TARIFF VARIATION NOTICE

Evoenergy Access Arrangement for the ACT, Queanbeyan and Palerang gas distribution network. 1 July 2016 – 30 June 2021.

Version number 1 | Effective date: 15 March 2019

evoenergy

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1 Introduction

1.1　　Purpose

The 2016 Access Arrangement[1] (access arrangement) requires Evoenergy (formerly ActewAGL Distribution) to submit a variation notice and revised reference tariff schedule to the Australian Energy Regulator (AER) for approval on or before 15 March each year prior to the commencement of the next financial year (clause 7.18).

Evoenergy hereby provides its variation notice for the 2019/20 reference tariffs in accordance with clause 7.18 of the access arrangement and:

- sets out Evoenergy's proposed reference tariffs for the 2019/20 financial year (Attachment 1);

- demonstrates how these proposed 2019/20 reference tariffs comply with the relevant annual tariff variation mechanism specified in clause 7.4 of the access arrangement;

- calculates the automatic adjustment factor; and

- includes a statement to support the independently audited gas quantity inputs used in the annual reference tariff variation mechanism in clause 7.4 and the automatic adjustment factor in Schedule 4 of the access arrangement.

This submission varies Evoenergy's haulage reference tariff revenues by the proposed variation amount which reflects:

- the Consumer Price Index (CPI) - calculated in accordance with clause 7.4 of the access arrangement;

- the automatic adjustment factor for 2019/20;

- the cost pass through factor for 2019/20; and

- the annual allowed X-factor, updated by the AER on 25 January 2019 to account for the return on debt for 2019/20.

The annual allowed X-factor of 0.74778351671358 per cent updated by the AER supersedes the X-factor approved by the AER in its Final Decision: ActewAGL Distribution Access arrangement for the ACT, Queanbeyan and Palerang gas distribution network 1 July 2016 - 30 June 2021, published on 26 May 2016.

1.2　　Submission structure and access arrangement compliance

Evoenergy has structured this submission to demonstrate compliance with each requirement in clause 7 of the access arrangement:

Section 2: Tariff Categories – Schedule 3

Section 3: Variation notice – clause 7.18

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[1] The complete title of the Access arrangement is:

ActewAGL Distribution Access arrangement for the ACT, Queanbeyan and Palerang gas distribution network. 1 July 2016-30 June 2021.

Section 4: Annual reference tariff variation mechanism – clause 7.4

Section 5: Automatic adjustment factor – Schedule 4

1.3 Evoenergy tariff basket model

This submission also includes Evoenergy's proposed tariff basket model (Attachment 2). Evoenergy developed this model to demonstrate that the proposed 2019/20 reference tariffs comply with the formula in clause 7.4 of its access arrangement.

The model demonstrates that for 2019/20 Evoenergy has updated its reference tariffs for:

- CPI (calculated in accordance with clause 7.4 of the access arrangement);
- annual allowed X-factor (adjusted for the return on debt update);
- the automatic adjustment factor that reflects Unaccounted for Gas (UAG) costs, licence fees, carbon costs and relevant taxes; and
- verified gas quantity inputs for financial year t-2 (2017/18) (see section 3.3).

1.4 Submission standards and terminology

This submission employs the following standards:

- Unless otherwise stated, all prices are expressed in $2019/20
- For the purpose of relevant clauses and formulas in Evoenergy's access arrangement as applicable to this tariff variation notice:
  - *financial year t* is the 2019/20 financial year ending on 30 June 2020
  - *financial year t-1* is the 2018/19 financial year ending on 30 June 2019
  - *financial year t-2* is the 2017/18 financial year ending on 30 June 2018
- The term 'customer' should be interpreted as an end user of energy rather than a retailer.
- A reference to a clause is a reference to the access arrangement.

2 Tariff categories

In this section, Evoenergy sets out its tariff categories for 2019/20. The tariff categories for each reference service are those approved by the AER in its Final Decision on 26 May 2016 and are described in Schedule 3 of Evoenergy's access arrangement.

Table 2.1 Evoenergy's tariff categories

Tariff category	Description
Demand tariffs	
DBC	Demand Business Capacity
DBT	Demand Business Throughput
DBG	Demand Business Large Scale Generation
Volume tariffs	
VRI	Volume Residential Individual
VRH	Volume Residential Individual (gas heating combined with other gas appliances)
VRB	Volume Residential Boundary
VBS	Volume Small Business
VBM	Volume Medium Business
VRG	Volume Residential Large Scale Generation

3 Variation notice

3.1 Effective date of the proposed variation

The effective variation date for Evoenergy's 2019/20 reference tariffs is 1 July 2019 for the purpose of clause 7.18(b) of the access arrangement.

3.2 Compliance with the annual reference tariff variation mechanism

For the purpose of clause 7.18(c), Evoenergy's compliance with the annual tariff variation mechanism is described in Section 4 below and in Evoenergy's proposed tariff basket model in Attachment 2.

3.3 Gas quantity inputs

Evoenergy's annual tariff variation mechanism relies upon actual haulage reference tariff quantity inputs and total metering and ancillary charges for the year two years prior to the year in which the proposed tariffs will apply. For the 2019/20 variation notice, Evoenergy must use the audited quantities that correspond to financial year t-2, i.e. 2017/18.

KPMG has provided an independent reasonable assurance report for the quantities data to comply with the audit requirement in the tariff variation notice as per Clause 7.4. The KPMG report and the accompanying regulatory reporting statement are provided in Attachments 3 and 4.

4 Compliance with the annual tariff variation mechanism

This section explains how Evoenergy has complied with the reference tariff variation mechanism, which includes a specified tariff basket price control formula and side constraint formula applying to each tariff class.

4.1 Annual reference tariff variation mechanism

Evoenergy's annual tariff variation mechanism as defined in clause 7.4 includes two formulaic tests that apply to each tariff class:

1. The tariff basket price control formula:

Equation 1

$$(1 + CPI_t)(1 - X_t)(1 + A_t)(1 + PT_t) \geq \frac{\sum_{i=1}^{n}\sum_{j=}^{m} p_t^{ij}\, q_{t-2}^{ij}}{\sum_{i=1}^{n}\sum_{j=1}^{m} p_{t-1}^{ij} q_{t-2}^{ij}}$$

where Evoenergy has n reference tariffs and each reference tariff has up to m tariff components.

2. Side constraint formula:

Equation 2

$$(1 + CPI_t)(1 - X_t)(1 + A_t)(1 + PT_t)(1 + 0.02) \geq \frac{\sum_{i=1}^{n}\sum_{j=1}^{m} p_t^{ij} q_{t-2}^{ij}}{\sum_{i=1}^{n}\sum_{j=1}^{m} p_{t-1}^{ij} q_{t-2}^{ij}}$$

where Evoenergy has n Reference Tariffs within each tariff class and each of those reference tariffs has up to m tariff components.

and where for the purposes of each of the formulae above:

t	is the Financial Year for which the tariffs are being set;
p_t^{ij}	is the proposed tariff for component j of reference tariff i in Financial Year t, i.e. the new tariff to apply from the commencement of Financial Year t;
p_{t-1}^{ij}	is the tariff for component j of reference tariff i that is being charged in Financial Year $t-1$ at the time the variation notice is submitted to the relevant regulator for assessment or, for the purposes of scaling by the

q_{t-2}^{ij} relevant regulator in accordance with clause 7.25, at the time that scaling process commences;

is the audited quantity of component *j* of reference tariff *i* that was sold in Financial Year *t-2*;

CPI_t is the annual percentage change in the Australian Bureau of Statistics (ABS) CPI All Groups, Weighted Average of Eight Capital Cities from the December quarter in year *t–2* to the December quarter in year *t–1*, calculated using the following method:

> The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in financial year *t–1*
>
> divided by
>
> The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in financial year *t–2* minus one.

If the ABS does not, or ceases to, publish the index, then CPI will mean an index which the relevant regulator considers is the best available alternative index.

X_t means the *X* factor for Financial Year *t*, determined in accordance with the post-tax revenue model (PTRM), updated for the return on debt in accordance with clauses 6.9 to 6.12;

A_t is the automatic adjustment factor for Financial Year *t* calculated in accordance with clause 1 of Schedule 4; and

PT_t is the cost pass through factor for Financial Year *t* calculated in accordance with clause 2.5 of Schedule 4.

For 2019/20, the two formulas respectively constrain:

- The annual movement in total notional revenues to no more than 2.0583%.

- The annual movement in the notional revenues from any individual tariff class to no more than 4.0995%.

Evoenergy's proposed tariff basket model (Attachment 2) provides a detailed explanation of how Evoenergy has applied the formula in clause 7.4 of the access arrangement, to ensure the proposed 2019/20 haulage reference tariffs meet the constraints set out in clause 7.4.

4.2   Calculation of components of basket price control formula and side constraint

4.2.1   Calculation of CPI_t

This section describes how Evoenergy has calculated the annual CPI adjustment. The value of CPI applicable to the annual tariff variation mechanism is 1.78% (rounded to two decimal places). Evoenergy calculated this in accordance with clause 7.4.

This calculation involves Evoenergy obtaining the ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in 2018 and 2017. Evoenergy then divided

the CPI December 2018 index value of 114.1 by the CPI December 2017 index value of 112.1 and subtracted one. Based on this calculation, the CPI_t is 1.78 per cent.

Please refer to Attachment 1. for details of the calculation.

4.2.2 Calculation of *the updated X factor*

In line with clause 6.12 of the access arrangement, the AER has updated Evoenergy's return on debt for 2019/20 under the NGR r.87(12). On 25 January 2019, the AER provided Evoenergy with the updated X-factor for 2019/20 of 0.74778351671358 per cent.

4.2.3 Calculation of the automatic adjustment factor (A)

The calculation of the automatic adjustment factor is described in section 4 below and evidenced in Evoenergy's proposed reference tariff model in Attachment 1.

4.2.4 Calculation of the cost pass through factor

Clause 2.5 of Schedule 4 of the access arrangement defines the cost pass through factor PT_t as:

Equation 3

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

where:

PT'_{t-1} is:

(a)   zero when *t-1* refers to Financial Year 2016/17; and

(b)   the value of PT'_t determined in the Financial Year *t-1* for all other Financial Years in the 2016 Access Arrangement Period,

And

Equation 4

$$PT_t = \frac{AP_t}{(1 + CPI_t)(1 - X_t)(1 + A_t) \sum_{i=1}^{n} \sum_{j=1}^{m} p_{t-1}^{ij} q_{t-2}^{ij}}$$

where:

AP_t is

(a)   any determined pass through amount that the relevant regulator approves for Financial Year *t*; and/or

(b)   any pass through amounts arising from pass through events (as that term is defined in the access arrangement applying to Evoenergy immediately prior to this access arrangement) occurring in the 2010 period that Evoenergy proposes to pass through in whole or in part in Financial Year *t*, adjusted to include an amount to reflect the time value of money between incurring the costs and recovering the costs, and exclude any amounts already passed through in reference tariffs.

4.2.5 Calculation of the determined pass through amount, AP_t

Clause 7.8 of the 2016-21 access arrangement requires Evoenergy to notify the AER within 90 days of becoming aware of the occurrence of a cost pass through event which will or is likely to have an administrative cost impact. Clause 7.6 defines a cost pass through event as one of the following:

(a)   a regulatory change event;

As per Schedule 1 of the access arrangement, this is defined as a change in regulatory obligation or requirement that:

- falls within no other category of pass through event; and
- occurs during the course of an Access Arrangement Period; and
- substantially affects the manner in which Evoenergy provides the reference service; and
- materially increases or materially decreases the costs of providing those services.

Evoenergy notifies that a regulatory change event has not occurred.

(b)   a service standard event;

As per Schedule 1 of the access arrangement, this is defined as a legislative or administrative act or decision that:

- has the effect of:

(i)   substantially varying, during the course of an access arrangement period, the manner in which Evoenergy is required to provide the reference service; or

(ii)   imposing, removing or varying, during the course of an access arrangement period, the minimum service standards applicable to the reference service; or

(iii)   altering, during the course of an access arrangement period, the nature or scope of the Reference Service provided by Evoenergy; and

- materially increases or materially decreases the cost to Evoenergy of providing the reference service.

  Evoenergy notifies that a service standard event has not occurred.

(c)   an insurance cap event;

As per Schedule 1 of the access arrangement, this is defined as an event where:

- Evoenergy makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy;
- Evoenergy incurs costs beyond the policy limit; and
- the costs beyond the policy limit increase the costs to Evoenergy of providing the Reference Service.

  Evoenergy notifies that an insurance cap event has not occurred.

(d)   an insurer credit risk event;

As per Schedule 1 of the access arrangement, this is defined as an event where an insurer becomes insolvent and, as a result, in respect of an existing, or potential, claim for a risk that was insured by the insolvent insurer, Evoenergy:

- is subject to a higher or lower claim limit or a higher or lower deductible than would have otherwise applied under the insolvent insurer's policy; or

- incurs additional costs associated with self-funding an insurance claim, which would otherwise have been covered by the insolvent insurer.

Evoenergy notifies that an insurer credit risk event has not occurred.

(e)   a terrorism event;

As per Schedule 1 of the access arrangement, this is defined as an act (including, but not limited to, the use of force or violence, the threat of force or violence) of any person or group of persons (whether acting alone or on behalf of or in connection with any organisation or government), which:

- from its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear); and

- which increases the cost to Evoenergy in providing the reference service.

Evoenergy notifies that a terrorism event has not occurred.

(f)   a natural disaster event;

As per Schedule 1 of the access arrangement, this is defined as any natural disaster including but not limited to fire, flood or earthquake that occurs during the 2016 access arrangement period that increases the costs to Evoenergy in providing the Reference Service, provided the fire, flood or other event was not a consequence of the acts or omissions of Evoenergy.

Evoenergy notifies that a natural disaster event has not occurred.

(g)   a network user failure event.

As per Schedule 1 of the access arrangement, this is defined as the occurrence of an event where:

- a Retailer of Last Resort (RoLR) Event as defined in section 122 of the National Energy Retail Law (NERL) has occurred; and

- Evoenergy incurs costs in responding to the RoLR Event in accordance with its obligations under the NERL, National Energy Retail Rules (NERR), National Gas Law (NGL) or National Gas Rules (NGR) (including Guidelines and procedures that are binding under those instruments); and

- The costs are not recoverable by Evoenergy under other provisions of the NERL, NERR, NGL or NGR as in force at the time of the event, including but not limited to rule 531 of the NGR and other pass through events in this access arrangement.

Evoenergy notifies that a network user failure event has not occurred.

As per Clause 7.11 of the access arrangement, Evoenergy has not notified the AER that any cost pass through event has occurred and therefore, the determined pass through amount, as defined in Schedule 1 and denoted by AP_t, is equal to zero for 2019/20.

This results in a value of zero for PT'_t in **Equation 4**.

4.2.6 Calculation of the prices (p) and quantities (q)

In line with clause 7.18 (d) of the access arrangement, Evoenergy is required to include a statement to support the gas quantity inputs in the annual reference tariff variation mechanism. This statement must be independently audited and the gas quantity input must reflect the most recent actual Financial Year quantities available. The independent audit was performed by KPMG and the statement is provided in Attachment 3.

Evoenergy's annual tariff variation mechanism relies on actual haulage reference tariff quantity inputs from two years prior to the financial year in which the proposed tariffs will apply. For the 2019/20 variation notice Evoenergy must use the actual quantities that correspond to financial year *t-2* (i.e. 2017/18), which is the most recent actual financial year for which quantity inputs are available at this time.

5 Calculation of automatic adjustment factor

This section shows how Evoenergy has calculated the automatic adjustment factor in accordance with section 1 of Schedule 4 of the access arrangement.

As per Attachment 2, the automatic adjustment factor is given by 1.02 per cent. Its derivation is shown below.

The automatic adjustment factor is given by

Equation 5

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

where:

A'_{t-1} is:

> zero when *t-1* refers to Financial Year 2016-17; and

> the value of A'_t determined for the Financial Year *t-1* for all other years;

and

A'_t is:

Equation 6

$$A'_t = \frac{(L_{t-2} + U_{t-2} + C_{t-2} + T_{t-2}) \times [(1 + realWACC_t) \times (1 + realWACC_{t-1}) \times (1 + CPI_{t-1})]}{(1 - X_t) \sum_{i=1}^{n} \sum_{j=1}^{m} p_{t-1}^{ij} q_{t-2}^{ij}}$$

where:

t	is the Financial Year for which tariffs are being set;
L_{t-2}	is the licence fee factor amount, as defined in this Schedule 4, for Financial Year *t-2*;

real WACC$_t$ is the pre-tax real weighted average cost of capital for Financial Year *t* determined in accordance with the PTRM using the updated return on debt for Financial Year *t* determined in accordance with clauses 6.1 to 6.24;

real WACC$_{t-1}$ is the pre-tax real weighted average cost of capital determined for Financial Year *t-1*;

U_{t-2} is the Unaccounted for Gas (UAG) factor amount, as defined in this Schedule 4, for Financial Year *t-2*;

C_{t-2} is the carbon cost factor amount, as defined in this Schedule 4, for Financial Year *t-2*;

T_{t-2} is the Relevant Tax factor amount for Financial Year *t-2*;

CPI_t has the same meaning as set out in clause 7.4;

CPI_{t-1} is the value of CPI_t determined for the Financial Year *t-1*;

X_t has the same meaning as set out in clause 7.4;

p_{t-1}^{ij} has the same meaning as set out in clause 7.4; and

q_{t-2}^{ij} has the same meaning as set out in clause 7.4.

From **Equation 5,** given that A'_{t-1}=0.47% and A'_t=1.50%[2], therefore A_t =1.02%. The derivation of the different components of A'_t is described below.

5.1 Calculation of licence fee factor amount, L_{t-2}

Clause 2.1 of Schedule 4 of the access arrangement sets out the calculation of the licence fee factor amount for Financial Year t-2 (i.e. 2017/18). The licence fee adjustment, L_{t-2}, is defined as the difference between the actual licence fee costs for 2017/18 and the corresponding forecast licence fee costs allowed in the AER's final decision for 2017/18.

The actual amount paid by Evoenergy in licence fees in 2017/18 was ▮▮▮▮▮▮▮ which comprised of the Utilities Network Facilities Tax (UNFT) and the Energy Industry Levy (EIL), both payable to the ACT Government. The UNFT is a charge on owners of utility network facilities, including electricity, water, gas and telecommunications, and is charged at a rate per kilometre of infrastructure. The EIL is used to recover the costs of regulating utilities. The amount Evoenergy forecast to pay in licence fees ▮▮▮▮▮▮▮ was subtracted from the actual amount, to derive the ▮▮▮▮▮ amount Evoenergy seeks to pass through the customers.

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[2] Attachment 2, Evoenergy's Tariff Basket Model – 2019-20 Final - AER spreadsheet (Confidential)

Table 5.1 Calculation of the licence fee factor amount

	Actual	Forecast	Difference
UNFT	$6,917,874.29	$6,643,687.39	$274,186.90
EIL	███████	$559,674.44	███████
Total	███████	**$7,203,361.83**	███████

Note: Amounts are expressed in 2017/18 dollars.

5.2 Calculation of the UAG factor amount

Clause 2.2 of Schedule 4 of the access arrangement sets out the calculation of the UAG factor amount for Financial Year *t-2* (i.e. 2017/18).

Evoenergy followed the methodology outlined in clause 2 of Schedule 4 of the access arrangement to derive the amount payable in UAG. Total gas receipts for 2017/18 in GJ was multiplied by the UAG cost for 2017/18, measured in $/GJ. This amount was then multiplied by the UAG target rate of 1.96 per cent, to derive the figure of ███████. The forecast amount for UAG of ███████ was then subtracted from ███████, to determine the $386,145.02 figure depicted in Table 5.2.

Table 5.2 Calculation of the UAG cost pass through amount

2017/18	$2017/18
Total gas receipts in GJ for 2017/18	███████
UAG cost in $/GJ for 2017/18	███████
UAG target rate	1.96%
Evoenergy benchmark costs for purchases of gas as UAG	███████
Forecast total UAG costs	███████
UAG factor amount, U_{t-2}	███████

5.3 Calculation of the carbon cost factor amount

Clause 2.3 of Schedule 4 of the access arrangement allows the calculation of the carbon cost factor amount for 2017/18 as the difference between the actual and forecast cost incurred by Evoenergy as a result of a carbon scheme for 2017/18.

The carbon tax legislation was repealed on 17 July 2014, with effect from 1 July 2014. On 1 August 2014, Evoenergy submitted an application for a negative tax change pass through event as a result of the repeal of the carbon tax. On 17 October 2014, the AER determined that a negative carbon pass through event occurred and approved the negative pass through amount which represented a return to customers of carbon costs already collected by Evoenergy in its reference tariffs from 1 July to 31 August 2014 and carbon costs for the period 1 September 2014 to 30 June 2015, for which customers would not be charged. Evoenergy's reference tariffs were changed from 1 September 2014 to reflect

the removal of the carbon price component and no further adjustments were made beyond this time.

5.4 Calculation of the relevant tax factor amount

Clause 2.4 of Schedule 4 of the access arrangement calculates the relevant tax factor amount for 2017/18 as the difference between the actual and forecast costs incurred by Evoenergy in paying any relevant tax for 2017/18.

As per Schedule 1 of the access arrangement, a relevant tax is defined as any tax other than:

(a) a tax in the nature of an income tax or a capital gains tax;

(b) penalties, charges, fees and interest on late payments, or deficiencies in payments, relating to any tax;

(c) stamp duty, or similar taxes and duties;

(d) the Australian Energy Market Operator fee, the EIL and the UNFT; and

(e) any tax that replaces or is the equivalent of or similar to any of the taxes referred to above.

Evoenergy determined that it did not incur any relevant tax for the financial year 2017/18.

5.5 Calculation of the Weighted Average Cost of Capital (WACC)

Evoenergy used the AER-determined pre-tax real WACCs for 2019/20 and 2018/19 as described in a letter from the AER to Evoenergy dated 25 January 2019.

Table 5.3 Evoenergy pre-tax WACC

	2018/19	**2019/20**
Pre-tax real WACC (%)	4.10	4.13

5.6 Calculation of the CPI_{t-1} adjustment

This section shows how Evoenergy has calculated the annual CPI adjustment. The value of CPI applicable to the annual tariff variation mechanism is 1.91 per cent (rounded to two decimal places). Evoenergy calculated this in accordance with clause 7.4.

This calculation involves Evoenergy obtaining the ABS CPI All Groups Weighted Average of Eight Capital Cities for the December quarter in 2017 and 2016. Evoenergy then divided the CPI December 2017 index value of 112.1 by the CPI December 2016 index value of 110.0 and subtracted one. Based on this calculation, the CPI_{t-1} is 1.91 per cent.

5.7 Calculation of the P x Q

To calculate the P x Q component of the automatic adjustment factor formula Evoenergy used:

- *t-1* year approved prices. For the 2019/20 variation notice, *t-1* prices are the 2018/19 tariffs, as approved by the AER in its Statement of Reasons[3] on 30 April 2018. These are the current Evoenergy prices that are in place until the 2019/20 tariff variation notice is approved by the AER and takes effect.

- *t-2* audited quantities. In line with the requirements of clause 7.18 (d) of the access arrangement, and as outlined in the section 4.2.6 of this document, Evoenergy has used independently audited quantities.

The above inputs described in sections 4 and 5 above are used as inputs to the tariff basket model (Attachment 2) to calculate reference tariffs for 2019/20.

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[3] AER (2018), Statement of Reasons for approval of Evoenergy 2018-19 annual tariff variation proposal – 30 April 2018.

Attachment 1. Gas network reference tariff schedule for Evoenergy gas distribution network in ACT, Queanbeyan and Palerang – Schedule of charges, effective 1 July 2019 – attached as a separate document

Attachment 2.   Evoenergy's tariff basket model 2019/20 (Confidential) – attached as a separate document

Attachment 3. KPMG gas volume audit report

– attached as a separate document

Attachment 4.   Audited gas quantity inputs for the regulatory year 1 July 2017 to 30 June 2018 (Confidential) – attached as a separate document