Draft decision

Jemena Gas Networks

Access arrangement 2015-2020

Attachment 11 - Reference tariff variation mechanism

November 2014

AUSTRALIAN ENERGY REGULATOR

Inquiries about this decision should be addressed to:

Australian Energy Regulator

GPO Box 520
Melbourne Vic 3001
Tel: (03) 9290 1444
Fax: (03) 9290 1457
Email: AERInquiry@aer.gov.au

AER reference: 51741

Note

This attachment forms part of the AER's draft decision on Jemena Gas Networks' 2015–20 access arrangement. It should be read with other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – services covered by the access arrangement

Attachment 2 – capital base

Attachment 3 – rate of return

Attachment 4 – value of imputation credits

Attachment 5 – regulatory depreciation

Attachment 6 – capital expenditure

Attachment 7 – operating expenditure

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Contents

Shortened forms

Shortened form	Extended form
2010–15 access arrangement	Access arrangement for JGN effective from 1 July 2010 to 30 June 2015 inclusive
2010–15 access arrangement period	1 July 2010 to 30 June 2015 inclusive
2015–20 access arrangement	Access arrangement for JGN effective from 1 July 2015 to 30 June 2020 inclusive
2015–20 access arrangement period	1 July 2015 to 30 June 2020 inclusive
Access arrangement information	Jemena Gas Networks (NSW) Ltd, *Access Arrangement Information 2015–20*, 30 June 2014
Access arrangement proposal	Jemena Gas Networks (NSW) Ltd, *Access arrangement, JGN's NSW gas distribution networks, 1 July 2015 – 30 June 2020*, 30 June 2014
AER	Australian Energy Regulator
capex	capital expenditure
CAPM	capital asset pricing model
CCP	Consumer Challenge Panel
Code	National Third Party Access Code for Natural Gas Pipeline Systems
CPI	consumer price index
DRP	debt risk premium
ERP	equity risk premium
JGN	Jemena Gas Networks (NSW) Ltd (CAN 003 004 322)
MRP	market risk premium
NGL	national gas law
NGO	national gas objective
NGR	national gas rules

opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
Reference service agreement proposal	Jemena Gas Networks (NSW) Ltd, *Reference Service Agreement, JGN's NSW gas distribution networks*, 30 June 2014
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
WACC	weighted average cost of capital

11 Reference Tariff variation mechanism

This attachment sets out the AER's consideration of the reference tariff variation mechanism proposed by JGN. The reference tariff variation mechanism:

- permits building block revenues to be recovered smoothly over the access arrangement period, subject to any differences between forecast and actual demand
- accounts for actual inflation
- accommodates other reference tariff adjustments that may be required, such as for an approved cost pass through event
- sets administrative procedures for the approval of any proposed changes to reference tariffs.

11.1 Draft decision

We do not accept JGN's proposed reference tariff variation mechanism for the 2015–20 access arrangement period. We consider that some elements of JGN's proposed reference tariff variation mechanism are not consistent with the NGL. In particular:

- the proposed initial reference tariffs and X factors must be revised to reflect the changes to the forecast total revenue identified in the revenue section of this draft decision.
- definitions for certain parameters within the control mechanism.
- we do not accept JGN's proposed business continuity and network user failure pass through events. We do not accept the proposed definitions of, and require revisions to, JGN's proposed regulatory change event, service standard event and materiality threshold for pass through events.
- we do not approve JGN's proposed fixed principle in relation to cost pass through events from an immediately prior access arrangement period.

Our reasons for this decision are further discussed below.

11.2 Jemena Gas Network's proposal

JGN proposed to retain a reference tariff basket form of price controls for its haulage reference service. However JGN proposed to amend the price control formula to take into account pass throughs and annual true-ups including:

- annual true-up for the trailing average benchmark cost of debt via the X factor
- automatic annual adjustments for licence fees, carbon cost, change in tax and unaccounted for gas, UAG—this takes true-up mechanisms between annual regulatory allowances and realised costs out of the cost pass through process, thereby simplifying and streamlining the annual reference tariff variation process and better aligning the formula with that applicable to other gas distributors in other jurisdictions, and
- the method for incorporating costs arising from cost pass through events.

11.2.1 Cost pass through reference tariff variation mechanism

The inclusion of a pass through mechanism recognises that a service provider can be exposed to risks beyond its control, which may have a material impact on its costs. A cost pass through enables a distributor to recover (or pass through) the costs of defined unpredictable, high cost events.

JGN's proposed pass through events and proposed definitions are set out at Table 11-1.

Table 11-1 Jemena Gas Network's proposed pass through events

Proposed event	Proposed definition
Business continuity event	This event is currently in JGN's Access Arrangement, but JGN proposed to change the definition of the event to the following: Any occurrence that may create, or may lead to, an interruption, disruption, loss and/or crisis in the Service Provider's business for which the Service Provider does not have full insurance coverage, including but not limited to, gas supply shortfall, tsunami, cyclone, pandemic illness and earthquake. For the Purposes of this definition, the value of the Service Provider's insurance coverage is the greater of the Service Provider's insurance coverage at the time of the event and the coverage at the time the AER approves this Access Arrangement, with reference to the forecast operating expenditure allowance approved in the AER's final decision and the reasons for that decision
Service standard event	This event is intended to replace the current Market Costs event. JGN defined this event as: A legislative or administrative act or decision that has the effect of: Varying, during the course of an Access Arrangement Period, the manner in which Jemena Gas Networks is required to provide a Reference Service; or Imposing, removing or varying, during the course of an Access Arrangement Period, minimum service standards applicable to prescribed Reference Services; or Altering, during the course of an Access Arrangement Period, the nature or scope of the prescribed Reference Services, provided by Jemena Gas Networks.
Network user failure event	This event is intended to replace the current Retailer of Last Resort event. JGN defined this event as: The occurrence of an event whereby a User becomes insolvent or is unable to continue to supply gas to its customers, and those customers are transferred to another User but excludes costs that could be the subject of a pass through amount pursuant to rule 531 of the National Gas Rules.
Regulatory change event	This is a new event proposed by JGN. JGN defined this event as: Regulatory change event means a change in a regulatory obligation or requirement, or the introduction or removal of a regulatory obligation or requirement, that falls within no other category of Cost Pass Through Event and affects the circumstances of the Service Provider's business, including the manner in which the Service Provider provides the Reference Service

Source: JGN, *Access Arrangement Information 2015–20*, 30 June, pp. 132–139.

JGN also proposed a new approach to the materiality threshold. JGN proposed that it may seek AER approval to pass through costs where those costs are, or are reasonably estimated to be:

- in total over the 2015–20 access arrangement period, equal to or greater than 0.5 per cent of the smoothed forecast revenue specified in the Access Arrangement Information; or
- in at least one of the financial years of the access arrangement period that the costs are incurred, equal to or greater than one per cent of the smoothed forecast revenue specified in the Access Arrangement Information for the corresponding year that the costs are incurred; or
- as a result of regulatory change that relates to carbon, regardless of whether those costs satisfy the two dot points above.

JGN also proposed a fixed principle to clarify the approach to recovering costs associated with cost pass throughs across multiple access arrangement periods. The provision intends to capture circumstances arising under three different scenarios:

- where the AER has made a decision as to the amount that should be passed through, but where it is impracticable for pass through to occur in that period
- where JGN has notified the AER of the cost pass through event in the immediately prior access arrangement period but the AER has not made its decision before the end of that period
- where the timing of the event is such that although the event had occurred, it was not notified to the AER by JGN and the notification ultimately occurs in the subsequent access arrangement period.

11.2.2 Reference tariff variation process

JGN proposed to submit its annual reference tariff variation to us for approval by 15 March each year prior to the relevant financial year in which the proposed reference tariffs are to apply. JGN will actively engage and consult with stakeholders prior to submitting its reference tariff variation for our approval.[1]

JGN also proposed an intra-year reference tariff variation mechanism, to account for extraordinary events that may necessitate tariff adjustment.[2]

11.3 Assessment approach

Under the NGR, a reference tariff variation mechanism for an access arrangement:

- must be designed to equalise (in present value terms):
  - forecast revenue from reference services over the access arrangement period, and
  - the portion of total revenue allocated to reference services for the access arrangement period.
- may provide for variation of a reference tariff:
  - in accordance with a schedule of fixed tariffs, or
  - in accordance with a formula set out in the access arrangement ,or
  - as a result of a cost pass through for a defined event, or

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1 JGN, *Access Arrangement 2015–20*, June 2014, pp. 10–11.
2 JGN, *Access Arrangement 2015–20*, June 2014, p. 6.

- by the combination of two or more of these operations.[3]

A formula for varying reference tariffs may (for example) provide for variable caps on the revenue to be derived from a particular combination of reference services; or tariff basket price control; or revenue yield control; or a combination of all or any of these factors.[4] However, the reference tariff variation mechanism must give us adequate oversight and powers to approve reference tariff variations.[5]

We must have regard to various factors in deciding whether an access arrangement's reference tariff variation mechanism is appropriate. These are:

- the need for efficient reference tariff structures
- the possible effects of the reference tariff variation mechanism on administrative costs
- the regulatory arrangements (if any) applicable to the relevant reference services before the commencement of the proposed reference tariff variation mechanism
- the desirability of consistency between regulatory arrangements for similar services
- any other relevant factor.[6]

Having regard to these, we considered the implications of the proposed reference tariff variation mechanism for efficient tariff structures and administrative costs on natural gas consumers, potential users and JGN. In doing so we took into account the nature and scope of pipeline reference services to which reference tariffs are applicable. Our assessment also included a comparison of:

- the proposed reference tariff variation mechanism arrangements with JGN's current arrangements, and
- other recent gas distribution access arrangement decisions
- for consistency in approach across the provision of similar services.

We assessed the potential impact of JGN's proposal on incentives for pipeline operation in a manner consistent with the national gas objectives and with the revenue and pricing principles.[7] We also judged the implications of JGN's proposed reference tariff variation mechanism for effective risk management that would be in the long term interests of consumers of natural gas.

In making our decision, we relied on JGN's access arrangement proposal, stakeholders' submissions and additional commentary and evidence from JGN in response to our questions on several issues.

11.3.1 Cost pass through reference tariff variation mechanism

This section discusses the AER's approach to assessing cost pass throughs, and should be read in conjunction with the information directly above in section 11.3.

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3 NGR, r. 92(2) and NGR, r. 97(1).
4 NGR, r. 97(2).
5 NGR, r. 97(4).
6 NGR, r. 97(3).
7 Including NGR, r. 97 (3)(e).

Pass through events transfer financial risks from the service providers to consumers. Generally, if one of the pass through events occurs, the costs of the event are passed through to consumers and network charges increase accordingly.

In deciding on the appropriateness of a proposed cost pass through event we must consider the factors in r. 97(3) and assess its consistency with the NGO. We have full discretion to withhold approval to an element of a reference tariff variation mechanism if we believe that a preferable alternative exists.[8]

Our approach to assessing pass throughs includes taking into account the Revenue and Pricing Principles, providing the service provider with a reasonable opportunity to recover at least the efficient costs the operator incurs,[9] while also providing effective incentives to promote economic efficiency.[10] It promotes a balance between the economic costs and risks for promoting efficient investment.[11]

We also consider a set of criteria used by us in previous decisions[12] to assess pass throughs against both the NGO and the National Electricity Objective (NEO).[13] In 2012 these criteria were explicitly included into the National Electricity Rules (NER) as nominated pass through event considerations. While there is not a rule for electricity analogous to r. 97(3)(e) in the NGR, we consider that these same criteria remain relevant as general principles to help determine whether a proposed cost pass through event for a gas network is consistent with the NGO.

The criteria to which we have had regard to (as adopted by the AEMC as nominated pass through event considerations in the NER) are:[14]

> The *nominated pass through event considerations* are:
>
> (a) whether the event proposed is an event covered by a category of *pass through event* specified in clause 6.6.1(a1)(1) to(4) (in the case of a distribution determination) or clause 6A.7.3(a1)(1) to(4) (in the case of a *transmission determination*);
>
> (b) whether the nature or type of event can be clearly identified at the time the determination is made for the service provider;
>
> (c) whether a prudent service provider could reasonably prevent an event of that nature or type from occurring or substantially mitigate the cost impact of such an event;
>
> (d) whether the relevant service provider could insure against the event, having regard to:
>
> (1) the availability (including the extent of availability in terms of liability limits) of insurance against the event on reasonable commercial terms; or
>
> (2) whether the event can be self-insured on the basis that:
>
> (i) it is possible to calculate the self-insurance premium; and
>
> (ii) the potential cost to the relevant service provider would not have a significant impact on the service provider's ability to provide *network services*; and.
>
> (e) any other matter the *AER* considers relevant and which the *AER* has notified *Network Service Providers* is a nominated pass through event consideration.

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8 NGR, r. 40(3).
9 s. 24(2) of the NGL.
10 s. 24(3) of the NGL.
11 s. 24(6) of the NGL.
12 For example, businesses part of the Victorian gas access arrangement review 2013-17 and the Victorian distribution determinations 2011-15.
13 We consider that the NGO and NEO are sufficiently similar for the same criteria to be relevant.
14 NER, glossary, definition of 'nominated pass through event considerations'.

Our approach to assessing pass throughs also considers whether it is good regulatory practice, in the context of a national regulatory framework, to achieve consistency across and between energy sectors.[15] Our approach will also consider whether the risk transferred to consumers via the pass through is appropriate.[16]

These considerations involve an assessment of the incentives on service providers to manage their risks efficiently. For systematic risks, service providers are compensated through the allowed rate of return. Service providers also face business-specific, or residual, risks. These activities are generally compensated through opex and capex allowances. Beyond this, and where possible, a service provider may manage other risks through a number of other strategies including:

- prevention (avoiding risk)
- mitigation (reducing the negative effect of probability of the risk)
- insurance (transferring the risk to another party)
- self-insurance (putting aside funds to manage the likely costs associated with a risky event)

An efficient business will manage its risk by employing the most cost effective combination of these strategies. For example, if a cost is reasonably predictable, businesses should factor it into its opex and capex proposed expenditure. In addition, a service provider may invest in its networks to mitigate the impact of certain events occurring. Alternatively, if the probability of events occurring can be readily estimated then the event should be insurable.

Pass through events cover those limited circumstances for which the risks cannot be managed efficiently in these ways and for which the service provider should be able to recover its efficient costs.

A factor for us to consider, which is reflected in our approach to assessing pass throughs, is who is best placed to manage risk. It is acknowledged practice that the party who is best placed to manage the risk should bear the risk. If the service provider, or customers, are fully exposed to a risk this may lead to adverse outcomes.

If the service provider is fully exposed to a risk this may lead to adverse outcomes. For example, if insurance is not available on commercial terms or self-insurance is not appropriate, a service provider might invest too much in its network. Over the longer term, this is likely to affect efficient costs of operating the network and would not be in the long term interests of consumers. In such circumstances, the consumer may be in the best position to bear the risk if the unforseen event occurs.[17] On the other hand, if the service provider is able to pass through all the costs of an unforseen event, this may dilute the service provider's incentive to take prudent actions upfront to manage these risks.

We considered all of these issues when assessing JGN's proposed pass through events with the aim of achieving the right balance, in the long term interests of consumers.

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15 NGR r. 97(3)(d)
16 NGR r. 97(3)(e)
17 AEMC, 2 August 2012, cost pass through determination, p. 18.

Interrelationships

As mentioned above, pass through events are not the only mechanism in this decision by which JGN can manage its risks. Pass through events are interrelated with other parts of this decision, in particular with the proposed opex and capex allowances and the rate of return. These interrelationships require the AER to balance the incentives of the various parts of its decision.

11.4 Reasons for draft decision

We do not approve JGN's proposed reference tariff variation mechanism for the 2015–20 access arrangement period. We consider there are alternatives to some elements of the proposed reference tariff variation mechanism that better contribute to the achievement of the NGO.

The reasons for our decision are set out below.

11.4.1 Annual reference tariff variation mechanism

Revenue equalisation

The annual reference tariff variation mechanism over an access arrangement period must be designed to equalise (in present value terms) the building block costs associated with reference services and the portion of total revenue allocated to reference services. JGN's proposed annual reference tariff variation formula complies in principle with r. 92(2) but the initial reference tariffs must be revised to reflect the draft decision on forecast total revenue and forecast demand. The changes in total revenue and forecast demand are outlined in their respective sections of this draft decision.[18]

Annual reference tariff variation formula

The proposed formula is mostly consistent with that of the current access arrangement in that it provides adjustments for inflation, an X factor, a cost pass through factor and an automatic adjustment factor:[19]

$$(1+CPI_t)(1-X_t)(1+A_t)(1+PT_t) \geq \frac{\sum_{x=1}^{n}\sum_{y=1}^{m} p_t^{xy} q_{t-2}^{xy}}{\sum_{x=1}^{n}\sum_{y=1}^{m} p_{t-1}^{xy} q_{t-2}^{xy}}$$

subject to the rebalancing side constraint formula:

$$(1+CPI_t)(1-X_t)(1+A_t)(1+PT_t)(1+0.1) \geq \frac{\sum_{x=1}^{n}\sum_{y=1}^{m} p_t^{xy} q_{t-2}^{xy}}{\sum_{x=1}^{n}\sum_{y=1}^{m} p_{t-1}^{xy} q_{t-2}^{xy}}$$

Where JGN has n reference tariffs, which each have up to m tariff components, and where:

t is the financial year for which the tariffs are being set

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18 NGR, r. 92(2).
19 JGN, *Access Arrangement 2015–20*, June 2014, p. 5.

p_t^{xy} is the proposed tariff for component y of reference tariff x in financial year *t*, i.e. the new tariff to apply from the commencement of financial year t

p_{t-1}^{xy} is the tariff for component y of reference tariff x that is being charged at the time the variation notice is submitted to the AER for assessment;

q_{t-2}^{xy} is the quantity of component y of reference tariff x that was sold in financial Year *t-2*

CPI_t means, for financial years beginning after 30 June 2015:

i. the CPI (all groups, weighted average of eight capital cities) for the September quarter immediately preceding the start of the relevant financial year; divided by

ii. the CPI (all groups, weighted average of eight capital cities) for the September quarter immediately preceding the December quarter referred to in paragraph (i)

iii. minus one

provided that if the Australian Bureau of Statistics does not, or ceases to, calculate and publish the CPI, then in this access arrangement CPI will mean an inflation index or measure agreed between the AER and the Service Provider

X_t means the X factor for each financial year, determined in accordance with the PTRM as approved in the AER's final decision, and annually revised for the return on debt update calculated for the relevant financial year during the access arrangement period

A_t is the automatic adjustment factor as outlined in section 11.4.2

PT_t is the cost pass through factor as outlined in section 11.4.3.

Rebalancing constraint

We approve JGN's proposal to retain a 10 per cent rebalancing control because it meets the relevant factors under r. 97(3) of the NGR. We consider that this would allow JGN to set its reference tariffs on a cost-reflective basis and ensure similar customers pay similar prices. This pricing approach is consistent with the AEMC's recent draft rule determination for electricity networks, which supports cost-reflective pricing and that customers are priced above avoidable cost.[20] JGN seeks to move customers to efficient tariff levels as soon as possible and we agree a side constraint of this magnitude permits that to occur. We also consider that it is in the long term interest of users for them to receive a signal of the true costs they impose on the network through their consumption habits.

11.4.2 Automatic adjustment factor formula

We approve JGN's proposed formula for a symmetrical automatic adjustment factor to allow it to pass through annual costs or savings across a number of uncontrollable cost categories. This adjustment

[20] AEMC, *Draft Rule Determination - National Electricity Amendment (Distribution Network Pricing Arrangements) Rule*, August 2014.

will lower administrative cost because JGN will not have to lodge annual cost pass through applications for licencing fees, unaccounted for gas purchases and carbon tax payments.[21]

EnergyAustralia submitted that the Unaccounted for Gas amounts needs to be clearly detailed in the assumptions section of the determination. We note that these details are included in JGN's Access Arrangement.[22]

The proposed automatic adjustment factor formula is:[23]

$$A_t = \frac{(1 + A'_t)}{(1 + A'_{t-1)}} - 1$$

Where:

A_{t-1} is:

a. Zero when t-1 refers to financial year 2015–16;or

b. Value of A'_t determined in the financial year *t-1* for all other years

and

$$A'_t = \frac{(L_{t-2} + U_{t-2} + C_{t-2} + T_{t-2})[(1 + realWACC_t)^2 (1 + CPI_{t-1})]}{(1 - X_t)\sum_{x=1}^{n}\sum_{y=1}^{m} p_{t-1}^{xy} q_{t-2}^{xy}}$$

where:

L_{t-2} is the licence fee factor amount, as defined below, for financial year *t-2*.:

When *t-2* is financial year 2014–15, L_{t-2} is $L_{2014} + L_{2015} * (1 + realWACC_t)^2 (1 + CPI_{t-2}),$

where:

L_{2014} is the licence fee factor amount, as defined below, for financial year 2013–14

L_{2015} is the licence fee factor amount, as defined below, for financial year 2014–15

$realWACC_t$ is as per that set out in this draft decision and updated annually within the PTRM

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21 NGR, r. 97(3)(a) and (b).

22 JGN, *Access Arrangement 2015–20*, June 2014, pp. 58–59, JGN, *Access Arrangement 2015–20, Appendix 7.5 UAG methodology and justification*, June 2014, JGN, *Access Arrangement 2015–20, Appendix 7.6 UAG – Frontier Economics report*, June 2014.

23 JGN, *2015–20 Access Arrangement Information*, June 2014, p. 128.

CPI_{t-2} is the value of CPI_t determined in 2014–15 in accordance with the section 11.4.1.

U_{t-2} is the UAG factor amount, as defined below, for financial year *t-2*

C_{t-2} is the carbon cost factor amount, as defined below, for financial year *t-2* when *t-2* is the financial year 2014–15 $C_{t-2} = 0$

T_{t-2} is the change in tax factor amount, as defined below, for financial year *t-2*

CPI_t has the same meaning as set out in section 11.4.1.

CPI_{t-1} is the value of CPI_t determined in the financial year *t-1*

X_t means the X factor for each financial year, determined in accordance with the PTRM as approved in the AER's final decision, and annually revised for the return on debt update calculated for the relevant financial year during the access arrangement period

p_{t-1}^{xy} has the same meaning as set out in section 11.4.1.

q_{t-2}^{xy} has the same meaning as set out in section 11.4.1.

Licence fee factor amount

The licence fee factor amount for financial year *t-2* is to be calculated as follows:

(a) the actual cost incurred by the Service Provider as a result of any AER, IPART, AEMO, EWON or any other relevant regulator, authority or State or Commonwealth Government's authorisation fees, licence fees or statutory charges imposed on the Service Provider which is related to the ownership or operation of the Network in Financial Year *t-2*,

minus

(b) the forecast of the cost incurred by the Service Provider as a result of any AER, IPART, AEMO, EWON or any other relevant regulator, authority or State or Commonwealth Government's authorisation fees, licence fees or statutory charges imposed on the Service Provider which is related to the ownership or operation of the Network included in the AER's relevant final decision for Financial Year *t-2*.

UAG factor amount

When *t-2* is 2014-15, the UAG factor amount for *t-2* is to be calculated as follows:

(a) the benchmark cost incurred by the Service Provider for purchases of gas as UAG, calculated as the product of:

(i) gas receipts in gigajoules for Financial Year 2014-15;

(ii) the UAG Cost for Financial Year 2014-15 in $/gigajoule;

(iii) the UAG target rate of 2.34% of gas receipts,

minus

(b) $13.1M ($2010), being the forecast of the total UAG costs included in the AER's final decision for Financial Year 2014-15 as set out in Schedule 8 of the 2010-15 Access Arrangement.

For all other Financial Years in the Access Arrangement Period, the UAG factor amount for Financial Year *t-2* is to be calculated as follows:

(a) the benchmark cost incurred by the Service Provider for purchases of gas as UAG, calculated as the sum of:

the product of:

(i) aggregate gas withdrawals at all daily metered (i) Delivery Points in gigajoules during Financial Year *t-2*

(ii) (ii) the UAG Cost for Financial Year *t-2* in $/gigajoule

(iii) (iii) the UAG component target rate of 0.427% of daily metered withdrawals,

and the product of:

(i) aggregate volume market residual receipts in gigajoules for Financial Year *t-2*, calculated as aggregate Gas receipts for Financial Year *t-2* less aggregate gas withdrawals at all daily metered Delivery Points during Financial Year *t-2*

(ii) the UAG Cost for Financial Year *t-2* in $/gigajoule

(iii) the UAG component target rate of 5.16% of volume market residual receipts:

minus

(b) the forecast allowance of the total UAG costs included in the AER's relevant final decision for Financial Year *t-2*.

Reference Tariffs will be adjusted in the event that total UAG costs cease to be a Network cost during the Access Arrangement Period.

Carbon Cost factor amount

The Carbon Cost factor amount for Financial Year *t-2* is to be calculated as follows:

(a) the actual cost incurred by the Service Provider as a result of the operation of a Carbon Scheme as approved by the AER, in Financial Year *t-2*,

minus

(b) the forecast of the cost incurred by the Service Provider as a result of the operation of a Carbon Scheme as approved by the AER and included in the AER's relevant final decision, in Financial Year *t-2*.

Relevant Tax factor amount

The Relevant Tax factor amount for Financial Year *t-2* is to be calculated as follows:

(a) the actual cost incurred by the Service Provider in paying any Relevant Tax, in Financial Year *t-2*,

minus

(b) the forecast of the cost incurred by the Service Provider in paying any Relevant Tax included in the AER's relevant final decision, in Financial Year *t-2*.

11.4.3 Pass through factor formula

We approve cost pass through via the tariff basket in the reference tariff control formula using the pass through factor. The proposed cost pass through factor formula is:[24]

$$PT_t = \frac{(1+PT'_t)}{(1+PT'_{t-1})} - 1$$

Where:

PT_t is:

a. Zero when *t-1* refers to financial year 2014–15

b. the value of PT'_t determined in the financial year *t-1* for all other financial years in the access arrangement period,

and

$$PT'_t = \frac{AP_t}{(1+CPI)(1-X_t)(1+A_t)\sum_{x=1}^{n}\sum_{y=1}^{m} p_{t-1}^{xy} q_{t-2}^{xy}}$$

where

AP_t is:

(a) any Determined Pass Through Amount that the AER approves in whole or in part in financial year *t*; and / or

[24] JGN, *2015–20 Access Arrangement Information*, June 2014, p. 130.

(b) any pass through amounts arising from cost pass through events (as that termed is defined in the access arrangement applying to JGN in the immediately prior access arrangement period) occurring in the immediately prior access arrangement period that JGN proposes to pass through in whole or in part in financial year *t,*

that includes an amount to reflect the time value of money between incurring the costs and recovering the costs, and excludes any amounts already passed through in Reference Tariffs

CPI_t has the same meaning as set out in section 11.4.1

X_t means the X factor for each financial year, determined in accordance with the PTRM as approved in the AER's final decision, and annually revised for the return on debt update calculated for the relevant financial year during the access arrangement period

A_t is the automatic adjustment factor for year *t*

p_{t-1}^{xy} has the same meaning as set out in section 11.4.1.

q_{t-2}^{xy} has the same meaning as set out in section 11.4.1.

11.4.4 Cost pass through events

This section sets out our reasons for:

- not approving JGN's proposed service standard event as currently defined, and requiring minor drafting changes
- not approving JGN's proposed regulatory change event as currently defined, and requiring minor drafting changes
- not approving the proposed business continuity event
- not approving the proposed network user failure event
- not approving the proposed fixed principle in relation to cost pass through events from an immediately prior access arrangement period.

As set out below we have taken into account each of the considerations discussed in section 11.3.1 in assessing the pass through events proposed by JGN.

Service standard event and regulatory change event

We do not approve the service standard event and regulatory change event in the form JGN proposed. We propose revisions to each of these events to better reflect the NGO and our assessment approach to pass throughs.

These events allow JGN to recover the costs associated with legislative and regulatory changes.

We consider that in principle these events meet the criteria in our assessment approach, namely that they would not be covered by another category, that the nature or type of event can be clearly identified and that JGN often has limited ability to prevent or mitigate the event.

The most relevant factor is that there is little that JGN could do to prevent or mitigate these events. In its proposal JGN noted,[25]

> The purpose of this event is to capture legislative or administrative actions such as changes in laws, regulations, approval conditions, standards and the like which apply to JGN, impact its operations and the provision of reference services, but over which JGN has no ability to control, as a privately owned business (beyond making submissions in response to proposed changes, as any person or entity may do).

As noted in section 11.3, how much the service provider controls the event or the impact of the event is a factor in our pass through decision. Where the service provider has little control over whether or not the risk occurs or the cost impact of the event, it is generally desirable to insulate that party from the risk.

Events of this nature have also been consistently approved in other gas access arrangement reviews (for example Envestra (Vic))[26] and are prescribed pass throughs events in the NER.[27]

However, we propose minor drafting changes—set out below— to these events to ensure consistency with the equivalent events that apply to electricity network businesses under the NER. These definitions were developed by the AEMC to achieve consistency with the NEO. The NEO and NGO are sufficiently similar that they will serve the same purpose here. The amended definitions are preferable to those proposed by JGN and are consistent with the NGO and NGR.

Service standard event

A legislative or administrative act or decision that has the effect of:

- Varying, during the course of an Access Arrangement Period, the manner in which Jemena Gas Networks is required to provide a Reference Service; or
- Imposing, removing or varying, during the course of an Access Arrangement Period, minimum service standards applicable to a Reference Service; or
- Altering, during the course of an Access Arrangement Period, the nature or scope of a Reference Service, provided by Jemena Gas Networks.

Regulatory change event

Regulatory change event means a change in a regulatory obligation or requirement that falls within no other category of cost pass through event and substantially affects the manner in which the Service Provider provides the Reference Service.

Business continuity event

We do not approve JGN's proposed business continuity event because we are not satisfied it is consistent with the NGO and our assessment approach to pass throughs.

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25 JGN, *2015–20 Access Arrangement Information*, p. 135.
26 Envestra, *Access Arrangement for Envestra's Victorian gas distribution system 2013-07*, April 2013, p. 10.
27 National Electricity Rules, clause 6.5.10.

This event is largely carried over from JGN's current access arrangement. Since then our approach to assessing pass throughs has evolved. In not approving this event we note the following:

- The event is broadly defined and does not identify the specific nature or type of event it is limited to. JGN has indicated that this event will cover natural disasters, terrorism events, insurance cap events and insurer credit risk events, but has not properly defined these events or limited the event to these types of events.
- The event also lacks clarity around what risk management activity JGN will undertake to mitigate the likelihood or impacts of such a broadly defined event. Further, JGN has not provided detail as to whether a prudent service provider could reasonably prevent the events contemplated or mitigate their impact—for example whether and to what extent the service provider could insure against it.

Network user failure event

We do not approve JGN's proposed network user failure event as we are not satisfied it is consistent with the NGO and our assessment approach to pass throughs.

With the introduction of NECF in NSW there is no longer a need to approve a retailer of last resort event for service providers. Rule 167 of the National Energy Retail Law (NERL) allows distributors to recover payments made under a Retailer of Last Resort (RoLR) cost recovery scheme by deeming the payment an approved pass through. In addition rule 531 of the NGR has a new pass through event—a retailer insolvency event—which allows distributors to recover unpaid distribution charges following retailer insolvency.

JGN's proposed definition of a network user failure event is intended to recover costs that they will incur as a result of a user becoming insolvent or unable to supply gas to its customers, excluding the costs recoverable under rule 531 of the NGR.

During the development of this draft decision JGN further explained to us that this event is intended to cover "consequential costs as a result of the significant administrative and logistical tasks of transferring customers in its systems and processes from one retailer to another".[28] JGN also explained that the "circumstances in which the insolvency of a retailer results in the transfer of its customers to another retailer in a sudden and non-standard manner (resulting in JGN incurring the costs described above) would most likely be a RoLR event under the NERL but not exclusively so, as whether a RoLR event arises would depend on the specific circumstances of the market transfer of customers…"[29]

We do not agree with this. We consider that the primary costs incurred by JGN as a result of a retailer becoming insolvent or unable to supply gas are covered by rule 167 of the NERL and rule 531 of the NGR.

For a RoLR event to be triggered distributors may take the usual steps to recover debts, and apply for a winding up order or appoint an insolvency practitioner. JGN is best placed to manage and mitigate the costs of this risk if it occurs. Not approving this event will maintain JGN's incentives to take action to recover unpaid network charges and undertake appropriate debt recovery processes. In this way we consider that JGN is in the best position to manage this risk. No additional pass through is therefore warranted, or in the long term interest of gas customers.

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[28] Email dated 12 September 2014 from JGN to AER.
[29] Email dated 12 September 2014 from JGN to AER.

Fixed principle in relation to cost pass through events from an immediately prior access arrangement period

We do not approve JGN's proposed fixed principle in relation to cost pass through events from an immediately prior access arrangement. This fixed principle is proposed to relate to clause 3.5 of the access arrangement.

Rule 99 of the NGR states that a full access arrangement may include a principle declared in the access arrangement to be fixed for a stated period.

We recognise that there may be a lag of at least 12 months between JGN's final opportunity to vary Reference tariffs under a particular access arrangement and the commencement of a new access arrangement. However, JGN did not provide reasons for including this fixed principle in the access arrangement. Accordingly, we are not satisfied that the inclusion of this fixed principle in its access arrangement is consistent with the NGO.

11.4.5 Cost pass through materiality threshold

This section sets out our reasons for not approving the proposed materiality threshold.

Materiality threshold

We do not approve JGN's proposed materiality threshold as we are not satisfied it is consistent with the NGO and our assessment approach to pass throughs.

We require JGN to amend the materiality threshold for the 2015–2020 access arrangement so that it is at least one per cent of the smoothed revenue requirement specified in the final decision in the years of the access arrangement period that the costs are incurred for the service standard event and regulatory change event. We consider the one per cent threshold to be a necessary but not sufficient condition for granting a pass through.

A materiality threshold of one per cent is consistent with other gas decisions,[30] and is a requirement in the NER.[31]

The pass through mechanism is designed to allow businesses to recover the costs associated with a significant event the impact of which is outside of its control. A one per cent threshold will only allow a business to recover costs incurred that are significant in any given year. A threshold that effectively results in levels lower than one per cent has the potential to allow pass throughs for normal variations in business costs. This would reduce the incentives on service providers to operate their businesses efficiently and minimise unexpected costs. This resembles a cost of service regulation, which would not be consistent with the incentive regulation regime.

JGN has proposed that no materiality threshold be applied to a regulatory change event that relates to carbon. We do not approve this and consider that a regulatory change event relating to carbon should be treated in the same was as other regulatory change events. We consider that a consistently applied one per cent threshold will best meet the NGO, while minimising administrative costs associated with assessing pass through applications.

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30 Envestra (Vic), *2013-17 Access Arrangement*, p. 13. Multinet Gas (Vic), *2013-17 Access Arrangement*, p. 24

31 NER, Chapter 10, the glossary defines materially in reference to cost pass throughs for distribution and transmission businesses as a cost that has incurred or is likely to incur, that exceeds 1% of the annual revenue requirement for distribution businesses and 1% of the maximum allowed revenue for transmission businesses, for that regulatory year.

11.4.6 Procedure for oversight and approval of reference tariff variations

The NGR states that a reference tariff variation mechanism must give us adequate oversight or powers of approval over variation of the reference tariff.[32] That is, a regulator must be able to assess, evaluate and quantify proposed reference tariffs as compliant or not with the price control set in the access arrangement.

Annual and Intra-Year Variations

JGN proposed to submit its annual reference tariff variation to us for approval by 15 March of each year prior to the relevant financial year in which the proposed reference tariffs are to apply. JGN also proposed to actively engage and consult with stakeholders prior to submitting its reference tariff variation for our approval. We encourage this development.

Lumo Energy submitted that the AEMC is currently considering a change to the NER to extend the time between an annual reference tariff change and the effective date. Lumo Energy wants us to take these principles into account in its decision.[33]

EnergyAustralia submitted that we should publish approved reference tariffs 30 days prior to the effective date to give it sufficient time to set rates, configure billing systems and to write to customers. EnergyAustralia also requested a reduction in the time that we have to approve rates to only 5 business days or alternatively change the calculation metrics to use earlier estimates with a true-up mechanism. EnergyAustralia also requested the removal of JGN's ability for intra year pass through (outside regulatory disruptions i.e. carbon tax) with all pass-throughs to occur at the next price setting adjusted for time value of money.[34]

IPART submitted that 20 business days would be adequate for the AER to access network tariffs.

We approve JGN's proposed timetable. At a minimum we consider that a total 50 business days prior to the new reference tariff implementation is appropriate and will give us adequate oversight as required under r. 97(4) of the NGR. This will give us 30 business days to approve or reject the proposed variations; and 20 business days for market participants to prepare for the implementation of the new reference tariffs. This approach is consistent with our recent decisions on other gas access arrangements.

To date, we have generally required approximately 20-30 business days to complete reference tariff reviews, in situations where no significant problems have been encountered. However, circumstances have often arisen that have meant that our reviews have been extended. These include where:

- a proposal has not effectively complied with the NGR.
- a substantial change in circumstances has occurred post the original submission i.e. for tribunal decisions
- identification of substantive errors or missing information.

In practice, we consider EnergyAustralia's and IPART's proposal to decrease our assessment time difficult to achieve given the complexity of the reference tariff variation process. Further, EnergyAustralia's proposal to alter the calculation metrics to use earlier estimates will increase the

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32 NGR, r. 97(4).
33 Lumo Energy, *Submission on Jemena Gas Networks (NSW) Access Arrangement 2015-2020*, August 2014, p. 5.
34 Energy Australia, *Submission on JGN's revised AA proposal*, 25 August 2014, pp. 12–13.

complexity of our assessment process and will further delay our decision. We also consider it more appropriate to wait a short duration for actual ABS data rather than use forecast data. Actual data would alter JGN's proposed reference tariffs and as such JGN would be required to resubmit its reference tariff variation proposal if JGN was using forecast data.

Having said this, we are conscious of benefits to the market of having approved gas network reference tariffs published in a timely manner. Therefore, we will use our best endeavours to have final decisions on reference tariff variations as soon as practicable. To be clear, we anticipate making decisions well within the proposed business days in order to give retailers sufficient time to incorporate network tariffs into their billing systems. This is in the interest of gas consumers. However, regulators should not approve tariffs that do not meet price controls just to adhere to decision making time frames. Such a situation would not be in the long term interests of gas consumers.

We approve JGN's proposal for an intra-year reference tariff variation mechanism because we have approved a similar variation mechanism for SP AusNet's 2013–17 Access Arrangement and JGN's current Access Arrangement. We acknowledge that retailers require price stability and that any reference tariff adjustments within a period may be costly and problematic to them. However, in our discussion with JGN, it submitted that reference tariff variation proposals are time consuming and costly for regulated businesses too. As such, it is only in extraordinary circumstances that JGN would submit an intra-year reference tariff variation.[35]

An important input in the proposed annual reference tariff variation mechanism is the use of past gas quantities to weigh each reference tariff component. It is appropriate that JGN is required to provide an independent statement to support the actual gas quantities to allow us to verify the gas quantities used in the reference tariff variation mechanism, and to ensure it is applied consistently every year. The independent verification statement should provide for audited or verified annual quantities for the year consistent with the proposed changes in CPI. This information is to be collected as part of the annual and/or intra year tariff variation process.

11.5 Revisions

We require the following revisions to make the access arrangement proposal acceptable:

Revision 11.1: Delete clause 3.6 (a)(iii) and replace it with the following:

At the same time as submitting proposed Haulage Reference Tariffs to the Regulator, the Service Provider will also provide to the AER information demonstrating that the proposed Haulage Reference Tariffs are, to the extent relevant, consistent with the Reference Tariff Control Formula and rebalancing control formulae in clause 3.2.

Revision 11.2: Delete clause 3.6 (a)(iv) and include the following:

3.6(a)(iv) In respect of the annual variations of reference tariffs, the Service Provider will include a statement to support the gas quantity inputs in the reference tariff variation formula. The statement will be independently audited or verified and the quantity input will reflect the most recent actual annual quantities available at the time of reference tariff variation assessment. The actual quantity will be provided as four quarters of gas quantity data reconciling to an annual total quantity of gas.

Revision 11.3: Delete clause 3.7 (a)(iv) and include the following:

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3.7(a)(iv) In respect of the annual variations of reference tariffs, the Service Provider will include a statement to support the gas quantity inputs in the reference tariff variation formula. The statement will be independently audited or verified and the quantity input will reflect the most recent actual annual quantities available at the time of reference tariff variation assessment. The actual quantity will be provided as four quarters of gas quantity data reconciling to an annual total quantity of gas.

Revision 11.4: Revise the definitions in clause 3.2 (b) to reflect section 11.4.1

Revision 11.5: Revise the definitions in Schedule 3 to reflect section 11.4.2 and 11.4.3.

Revision 11.6: Revise the definitions in Schedule 1 to reflect the following:

Service standard event

A legislative or administrative act or decision that has the effect of:

Varying, during the course of an Access Arrangement Period, the manner in which Jemena Gas Networks is required to provide a Reference Service; or

Imposing, removing or varying, during the course of an Access Arrangement Period, minimum service standards applicable to a Reference Service; or

Altering, during the course of an Access Arrangement Period, the nature or scope of a Reference Service, provided by Jemena Gas Networks.

Regulatory change event

Regulatory change event means a change in a regulatory obligation or requirement that falls within no other category of cost pass through event and substantially affects the manner in which the Service Provider provides the Reference Service.

Revision 11.7: Make all the necessary amendments to reflect the AER's draft decision to not approve the fixed principle in relation to cost pass through events in an immediately prior access arrangement.

Revision 11.8: Delete clauses 3.4(b) and 3.4(c) and replace it with the following.

3.4(b) The Service Provider may seek the approval of the AER to pass through costs where as a result of a Cost Pass Through Event the Service Provider has incurred, or is likely to incur, higher costs in providing the Reference Service than it would have incurred but for that event and those costs are at least one per cent of the smoothed revenue requirement specified in the final decision in the years of the access arrangement period that the costs are incurred.

3.4(c) The AER may require the Service Provider to pass through costs where as a result of a Cost Pass Through Event the Service Provider has incurred, or is likely to incur, higher costs in providing the Reference Service than it would have incurred but for that event and those costs are at least one per cent of the smoothed revenue requirement specified in the final decision in the years of the access arrangement period that the costs are incurred.

Revision 11.9: Delete section 4 in Schedule 2 and replace them with the following updated tables:

4 Initial Reference Tariffs

4.1 Haulage Reference Service

(a) Demand Capacity Rate

Customer Type	Tariff Class	Unit Rate – dollars per GJ of Chargeable Demand (CD) per annum ($/GJ.CD.pa) Period ending 30 June 2016 Prices are real 2015-2016 GST exclusive dollars					
		First 50 GJ of CD	Next 150 GJ of CD	Next 400 GJ of CD	Next 1000 GJ of CD	Next 2000 GJ of CD	Rest of CD
Volume	VRT3	450.56	420.02	201.12	145.88	122.83	112.31
	VRT4	743.40	693.02	318.58	225.36	187.14	170.06
	VRT6	155.01	144.51	73.29	63.08	63.06	62.83
	VRT10	241.89	225.49	108.54	85.34	74.92	83.81
Demand	DC1	306.00	285.27	134.55	102.68	90.56	90.50
	DC2	339.93	316.89	148.32	111.85	94.81	20.62
	DC3	450.56	420.02	201.12	145.88	122.83	112.31
	DC4	743.40	693.02	318.58	225.36	187.14	170.06
	DC5	3,636.16	3,389.76	2,046.67	1,380.44	1,048.78	709.09
	DC6	155.01	144.51	73.29	63.08	63.06	62.83
	DC7	497.71	463.99	216.73	157.47	137.53	117.43
	DC8	937.60	874.07	458.18	319.09	250.79	193.21
	DC9	67.61	63.02	48.92	48.76	49.20	56.48
	DC10	241.89	225.49	108.54	85.34	74.92	83.81
	DC11	2,862.85	2,668.85	1,614.12	1,092.07	832.50	567.27
	DC-country	Demand Capacity Rate for DC-Country is comprised of two components of demand charge: (i) the Capacity Distance Rate; and (ii) the Pressure Reduction Rate. See tables Capacity Distance Rate (clause 4.1(b)), and Pressure Reduction Rate (clause 4.1(c)) below. These charges will be calculated for each Delivery Point and expressed as a single rate $/GJ.CD.per annum for billing purposes.					

(b) DC-Country Demand Capacity Rate, Component 1 – Capacity Distance Rate

Customer Type	Tariff Class	Distance Unit Rate – dollars per GJ of Chargeable Demand per annum per km ($/(GJ.CD).pa per km) Period ending 30 June 2016

		Prices are real 2015-2016 GST exclusive dollars					
		First 50 GJ of CD	Next 150 GJ of CD	Next 400 GJ of CD	Next 1000 GJ of CD	Next 2000 GJ of CD	Rest of CD
Demand	DC-country	65.83	61.36	26.71	17.81	14.16	10.76

Rates apply per km of the straight line distance from the relevant country Receipt Point rounded up to the nearest 0.5 km as determined by the Service Provider.

(C) DC Country Demand Capacity Rate, Component 2 – Pressure Reduction Rate

Customer Type	Tariff Class	Pressure Reduction Unit Rate – dollars per GJ of Chargeable Demand per annum ($/(GJ.CD).pa) Period ending 30 June 2016 Prices are real 2015-2016 GST exclusive dollars					
		First 50 GJ of CD	Next 150 GJ of CD	Next 400 GJ of CD	Next 1000 GJ of CD	Next 2000 GJ of CD	Rest of CD
Demand	DC-country	23.36	21.78	9.48	6.32	5.03	3.82

(D) Demand Capacity Rates for Discounted DCFR Tariffs

Customer Type	Tariff Class	Demand Capacity Unit Rate – dollars per GJ of Chargeable Demand per annum ($/GJ.CD.pa) Period ending 30 June 2016
Demand	DCRF-6	Demand Capacity Rates set out in clause 4.1(a) for the DC-6 tariff less 50%.

(E) Fixed Charges and Demand Throughput Rates for Discounted DMTFR Tariff

Customer Type	Tariff Class	Fixed Charge – dollars per annum Period ending 30 June 2016	Demand Throughput Unit Rates – ($/GJ) Period ending 30 June 2016
Demand	DMTFR-3	Fixed Charge set out in clause 4.1(i)) for the DMT-3 tariff less 50%.	Demand Throughput Rates set out in clause 4.1(f) for the DMT-3 tariff less 50%

(F) Demand Throughput Rate

Customer Type	Tariff Class	Demand Throughput Rate ($/GJ) Period ending 30 June 2016 Minimum chargeable quantity of 833 GJ/month Prices are real 2015-2016 GST exclusive dollars		
		First 1667 GJ per Month	First 1667 GJ per Month	Rest
Demand	DT	5.12	4.14	3.68

Customer Type	Tariff Class	Demand Throughput Rate ($/GJ) Period ending 30 June 2016 Minimum chargeable quantity of 833 GJ/month Prices are real 2015-2016 GST exclusive dollars		
		First 41,667 GJ per month	Next 41,667 GJ per month	Rest
Demand	DMT1	-	0.225	0.204
	DMT2	-	0.225	0.206
	DMT3	-	0.391	0.334
	DMT4	-	0.866	0.809
	DMT5	-	1.064	1.152

(G) Provision of Basic Metering Equipment Charges

Customer Type	Tariff Class	Standing Charge : $/pa per Delivery Station Charges based on Delivery Point MHQ Period ending 30 June 2016 Prices are real 2015-2016 GST exclusive dollars					
			MHQ<10 GJ/hr	MHQ 10 to < 50 GJ/hr	MHQ 50 to < 100 GJ/hr	MHQ 100 to <1000 GJ/hr	MHQ 1000 GJ/hr and Greater
Volume	All Demand Classes	Single Run	8,297.36	10,294.44	17,566.98	22,820.36	29,228.89
		Double Run	14,005.86	18,000.03	32,545.10	43,051.86	55,868.93
Demand	VRT 03, 04, 06, 10	Single Run	8,297.36	10,294.44	17,566.98	22,820.36	29,228.89
		Double Run	14,005.86	18,000.03	32,545.10	43,051.86	55,868.93

(H) Volume Throughput Rate

Customer Type	Tariff Class	Volume Throughput Rate ($/GJ) Period ending 30 June 2016 Prices are real 2015-2016 GST exclusive dollars					
Volume Individual	Block size (GJ per month)	First 0.63 GJ	Next 0.62 GJ	Next 1.50 GJ	Next 80.75 GJ	Next 333.5 GJ	All Additional
	Block size (GJ per qtr)	First 1.89 GJ	Next 1.86GJ	Next 4.50 GJ	Next 242.25 GJ	Next 1000.5 GJ	All Additional
	VI-Coastal	17.36	9.31	9.31	8.85	7.61	4.11
	VI-Country	16.95	9.00	9.00	8.54	7.30	3.89

Customer Type	Tariff Class	Volume Throughput Rate ($/GJ) Period ending 30 June 2016 Prices are real 2015-2016 GST exclusive dollars			
Volume Boundary	Block size (GJ per month)	First 20.83 GJ	Next 20.83 GJ	Next 41.66 GJ	All Additional
	Block size (GJ per qtr)	First 62.49 GJ	Next 62.49 GJ	Next 124.90 GJ	All Additional
	VI-Coastal	15.62	8.38	8.38	7.96
	VI-Country	15.25	8.10	8.10	7.69

(I) Fixed Charge

Customer Type	Tariff Class	Standing Charge – dollars per annum Period ending 30 June 2016 Prices are real 2015-2016 GST exclusive dollars
Volume Individual	VI-Coastal & VI-Country	49.50
Volume Boundary	VI-Coastal & VI-Country	1,484.97
Demand	DMT1	231,569
	DMT2	255,748
	DMT3	311,366
	DMT4	576,704

	DMT5	1,081,320

(J) Ancillary Charges

Ancillary Charges applicable to all Tariff Classes Period Ending 30 June 2016 Prices are real 2015-2016 GST exclusive dollars		
Fee Type	Description	Charge
Hourly Charge – non-standard User initiated requests and queries	The assessment of a User's or Prospective User's requirements, collation of information and provision of a response to a User or Prospective User in relation to non-standard requests and queries. Examples include, but are not limited to: · large customer connection or upgrade inquiries requiring additional investigation by the Service Provider due to the nature of the request; and · requests for measurement data additional to data provided in standard reports. Not applicable to the processing of connections and alterations under Part 12A of the National Gas Rules.	$100, plus $100 per hour after the first hour
Disconnection (small and large customers)	Disconnection of supply to a single Delivery Point at the request of the User or Customer and where the User or Customer also requests that the meter is not to be moved or removed. For small customers, the charge also covers the cost of subsequent reconnection made in accordance with National Energy Retail Law or Rules, the Reference Service Agreement, or in other circumstances (at the Service Provider's discretion, acting reasonably) where Delivery Station components and pipework are still installed at the Delivery Point and can be re-energised without alteration or replacement. A request for disconnection is also a request to remove a Delivery Point from the User's Service Agreement. The specific method of disconnection will be at the discretion of the Service Provider, to ensure the site is able to be left in a safe state. Reconnection of small customers in circumstances other than those described above and reconnection of large customers would require a new connection and a new Request for Service to be made. (This charge is for providing disconnection services in accordance with the relevant Applicable Law in force at the Effective Date.)	$150 Charge applies per meter set
Temporary disconnection for large customers	Disconnection of supply to a single Delivery Point on a temporary basis at the request of a User for a large customer (as classified by the Service Provider at the time the request is received). The charge also covers the cost of subsequent reconnection. A request for temporary disconnection of a large customer is not a request to remove a Delivery Point from the User's Service Agreement. Distribution charges will continue to apply and the MHQ and MDQ (if any) for a Delivery Point will be maintained. The specific method of isolation will be at the discretion of the Service Provider, to ensure the site is able to be left in a safe state. (This charge is for providing disconnection and reconnection in accordance with the relevant Applicable Law in force at the Effective Date.)	$150 Charge applies per meter set

Decommissioning and meter removal	Permanent decommissioning of a Delivery Point including the removal of the meter. A request for decommissioning and meter removal is also a request to remove a delivery point from the User's Service Agreement. The specific method of disconnection will be at the discretion of the Service Provider, to ensure the site is able to be left in a safe state. Subsequent reconnection of the Delivery Point is not included. Reconnection of small and large customers would require a new connection and a new Request for Service to be made. (This charge is for providing disconnection services in accordance with the relevant Applicable Law in force at the Effective Date.)	Charges apply per meter: (i) meters with a capacity of less than or equal to 6m3/hr: $1050 (ii) meters with a capacity of greater than 6m3/hr: $2188
Special Meter Reads	For meter reading requested by a User for a Delivery Point that is in addition to the scheduled ordinary meter reading comprised in the Haulage Reference Service (for instance, when the meter reader makes a special visit to read a particular meter out of the usual meter reading route or schedule). This service must be scheduled by the User with the Service Provider with a minimum 5 Business Days advance notice period.	$14.80 per meter read

Note. Small customer and large customer have the meaning given to those terms in the National Energy Retail Law.