

30 October 2015



Mr Craig Madden
Director
Australian Energy Regulator
360 Elizabeth St Melbourne
Victoria 3001

Dear Mr Madden,

Proposed 2016 Victorian Reference Tariffs

This letter sets out Australian Gas Networks' reasons for varying its Reference Tariffs to apply from 1 January 2016. AGN is proposing to vary its Reference Tariffs in a manner that is consistent with clause 4.3 of the *Access Arrangement for Envestra's Victorian Gas Distribution System* (hereafter referred to as the Access Arrangement).

Reference Tariffs: Domestic, Commercial and Demand Haulage Reference Services

The proposed adjustments to the Reference Tariffs for domestic (Tariff R), commercial (Tariff C) and demand (Tariff D) Haulage Reference Services to apply from 1 January 2016 are being made pursuant to clause 4.3 of the Access Arrangement. This allows Reference Tariffs to vary in accordance with a weighted average tariff basket mechanism, as detailed in section 4.4 and Annexure D of the Access Arrangement. Annexure D contains a Reference Tariff Control Formula and a Rebalancing Control Formula.

In broad terms, the Reference Tariff Control Formula allows AGN to change its tariffs so that the revenue derived from each of the Haulage Reference Services does not increase by an amount that is greater than $(1+CPI) \times (1-X) \times (1+L)$. The CPI is the change in the CPI for the 12 months to September 2015, which CPI is 1.5 per cent. The Licence Fee factor is 0.00% and X factor -3.0 per cent. The combination of the CPI, L factor and X factor results in an allowed change in Reference Tariffs for 2015 of 4.55 per cent.

The Rebalancing Control Formula allows AGN to change its tariffs so that the change in the revenue derived from an individual tariff within a particular category of Haulage Reference Service is no greater than $(1+CPI) \times (1-X) \times (1+L) \times (1+2\%)$. This allows a particular tariff to increase by no more than 6.6 per cent.

AGN's proposed 2016 Reference Tariffs comply with both the Reference Tariff Control Formula and the Rebalancing Control Formula. This has been demonstrated by the model provided to the AER setting out the application of the above formulae and the resultant Reference Tariffs. The models, tariff schedules and Licence Fee advice comprise attachments 1 to 3 respectively of this submission.

The Reference Tariff Control Formula and the Rebalancing Control Formula require the quantities used to be the period two years prior to the year that the proposed tariffs take effect, which in this case is 2014. An

independent review verifying the gas quantities has been undertaken and the associated report is provided as attachment 4.

Impact on Users

The table below shows the average impact on end users of the proposed change in tariffs on a GST exclusive basis.

Change in Average Customer Charge

Central Zone

Component	2016 (\$)	2015 (\$)	Quantity (p/a)	Cost Change (\$)
Tariff R	331.7	316.4	46.1 GJ	15.4
Tariff C	1,269.6	1,246.7	317.0 GJ	22.9
Tariff D	22,022.0	21,063.5	19.5 GJ MHQ	958.5

North Zone

Component	2016 (\$)	2015 (\$)	Quantity (p/a)	Cost Change (\$)
Tariff R	290.0	276.1	43.9 GJ	13.9
Tariff C	924.4	906.6	239.7 GJ	17.8
Tariff D	29,531.4	28,246.0	28.3 GJ MHQ	1,285.3

Murray Valley Victoria Zone

Component	2016 (\$)	2015 (\$)	Quantity (p/a)	Cost Change (\$)
Tariff R	266.6	252.2	33.9 GJ	14.4
Tariff C	857.5	839.2	183.5 GJ	18.4
Tariff D	54,315.9	51,951.9	48.0 GJ MHQ	2,364.1

Bairnsdale Zone

Component	2016 (\$)	2015 (\$)	Quantity (p/a)	Cost Change (\$)
Tariff R	430.0	406.4	27.5 GJ	23.6
Tariff C	3,720.5	3,658.7	823.7 GJ	61.8
Tariff D	17,834.3	17,058.1	7.7 GJ MHQ	776.2

Reference Tariffs: Ancillary Reference Services

AGN has also varied its Ancillary Reference Tariffs in a manner that is consistent with clause 4.4.2 of the Access Arrangement. Ancillary Reference Tariffs are to be adjusted by the annual change in the CPI, which is also calculated as the change in CPI for the 12 months ending September 2015. The calculation and resultant tariffs also form part of attachments 1 and 2.

Carbon Pass Through Tariffs

AGN has used Formula 4 of Annexure D of the Access Arrangement to determine the 2016 Carbon Pass Through, which amount is \$1,835 under recovery. Due to the small amount of under recovery AGN is proposing not to recover this amount from customers and will not be applying a carbon tariff in 2016.

The Carbon Pass Through Tariff calculation forms part of attachment 1. The supporting "S22 Liable Entity Report 2013/14" comprises attachments 5.

Summary

Attachment 1 comprises the model demonstrating the derivation of the proposed Reference and Carbon Pass Through Tariffs while attachment 2 comprises the tariff schedule detailing the proposed tariffs to apply from 1 January 2016.

Attachment 3 provides the licence fee advice while attachment 4 comprises the findings of the independent review of the 2014 quantities. Attachment 5 comprises S22 Liable Entity reports for 2013/14 in support of the carbon tariff calculation.

Please contact me on 08 8418 1112 should you wish to discuss this matter further.

Yours sincerely



Peter Bucki
Manager Regulatory Strategy