



Decision
Multinet
Gas Network
2015 negative carbon cost pass through

December 2014

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1 Summary

Multinet operates the Victorian gas distribution network servicing Melbourne's inner and outer east, the Yarra Ranges and South Gippsland. Multinet is owned by DUET Group.

On 31 October 2014, Multinet applied to the AER, for a tax change negative pass through event as a result of the carbon tax repeal on 17 July 2014.

The proposed negative pass through and over recovery amount is:

- 2015 – \$1 108 355

This amount represents:

- a return to customers of \$794 799 for over recovery of carbon costs by Multinet in its reference tariffs for calendar years 2013 and 2014
- the removal of \$313 556 of costs over 2015, 2016 and 2017 that were to meet the administrative requirements of carbon reporting and purchasing/surrender of permits, which are now no longer required.

Multinet's proposed return to customers of over recovered revenues comprises in part a true-up for the 2013 calendar year and the first six months of 2014. This is a routine correction which would have occurred even if the carbon tax had remained in place.

The remaining component of the return to customers is for carbon tax related revenues recovered by Multinet between 1 July and 17 July 2014, the day on which the carbon price repeal legislation received royal assent. Multinet ceased recovering carbon costs on 18 July 2014. Because repeal of the carbon tax was retrospective to 1 July, Multinet must now return to customers the carbon related revenues it recovered in those 17 days.

We have determined that a negative carbon cost pass through event has occurred and we have approved the proposed pass through amount.

The approved negative cost pass through amount will be returned to customers in the form of lower reference tariffs charged to retailers from 1 January 2015.

2 Background

The Australian Energy Regulator is responsible for the economic regulation of covered natural gas distribution and transmission pipelines in all states and territories except Western Australia. Our functions and powers are set out in the National Gas Law and the National Gas Rules.

The carbon tax was repealed by the Australian parliament on 17 July 2014 and received royal assent the same day, removing Multinet's carbon liability for 2014–15.¹ As a result, Multinet no longer has an obligation to purchase and surrender carbon units as a liable entity under the *Clean Energy Act 2011*.

Prior to this, Multinet had an obligation under the *Clean Energy Act 2011* to purchase and surrender carbon units for each tonne of carbon pollution emitted as a liable entity operating a facility that exceeds a scope 1 (direct) emissions threshold of 25 000 tonnes of carbon dioxide equivalent. This liability relates to fugitive gas emissions from transmission and distribution pipelines and emissions from gas combustion in pipeline compressor stations.

1 *Clean Energy Legislation (Carbon Tax Repeal) Act 2014*.

3 Application

Multinet considers the repeal of the carbon tax to be a *Tax Change Event* as it removes a *Relevant Tax*.

The incurred drop in operating expenditure as a result of the *Tax Change Event* is the reduction in costs due to the repeal of the *Clean Energy Act 2011* and subsequent removal of the obligation imposed to purchase and surrender carbon units for each tonne of carbon pollution emitted, from 1 July 2014.

Multinet ceased collecting carbon related revenues from 18 July 2014. Its application to us is to vary its formal reference tariffs to reflect the reduction in tariffs already given effect.

Multinet further proposes to return to customers the carbon related revenues it has already collected in its reference tariffs in 2014 and over recovery in 2013. This means the temporary over recovery will be returned to customers through lower reference tariffs in 2015.

And finally, Multinet proposes to remove the carbon component from its reference tariffs for the 2015, 2016 and 2017 year. These will be the final years of its current access arrangement.

We note that Multinet's application for the negative carbon pass through included a typographical error in the executive summary.² This section incorrectly described the proposed pass through amount as \$1 110 287. This amount had previously been forecast by Multinet, but had been superseded by an amount updated using the September quarter CPI.³ The correct proposed pass through amount, \$1 108 355, is referenced by Multinet on page 7 of its application.

² Multinet, *Multinet cost pass through application – carbon tax repeal*, 27 October 2014, p. 3.

³ Multinet submitted a preliminary draft of its application before the September quarter CPI was available, to comply with the cost pass through application timing requirements set out in its access arrangement.

4 Approach and assessment

4.1 Cost pass through event

Clause 8 of Multinet' access arrangement states that:

The Service Provider may notify the AER of a Relevant Pass Through Event within 90 Business Days of the Relevant Pass Through Event occurring, where the impact of the event would lead to a Positive Pass Through Amount and must notify the AER of a Relevant Pass Through Event within 90 Business Days of the Relevant Pass Through Event occurring, whether the impact of the event would lead to a Negative Pass Through Amount.

The access arrangement defines a tax change event as:

A tax change event occurs if any of the following occurs during the course of an access arrangement period:

- (a) a change in a relevant tax, in the application of official interpretation of a relevant tax, in the rate of a relevant tax, or in the way a relevant tax is calculated;
- (b) the removal of a relevant tax;
- (c) the imposition of a relevant tax;

In consequence, the costs to Multinet of providing reference services are materially increased or decreased.

4.2 Factors considered

We have assessed the negative cost pass through application in accordance with factors listed in clause 8 of the access arrangement. This section sets out those factors and our considerations against each.

In making its decision on whether to approve the proposed Cost Pass-through Event variation, the AER must take into account the following:

- the costs to be passed through are for the delivery of pipeline services

We accept that the costs relate to Multinet's delivery of pipeline services.

- the costs are incremental to costs already allowed for in reference tariffs

We accept that the costs are incremental to those already included in Multinet's reference tariffs.

- the costs to be passed through meet the NGR criteria for determining the building *block for total revenue in determining reference services*

Rule 91(1) of the National Gas Rules (NGR) provides that opex must reflect the costs incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering reference services.

We are satisfied that Multinet's negative pass-through costs satisfy the NGR criteria set out in r. 91(1).

- the efficiency of the Service Provider's decisions and actions in relation to the risk of the Relevant Pass Through Event occurring.

We accept that Multinet has acted efficiently and reasonably.

- any other factors which the AER considers relevant and consistent with the NGL and NGR.

We consider the proposed amount of the negative pass through is appropriate, as it is based on the carbon costs we have previously approved.

We consider the proposed manner of Multinet's carbon cost removal from reference tariffs is appropriate, as it matches the method by which carbon costs were previously incorporated.

And we consider the pass through period is also appropriate. To the extent possible, carbon costs are to be removed within the year to which they initially related. We recognise that returning to customers the carbon costs collected in 2014 is most readily done in Multinet's tariffs for the 2015 year.

We note the proposed opex pass through amounts for years 2016, 2017 and 2018 do not themselves meet the pass through materiality threshold. That is, the annual amounts are not at least one per cent of Multinet's regulated revenue for the year to which they relate. However, several factors have led us to approve these pass through amounts for inclusion in Multinet's aggregated pass through amount:

- The Clean Energy Legislation (Carbon Tax Repeal) Act 2014, which abolished the carbon tax, required all cost savings relating to the repeal of the tax be passed through to consumers.
- Multinet has proposed not to collect the revenues in question; the removal from reference tariffs reflects that position.
- Multinet's carbon permit costs have been estimated immediately before the year to which they relate and passed through to customers via the annual tariff variation formula, so were not included in its forward looking approved revenues. If those permit costs had been incorporated

in Multinet's approved revenues, the aggregated permit and administrative costs would meet the pass through materiality threshold.

We emphasise that our decision on this issue does not establish a precedent for future pass throughs, whether negative or positive. The circumstances around carbon price repeal are unique.

5 Decision

We determine that a negative carbon cost pass through event has occurred and that a negative pass through amount of – \$1 108 355 is appropriate

The approved negative cost pass through amount will be returned to customers in the form of lower reference tariffs charged to retailers from 1 January 2015.