

27 April 2015



Mr Craig Madden
Director
Australian Energy Regulator
360 Elizabeth Street
Melbourne VIC 3001

Dear Mr Madden,

Proposed 2015/16 South Australian Reference Tariffs

This letter sets out Australian Gas Networks' (AGN) reasons for varying its Reference Tariffs to apply in South Australia from 1 July 2015. AGN is proposing to vary its Reference Tariffs in a manner that is consistent with clause 4.3 of the *Access Arrangement for AGN's South Australian Distribution Network* (hereafter referred to as the Access Arrangement).

Reference Tariffs: Domestic, Commercial and Demand Haulage Reference Services

The proposed adjustments to the Reference Tariffs for domestic (Tariff R), commercial (Tariff C) and demand (Tariff D) Haulage Reference Services to apply from 1 July 2015 are being made pursuant to clause 4.3 of the Access Arrangement. This allows Reference Tariffs to vary in accordance with a weighted average tariff basket mechanism, as detailed in clause 4.4 and Annexure E of the Access Arrangement. Annexure E contains a Reference Tariff Control Formula and a Rebalancing Control Formula.

In broad terms, the Reference Tariff Control Formula allows AGN to change its tariffs so that the revenue derived from each of the Haulage Reference Services does not increase by an amount that is greater than $(1+CPI) \times (1-X)$. Reference Tariffs are to be adjusted by the change in CPI for the 12 months ending March 2015, which CPI is 1.33 per cent. The X factor is zero and as such, the allowed change in Reference Tariffs for 2015/16 is limited to the CPI of 1.33 per cent.

The Rebalancing Control Formula allows AGN to change its tariffs so that the change in the revenue derived from an individual tariff within a particular category of Haulage Reference Service is no greater than $(1+CPI) \times (1-X) \times (1+2\%)$. This allows a particular tariff to increase by no more than 3.4 per cent.

AGN's proposed 2015/16 Reference Tariffs comply with both the Reference Tariff Control Formula and the Rebalancing Control Formula. This has been demonstrated by the model provided by AGN to the AER setting out the application of the above formulae and the resultant Reference Tariffs. The model and tariff schedule comprise Attachments 1 and 2 respectively of this submission.

The Reference Tariff Control Formula and the Rebalancing Control Formula require the quantities used to be the period two years prior to the year that the proposed tariffs take effect, which in this case is 2013/14. An independent review verifying the gas quantities has been undertaken and the associated report is provided as Attachment 3.

Impact on Users

The table below shows the average impact on end users of the proposed change in tariffs on a GST exclusive basis.

Component	2015-16 (\$)	2014-15 (\$)	Quantity (p/a)	Cost Change (\$)
Tariff R	550.4	542.6	17.1 GJ	7.8
Tariff C	4,770.1	4,704.9	293.5 GJ	65.3
Tariff D	251,283.3	247,980.5	479.6 GJ MDQ	3,302.7

Reference Tariffs: Ancillary Reference Services

AGN has also varied its Ancillary Reference Tariffs in a manner that is consistent with clause 4.4.2 of the Access Arrangement. Ancillary Reference Tariffs are to be adjusted by the change in CPI for the 12 months ending March 2015, which CPI is 1.33 per cent. The calculation and resultant tariffs also form part of attachments 1 and 2.

Carbon Pass Through Tariffs

AGN has also calculated the 2015/16 Carbon Pass Through in a manner consistent with Attachment A of the AER's *Decision, AGN Limited - cost pass-through event application for the South Australian Gas Distribution System June 2012*. There is no carbon permit expense forecast for the 2015/16 year given the repeal of the carbon tax effective 1 July 2014. The calculation of the 2015/16 Carbon Pass Through Tariff therefore solely incorporates the variances between actual and forecast carbon emission outcomes for previous years as required by the formula.

The actual carbon tariff recovery encapsulates the full financial year 2013/14 as well as the period 1 July to 31 August 2014. AGN ceased charging the carbon tariff on 31 August 2014. Incorporating the 1 July to 31 August 2014 carbon tariff recovery will enable AGN to cease charging a carbon tariff on 30 June 2016 prior to the commencement of the next access arrangement period.

The actual carbon permits purchased for the 2013/14 year can be found on page 6 of Attachment 4 - the "Liable Entity Report" provided to the Clean Energy Regulator for the 2013/14 year.

AGN has determined the 2015/16 Carbon Pass Through Tariff will decrease from \$0.034 per day in 2014/15 to -\$0.0052 per day in 2015/16 for residential and commercial customers. The decrease equates to a reduction of approximately \$14.30 for the 2015/16 year. The calculation and resultant tariffs also form part of Attachments 1 and 2.



Summary

Attachment 1 comprises the model demonstrating the derivation of the proposed Reference Tariffs and Carbon Pass Through Tariffs while attachment 2 comprises the tariff schedule detailing the proposed tariffs to apply from 1 July 2015. Attachment 3 comprises the findings of the independent review of the 2013/14 quantities while attachment 4 comprises the "Liable Entity Report" provided to the Clean Energy Regulator for the 2013/14 year.

Please contact Ashley Muldrew (08 8418 1115) should you wish to discuss this matter further.

Yours sincerely



Peter Bucki
Manager, Regulatory Strategy

