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Allgas Energy Pty Limited
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Allgas Toowoomba Pty Limited
ACN 009 655 645

30 April 2014

Mr Chris Pattas
General Manager
Network Operations and Development Branch
Australian Energy Regulator
PO Box 520
Melbourne Vic 3001

Dear Chris,

Allgas Energy Pty Limited and Allgas Toowoomba Energy Pty Limited
NOTIFICATION OF ANNUAL TARIFF INCREASE
(For Reference Tariffs Effective 01July 2014 to 30 June 2015)

In accordance with section 4.5 of the Approved Allgas Access Arrangement, please be advised that Allgas Energy Pty Limited proposes to vary the Reference Tariffs as per the attached schedule. Also please find attached a model which calculates the new tariffs.

In summary the revised tariffs have been calculated as follows:

- The forecast CPI figure for All Groups – Weighted Average Eight Capital cities March 2013 to March 2014 of 2.93% has been applied.

- Following the determination of the Australia Competition Tribunal of 10 February 2012, Allgas and the AER agreed the correct price path to reflect the Tribunal's decision would be CPI+4.00% effective 01 July 2014, followed by annual increases to the end of the Access Arrangement period of CPI+3%. This price path is reflected in clause 4.5.2 of the Access Arrangement Amended by Order of the Australian Competition Tribunal, 10 February 2012. The CPI+4.00% increase has been applied here.

- A Cost Pass-Through associated with the requirement to acquire and surrender carbon permits under the *Clean Energy Act* 2011 is sought. Attachment 1 to this letter establishes the basis of the cost pass-through, and determines the impact on the price path, being an additional increase of $0.1119 per GJ for Volume customers and $0.7836/GJMHQ/day for Demand customers. This is based on the forecast volumes and demand as approved by the AER in the current Access Arrangement.

A schedule of revised tariffs is also attached.

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Please do not hesitate to contact me on (02) 9275 0031should you wish to discuss this matter.

Yours sincerely

Peter Bolding
General Manager, Strategy & Regulatory

Attachment 1 – Carbon Cost Pass Through
Attachment 2 – Tariff Adjustment model
Attachment 3 – Revised Tariff Schedule

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Attachment 1: Carbon cost pass through

Clause 4.5.4 of the AER-approved Access Arrangement for the Allgas distribution network includes provision for Allgas to pass through costs of providing Reference Services which were not provided for in the tariffs approved in the Access Arrangement:

4.5.4 Cost Pass-through Reference Tariff Variation Mechanism

Subject to the approval of the AER under the National Gas Rules, Reference Tariffs may be varied after one or more Cost Pass-through Event/s occurs, in which each individual event materially increases or materially decreases the cost of providing the reference services. Any such variation will take effect from the next 1 July. In making its decision on whether to approve the proposed Cost Pass-through Event variation, the AER must take into account the following:

- the costs to be passed through are for the delivery of pipeline services
- the costs are incremental to costs already allowed for in reference tariffs
- the total costs to be passed through are building block components of total revenue
- the costs to be passed through meet the relevant National Gas Rules criteria for determining the building block for total revenue in determining reference services
- any other factors the AER considers relevant and consistent with the National Gas Law and National Gas Rules.

Cost Pass-through Events are:

- an insurance cap event
- an insurer credit risk event
- a natural disaster event
- a network user failure event
- a regulatory change event
- a service standard event
- a tax change event
- a terrorism event

In this instance, Allgas focuses on a tax change event:

'Tax change event' means:

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

(a) a change in a relevant tax, in the application or official interpretation of a relevant tax, or in the way a relevant tax is calculated;

(b) the removal of a relevant tax;

(c) the imposition of a relevant tax

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

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The access arrangement glossary defines "tax" as:

> any tax, levy, impost, deduction, charge, rate, rebate, duty, fee or withholding which is levied or imposed by an Authority.

APT Allgas hereby applies to the AER for approval to pass through costs associated with the requirement to acquire and surrender carbon permits under the *Clean Energy Act 2011*, as described more fully below.

Direct carbon costs for Allgas Network

The *Clean Energy Act 2011* received royal assent on 18 November 2011. The *Act* introduces a carbon trading scheme in Australia designed to impose a price on carbon emissions from 1 July 2012. The first three years of the carbon pricing scheme has a fixed price path after that the scheme moves to a floating price period. Under the floating price period the price path forecast by the Australian Treasury is the price path required to meet the emission reduction target of 5% by 2020 on 2000 emission levels.

The Allgas Network expects to incur considerable costs in the current access arrangement period associated with purchasing permits to be surrendered to the Clean Energy Regulator under the Clean Energy Act 2011. These costs arise in relation to direct emissions, from fuel gas and fugitive emissions, and also from indirect costs such as increased electricity prices and administration costs for managing compliance and procuring permits.

The Allgas Network has calculated its liability on the basis of the methodology set out in the *National Greenhouse and Energy Reporting Act 2007*, based on expected sales volumes and fugitive emissions.

For the first three years of the scheme the Allgas Network has applied the fixed carbon price set out in the *Clean Energy Act*, and after that date has adopted a carbon price consistent with Australian Treasury modelling. The Deputy Prime Minister and Treasurer and the Minister for Climate Change and Energy Efficiency released the Strong growth low pollution: modelling a carbon price (SGLP) report on 10 July 2011. An update to the SGLP report was released on 21 September 2011. APA has used the updated price path from 21 September 2011.

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Forecast direct carbon costs associated with this pass through are set out in the table below.

Allgas Network carbon liability under the Clean Energy Act 2011

Nominal dollars	2012/13	2013/14	2014/15	2015/16	2016/17
Sales Volumes TJ per annum	10,001	10,108	10,215	10,327	10,365
Emissions tonnes per annum	45,974	46,466	46,958	47,473	47,648
Treasury modelled carbon price per permit	$ 23.00	$ 24.16	$ 24.77	$ 28.70	$ 30.61
Carbon permit cost per annum	**$ 1,057,410**	**$ 1,122,828**	**$ 1,163,081**	**$ 1,362,259**	**$ 1,458,423**

Footnotes
[1] Emissions have been calculated by using method 1 for Natural Gas Distribution under the NGERS Determination 2008
[2] First three years are fixed price plus inflation as per the Clean Energy Act 2011
[3] The price in the fourth year is taken from the Treasury's *Strong Growth Low Pollution Sept 2011* with escalations of 3.1% and 2.5% applied for 2011 and 2012

Consistent with the requirements of the Access Arrangement, Allgas submits that:
(a) this cost falls within the 'change in tax event' category of Cost Pass-Through Event;
(b) this cost occurs during the course of an access arrangement period;
(c) this cost, being in excess of 2% of annual revenue, materially increases the costs of providing those services.
(d) In consequence, the costs to Allgas of providing reference services are materially increased

Effect of cost pass through

Allgas calculates its carbon costs on a volumetric basis. To that end, Allgas proposes, to the extent possible, to recover carbon costs through volumetric charges. However, network tariffs for Demand customers are based on a capacity charge with no volumetric component. Allgas has therefore levied the carbon loading on the Maximum Hourly Quantity charge to ensure there is no locational aspect associated with the recovery.

The carbon cost loading for the balance of the Allgas Access Arrangement period is calculated as follows:

Effective 01 July		2012/13	2013/14	2014/15	2015/16
Carbon cost loading on Volume tariffs	($/GJ)	0.1057	0.1111	0.1139	0.0319
Carbon cost loading on Demand tariffs	($/GJMHQ/day)	0.7430	0.7794	0.7976	0.9228

Carbon cost reconciliation

Allgas proposes to apply a reconciliation mechanism to ensure that all carbon costs are recovered with no scope for windfall gain or loss.

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Each year, in conjunction with the annual tariff variation, Allgas will provide the following information to the AER to demonstrate the reconciliation of costs and recovery:

Line	Description	Unit	Carbon year 2012/13	Carbon year 2013/14	Carbon year 2014/15	Carbon year 2015/16	Carbon year 2016/17
1	Certified emissions figure for the network	Tonnes C02e	42,264				
2	Forecast carbon emissions	Tonnes C02e	45,974	46,466	46,958	47,476	47,648
3	Actual carbon permit acquisition costs	$	972,072				
3a	Add UAFG costs from carbon	$	54,417				
4(a)	Forecast carbon permit acquisition costs	$	1,057,410	1,122,828	1,163,081	1,362,259	1,458,423
4(b)	Prior year (t-2) over (under) recovery	$	0	0	- 20,425	(9) [2013/14]	(9) [2014/15]
	Total 4(a) + 4(b)	$	1,057,410	1,122,828	1,142,656	1,362,259	1,458,423
	Forecast sales volumes						
5(a)	Volume Customers	GJ	3,015,979	3,107,683	3,200,635	3,297,103	
5(b)	Demand Customers	GJMHQ	2723	2737	2743	2753	
	Forecast carbon cost impact per unit						
6(a)	Volume Customers	$/GJ	0.1057	0.1111	0.1[illegible]19	0.1[illegible]19	0.1407
6(b)	Demand Customers	$/GJMHQ/day	0.7430	0.7794	0.7836	0.[illegible]228	1.[illegible]247
	Actual sales volumes						
7(a)	Volume Customers	GJ	3,102,844*				
7(b)	Demand Customers	GJMHQ/day	2,651				
	Actual carbon cost recovery						
8(a)	Volume Customers	$	(6a) * (7a)	(6a) * (7a)	(6a) * (7a)	(6a) * (7a)	(6a) * (7a)
8(b)	Demand Customers	$	(6b) * (7b)	(6b) * (7b)	(6b) * (7b)	(6b) * (7b)	(6b) * (7b)
	Total						
8(a)	Volume Customers		328,070.97				
8(b)	Demand Customers		718,843.34				
	Total		1,046,914.30				
9	Over (under) recovery	$	8(a)+8(b)-(3)	8(a)+8(b)-(3)	8(a)+8(b)-(3)	8(a)+8(b)-(3)	8(a)+8(b)-(3)
9	Over (under) recovery		20,425.30				

Allgas has applied the carbon costs outlined above to the approved operating costs for each of the relevant years and has recalculated the relevant tariffs as shown in the attached schedules.

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By letter dated 30 July 2012, the gas retailer engaged to supply the Unaccounted For Gas (UAFG) for the Allgas network advised that it would incur carbon costs associated with its supply of that gas, and would pass those carbon costs on to Allgas under the terms of the relevant gas supply agreement. Allgas has been invoiced an additional $54,417 for UAFG gas supply related carbon costs for the 2012/13 year. This amount was not included in the 2012/13 forecast carbon cost pass through. Accordingly, the actual cost has been reconciled through the reconciliation process outlined above.

Allgas hereby applies for approval of the $1,142,656 pass through amount to the tariff adjustment mechanism effective 01 July 2014.