

# Jemena Gas Networks (NSW) Ltd

## Tariff Variation Notice

2017-18 reference tariffs

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## ABBREVIATIONS

2010 AA	Access arrangement, JGN's NSW gas distribution networks, 1 July 2010 – 30 June 2015, published by the AER in September 2011 (post mine subsidence)
2015 AA	Access arrangement, JGN's NSW gas distribution networks, 1 July 2015 – 30 June 2020, published by the AER in June 2015
2016 EU	JGN's 2016 enforceable undertaking between under s230A of the National Gas Law, accepted by the AER on 20 May 2016
2017 EU	JGN's 2017 enforceable undertaking under s230A of the National Gas Law
ABS	Australian Bureau of Statistics
AER	Australian Energy Regulator
AER Final Decision	AER <i>Final decision - Jemena Gas Networks (NSW) Ltd Access Arrangement</i> , published in June 2015
$A_t$	Automatic Adjustment Factor
CPI	Consumer Price Index
$C_t$	Carbon Cost Factor
DC	Demand Capacity
DCFR	Demand Capacity - First Response
DMT	Demand Major End Customer Throughput
DMTFR	Demand Major End Customer Throughput - First Response
DT	Demand Throughput
JGN	Jemena Gas Networks (NSW) Ltd
$L_t$	Licence Fee factor
$PT_t$	Pass Through Factor
TSS	Tariff Structure Statement
$T_t$	Relevant Tax Factor
TVN	Tariff Variation Notice
UAG	Unaccounted for Gas
VB	Volume Boundary
VI	Volume Individual
VRT	Volume Residential Distributed Generation Technology

# 1. INTRODUCTION

## 1.1 OVERVIEW

1. On 3 June 2015, the Australian Energy Regulator (**AER**) approved revisions to Jemena Gas Networks (NSW) Ltd (**JGN**) access arrangement (**2015 AA**), to apply for the period from 1 July 2015 to 30 June 2020.<sup>1</sup> The 2015 AA describes the reference services that JGN offers, sets out (in Schedule 2) the initial reference tariffs that apply to those services from 1 July 2015, and includes a mechanism for variation of tariffs annually, effective 1 July.
2. JGN sought merits review of several key aspects of the 2015 AA revisions that the AER approved and the Australian Competition Tribunal (**Tribunal**) made its merits review decision on 26 February 2016, setting aside the AER's approval of the 2015 AA. On 24 March 2016 the AER applied to the Federal Court for judicial review of the Tribunal's decision.
3. These legal proceedings have not yet concluded and the AER has yet to remake its final decision. Therefore:
  - in April 2016 the AER accepted an enforceable undertaking from JGN (**2016 EU**) with the effect that JGN's reference tariffs for the period 1 July 2016 to 30 June 2017 remained unchanged from those applicable in 2015-16.
  - JGN has also proffered another enforceable undertaking to the AER on 18 May 2017 (**2017 EU**), with the effect that JGN's reference tariffs for the period 1 July 2017 to 30 June 2018 reduce by an average seven per cent in real dollar terms from those applicable in 2016-17. The AER is currently considering the 2017 EU.
4. The 2017 EU sets out that JGN will vary reference tariffs in accordance with the reference tariff variation mechanism in clause 3 of JGN's 2015 AA, with certain adjustments:
  - For the timing of the submission and approval process, to enable the submission of this notice by 18 May 2017, and for an AER decision by 30 June 2017
  - To the tariff variation mechanism, to accommodate a 7% X factor, 1.48% CPI and to set other adjustments (such as automatic adjustments or approved pass throughs) to zero (whilst noting that these are effectively 'placeholders' whilst the legal proceedings remain on foot, and a revised revenue allowance for JGN will be set by the AER when it remakes its final decision)
5. The 2017 EU also sets out that other than the price reduction identified, JGN will provide reference services in accordance with the 2015 AA.
6. This tariff variation notice (**TVN**) sets out how JGN proposes to apply the 2017 EU average price reduction across its reference tariffs. As identified in the 2017 EU, JGN will adjust its schedule of reference tariffs and charges for 1 July 2017 to 30 June 2018 in accordance with the AER's determination on this tariff variation notice.
7. This TVN:
  - provides JGN's proposed reference tariffs for the 2017-18 financial year

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<sup>1</sup> The Access Arrangement: JGN's NSW gas distribution networks, 1 July 2015 – 30 June 2020, published 3 June 2015. The set aside 2015 AA is available at <http://www.aer.gov.au/> or <http://www.jemena.com.au/>.

- demonstrates how these proposed 2017-18 reference tariffs comply with the 2017 EU.

## 1.2 SUBMISSION STRUCTURE AND 2017 EU COMPLIANCE

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8. JGN has structured this submission to demonstrate compliance with JGN's undertaking regarding tariff variation set out in clause 19 of the 2017 EU:
  - section 2—tariff classes (clause 4.1 of the 2015 AA)
  - section 3—variation notice (clause 3.6 of the 2015 AA)
  - section 4—annual tariff variation mechanism and tariff adjustments (clause 3.2 of the 2015 AA)
  - section 5—variations from 2015 tariff structure statement (**TSS**<sup>2</sup>).

### 1.2.1 PRICING MODEL

9. JGN's reference tariff model (**Attachment A**) provides the mathematical proof that JGN's proposed 2017-18 reference tariffs comply with relevant aspects of the 2017 EU.
10. The model demonstrates that for 2017-18 JGN has updated its reference tariffs using:
  - CPI of 1.48%
  - An X factor of 7.00%
  - Verified gas quantity inputs for financial year t-2 (2015-16) (see section 17).

In this TVN, and as the model demonstrates, JGN has not made adjustments for:

- the annual return on debt (and, therefore, the weighted average cost of capital)
- the automatic adjustment factor, which would provide cost true-ups for licence fees, UAG, and relevant taxes
- approved pass throughs.

As acknowledged in the 2017 EU, these elements will be appropriately adjusted (including adjustments for the time value of money) once the legal proceedings conclude and a new AER decision for JGN's 2015 AA is made.

### 1.2.2 SUBMISSION VALUES AND TERMINOLOGY

11. This submission employs the following standards:
  - unless otherwise indicated, all prices are expressed in \$2018.
  - for the purpose of this TVN and the application of clause 19 of the 2017 EU:
    - *financial year t* is the 2017-18 financial year ending on 30 June 2018

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<sup>2</sup> JGN, Tariff Structure Statement, 2015-2020, 1 July 2015.

- *financial year t-1* is the 2016-17 financial year ending on 30 June 2017
  - *financial year t-2* is the 2015-16 financial year ending on 30 June 2016
  - *financial year t-3* is the 2014-15 financial year ending on 30 June 2015
- the term 'customer' should be interpreted as an end consumer of energy rather than a retailer.

### 2. TARIFF CLASSES

12. In this section JGN sets out its tariff classes for 2017-18.

#### 2.1 JGN'S TARIFF CLASSES

13. JGN's tariff classes for all reference services are set out below. The tariff classes within the reference service are unchanged from those in 2015-16 and 2016-17.

**Table 2–1: JGN's tariff classes**

Customer Type	Tariff class <sup>3</sup>
Volume Individual ( <b>VI</b> )	VI-Coastal VI-Country
Volume Boundary ( <b>VB</b> )	VB-Coastal VB-Country
Volume Residential Distributed Generation Technology ( <b>VRT</b> )	VRT-03 VRT-04 VRT-06 VRT-10
Demand Capacity ( <b>DC</b> )	DC-1 to DC-11 DC Country
Demand Throughput ( <b>DT</b> )	DT
Demand Capacity - First Response ( <b>DCFR</b> )	DCFR-6
Demand Major End Customer Throughput ( <b>DMT</b> )	DMT-01 to DMT-05
Demand Major End Customer Throughput - First Response ( <b>DMTFR</b> )	DMTFR-3

<sup>3</sup> Numbers 1 to 11 are used to differentiate demand and VRT customers by location based on postcode groupings. The allocation of postcodes to tariff classes can be found in section 2 of the proposed 2017-18 reference tariff schedule.

## 3. VARIATION NOTICE COMPLIANCE

14. This section sets out key details of how JGN will vary 2017-18 reference tariffs in accordance with clause 19 of the 2017 EU.

### 3.1 PROPOSED REVISED REFERENCE TARIFF SCHEDULE

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15. **Attachment D** provides JGN's proposed reference tariff schedule for 1 July 2017 to 30 June 2018.

### 3.2 EFFECTIVE DATE OF VARIATION

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16. The effective date of variation for JGN's 2017-18 reference tariffs is 1 July 2017.

### 3.3 COMPLIANCE WITH ANNUAL TARIFF VARIATION MECHANISM

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17. JGN's compliance with the variation mechanism set out in clause 19 of the 2017 EU is described in section 18 below and evidenced in JGN's reference tariff model at **Attachment A**.

### 3.4 GAS QUANTITY INPUTS

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18. JGN has included a statement to support the gas quantity inputs used in the reference tariff variation mechanism, with the quantity input reflecting the most recent actual financial year quantity available. This statement is at **Attachment B**.
19. JGN's tariff variation mechanism relies upon actual haulage reference tariff quantity inputs from two years prior to the financial year in which the proposed tariffs will apply. For the 2017-18 variation notice JGN must use the actual quantities that correspond to financial year t-2 (i.e. 2015-16), which is the most recent actual financial year quantity inputs available at this time.
20. Core Energy has verified JGN's gas quantity inputs (see **Attachment C**).

### 4. REFERENCE TARIFF VARIATION MECHANISM APPLIED

21. This section explains how JGN has varied its tariffs in accordance with clause 19 of the 2017 EU, and sets out its proposed 2017-18 haulage reference tariffs.

#### 4.1 REQUIREMENTS IN THE 2017 EU

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22. Clause 19 of the 2017 EU sets out that for the period from 1 July 2017 to 30 June 2018 JGN will impose reference tariffs that have been set in accordance with the reference tariff variation mechanism in clause 3 of JGN's 2015 AA, subject to the following modifications:<sup>4</sup>

- $t$  is the period 1 July 2017 to 30 June 2018;
- $p_t^{xy}$  is the proposed tariff for component  $y$  of Reference Tariff  $x$  for the period 1 July 2017 to 30 June 2018;
- $p_{t-1}^{xy}$  is the tariff for component  $y$  of Reference Tariff  $x$  that was imposed by JGN for the period 1 July 2016 to 30 June 2017 pursuant to the 2016 EU;
- $q_{t-2}^{xy}$  is the quantity of component  $y$  of Reference Tariff  $x$  that was sold in the period 1 July 2015 to 30 June 2016;
- $CPI_t$  means 1.48 per cent;
- $X_t$  means 0.07;
- $A_t$  and  $PT_t$  are 0.

23. For the avoidance of doubt, consistent with the 2017 EU, no adjustment has been made for return on debt, and the automatic adjustment factor has been set to zero in Attachment A. The automatic adjustment factor provides for administrative true-ups for costs incurred in areas outside of JGN's control. Both return on debt and automatic adjustments will be appropriately adjusted (including for the time value of money) once the legal proceedings conclude and a new AER decision for JGN's 2015 AA is made.

#### 4.2 VARIATION MECHANISM

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As contemplated by the 2017 EU, JGN has varied its 2017-18 tariffs using the same mechanisms applicable in the 2015 AA annual tariff variation mechanism.<sup>5</sup> This includes two formulae:

- weighted average price cap (tariff basket price control formula)
- side constraint.

The weighted average price cap under the 2017 EU ensures expected change in JGN revenues are constrained by movements in the X factor and CPI only.

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<sup>4</sup>  $A_t$  – Automatic adjustment factor;  $PT_t$  - Cost Pass Through factor.

<sup>5</sup> Set out in clause 3.2(b) of the 2015 AA.

In 2017–18 these respectively constrain:

- the annual movement in total notional revenues<sup>6</sup> to no less than 5.63% (nominal)
- the annual movement in the notional revenues from any individual tariff should not exceed 3.81% (nominal) increase.

JGN's reference tariff model, at **Attachment A**, provides the mathematical proof that JGN's proposed 2017-18 reference tariffs comply with both elements.

### 4.3 CPI ADJUSTMENT

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24. This section shows how JGN has calculated the annual CPI adjustment.
25. JGN sets out how the CPI value of 1.48% in the 2017 EU has been calculated in accordance with clause 3.2(b) of the 2015 AA. This is also set out in the 'Input I General' worksheet of **Attachment A**. The value of CPI applicable to this TVN is:
  - 1.48% (rounded to two decimal places) in 2017-18.<sup>7</sup>
26. The calculation for 2017-18 involved JGN obtaining the CPI: all groups index for the eight state capitals as published by the Australian Bureau of Statistics (**ABS**) for the December quarter in each of 2016 and 2015. JGN then divided the CPI December 2016 index value of 110.0 by the CPI December 2015 index value of 108.4 and subtracted one.

### 4.4 PROPOSED 2017-18 REFERENCE TARIFFS

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27. JGN's proposed 2017-18 reference tariffs are set out in its proposed 2017-18 reference tariff schedule at **Attachment D**.

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<sup>6</sup> For 2016-17 clause 3.2(b) calculates the notional revenues as the product of JGN's proposed 2017-18 reference tariffs and the actual quantities for each reference tariff in 2014-15.

<sup>7</sup> For the avoidance of doubt, JGN used the unrounded CPI in its reference tariff model at Attachment A.

### 5. VARIATIONS FROM 2015 TARIFF STRUCTURE STATEMENT

#### 5.1 JGN'S COMMITMENTS

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28. In conjunction with our 2015 AA, JGN voluntarily published a TSS in response to customers, stakeholders and the community feedback. They told us they wanted to know more about how we set our tariffs, and how these tariffs may change over time.
29. We, therefore, prepared JGN's TSS to provide clear, accessible information on how we set our network tariffs, and how these may change in the future.
30. The TSS can be found here: <https://jemena.com.au/documents/gas/tariff-structures-statement.aspx>.
31. Within the TSS, we made commitments to:
- inform customers and stakeholders of the annual changes in tariffs through the JGN Customer Council, retailer forums, the JGN website and email notification to registered subscribers
  - consult with customers and stakeholders on any proposed changes to tariff structures or ancillary charge levels (outside of changes for inflation) through the JGN Customer Council, retailer forums, and potentially focus groups with residential and business customers
  - explain variations between our TSS and outturn tariffs in our annual TVNs.

#### 5.2 INFORMING CUSTOMERS OF ANNUAL CHANGES TO TARIFFS

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32. JGN has communicated its proposed annual tariff changes by:
- outlining our proposed approach for 2017-18 tariffs at a JGN Customer Council meeting held on 4 April 2017 and to a retailers at a forum on 1 May 2017
  - updating the Customer Council on progress via an email on 4 May 2017.

At the same time as submitting this TVN proposal to the AER, JGN will also provide a copy to retailers.

In addition, once the AER has made its determination on this TVN, JGN will:

- publish our approved prices on our website here: <http://jemena.com.au/about/document-centre/gas/access-arrangement>
- issue a media release prior to 1 July 2017.

#### 5.3 CHANGES TO TARIFF STRUCTURES

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33. JGN has not proposed any changes to the tariff structures that applied during 2015-16 and 2016-17.
34. JGN's TSS indicated that ancillary charges would increase by CPI. Consistent with the 2017 EU, JGN will keep ancillary charges unchanged in nominal terms.

5.4 VARIATIONS BETWEEN OUR TSS AND THIS 2017-18 TARIFF VARIATION NOTICE

35. Chapter 10 of our TSS outlined our expected (as of June 2015) network tariff trends for each of our tariff components.

5.4.1 VOLUME CUSTOMER COMPONENT PRICE CHANGES

36. Table 5–1 provides the indicative price changes for the tariffs paid by our residential and small business customers (volume tariffs) compared to the average price changes indicated in the first row as provided in our TSS. We then show how this compares to our proposed 2017-18 tariffs within this TVN.

37. The arrows indicate our expectations for the changes relative to the average price change in the table - either higher (↑) or lower (↓) than the average price decreases.<sup>8</sup>

**Table 5–1: Volume tariff components—previously expected and proposed 2017-18 tariffs**

Expected trend relative to average	2017-18 tariffs (expected as of June 2015)	2017-18 tariffs (proposed within this TVN)
Average volume customer trend (real)	-7.20%	-7.80%
Above average change (↑)	VRT all blocks Fixed charge for all volume tariff classes	VRT all blocks Fixed charge and Block 1 for VI and VB classes
Below average change (↓)	VI block 2	VI blocks 2 -6; VB blocks 2-4
Same as average volume market trend	All remaining volume tariff components	NA

38. The higher reductions to the average volume customer (-7.8% instead of -7.2%) are driven by the exclusion of the automatic adjustment factor in 2017-18 tariffs, consistent with the 2017 EU.

39. Applying price reductions to blocks 2-6 (instead of block 2 only) is driven by our assessment of balancing our pricing objectives (as outlined in our TSS), including what we consider is an appropriate response to recent increases in wholesale gas prices. By applying the reduction to blocks 2-6, we can best mitigate the wholesale price increase and retain competitiveness in our key residential and business markets.

5.4.2 DEMAND CUSTOMER COMPONENT PRICE CHANGES

40. Table 5–2 provides an indicative price path for our demand tariffs compared to the average price changes indicated in the first row as provided in our TSS. We then show how this compares to our proposed 2017-18 tariffs within this TVN.

41. Within our TSS we outlined that we were seeking to apply consistent and steady price movements for our demand customers to provide certainty and assist long-term planning. For this reason demand customers did

<sup>8</sup> For the avoidance of doubt, a lower arrow (↓) indicates a more negative or less positive value (i.e. a higher price decrease or lower price increase compared to the average shown in the table).

## 5 — VARIATIONS FROM 2015 TARIFF STRUCTURE STATEMENT

not experience the same level of increases as the volume market from 2010-15 and are not subject to the 2015-20 price decreases applicable to the volume market.

**Table 5–2: 2015 expected price trends—demand tariff components**

Expected trend relative to average	2017-18 tariffs (expected as of June 2015)	2017-18 tariffs (proposed within this TVN)
Average demand customer trend (real) <sup>9</sup>	2.50%	-1.48%
Above average change (↑)	DC block 1	NA
Below average change (↓)	DC blocks 2 to 6	NA
Same as average demand market trend	All remaining demand tariff components	All demand tariff components

These variances are required to meet our pricing objectives, including ensuring cost reflective and efficient tariffs as well as improving the competitiveness of gas as a fuel.

We are keeping demand market prices unchanged in nominal terms in 2017-18. This is to partially mitigate the increase in wholesale gas prices, which demand market customers are more exposed to.

<sup>9</sup>

**Attachment A**  
**JGN proposed reference tariff model**  
**(confidential)**

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A1. JGN PROPOSED REFERENCE TARIFF MODEL  
(CONFIDENTIAL)

Attached as separate document.



# Attachment B

## JGN gas quantity statement

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## B1. JGN STATEMENT TO SUPPORT THE GAS QUANTITY IN THE ANNUAL REFERENCE TARIFF VARIATION MECHANISM

Jemena Gas Networks (**JGN**) considers the 2015-16 gas quantities suitable for the 2017-18 annual reference tariff variation mechanism to be as set out in Attachment C.

These are presented as four quarters of gas quantity data that reconcile to the annual total gas quantity.

JGN has sourced data from its systems; the data is set out in the following spreadsheets:

- Volume market 2015-16.xls  
  
Summary of volume market customers consumption in 2015-16.
- Demand Market Volume Summary 2015-16.xls  
  
Summary of demand market customers consumption in 2015-16 by station ID.
- Ancillary Extract – SO Summary Jul 15-Jun 16.xls  
  
Summary of number of disconnections, meter readings, and decommissions in 2015-16.
- RFS hours-updated.xls  
  
Summary of request for service ("**RFS**") hours in 2015-16.

These gas quantities represent the most recent actual Financial Year quantity available at the time of submitting JGN's tariff variation notice (mid-March 2017).



**Attachment C**  
**Core verification of JGN gas quantity**  
**statement**

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## C1. CORE VERIFICATION

2 May 2017

Kiera Poustie

GM Commercial Planning & Analytics

Jemena Gas Networks (NSW) Ltd

CORE  
ENERGY  
GROUP



Dear Kiera,

I refer to the "Verification of gas quantities" terms of reference document dated 11 January 2017, with background and scope replicated in Attachment 1.

In summary:

- Core is satisfied that the most recent financial year actuals provided by JGN, which underpin the Gas Quantity inputs, are from 2015-16,
- Core has reviewed the source material for financial year 2015-16 (i.e. t-2), as referred to in JGN's statement to support the Gas Quantity inputs in Attachment 2,
- Core has assessed JGN's approach in allocating t-2 (2015-16) data into the 2017-18 tariff structure, and
- Core can verify the JGN statement to support the Gas Quantity inputs in Attachment 2, as provided by JGN, reflects the most recent actual 2015-16 quantities available.

Core verifies the statement of gas quantity inputs for financial year 2015-16 (i.e. t-2) prepared by JGN, as presented in Attachment 2 and derived from the spreadsheets listed therein, is in accordance with the requirements of clause 3.6(a)(iv) of JGN's 2015-20 Access Arrangement (AA).<sup>1</sup>

The verification process involved validating the gas quantity inputs against reports specified in Attachment 2, which have been extracted from JGN's customer and billing systems, and database. Core confirms that the gas quantity data provided is derived from the most recent financial actuals from 2015-16. It is our opinion that the JGN's statement of t-2 gas quantities from the 2015-16 year are appropriate for inclusion in the 2016-17 tariff variation equation.

<sup>1</sup>JGN, Access Arrangement, JGN's, NSW gas distribution networks, 1 July 2015 – 30 June 2020, June 2015 ((Incorporating revisions required by AER Final Decision 3 June 2015).

Please contact me if you require anything further.

Regards,

A handwritten signature in black ink, appearing to read 'Paul Taliangis', with a stylized flourish at the end.

Paul Taliangis

Chief Executive

08 8470 0050

## Attachment 1- Verification of gas quantities terms of reference

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### 1 Background

In accordance with our access arrangement (**AA**), Jemena Gas Networks (**JGN**) will submit to the AER an annual tariff variation notice to set the reference tariffs that will apply in respect of the provision of reference services on JGN's gas distribution network for the third year (1 July 2017 to 30 June 2018) of its current AA period (**2017 TVN**). The 2017 TVN must be submitted by 15 March 2017.

Annual tariff variations are governed by a formula specified in clause 3.2(b) of the AA. For the annual tariff variation for any financial year, that formula requires input of gas quantity information for financial year  $t - 2$  (see variable  $q$  in the formula). That is, for the 2017 TVN, gas quantity information from financial year 2015-16 must be provided. Note: in the AA, "financial year" means the 12 month period ending on 30 June in any year.

Relevantly, clause 3.6(a)(iv) of the AA requires JGN to include in the 2017 TVN a statement to support the gas quantity inputs in the annual reference tariff variation mechanism. The statement must be independently audited or verified, and the quantity input must reflect the most recent actual financial year quantity available at the time of submitting the TVN. The actual quantity will be provided as four quarters of gas quantity data reconciling to an annual total gas quantity.

The access arrangement is available on our website:

<http://jemena.com.au/documents/gas/access-arrangement.aspx>

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### 2 Scope of Work

The Consultant is required to:

- Verify the statement of gas quantity inputs for financial year 2015-16 prepared by JGN, in accordance with the requirements of clause 3.6(a)(iv) of the AA, and
- Present its verification conclusion in the form of a letter addressed to Jemena's General Manager Commercial Planning and Analytics.

# ATTACHMENT C

Core's Attachment 2 is Confidential

**Attachment D**  
**Reference tariff schedule for 1 July 2017 to**  
**30 June 2018**

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D1. REFERENCE TARIFF SCHEDULE FOR 1 JULY 2017 TO 30 JUNE 2018

42. Attached as separate document.