# Notification of annual tariff variation and cost pass through events

16 April 2014

# Contents

# 1. Annual tariff variation

ActewAGL Distribution provides notice to the Australian Energy Regulator (AER) of a variation to its gas reference tariffs effective from 1 July 2014 in accordance with clause 6.5 of the 2010-2015 Access Arrangement for the ACT, Queanbeyan and Palerang gas distribution network (the Access Arrangement)[1].

ActewAGL Distribution has varied each of the 2014/15 reference tariffs set out in Attachment 3 of the Access Arrangement in accordance with the Annual Reference Tariff adjustment formula mechanism, set out in clauses 6.3 and 6.4 of the Access Arrangement.

$$P_t = P_t^* (1 + CPI_t)$$

Where:

| | |
|---|---|
| $P_t$ | is the varied Reference Tariff for the relevant financial year t, rounded to the same number of decimal places for that Reference Tariff as provided in Attachment 3 of this Access Arrangement; |
| $P_t^*$ | is the unadjusted Reference Tariff, in 2010/11 dollars, for the relevant financial year t, as set out in Attachment 3 of this Access Arrangement; |
| $CPI_t$ | is the result of the formula in clause 6.4, which is a decimal number, rounded to 4 decimal places; |
| t | is the financial year for which Reference Tariffs are being varied. |

[1] ActewAGL Distribution is referring to the Access Arrangement amended by order of the Australian Competition Tribunal made on 23 September 2010.

The CPI to be applied to Reference Tariffs during the Access Arrangement is further defined as:

$$CPI_t = \left(\frac{CPI_{MAR\,t-2} + CPI_{JUN\,t-2} + CPI_{SEP\,t-1} + CPI_{DEC\,t-1}}{CPI_{MAR\,2009} + CPI_{JUN\,2009} + CPI_{SEP\,2009} + CPI_{DEC\,2009}}\right) - 1$$

In accordance with the formula above ActewAGL Distribution has used ABS statistics for the weighted average of 8 capital cities to calculate a CPI for 2014/15 as follows:

$$CPI_{2014} = \left(\frac{102.4 + 102.8 + 104.0 + 104.8}{92.5 + 92.9 + 93.8 + 94.3}\right) - 1$$

$$CPI_{2014} = 10.84\%$$

Consequently 1.1084 is used to escalate tariffs from 2010/11 to 2014/15 dollars. In accordance with clause 6.5 of the Access Arrangement, the application of the tariff variation using the CPI escalator is shown in an example below:

Throughput charge

$P_{2015}$ (ex. GST, $2010/11) = $3.822

$P_{2015}$ (ex. GST, $2014/15) = $3.822 ($/p.a) X 1.1084

= $4.236

This throughput charge does not include proposed cost pass through amounts to be recovered in 2014/15 tariffs. Tariffs including cost pass through amounts are detailed in Attachment 1: ActewAGL Distribution Reference Tariffs for 2014/15.

# 2. Cost pass through events

Clause 6.10 of the 2010-15 Access Arrangement requires ActewAGL Distribution to notify the Relevant Regulator (the AER), at least 50 Business Days prior to each 1 July during the Access Arrangement period, that a *Cost Pass-Through Event* has occurred or ActewAGL Distribution reasonably expect one will occur and that it is seeking to vary Reference Tariffs with effect from 1 July that year.

ActewAGL Distribution notifies the AER that four *Cost Pass-Through Events* have occurred:

- a *Specified Uncontrollable Cost Event* for 2012/13 related to unaccounted for gas (UAG); and
- three *Specified Uncontrollable Cost Events* for 2013/14 relating to UAG, Utilities (Network Facilities) Tax (UNFT) and the Energy Industry Levy (EIL).

ActewAGL Distribution also notifies the AER that it reasonably expects two *Cost Pass-Through Events* to occur in 2014/15:

- a Carbon Pollution Reduction Scheme Event; and
- a General Pass Through event for change in the amount of UNFT payable.

The combined *Cost Pass-Through Amount* for these Events, including the time cost of money, is $3,928,133. The cost components are summarised in Table 1 below.

**Table 1. Summary of Cost Pass-Through Amounts**

| ($nominal) | $2014/15 |
|---|---|
| 2012/13 Specified Uncontrollable Cost Event: UAG | 173,169 |
| 2013/14 Specified Uncontrollable Cost Event: UAG | 210,392 |
| 2013/14 Specified Uncontrollable Cost Event: UNFT | 1,269,067 |
| 2013/14 Specified Uncontrollable Cost Event: EIL | 177,062 |
| 2014/15 Carbon Pollution Reduction Scheme Event | 921,433 |
| 2014/15 General Pass Through Event: UNFT | 1,177,010 |
| **Total** | **3,928,133** |

Clause 6.14 of the Access Arrangement sets out the information requirements for a pass through application. A notification to the AER must specify:

(a) details of the Relevant Pass-Through Event concerned;
(b) the date the Relevant Pass-Through Event took or will take effect;
(c) the applicable Reference Tariffs;

(d) the incurred and/or forecast Change in Cost of the relevant Cost Pass-Through Event on ActewAGL and the basis on which this has been calculated. A Specified Uncontrollable Cost Event or a Change in Tax Event must only specify the incurred Change in Cost;
(e) whether the Cost Pass-Through Event has, or is expected to have, an Administrative Cost Impact, which must be substantiated to the Relevant Regulator's reasonable satisfaction;
(f) the Cost Pass-Through Amount or change in Reference Tariffs ActewAGL proposes in relation to the relevant Cost Pass-Through Event;
(g) the basis on which the Cost Pass-Through Amount or change in Reference Tariffs is to apply;
(h) how the Cost Pass-Through Amount or change in Reference Tariff complies with the Cost Pass-Through mechanism contained in this Part 6;
(i) the date from and period over which ActewAGL proposes to charge the Cost Pass-Through Amount or change the Reference Tariffs, which may occur over a number of financial years (not including financial years in the next Access Arrangement Period);
(j) if applicable, how ActewAGL proposes to allocate the Cost Pass-Through Amount over that period, and between Users, and the price or charging structure that ActewAGL proposes to use to recover the Cost Pass-Through Amount from Users (being the basis on which ActewAGL proposes the Cost Pass-Through Amount is to apply);
(k) that where relevant, the Cost Pass-Through Amount notified is net of any third party payments including insurer payments or reimbursement in connection with the relevant Cost Pass-Through Event; and
(l) for an application in respect of paragraph (a) of the definition of a Specified Uncontrollable Cost Event, supported by information about the financial impact of that Specified Uncontrollable Cost Event from the relevant taxation or regulatory authority.

The information requirements for each of the pass through events are addressed in this notification. Requirements (a), (b), (d), and (h) are addressed by pass through event. Information requirement (e) is addressed in section 2.5: Administrative Cost Impacts, while (c), (f), (g), (i), and (j) are addressed in section 2.6: Changes in Reference Tariffs.

In making decisions referred to in clause 6.15 of the Access Arrangement, the AER must take into account the following:

(a) whether the costs to be passed through:
    i. are for the delivery of pipeline services;
    ii. are building block components of total revenue; and
    iii. meet the relevant National Gas Rules criteria for determining the building block for total revenue in determining reference services;
(b) whether the costs to be passed through have been funded by other means including self insurance, external insurance or paid for or compensated by another third party;

(c) the time cost of money for the period over which the Cost Pass-Through Amount is to apply, to leave ActewAGL in an economically neutral position with respect to any delay in the recovery (or return) of a Cost Pass-Through amount, consistent with the National Gas Law;
(d) the relative amounts of Reference Services supplied to each User in determining the allocation of the Cost Pass-Through Amount to Reference Tariffs, consistent with the National Gas Law;
(e) the manner in which and period over which the Cost Pass-Through Amount or change in Reference Tariffs is to apply within the Access Arrangement Period consistent with the National Gas Rules
(f) consistent with National Gas Law the financial effect on ActewAGL associated with the provision of Reference Services directly attributable to the Cost Pass-Through Event concerned, and the time at which the financial effect arises; and
(g) any other factors the Relevant Regulator considers are relevant and consistent with the National Gas Law and National Gas Rules.

## 2.1. 2012/13 Specified Uncontrollable Cost Event

### 2.1.1. Details and date of the pass through event

Clause 6.24 of the Access Arrangement states:

**Specified Uncontrollable Cost Event** means:

(a) the difference between actual and forecast costs in the relevant year for the following costs:
   (i) The AEMO fee;
   (ii) The Utilities (Network Facilities) Tax; and
   (iii) The Energy Industry Levy;
   Where the forecast costs for each of the changes are those included in the revenue allowance for the relevant year as per the table below, and actual costs are those costs incurred in the relevant year for each of the charges; and

(b) the difference between UAG forecast as 1.7 per cent of actual gas network receipts at the relevant forecast cost per GJ in $2009/10 as follows:
   (i) in FY11: $5.31
   (ii) in FY12: $5.23
   (iii) in FY13: $5.25
   (iv) in FY14: $5.27
   (v) in FY15: $5.29
   and 1.7 per cent of actual network gas receipts at the efficient tendered market price per GJ for the relevant year.[2]

ActewAGL Distribution has already recovered the difference in costs for the UNFT and EIL for 2012/13.[3] Differences in UAG costs for 2012/13 have not yet been recovered through the pass through mechanism. ActewAGL Distribution's contract for gas in 2012/13 took effect on September 2012 and ended in September 2013.

[2] AER 2010, Access Arrangement for the ACT, Queanbeyan and Palerang Gas Distribution network 1 July 2010 – 30 June 2005: Amended by order of the Australian Competition Tribunal made on 23 September 2010. p. 35
[3] AER 2013, ActewAGL Distribution 2013-14 cost pass through notification, p.3

### 2.1.2. Incurred change in cost on ActewAGL Distribution and the basis on which this has been calculated

The actual cost of UAG per GJ incurred by ActewAGL Distribution in 2012/13 was [redacted] compared to $5.68 ($2012/13) (or $5.25 in $2009/10), in the *Specified Uncontrollable Pass through Event* definition in the Access Arrangement.

**Table 2. 2012/13 UAG costs**

| ($ nominal) | 2012/13 |
|---|---|
| Total Gas Receipts (TJ) – ACT & Queanbeyan | [redacted] |
| UAG | 1.70% |
| UAG (TJ) | [redacted] |
| AER approved price ($2012/13, $/GJ) | $5.68 |
| UAG Forecast | [redacted] |
| Contract price 2012/13 ($/GJ) | [redacted] |
| UAG Actual | [redacted] |
| **Change in Cost** | **$143,011** |

As shown in Table 2, the *Change in Costs,* the difference between UAG (forecast as 1.7 per cent of actual gas network receipts) at the relevant forecast cost per GJ and efficient tendered market price per GJ, is $143,011.

## 2.2. 2013/14 Specified Uncontrollable Cost Events

In 2013/14 three *Specified Uncontrollable Cost Events* occurred relating to the UNFT, the EIL and the difference between UAG (forecast as 1.7 per cent of actual gas network receipts) at the relevant forecast cost per GJ and efficient tendered market price per GJ.

### 2.2.1. Utilities (Network Facilities) Tax

On 21 February 2014, the ACT Treasurer determined that the UNFT rate for the year ending 31 March 2014 to be $945 per kilometre of network route length.[4] The UNFT is payable to the ACT Government by the owners of network facilities.

Based upon the ACT Government's determination and the total network route length of 5,324km on 31 March 2014, the actual cost of the UNFT incurred by ActewAGL Distribution in 2013/14 is $5,031,252. This method for determining actual costs has previously been accepted by the AER.[5] The Access Arrangement included forecast UNFT costs of $3,877,974[6] ($2013/14) in 2013/14 resulting in a difference of, and *Change in Cost,* of $1,153,278 between actual and forecast costs of the UNFT in 2013/14.

### 2.2.2. Energy Industry Levy

Each financial year the ACT Government's levy Administrator must, before 1 October of that year, determine the estimated national and local regulatory cost to be applied for the year and the national and local regulatory cost to be applied for the preceding year.[7] Together the national and local regulatory costs are referred to as the "total regulatory cost".

Subsequent to the Administrator's Determination, ActewAGL Distribution submits an EIL Annual Return due by 31 October of the same financial year. The Annual Return is created by the ACT Government and is based on the determined total regulatory costs.[8] ActewAGL Distribution pays the estimate for the current year total regulatory costs plus

[4] Taxation Administration (Amounts payable – Utilities (Network Facilities) Tax) Determination 2012 (No 2) (Australian Capital Territory), Disallowable Instrument DI2012-276.
[5] AER 2012, AER Decision: ActewAGL carbon pollution reduction scheme event and specified uncontrollable cost events pass through application, p.17
[6] See Attachment 4 Calculations Spreadsheet (Confidential)
[7] Utilities ACT 2000, Section 54E(3) & 54F(2)
[8] ACT Revenue Office 2012, *Energy industry levy*, viewed 3 March 2013, <http://www.revenue.act.gov.au/other_levies_and_taxes/energy_industry_levy>

the total regulatory costs for the previous year minus the amount paid in the previous year.

The incurred cost of the EIL is $741,182 (as shown by the EIL annual return in Attachment 5 Energy Industry Levy Annual Return (Confidential)). The AER accepted this methodology for calculating the incurred cost in ActewAGL Distribution's April 2013 Notification of annual tariff variation and cost pass through events[9]. This exceeds the Access Arrangement forecast of $580,274 by $160,907 in $2013/14. The *Change in Cost* for 2013/14 is therefore $160,907.

### 2.2.3. Unaccounted for gas

ActewAGL Distribution is also proposing to recover in 2014/15 tariffs, the difference between UAG (forecast as 1.7 per cent of actual gas network receipts) at the relevant forecast cost per GJ and efficient tendered market price per GJ, for 2013/14 using network gas receipts until 31 March 2014. In previous years, ActewAGL has notified the AER of pass through claims only after the end of the financial year, when annual gas network receipts are known. However, this is not possible as this is the last scheduled tariff variation in the current Access Arrangement period.

The actual cost of UAG per GJ incurred by ActewAGL Distribution in 2013/14 was [redacted]. This is higher than the $5.80 ($2013/14) (or $5.27 in $2009/10), in the *Specified Uncontrollable Pass through Event* definition in the Access Arrangement.

[9] AER 2013 ActewAGL Distribution 2013-14 cost pass through notification, Decision, p.20

**Table 3. 2013/14 UAG costs**

| ($ nominal) | 2013/14 |
|---|---|
| Total Gas Receipts to 31 March 2014 (TJ) – ACT & Queanbeyan | [redacted] |
| UAG | 1.70% |
| UAG (TJ) | [redacted] |
| AER approved price ($2013/14, $/GJ) | $5.80 |
| UAG Forecast | [redacted] |
| Contract price 2013/14 ($/GJ) | [redacted] |
| UAG Actual | [redacted] |
| **Difference** | **$191,196** |

As shown in Table 2, the *Change in Costs,* the difference between UAG (forecast as 1.7 per cent of actual gas network receipts) at the relevant forecast cost per GJ and efficient tendered market price per GJ, is $191,196.

ActewAGL Distribution has only included known gas receipts until 31 March 2014 in the cost pass through calculations. Although not included in the calculated *Change in Cost*, adding gas receipts for April May and June for 2013/14, forecast using historical gas receipts over the current Access Arrangement period, would increase the *Change in Cost* for 2013/14 by $109,000.

## 2.3. 2014/15 Carbon Pollution Reduction Scheme Event

### 2.3.1. Details of the relevant pass through event

The *Clean Energy Act 2011*, under which a carbon pricing mechanism is applied, commenced on 1 July 2012. ActewAGL Distribution is liable for fugitive gas emissions under the carbon pricing mechanism and seeks to vary *Reference Tariffs*, in accordance with the relevant *Carbon Pollution Reduction Scheme Event* in the Access Arrangement, from 1 July 2014.

Clause 6.24 of the Access Arrangement says:

> Carbon Pollution Reduction Scheme Event means an event which results in the imposition of legal obligations on ActewAGL or a third party arising from the introduction or operation of a carbon emissions trading scheme imposed by the Commonwealth, a State or Territory or an Authority and results in ActewAGL incurring costs directly or indirectly (including under statute or contract) and includes:
>
> (a) the cost of acquiring emissions allowances, permits or units (howsoever called);
> (b) costs incurred in order to reduce liability for carbon emissions associated with the production, transport or supply of gas, or otherwise in connection with ActewAGL's gas distribution business or the Services; and
> (c) administrative and compliance costs associated with the introduction or operation of such a scheme, including reporting costs.[10]

ActewAGL Distribution considers that the carbon pricing mechanism is a carbon emissions trading scheme during the fixed charge period, that is the period until the carbon price transitions to a fully flexible price under an emissions trading scheme with a price determined by the market on 1 July 2015,[11] for the purposes of the definition of "Carbon Pollution Reduction Scheme Event." The AER has previously accepted that the carbon price mechanism established by the Clean Energy Legislative Package is

[10] ActewAGL Amended Access Arrangement, p. 32
[11] Clean Energy Act 2011 (Commonwealth of Australia) s.125, viewed 27 March 2013, <http://www.comlaw.gov.au/Details/C2013C00058/Html/Text#_Toc346702275>

consistent with the definition of a Carbon Pollution Reduction Scheme Event defined in clause 6.24 of the Access Arrangement.[12]

### 2.3.2. Incurred change in cost on ActewAGL Distribution and the basis on which this has been calculated

The carbon pricing mechanism implemented under the *Clean Energy Act 2011* commenced operation on 1 July 2012. The *Clean Energy Act 2011* imposes an obligation to purchase and surrender carbon units for each tonne of carbon pollution emitted on liable entities who operate facilities that exceed a scope 1 (direct) emissions threshold of 25,000 $tCO_2e$ (tonnes of carbon dioxide equivalent).

The Carbon Pricing Mechanism applied to scope 1 emissions of covered greenhouse gases from 1 July 2012, with a "fixed price" per unit set by the *Clean Energy Act 2011* for the first three years. The cost of units in the 2014/15 financial year is fixed at $25.40/tonne.[13]

Under the *Clean Energy Act 2011*, for each tonne of covered scope 1 carbon dioxide equivalent emissions from ActewAGL Distribution's natural gas networks ACT facility (which will exceed the threshold of 25,000 $tCO_2e$), ActewAGL Distribution is required to purchase and surrender carbon units.

The emissions threshold under the *Clean Energy Act 2011* is triggered by the gas network on the basis of its fugitive gas emissions exceeding 25,000 $tCO_2$-e. Scope 1 emissions in relation to a facility are defined as the release of greenhouse gas into the atmosphere as a direct result of an activity, or series of activities (including ancillary activities) that constitute the facility."[14] ActewAGL Distribution is liable for covered Scope 1 carbon dioxide equivalent emissions under the *Clean Energy Act 2011* which includes fugitive gas emissions from transmission and distribution pipelines and emissions from waterbath heater fuel consumption.

ActewAGL Distribution has calculated the emissions in accordance with National Greenhouse and Energy Reporting (Measurement) Determination 2008, specifically sections 3.76 (transmission pipelines), 3.80 (distribution pipelines) and 2.20 (waterbath heaters), as presented in attachment 2.

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[12] AER 2012, AER Decision: ActewAGL carbon pollution reduction scheme event and specified uncontrollable cost events pass through application, p.10
[13] Clean Energy Act 2011 (Commonwealth of Australia) s.100
[14] Clean Energy Act 2011 (Commonwealth of Australia) s.20, viewed 27 March 2013, <http://www.comlaw.gov.au/Details/C2013C00058/Html/Text#_Toc346702275>

The approach taken by ActewAGL Distribution has been previously accepted by the AER.[15]

**Table 4. Calculated emissions for 2014/15**

| Calculated Emissions | 2014/15 |
|---|---|
| Transmission fugitive emissions (CO2e tonnes ) | 399 |
| Distribution fugitive emissions (CO2e tonnes ) | 35,035 |
| Waterbath heater emissions (CO2e tonnes ) | 843 |
| **Total** | **36,277** |

Calculations of the emissions are provided in Attachment 4 Calculations Spreadsheet (Confidential).

ActewAGL Distribution considers that its carbon liability has been calculated with a high degree of certainty given that:

- the carbon price is fixed for 2014/15 at $25.40;
- the calculation methods are taken from the National Greenhouse and Energy Reporting (Measurement) Determination 2008; and
- the fugitive emissions forecast are proportional to the sales forecast.

ActewAGL Distribution calculates that the total carbon cost for 2014/15, determined by multiplying $25.40 by the total calculated emissions of 36,277, results in a *Change in Cost* of $921,433.

### 2.3.3. Potential changes to the Clean Energy Act 2011

On 15 October 2013 the Australian Government announced its plan to repeal the carbon tax. The Carbon Tax Repeal Bills, which have not received Royal Assent, provide that 2013/14 will be the last financial year that the carbon tax will apply, even if the Parliament does not pass the Carbon Tax Repeal Bills until after 1 July 2014.[16] As a result, it is

[15] AER 2012, AER Decision: ActewAGL carbon pollution reduction scheme event and specified uncontrollable cost events pass through application, p.10

[16] 2013 The Parliament of the Commonwealth of Australia, Clean Energy Legislation (Carbon Tax Repeal) Bill 2013, Explanatory Memoranda, p. 6

possible that legislation will be passed which removes ActewAGL Distribution's carbon liability for 2014/15.

If legislation removing the carbon liability receives Royal Assent prior to notification of the AER's decision concerning this pass through application, ActewAGL Distribution will write to the AER and withdraw the notification for the *Carbon Pollution Reduction Scheme Event.*

Legislation removing the carbon liability may receive Royal Assent after the AER's decision. For this case, ActewAGL Distribution seeks consent of the AER, per clause 6.12 of the Access Arrangement, to notify the AER that a cost pass through event has occurred and to seek to vary Reference Tariffs with effect from a date specified by ActewAGL Distribution in its notice to the AER.

## 2.4. 2014/15 General Pass-Through event

### 2.4.1. Details and date of the pass through event

ActewAGL Distribution proposes to pass through the change in the amount of UNFT payable, the expected event.

ActewAGL Distribution would normally propose to pass through the difference between actual and forecast 2014/15 UNFT costs in the scheduled tariff variation, *as a Specified Uncontrollable Cost Event*, after the ACT Government has been determined the UNFT rate. However, as this is the last scheduled tariff variation in the current Access Arrangement Period any pass through after the rate determination would be requiring a 'within year' tariff adjustment.

Instead, ActewAGL Distribution proposes to pass through the change in the amount of UNFT payable across a full year of prices from 1 July 2014 through the *General Pass Through Event* mechanism.

The *General Pass-Through Event* occurs in the following circumstances:

(a) an uncontrollable and unforeseeable event that falls outside of the normal operations of a business such that prudent operational risk management could not have prevented or mitigated the effect of the event;
(b) which results in a change in the cost of providing the Services (or any of them) or the operation of its gas business(or any part of it); and
(c) does not fall within any other category of Cost Pass-Through Event under this clause.

For the purposes of this definition, an event will be considered unforeseeable if:

(a) it is an act of terrorism, natural disaster (including fire, flood and earthquake) or change in law; or
(b) at the time the AER approves this Access Arrangement despite the occurrence of the event being a possibility, there was no compelling reason to consider that the event was more likely to occur than not to occur during the access arrangement period.

The change in the amount of UNFT payable, the expected event, meets the criteria in the *General Pass-Through Event* mechanism.

The expected event is uncontrollable. The UNFT rate is determined by the Minister through a disallowable instrument. The expected event falls outside of normal business

operations and the event could not have been prevented or mitigated by prudent operational risk management.

The occurrence of the expected event, the change in the amount of UNFT payable, was a possibility but there was no compelling reason to consider that the increase in cost was more likely to occur than not to occur during the Access Arrangement period at the time the AER approved the Access Arrangement. The forecast UNFT costs were based on the growth in UNFT revenue assumed by the ACT Government in the 2009/10 budget forward estimates.[17] In August 2010, after the Access Arrangement was approved, the ACT Government Treasurer announced a broad review of Territory revenue streams to assess the overall efficacy and equity of the ACT taxation system.[18] As a result of the review the Government aligned the calculation of UNFT payable by utility network businesses to reflect past growth in average unimproved land value and indicated that for future years the rate will be indexed by the growth in the Wage Price Index.[19] ActewAGL Distribution had no reason to consider the resulting change in the amount of UNFT payable, the expected event, was more likely to occur than not during the current Access Arrangement period at the time the AER approved the Access Arrangement. As a result, the expected event is unforeseeable.

The expected event results in a *Change in Cost* of $1,177,010. The calculation of this number is provided in subsection 2.4.2.

### 2.4.2. Change in cost on ActewAGL Distribution and the basis on which this has been calculated

The UNFT rate, currently $945 per kilometre of network route length, is indexed by the growth in the Wage Price Index.[20] ActewAGL Distribution has considered three forecasts for the Wage Price Index for 2014/15: from the Australian Government Treasury, and two from historical averages. ActewAGL Distribution selected the median, 3.5 per cent, noting the mean average is 3.47 per cent.

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[17] ActewAGL 2009, *Access arrangement information for the ACT, Queanbeyan and Palerang gas distribution network,* p.60-61

[18] ACT Government 2014, *Tax Reform*, viewed 10 April 2014, < http://apps.treasury.act.gov.au/taxreform >

[19] Australian Capital Territory, *The Utilities Network Facilities Tax,* ACT Tax Reform Fact Sheet, viewed 7 April 2014, < http://www.treasury.act.gov.au/TaxReform/Documents/factsheet_UtilityNetworkTax.pdf >

[20] Australian Capital Territory, *The Utilities Network Facilities Tax,* ACT Tax Reform Fact Sheet, viewed 7 April 2014, < http://www.treasury.act.gov.au/TaxReform/Documents/factsheet_UtilityNetworkTax.pdf >

Applying a 3.5 per cent increase to the UNFT rate, and holding route length constant, results in expected 2014/15 UNFT costs of $5,207,345 representing a *Change in Cost* of $1,177,010 relative to the allowance of $4,030,335.

**Table 5. Forecasts of the Wage Price Index growth for 2014/15**

| Source | Forecast |
|---|---|
| **Commonwealth of Australia Treasury**[21] | 3.50% |
| **10 year historical** | 3.65% |
| **5 year historical** | 3.27% |

[21] The Commonwealth of Australia 2013, *Budget Paper No.1 Strategy and Outlook 2013-14,* Statement 2: Economic Outlook, p.14

## 2.5. Administrative Cost Impacts

All pass through amounts submitted in this notification exceed their relevant *Administrative Cost Impact* thresholds.

All of the *Specified Uncontrollable Cost Event* pass through amounts are sufficient to change the smallest increment in the *Reference Tariffs* expressed to the number of decimal places set out in Attachment 3 of the Access Arrangement. This can be seen in the next section where the impact on 2014/15 *Reference Tariffs* for each pass through event is provided.

For the *Carbon Pollution Reduction Scheme Event* and the *General Pass-Through Event* an *Administrative Cost Impact* is met where the *Change in Cost* exceeds 1 per cent of the building block revenue requirement specified in the final decision in the years of the Access Arrangement period that the costs are incurred. Both events exceed this threshold, as shown in Table 6.

**Table 6. Change in Cost as a percentage of the building block revenue requirement**

| ($ nominal) | Percentage of the Revenue Requirement |
|---|---|
| Carbon Pollution Reduction Scheme Event | 1.38% |
| General Pass Through Event (UNFT) | 1.76% |

Calculations for Table 6 are provided in Attachment 4 Calculations Spreadsheet (Confidential).

## 2.6. Changes in Reference Tariffs

ActewAGL Distribution proposes, for all pass through events, to adjust the 2014/15 Network Unit Charge for Capacity and the throughput charges that relate to the use of the pipeline.

The proposed changes to *Reference Tariffs* for each pass through event are provided in Table 7.

**Table 7. Proposed changes to Reference Tariffs**

| Event | Capacity charge ($/pa) | Throughput charge ($/MJ) | | |
|---|---|---|---|---|
| | | First two tiers | Third tier | Last tier |
| 2012/13 UAG | 0.95 | 0.02 | 0.03 | 0.03 |
| 2013/14 UAG | 1.15 | 0.03 | 0.03 | 0.03 |
| 2013/14 UNFT | 6.95 | 0.18 | 0.18 | 0.19 |
| 2013/14 EIL | 0.97 | 0.03 | 0.03 | 0.03 |
| 2014/15 Carbon | 5.05 | 0.13 | 0.13 | 0.14 |
| 2014/15 UNFT | 6.45 | 0.17 | 0.17 | 0.17 |
| **Total** | **21.51** | **0.56** | **0.57** | **0.58** |

Note that all events aside from 2014/15 Carbon and 2014/15 UNFT are *Specified Uncontrollable Pass-Through Events*. These events are sufficient to change the smallest increment in *Reference Tariffs* and therefore meet the *Administrative Cost Impact* Threshold.

# Attachment 1 Reference Tariffs for 2014/15

| NON-TARIFF SERVICES | Real prices ($2010/11) | Nominal prices | MJ of Capacity | Additional price | Additional Revenue | Revised Nominal Prices |
|---|---|---|---|---|---|---|
| Network Unit Charge for Capacity ($ p.a.) | $260.75 | $289.02 | **6,764** | $21.51 | $145,491.84 | $310.53 |
| Throughput Charge ($ /GJ) | $3.822 | $4.236 | | $0.315 | | $4.551 |
| | | | | | | |
| **Single Run & Bypass** | | | | | | |
| Toyo MT5, Email 602, Email 610 | $64 | $71 | | | | $71.00 |
| Toyo MT10 , Email 1010, Email750 | $129 | $143 | | | | $143.00 |
| AL-425 | $969 | $1,074 | | | | $1,074.00 |
| AL-1000, AL-1400, Romet RM30 | $2,027 | $2,247 | | | | $2,247.00 |
| AL-2300, Romet Rm55, Romet RM85, Roots3M, Instromet G65 | $2,813 | $3,118 | | | | $3,118.00 |
| Romet RM140, AL-5000, Roots 5m, Instromet G100 | $3,380 | $3,746 | | | | $3,746.00 |
| Roots 7M, Rockwell TPL9, Instromet G160 | $5,191 | $5,754 | | | | $5,754.00 |
| Roots 16M, Roots 11M, Instromet G250 | $6,203 | $6,875 | | | | $6,875.00 |
| Singer 4GT, Rockwell AT-18, Instromet G400 | $7,371 | $8,170 | | | | $8,170.00 |
| Singer 6GT, Rockwell AT-30 | $10,612 | $11,762 | | | | $11,762.00 |
| Rockwell AT-60 | $12,509 | $13,865 | | | | $13,865.00 |
| **Single Run & Shunt or Double Run (different Meters) – requiring special charges** | | | | | | |
| Rockwell AT-30 + AL 1400 | $12,112 | $13,425 | | | | $13,425.00 |
| | | | | | | |
| Communication Equipment ($ p.a.) first 2 meters | $1,584 | $1,756 | | | | $1,756.00 |
| Communication Equipment ($ p.a.) additional meters | $376 | $417 | | | | $417.00 |
| Meter Reading ($ p.a.) first 2 meters | $678 | $751 | | | | $751.00 |
| Meter Reading ($ p.a.) additional meters | $161 | $178 | | | | $178.00 |
| | | | | | | |
| **Relevant Capped Rate $/GJ Equivalent** | | | | | | |
| First 20 TJ p.a. 3.22 | $3.20 | $3.55 | | | | $3.55 |
| Next 30 TJ p.a. 2.80 | $2.80 | $3.10 | | | | $3.10 |
| All additional 2.36 | $2.30 | $2.55 | | | | $2.55 |

| TARIFF SERVICES | Real prices | Nominal prices | MJ of Throughput | Additional price | Additional Revenue | Revised Nominal Prices |
|---|---|---|---|---|---|---|
| Throughput | | | | | | |
| **GJ per month or quarter** | | | | | | |
| First 1.25/m: 3.75 /qtr | $8.67 | $9.61 | **1,297,278** | $0.56 | $726,475.82 | $10.17 |
| Next 82.25/m: 246.75/qtr | $6.86 | $7.60 | **4,591,496** | $0.56 | $2,571,237.80 | $8.16 |
| Next 333.5/m: 1000.5/qtr | $6.26 | $6.94 | **647,437** | $0.57 | $369,039.31 | $7.51 |
| All Additional | $4.42 | $4.90 | **199,788** | $0.58 | $115,877.21 | $5.48 |
| | | | | | | |
| Fixed Charge ($ p.a.) | $47.45 | $52.59 | | | | $52.59 |
| Metering Equipment ($ p.a.) | $28.50 | $31.59 | | | | $31.59 |
| Metering Equipment ($/GJ) | $0.2352 | $0.2607 | | | | $0.2607 |
| Meter Reading ($ p.a.) Quarterly Read | $4.86 | $5.39 | | | | $5.39 |
| Meter Reading ($ p.a.) Monthly Read | $46.20 | $51.21 | | | | $51.21 |

| CHARGES FOR ANCILLARY SERVICES | Real prices | Nominal prices | Nominal prices |
|---|---|---|---|
| Request for Service | $64.50 | $71.49 | $71.49 |
| Special meter read | $48.40 | $53.65 | $53.65 |
| Reconnection fee | $91.40 | $101.31 | $101.31 |
| Disconnection fee | $123.70 | $137.11 | $137.11 |

| Minimum charge payable for meters with a capacity greater than 6m$^3$/hr | Real prices | Nominal prices | Nominal prices |
|---|---|---|---|
| | | | |
| Per monthly bill | $3.40 | $3.77 | $3.77 |
| Per quarterly bill | $10.10 | $11.19 | $11.19 |

| | |
|---|---|
| Total additional revenue | $3,928,121.98 |
| Total pass-through costs | $3,928,133.30 |
| Difference | $11.32 |

# Attachment 3 National Greenhouse and Energy Reporting (Measurement) Determination 2008

ActewAGL Distribution calculated the emissions from transmission and distribution pipelines and waterbath heaters in accordance with the National Greenhouse and Energy Reporting (Measurement) Determination 2008. In all cases 'method 1' was used.

### 3.76 Method 1—natural gas transmission

Method 1 is:

$$E_{ij} = Q_i \times EF_{ij}$$

where:

$E_{ij}$ is the fugitive emissions of gas type (***j***) from natural gas transmission through a system of pipelines of length (***i***) during the year measured in $CO_2$-e tonnes.

$Q_i$ is the length of the system of pipelines (***i***) measured in kilometres.

$EF_{ij}$ is the emission factor for gas type (***j***), which is 0.02 for carbon dioxide and 8.7 for methane, measured in tonnes of $CO_2$-e emissions per kilometre of pipeline (***i***).

### 3.80 Method 1—natural gas distribution

(1) Method 1 is:

$$E_{jp} = S_p \times \%UAG_p \times 0.55 \times C_{jp}$$

where:

***$E_{jp}$*** is the fugitive emissions of gas type (***j***) that result from natural gas distribution through a system of pipelines with sales of gas in a State or Territory (***p***) during the year, measured in $CO_2$-e tonnes.

***$S_p$*** is the total sales during the year from the pipeline system in a State or Territory (***p***), measured in terajoules.

***$\%UAG_p$*** is the percentage of unaccounted for gas in the pipeline system in a State or Territory, relative to the amount of gas issued annually by gas utilities in that State or Territory.

Note: The value 0.55 following the variable ***$\%UAG_p$*** in method 1 represents the proportion of gas that is unaccounted for and released as emissions.

***$C_{jp}$*** is the natural gas composition factor for gas type (***j)*** for the natural gas supplied from the pipeline system in a State or Territory (***p***), measured in $CO_2$-e tonnes per terajoule.

(2) For ***$\%UAG_p$*** in subsection (1), column 3 of an item in the following table specifies the percentage of unaccounted for gas in the pipeline system in a State or Territory specified in column 2 of that item.

(3) For ***$C_{jp}$*** in subsection (1), columns 4 and 5 of an item in the following table specify the natural gas composition factor for carbon dioxide and methane for a pipeline system in a State or Territory specified in column 2.

| Item | State | Unaccounted for gas (a)% UAGp | Natural gas composition factor (a)(tonnes CO2-e/TJ) CO2 | CH4 |
|---|---|---|---|---|
| 1 | NSW and ACT | 2.40 | 0.8 | 328 |
| 2 | VIC | 2.75 | 0.9 | 326 |
| 3 | QLD | 2.63 | 0.8 | 317 |
| 4 | WA | 2.55 | 1.1 | 306 |
| 5 | SA | 4.00 | 0.8 | 328 |
| 6 | TAS | 0.40 | 0.9 | 326 |
| 7 | NT | 0.10 | 0.0 | 264 |

## 2.20 Method 1—emissions of carbon dioxide, methane and nitrous oxide

(1) For subparagraphs 2.19(1)(a)(i) and (b)(i) and paragraph 2.19(1)(c), method 1 for estimating emissions of carbon dioxide, methane and nitrous oxide is:

$$E_{ij} = \frac{Q_i \times EC_i \times EF_{ijoxec}}{1\ 000}$$

where:

***$E_{ij}$*** is the emissions of gas type (***j***), being carbon dioxide, methane or nitrous oxide, from each gaseous fuel type (***i***) released from the operation of the facility during the year measured in $CO_2$-e tonnes.

***$Q_i$*** is the quantity of fuel type (***i***) combusted, whether for stationary energy purposes or transport energy purposes, from the operation of the facility during the year measured in cubic metres or gigajoules and estimated under Division 2.3.6.

***$EC_i$*** is the energy content factor of fuel type ***(i)*** estimated under section 6.5.

***$EF_{ijoxec}$*** is the emission factor for each gas type (***j***) released during the year (which includes the effect of an oxidation factor) measured in kilograms $CO_2$-e per gigajoule of fuel type (***i***) according to source as mentioned in:

(a) for stationary energy purposes—Part 2 of Schedule 1; and

(b) for transport energy purposes—Division 4.1 of Schedule 1.

Note: The combustion of gaseous fuels releases emissions of carbon dioxide, methane and nitrous oxide.

(2) In this section:

***stationary energy purposes*** means purposes for which fuel is combusted that do not involve transport energy purposes.

***transport energy purposes*** includes purposes for which fuel is combusted that consist of any of the following:

(a) transport by vehicles registered for road use;

(b) rail transport;

(c) marine navigation;

(d) air transport.

Note: The combustion of gaseous fuels releases emissions of carbon dioxide, methane and nitrous oxide.

# Attachment 4 Calculations Spreadsheet (Confidential)

# Attachment 5 Energy Industry Levy Annual Return (Confidential)

# Attachment 6 Confidentiality

## Confidentiality template

| Title, page and paragraph number of document containing the confidential information | Description of the confidential information. | Topic the confidential information relates to (e.g. capex, opex, the rate of return etc.) | Identify the recognised confidentiality category that the confidential information falls within. | Provide a brief explanation of why the confidential information falls into the selected category. If information falls within 'other' please provide further details on why the information should be treated as confidential. | Specify reasons supporting how and why detriment would be caused from disclosing the confidential information | Provide any reasons supporting why the identified detriment is not outweighed by the public benefit (especially public benefits such as the effect on the long term interests of consumers). |
|---|---|---|---|---|---|---|
| Page 9, Section 2.1.1 paragraph 1 and table 1 | Wholesale gas price | Cost pass through notification | Information contains supplier prices and information which would affect ActewAGL's ability to obtain competitive prices in future transactions. | Affect ActewAGL Distribution's ability to obtain competitive prices | Affect ActewAGL Distribution's ability to obtain competitive prices | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Page 11, Section 2.2.3 paragraph 3 and table 3 | Wholesale gas price | Cost pass through notification | Information contains supplier prices and information which would affect ActewAGL's ability to obtain competitive prices in future transactions. | Affect ActewAGL Distribution's ability to obtain competitive prices | Affect ActewAGL Distribution's ability to obtain competitive prices | |
| | Wholesale gas price | Cost pass through notification | Information contains supplier prices and information which would affect ActewAGL's ability to obtain competitive prices in future transactions. | Affect ActewAGL Distribution's ability to obtain competitive prices | Affect ActewAGL Distribution's ability to obtain competitive prices | |
| Attachment 4 Calculations Spread Sheet | Wholesale gas price | Cost pass through notification | Information contains supplier prices and information which would affect ActewAGL's ability to obtain competitive prices in future transactions. | Affect ActewAGL Distribution's ability to obtain competitive prices | Affect ActewAGL Distribution's ability to obtain competitive prices | |
| Attachment 5 Energy Industry Levy Annual | Personal information | Cost pass through notification | Personal information | Information about an individual or customer whose identity is | Privacy considerations | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Return | | | | apparent, or can reasonably be ascertained from the information which raises privacy considerations. | | |

## Proportion of confidential material

| Submission Title | Number of pages of submission that include information subject to a claim of confidentiality | Number of pages of submission that do not include information subject to a claim of confidentiality | Total number of pages of submission | Percentage of pages of submission that include information subject to a claim of confidentiality | Percentage of pages of submission that do not include information subject to a claim of confidentiality |
|---|---|---|---|---|---|
| Notification of annual tariff variation and cost pass through events | 3 | 29 | 32 | 6% | 94% |