TARIFF VARIATION NOTICE

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

Effective date: April 2020

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 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). This revised version of the submission takes into account the ACT Government's recent change to the Utilities Network Facilities Tax (UNFT), in response to COVID-19.

Evoenergy hereby provides its variation notice for the 2020/21 reference tariffs in accordance with clause 7.18 of the access arrangement. The variation notice:

- sets out Evoenergy's proposed reference tariffs for the 2020/21 financial year (Attachment 1);
- demonstrates how these proposed 2020/21 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 calculation of the automatic adjustment factor as per Schedule 4 of the access arrangement.

This submission proposes to vary Evoenergy's haulage reference tariff revenues by a 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 2020/21;
- the cost pass through factor for 2020/21; and
- the annual allowed X-factor, updated by the AER to account for the return on debt for 2020/21.

The X-factor has been updated by the AER for 2020/21 to negative 2.44160816165364 per cent, which supersedes the X-factor approved by the AER in its Final Decision, 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

[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 2020/21 reference tariffs comply with the formula in clause 7.4 of its access arrangement.

As shown in the model, for 2020/21 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, actual licence fees, carbon costs and relevant taxes; and
- verified gas quantity inputs for financial year t-2 (2018/19) (see section 3.3).

1.4 Submission standards and terminology

This submission employs the following terms and standards.

- Unless otherwise stated, all prices are expressed in $2020/21
- For the purpose of the relevant clauses and formulas in Evoenergy's access arrangement as applicable to this tariff variation notice:
    - *financial year t* is the 2020/21 financial year ending on 30 June 2021
    - *financial year t-1* is the 2019/20 financial year ending on 30 June 2020
    - *financial year t-2* is the 2018/19 financial year ending on 30 June 2019
- 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 that clause in the access arrangement.

2 Tariff categories

In this section, Evoenergy sets out its tariff categories for 2020/21. 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 2020/21 reference tariffs is 1 July 2020 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 quantities from two years prior to the year in which the proposed tariffs will apply. For the 2020/21 variation notice, Evoenergy must use the audited quantities that correspond to financial year *t-2*, i.e. 2018/19.

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 tariff basket price control formula and side constraint formula.

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

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

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

2. Side constraint formula applying to each Tariff Class.

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 relevant regulator in accordance with clause 7.25, at the time that scaling process commences;

q_{t-2}^{ij} 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.

For 2020/21, the two formulas respectively constrain:

- the annual movement in total notional revenues to no more than 2.8499 per cent; and
- the annual movement in the notional revenues from any individual tariff to no more than 4.9069 per cent.

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 2020/21 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 2020/21 tariff variation mechanism is 1.84 per cent (rounded to two decimal places). Evoenergy calculated this in accordance with clause 7.4.

This calculation involves obtaining the ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in 2019 and 2018.[2] CPI is calculated by dividing the CPI December 2019 index value of 116.2 by the CPI December 2018 index value of 114.1. Based on this calculation, CPI_t is 1.84 per cent.

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

4.2.2 Calculation of the updated X factor

In accordance with clause 6.12 of the access arrangement, the AER has updated Evoenergy's return on debt for 2020/21 under the National Gas Rules (NGR) r.87(12). On 2 March 2020, the AER provided Evoenergy with the updated X-factor for 2020/21 of negative 2.44160816165364 per cent.

[2] Australian Bureau of Statistics (ABS), *6401.0 Consumer Price Index*, Australia, December 2019.

4.2.3 Calculation of the automatic adjustment factor (A)

The calculation of the automatic adjustment factor is described in section 5 below and is detailed in Evoenergy's proposed tariff basket 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 2010–2016 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; (b) a service standard event; (c) an insurance cap event;

(d) an insurer credit risk event;

(e) a terrorism event;

(f) a natural disaster event;

(g) a network user failure event.

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 proposed pass through denoted by AP_t, is equal to zero for 2020/21.

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 2020/21 variation notice, Evoenergy must use the actual quantities that correspond to financial year *t-2* (i.e. 2018/19), which is the most recent actual financial year for which quantity inputs are available.

5 Calculation of automatic adjustment factor

This section shows the calculation of the automatic adjustment factor in accordance with section 1 of Schedule 4 of the access arrangement.

As shown in Attachment 2, the automatic adjustment factor is given by negative 1.42 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}= 1.45 per cent and A'_t= 0.01 per cent,[3] the value of A_t is calculated to be negative 1.42 per cent. 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. 2018/19). The licence fee adjustment, L_{t-2}, is defined as the difference between the actual licence fee costs for 2018/19 and the corresponding forecast licence fee costs allowed in the AER's final decision for 2018/19.

The actual amount paid by Evoenergy in licence fees in 2018/19 was $7,820,580 ($2018-19) which comprises the UNFT and Energy Industry Levy (EIL), both payable to the ACT Government.[4] The amount Evoenergy forecast to pay in licence fees in 2018/19 ($7,632,149) was subtracted from the actual amount, giving $188,430 ($2018-19) which is the amount Evoenergy seeks to pass through to customers in its 2020/21 tariffs in respect of 2018/19.

In addition to the 2018/19 licence fee factor amount, Evoenergy is also seeking an adjustment for 2019/20 UNFT in 2020/21 tariffs, reflecting the ACT Government's decision to freeze the UNFT rate for the year ending 31 March 2020. This is described in the section below.

5.1.1 UNFT adjustment

In each year of the access arrangement, Evoenergy is required to make a UNFT adjustment for the t-2 financial year to account for the difference between actual UNFT payments and the forecast in the AER final decision. However, the UNFT is paid to the ACT Government each year for the year ending 31 March, and therefore the actual UNFT amount for the full t-2 financial year is not available at the time of the tariff variation submission. This requires Evoenergy to forecast UNFT payments for the last 3 months of

[3] Attachment 2, Evoenergy's Tariff Basket Model – 2020/21 (Confidential).

[4] The UNFT is a charge on utility network facilities, including electricity, water, gas and telecommunications, and is charged at a rate per kilometre of infrastructure. The EIL is designed to recover the costs of regulating utilities.

the financial year to calculate the UNFT adjustment. Evoenergy then reconciles the forecast in the following year when actual payment data are available.

As part of its 2019/20 variation notice, Evoenergy included a UNFT adjustment which comprised:

1) an adjustment for the variation in the actual UNFT amounts for 2015/16 and 2016/17 (used respectively for the 2017/18 and 2018/19 gas network price proposals); and

2) an adjustment for UNFT in 2017/18, reflecting actual UNFT payments for the full financial year which became available at the time of Evoenergy's revised tariff variation notice.[5]

Therefore, all historical UNFT variations up to an including 2017/18 have been reconciled. For this 2020/21 tariff variation notice, Evoenergy is seeking an adjustment for UNFT amounts in respect of the 2018/19 and 2019/20 year. The UNFT payments for 2018/19 have been estimated by taking nine months of actual payments (July 2018 to March 2019) from the April 2018 to March 2019 UNFT period, plus a forecast of the remaining three months (April to June 2019) from the April 2019 to March 2020 UNFT period. The forecast is necessary because the actual UNFT payments for the period April 2019 to March 2020 are not known at the time of this submission.

In response to the impact of COVID-19, the ACT Government has recently announced that it will freeze the UNFT at the current level (i.e. $1,265/km for the year ending 31 March 2019) for the year ending 31 March 2020.[6] For this reason, Evoenergy has resubmitted its 2020/21 Tariff Variation Notice to pass through the reduction in UNFT payments to ACT customers from 1 July 2020. Since the first three months of the April 2019 to March 2020 UNFT period are already included in the 2018/19 UNFT adjustment (as described above), the 2019/20 UNFT adjustment includes only the remaining nine months of the UNFT period.

Evoenergy proposes that any variance between the forecast and actual UNFT payments for April 2019 – March 2020 will be adjusted for in its 2021–26 access arrangement.

The calculation of the 2020/21 licence fee factor amount, including both the UNFT and EIL is presented in Table 5.1 below. The total licence fee factor amount to be incorporated in 2020/21 pricing is -$84,399.51

[5] Evoenergy's revised tariff variation notice was submitted on 14 May 2019, and therefore actual UNFT payments for 2017/18 were known at this time. In a typical year, the tariff variation notice is submitted by 15 March and thus an estimate for UNFT payments is required.

[6] *Taxation Administration (Amounts Payable-Utilities (Network Facilities Tax)) Determination 2020*, a disallowable instrument under the *Taxation Administration Act 1999* (ACT).

Table 5.1 Calculation of the licence fee factor amount

	Actual	Forecast	Difference
2018/19 UNFT^	$7,250,085.01	$7,064,051.77	$186,033.24
2019/20 UNFT^	$5,478,243.79	$5,751,073.32	-$272,829.53
2018/19 EIL	$570,494.51	$568,097.72	$2,396.79
Total 2018/19	**$7,820,579.52**	**$7,632,149.50**	**$188,430.03**
Total 2019/20	**$5,478,243.79**	**$5,751,073.32**	**-$272,829.53**
		Total license fee factor	**-$84,399.51**

^ UNFT payments for 2018/19 have been estimated using nine months of actual payments (July 2018 to March 2019) from the April 2018 to March 2019 UNFT period, and three months of forecast payments (April to June 2019) from the April 2019 to March 2020 UNFT period. The 2019/20 UNFT amount shown in the table accounts for the remaining nine months of the April 2019 to March 2020 UNFT period. Therefore, the actual and forecast amounts shown for 2019/20 cover only a 9 month period.

5.2 Calculation of the UAG factor amount

Clause 2.2 of Schedule 4 of the access arrangement sets out the method for calculating the UAG factor amount for Financial Year *t-2* (i.e. 2018/19). The calculation is shown in Table 5.2. The benchmark UAG costs for 2018/19 are calculated by multiplying total gas receipts by the UAG cost (in $/GJ) and then by the UAG target rate of 1.96 per cent. The UAG factor adjustment is then calculated by subtracting the forecast UAG amount of [redacted] from the benchmark UAG cost of [redacted]. This gives a UAG factor adjustment of [redacted] for 2018/19.

Table 5.2 Calculation of the UAG cost pass through amount

2018/19	**$2018/19**
Total gas receipts in GJ for 2018/19	[redacted]
UAG cost in $/GJ for 2018/19	[redacted]
UAG target rate	1.96%
Evoenergy benchmark costs for purchases of gas as UAG	[redacted]
Forecast total UAG costs	[redacted]
UAG factor amount, U_{t-2}	[redacted]

5.3 Calculation of the carbon cost factor amount

Clause 2.3 of Schedule 4 of the access arrangement describes the method for calculating the carbon cost factor amount.

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. This 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.

There is no carbon cost adjustment required for the 2020/21 tariff variation notice, and therefore the carbon cost factor is set to zero.

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 2018/19 as the difference between the actual and forecast costs incurred by Evoenergy in paying any relevant tax for 2018/19.

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 taxes for the financial year 2018/19, and therefore the tax factor is set to zero.

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

Evoenergy used the AER-determined pre-tax real WACCs for 2020/21 and 2019/20 as outlined in the AER's letter to Evoenergy dated 2 March 2020, as shown in Table 5.3 below.

Table 5.3 Evoenergy pre-tax WACC

	2019/20	2020/21
Pre-tax real WACC (%)	4.10	3.97

5.6 Calculation of the CPI_{t-1} adjustment

This section describes the calculation of the annual CPI adjustment. The value of CPI_{t-1} applicable to the annual tariff variation mechanism is 1.78 per cent (rounded to two decimal places).

In accordance with clause 7.4, CPI is calculated using the ABS CPI All Groups Weighted Average of Eight Capital Cities. The index value for December quarter 2018 (114.1) is

divided by the index value for December quarter 2017 (112.1) to arrive at CPI_{t-1} of 1.78 per cent.

5.7 Calculation of the P x Q

The calculation of the 'P x Q' component of the automatic adjustment factor formula uses the following components.

- ***t-1* year approved prices:** for the 2020/21 variation notice, *t-1* prices are the 2019/20 tariffs, as approved by the AER in its Statement of Reasons[7] on 29 May 2019. These are the current Evoenergy prices that are in place until the 2020/21 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 0 of this document, Evoenergy has used independently audited quantities.

The inputs described in sections 4 and 5 above are used as inputs to the tariff basket model (Attachment 2) to calculate reference tariffs for 2020/21.

[7] AER (2019), Statement of Reasons for approval of Evoenergy 2019-20 annual tariff variation proposal – 29 May 2019.

Attachment 1. Gas Distribution Network Schedule of Charges_Effective 1 July 2020_Revised– attached as a separate document

Attachment 2. Evoenergy's Tariff Basket model - 2020-21 AER Version_Revised (Confidential) – attached as a separate document

Attachment 3. KPMG gas volume audit report 2020-21– attached as a separate document

Attachment 4. Evoenergy Regulatory Reporting Statement 1 July 2018 to 30 June 2019 Confidential – attached as a separate document