average permanent disconnection rate for B3 customers of 0.46% pa by applying a methodology that relies (in part) on analysing the trend in permanent disconnection rates going as	net-zero emissions targets in the long-term. However, for this coming AA6 period, the impact of electrification on demand for ATCO's network will be at a slow downward trend observed over recent years. For residential customers, the ERA expects that customers will continue to connect to the gas network, albeit at a slower rate, and will consume less gas as they use more efficient gas appliances. The ERA considers that a trigger mechanism in the access arrangement might remove the incentive for ATCO to grow its network which would benefit existing customers in the future. As a result, the ERA has not included a trigger event mechanism or amendment to the tariff variation mechanism. The ERA has based its demand forecasts for A1 and A2 customers on ATCO's 2022 customer survey, which accounts for around 73 per cent of combined consumption for these tariff groups. The ERA has used its consultant's multi-industrial sector econometric and gas price elasticity analysis framework for the ATCO distribution network as the basis to forecast gas demand for non-surveyed customers (the remaining 27 per cent consumption) in the A1 and A2 tariff classes, as well as for B1 and B2 tariff customers. The ERA adjusted the results of the econometric analysis with respect to the historical demand trend and known changes since the draft decision. For the B3 tariff class, the ERA used NIEIR's analysis of household disposable income and gas price elasticity to complement the bottom-up historical trend analysis. To support the demand forecast in the B3 tariff class, the ERA engaged Patterson Research Group to assess the rate of electrification in the new homes market and obtained historical and forecast dwelling completion data from	

Issue raised	ERA response	More information
far back as 2009 seems somewhat contradictory to its approach with respect to haulage reference service forecasts. But there does not appear to be any logic provided for taking this approach.	Oxford Economics. The ERA incorporated 2023 actual connections and consumption into the demand forecast analysis across all tariff classes. The ERA has not based its forecast connection and disconnection rates on Patterson Research Group's report but it is supplementary information which informs and provides another sense check on the forecasts. The ERA has amended the demand forecast for all tariff classes. For the B3 tariff class disconnection forecast, the ERA analysis is based on the historical disconnections post 2014, when there is a significant step up in the disconnection rate comparing to the previous periods.	

Legislative changes

Issue raised	ERA response	More information
Synergy		
Elements of ATCO's amended proposal continues to contemplate a regulatory framework yet to be implemented in Western Australia. For example; • Gas pipeline regulatory reforms • Extension of the regulatory framework to renewable gases • *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024*.	At the time of writing this final decision, the only amendment that has become effective in Western Australia (in January 2024) is the incorporation of an emissions reduction objective into the national gas objective. The other legislative amendments assumed by ATCO, to deliver a simpler regulatory framework and extend the regulatory framework to incorporate other gases, have not been implemented in Western Australia.	Overview

Issue raised	ERA response	More information
Synergy supports the approach taken by the ERA to apply the relevant regulatory framework at the time of making each of its (draft and final) decisions. Synergy supports this approach, especially in relation to the ERA's final decision.		

Operating expenditure

Issue raised	ERA response	More information
Alinta Energy		
Alinta Energy has observed a systematic pattern of ATCO over-forecasting its opex over time and underspending ERA allowances. For both AA4 and AA5, ATCO's actual opex was significantly below its proposed and below the ERA's approved forecasts for those periods. Alinta Energy considers that this trend and the level of confidence that can be reasonably attributed to these forecasts should be taken into account in assessing ATCO's AA6 opex forecast. ATCO has updated its base year for forecasting opex from 2022 in its original proposal to 2023. Alinta Energy maintains its view the most efficient year should be selected as the base year – not just the most recent – balanced also against consideration of selecting a year that is likely to be reflective of future costs. Objectively, this would represent selection of a base year which best activates the efficiency incentivisation properties of the gas regulatory framework. Alinta Energy therefore does not consider it appropriate to apply a sector premium in the labour cost escalation for ATCO's AA6 opex forecast	The ERA is required to assess ATCO's proposal in accordance with the legislation and make its determination on the merits of the information provided. The ERA notes service providers regularly over or underspend approved allowances as a result of changing priorities, work practices etc. The ERA and its technical advisor have assessed ATCO's operating expenditure proposal taking into account past expenditure and future proposals to arrive at an efficient value for the AA6 period. The ERA considers that using the latest year's expenditure levels after adjustments for non-recurring items should represent the most robust forecast for future operating costs. In addition, the base year costs are reviewed and compared to past expenditure to ensure the base year value is not materially different without a valid explanation, from past year costs. The ERA has also reviewed step increases in operating expenditure for trend increases due to the growth in customer numbers and escalation of labour costs.	Attachment 5

Issue raised	ERA response	More information
	The ERA has maintained its draft decision position that a sector premium for labour cost escalation should not be considered especially without a productivity adjustment being incorporated into the proposal.	
Kleenheat		
ATCO has revised its AA6 opex proposal to $442 million (real 2023), a $64 million increase (over 16.5 per cent) when compared to the current Access Arrangement (AA5). Kleenheat questions ATCO's claim that efficiencies are being flowed through as the proposed opex is significantly higher than previous Access Arrangements. ATCO is proposing a number of recurrent step changes totalling to $27.6 million (real 2023). Of note are $6.6 million on the cyber security program and $4.1 million on ERP replacement. Kleenheat is concerned with ATCO's rejection of the ERA's amendments on these matters, as the expenditure on cyber security program in AA5 is already sufficient to meet its regulatory obligation as assessed by the ERA's technical consultant, and the justification to reject the ERA's amendment for the ERP replacement has not been made available. In addition, Kleenheat is concerned by the addition of nine new step changes previously not reflected in the initial opex submission as it amounts to an additional $10.4 million (23 per cent higher than the initial proposal). A number of these expenditure items are on technological enhancements and claim to drive operational efficiencies, yet these efficiencies do not seem to be evident in the opex proposal. Kleenheat questions ATCO's additional expenditure on data enablement program, noting that a program was already established during AA5 and ATCO is proposing to potentially re-design the data platform in AA6. Re-designing a data platform within a five year period does not seem to reflect an efficient network operator.	The ERA and its technical consultant, as part of assessing ATCO's proposed AA6 forecast expenditure, have reviewed ATCO's actual operating expenditure for past access arrangement periods. The ERA has made some adjustments to areas of ATCO's forecast AA6 expenditure based on its prior access arrangement averages. The ERA notes that while step changes for cyber security and Enterprise Resource Planning replacement were rejected in the draft decision, ATCO has provided additional information for these expenditure items which the ERA's technical consultant and the ERA consider substantiates the approval of the forecast expenditure. The ERA notes that nine additional step changes were not foreseen, however, under the legislative process ATCO was able to propose expenditure that it considered prudent and efficient for the AA6 period. The ERA has assessed all step changes in accordance with the National Gas Rules and has accepted $26.4 million of the $38.7 million proposed by ATCO. The ERA has not accepted ATCO's proposed operating expenditure step change for data enablement in the final decision.	Attachment 5

Issue raised	ERA response	More information
WA Expert Consumer Panel		
The WA ECP engaged TRAC Partners for advice, but while their submission did not specifically endorse the advice, they considered that the matters raised by TRAC Partners would need to be addressed before AA6 was being capable of being accepted. **TRAC Partners:** Consideration should be given to either adjusting (downwards) the level of the base year operating expenditure or including an adjustment item in the "base-step-trend" methodology to reflect any changes in the approach to operating and maintaining the network as a result of this increased risk in reduced demand for natural gas in light of ATCO's accelerated depreciation proposal. In the absence of both ATCO and the ERA having undertaken that analysis, it is difficult to determine which approach to adopt or what adjustment should be made. ATCO has not accepted the ERA's removal of $6.8 million for "Other Corporate Costs" from the base year. ATCO has sought to re-instate an amount for Other Corporate Costs into the base year level of expenditure. TRAC Partners Report raises concerns around the allowance for STIP expenditure and Canadian Head office costs. ATCO's proposal to include in its forecast expenditure for purchasing replacement gas for UAFG an amount for purchasing biomethane cannot be supported based on the additional information ATCO has provided to justify it. Where there exist other, lower cost, options for reducing the amount of UAFG or purchasing gas to replace UAFG, the unit cost should be set by reference to the lowest cost option.	The ERA considers that while an amount for accelerated depreciation has been allowed during this access arrangement period it doesn't preclude the efficient level of operating expenditure from being calculated via the base-step-trend (BST) approach. The ERA considers that for the next five years at least, ATCO's maintenance and running of the network operationally wouldn't change and would require a similar maintenance program going forward. The ERA has reviewed ATCO's AA6 forecast operating expenditure and determined using the BST approach what it considers to be a prudent and efficient level of operating expenditure for the AA6 period. The ERA notes that the draft decision's removal of $6.8 million per year for "other corporate costs" was made using mislabelled information from ATCO, which the ERA relied upon when determining the adjustment in the draft decision. As a result of correcting this information error and the greater detail from ATCO in its revised proposal, the ERA has not made an adjustment to ATCO's proposed "other corporate costs". In its revised proposal, ATCO has provided additional information about both its short-term incentive program (STIP) and its Canadian head office costs. This additional information has resulted in the reintroduction of a portion of STIP payments into the base year from the draft decision. With Canadian head office costs, the ERA has made a minor adjustment where it considered there was a double up of costs The ERA has not accepted ATCO's proposal to inject biomethane into the network as a replacement for unaccounted for gas (UAFG). The ERA has based its	Attachment 5

Issue raised	ERA response	More information
	forecast on UAFG being replaced with natural gas which is cheaper than biomethane at present.	

Renewable gas

Issue raised	ERA response	More information
Alinta Energy		
The cost ineffectiveness and technological uncertainty of renewable gases (and biomethane specifically) relative to other renewables technologies do not currently represent an efficient method for cost-effective emissions reduction. Alinta does not consider that the opex proposed for the enabling renewable gases program would be incurred by a prudent service provider acting efficiently and in accordance with accepted good industry practice. Alinta notes that $0.6 million of the proposed opex for the enabling renewable gases programs is for the purchase of Australian Carbon Credit Units. Alinta notes: • ATCO is not and will not be subject to the Federal Government's Safeguard Mechanism during AA6 and therefore will not be required to purchase credits or to mitigate its emissions. Alinta Energy objects to ATCO's proposed AA6 capex of $9.6 million for enabling renewable gases because this proposed capex does not satisfy the regulatory criteria for capex under the NGR. While the national gas objective has indeed incorporated an emissions reduction objective, it continues to define the long-term interests of consumers along multiple dimensions, including the price, quality, safety, reliability and security of supply of gas.	In the final decision, the ERA did not approve any of the AA6 renewable gas expenditure, given that laws such as the "other gases legislation" has not yet been passed in WA. Without this, the regulatory framework has not been expanded to cover biomethane or other renewable gases and as such none of the renewable gas expenditure was allowed under the NGR. The ERA has, however, provided ATCO with some operating expenditure to reduce emissions. The ERA recognises the importance of carbon emissions reduction strategies across the economy to reduce Australia's carbon emissions and meet legislated government targets. This allocation of operating expenditure provides ATCO with the opportunity to address its own carbon emissions.	Attachment 4

Issue raised	ERA response	More information
Synergy		
Synergy notes that elements of ATCO's amended proposal continue to contemplate a regulatory framework yet to be implemented in Western Australia. For example; • Gas pipeline regulatory reforms • Extension of the regulatory framework to renewable gases • Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 Synergy notes the ERA has maintained its approach in relation to assessing ATCO's proposal and separately set out in its draft decision considerations directly related to the possible legislative amendments to allow stakeholders an opportunity to provide comments. The ERA also stated that it would apply the relevant regulatory framework at the time of making each of its (draft and final) decisions and would not speculate on whether the legislative amendments would occur. Synergy supports this approach, especially in relation to the ERA's final decision.	As above.	Attachment 4
CME		
CME strongly supports aligning WA with all other jurisdictions in Australia on policy issues such as climate and energy. Earlier this year, CME welcomed the adoption of a modified form of the National Gas Access Laws in WA to include jurisdictional emissions reduction targets. For consistency of regulation, CME would welcome an extension of the WA gas access laws to include hydrogen and renewable gases. There should thus be flexibility in the pathway to abatement to ensure least cost and prevent unintended consequences. In the event that WA adopts the relevant amendments sooner than expected, we recommend the ERA consider ATCO's proposed new fixed principle for a 'cost pass through event' on renewable gas expenditure. With increased uncertainty on the future of gas and utilisation of pipelines, we support the provision of regulatory flexibility on timing to help with investment planning.	As above.	Attachment 4

Issue raised	ERA response	More information
We acknowledge dynamic scenario modelling of industrial demand and fuel switching is challenging. We, therefore, support ATCO's efforts to address this concern in their revised response.		
WACOSS		
WACOSS opposed ATCO's proposal to invest in hydrogen readiness and renewable gas and recoup these investments from consumers. ATCO's revised proposal includes investment in 'renewable gas' programs, albeit less than originally proposed. WACOSS maintains that electrification is the only plausible way to remove fossil gas from homes and that this access arrangement should not allow ATCO to recover any of the costs associated with its hydrogen blending program and renewable gas program.	As above.	Attachment 4
WA Expert Consumer Panel		
The WA ECP engaged TRAC Partners for advice, but while their submission did not specifically endorse the advice, they considered that the matters raised by TRAC Partners would need to be addressed before AA6 was being capable of being accepted. **TRAC Partners:** Support ATCO's decision to not seek to include the $0.7 million (for expenditure undertaken during the period 2020 to 2022) incurred in connection with the Clean Energy Innovation Hub and hydrogen blending project as conforming capex for AA5 and to also not claim the costs incurred in 2019 for this project in the Revised AA6 Proposal. ATCO should consider creating a speculative capital expenditure account (in accordance with Rule 84 NGR) for this expenditure. In relation to the point of who is best to fund and construct new injection points to allow renewable gases to be injected, consideration should be had to the position for transmission lines where inlet points to allow producers to supply gas into these pipelines are generally funded by the producers. No	As above.	Attachment 4

Issue raised	ERA response	More information
case appears to be made as to why this should not be the position adopted for renewable gas inlet points.		

Stakeholder engagement

Issue raised	ERA response	More information
WA Expert Consumer Panel		
The WA ECP engaged TRAC Partners for advice, but while their submission did not specifically endorse the advice, they considered that the matters raised by TRAC Partners would need to be addressed before AA6 was being capable of being accepted. **TRAC Partners:** ATCO seeks to challenge the veracity of the ERA's criticisms of its stakeholder engagement methodology. But then ATCO concedes that the future engagement program that it will develop to provide informed feedback to ATCO's AA7 deliberations will incorporate the ERA's criticisms into the design of ATCO's future engagement program. ATCO has not: • Changed its approach to stakeholder engagement when it comes to the revised proposal to continue to pursue accelerated depreciation. • Engaged with anyone representing the major user group on the network – residential consumers. The stakeholder engagement undertaken by ATCO should be put into its proper context by having regard to the statutory framework that is to be applied by the ERA in assessing proposals.	Noted.	Overview

Tariffs

Issue raised	ERA response	More information
AGL		
AGL would prefer a smoother glide path in respect to the changes in network charges, rather than sharp peaks and troughs over the upcoming period and leading into the next period. AGL is concerned 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. This arrangement has a severe disconnect, which could see a decline in retail gas competition. There needs to be a clear link between these decisions.	Consistent with the 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. The ERA acknowledges that the State Government's regulation of maximum gas retail prices for small use customers regulates 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, 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.	Attachment 3
Alinta Energy		
Alinta considers 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.	See above.	Attachment 3

Issue raised	ERA response	More information
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.		
Kleenheat		
Kleenheat acknowledges the increase in B3 tariffs is to reflect the avoidable cost of connecting B3 customers and provided efficient price signals to new customers. However, the regulated maximum fixed supply charge that customers pay is currently $94.54 per year and which is increased annually by CPI. Increasing the B3 fixed standing charge would not provide a price signal to customers and would only attribute to a bigger misalignment against the fixed supply charge to a gap of $71.15 (real 2023). Additionally, increasing the fixed component would mean lower usage customers pay a higher proportion of the costs which is inequitable.	See above.	Attachment 3
WACOSS		
WACOSS does not support ATCO's revised tariff proposal. WACOSS remains concerned about the impact of a one-off price increase on consumers on low incomes and in energy stress, as compared to a smoother price path. Further, WACOSS is concerned by the use of tariff increase to signal to consumers to reduce (or not increase) their gas consumption. Tariff increase as a method to reduce gas use has an inequitable impact on consumers on low incomes as they typically have less control over their energy source (more likely to be renting) and are likely already taking steps to reduce their consumption as part of their budgeting, sometimes to the detriment of their health and wellbeing.	See above. In addition: 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. Additionally, all gas retailers supplying residential	Attachment 3

Issue raised	ERA response	More information
The 2025 price change is dramatically higher than the ERA draft decision, followed by a yearly increase above CPI. 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. The increased tariff proposed by ATCO is likely to increase cost pressures on consumers which will disproportionately impact people on low incomes and in energy stress. It is inappropriate for consumers on low incomes and in energy stress to bear the brunt of ATCO's increased expenditure and failure to take steps to mitigate the revenue implication of long-term declining gas demand.	customers must, as part of their licensing requirements, have a financial hardship policy to assist their customers. The ERA has not implemented tariff increases to signal to consumers to reduce (or not increase) their gas consumption. 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. 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.	
WA Expert Consumer Panel		
The WA ECP engaged TRAC Partners for advice, but while their submission did not specifically endorse the advice, they considered that the matters raised by TRAC Partners would need to be addressed before AA6 was being capable of being accepted. **TRAC Partners:** At a time when customers are experiencing increasing cost of living pressures, minimising the level of the increase in the tariff from 2024 to 2025 should be a key goal. The ERA's final decision tariff path option should be determined based on whether accelerated depreciation is allowed or not allowed.	See above.	Attachment 3

Tariff variation mechanism

<table>
<tr><th>Issue raised</th><th>ERA response</th><th>More information</th></tr>
<tr><td colspan="3">WA Expert Consumer Panel</td></tr>
<tr><td>The WA ECP engaged TRAC Partners for advice, but while their submission did not specifically endorse the advice, they considered that the matters raised by TRAC Partners would need to be addressed before AA6 was being capable of being accepted.
TRAC Partners:
TRAC Partners doesn’t believe that ATCO has demonstrated why clause 2.1(a)(v) related to a cost pass through for renewable gas expenditure is required for the access arrangement. TRAC Partners noted that there were other mechanisms in the NGR that were available to ATCO, such as applying to the ERA for an advance determination of capital expenditure or creating a speculative investment account.
TRAC Partners also doesn’t believe that ATCO has demonstrated why clause 2.1(a)(iv) for incurring additional expenditure in connection with an emissions control law should be maintained. TRAC Partners considered that ATCO did not appear to have addressed some of the reasons the ERA outlined in its draft decision for requiring the removal of the cost pass through event.</td><td>The ERA has not approved ATCO’s proposed (new) fifth cost pass through event for other gases or gas blends; and has maintained its draft decision to delete existing cost pass through event number four for emissions control laws, 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. 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 ERA maintains that existing cost pass through event number three for a change in law or tax change provides for ATCO’s intent to recover conforming expenditure related to laws covering greenhouse gas emissions.

The ERA notes the other options available to ATCO instead of a cost pass through for renewable gases highlighted by TRAC Partners. The ERA considered that a speculative expenditure account would not be fit for purpose and that an advance determination alone would not address all of ATCO’s reasons for seeking this cost pass through event as this only applies to capital expenditure.</td><td>Attachment 3
Attachment 2</td></tr>
</table>

Template service agreement

Submission	ERA response	More information
Synergy		
Synergy supports the ERA's draft decision to require five amendments to the Template Service Agreement (TSA) and notes that ATCO has accepted all of the ERA's draft decision amendments except required amendment 9.2, in relation to TSA clauses 5.5(d) and 5.9. ATCO's proposed drafting of clauses 5.5(d) and 5.9(b) requires charges to be reasonable or otherwise determined in accordance with applicable laws. Synergy considers this drafting is consistent with ERA's required amendment 9.2. In addition, clause 6 of the TSA has several provisions where users will be required to procure compliance from upstream gas suppliers and transmission pipeline operators. For example, users will be required to ensure its supply and access contracts with upstream suppliers are appropriately aligned with the TSA. Therefore, Synergy requests the ERA to ensure, as part of its assessment of the Dampier to Bunbury Natural Gas Pipeline access arrangement (DBNGP), the terms and conditions of the DBNGP contracts are aligned with the TSA.	The ERA expects to commence its access arrangement review of the DBNGP in January 2025. As part of this review, the ERA will consider the existing terms and conditions for reference services and any proposed amendments to them. In this regard, Synergy is encouraged to participate in the public consultation processes that will be provided to raise any concerns with the terms and conditions that will apply under the DBNGP access arrangement for the next access arrangement period.	Attachment 9