

# Jemena Gas Networks (NSW) Ltd

## Tariff Variation Notice

2014-15 reference tariffs

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# 1. INTRODUCTION

## 1.1 PURPOSE

The 2010 Access Arrangement (**AA**)<sup>1</sup> requires that Jemena Gas Networks (NSW) Ltd (**JGN**) submit its proposed reference tariffs to the Australian Energy Regulator (**AER**) for approval on or before 15 April each year. This submission provides JGN's proposed 2014–15 reference tariffs.

JGN hereby provides:

- its variation notice for 2014-15 reference tariffs in accordance with AA clause 3.4(b)(i)
- its cost pass-through event application in accordance with AA clause 3.4(f) for annual carbon pass-through (**CPT**) due to the 2011 Carbon Pollution Reduction Scheme (**CPRS**) event, unaccounted for gas (**UAG**) and licence fee adjustment.

The variation notice:

- sets out JGN's proposed reference tariffs for the 2014-15 financial year
- demonstrates how these proposed 2014–15 reference tariffs comply with the relevant annual tariff variation mechanism
- calculates JGN's 2014–15 CPT costs and applies these costs to its haulage reference tariffs
- calculates JGN's annual UAG adjustment and applies this to its haulage reference tariffs
- calculates JGN's licence fee adjustment and applies this to its haulage reference tariffs.

This submission escalates JGN's haulage reference tariff revenues by the Consumer Price Index (**CPI**) and the annual allowed X factor approved by the AER in its Final decision: Jemena Gas Networks Mine subsidence expenditure published in September 2011 (**AER Final Decision post mine subsidence**). The annual allowed X factor in these documents supersedes the X factor approved by the AER in its Final decision: Jemena Gas Networks Access arrangement proposal for the NSW gas networks 1 July 2010 – 30 June 2015, published in June 2010 (the **AER Final Decision 2010**).

## 1.2 SUBMISSION STRUCTURE AND AA COMPLIANCE

JGN has structured this submission to demonstrate compliance with each requirement in clause 3 of its AA:

- section 2—tariff classes – clause 3.3
- section 3—variation notice – clause 3.4(c)
- section 4—calculation of CPI adjustment – clause 3.5B
- section 5—meter data reference service tariff variation – clause 3.5(c)

<sup>1</sup> The Access Arrangement (post mine subsidence): JGN's NSW gas distribution networks, 1 July 2010 – 30 June 2015, published in September 2011 (**AA**)

- section 6—haulage reference tariff annual tariff variation mechanism – clause 3.5A
- section 7—pass-through event application, tariff adjustments and pass-through events – clauses 3.4(f)(i), 3.5C and 3.5D.

## 1.2.1 PRICING MODEL

This submission also includes JGN's proposed reference tariff model (**Attachment 1**). JGN developed this model to satisfy clause 3.4(c)(ii) of its AA. This model provides the mathematical proof that JGN's proposed 2014–15 reference tariffs comply with the annual tariff variation mechanism in section 3.5A of its AA.

The model is the same model that JGN provided to the AER with its previously approved reference tariff variation notices within the current AA period. As required by JGN's AA, JGN has updated the model for:

- CPI
- annual allowed X factor
- actual gas quantity inputs for financial year t-2 (2012-13)
- carbon, UAG and licence fee pass through events.

## 1.2.2 SUBMISSION VALUES AND TERMINOLOGY

This submission employs the following standards:

- unless otherwise indicated, all prices are expressed in \$2015.
- for the purpose of relevant clauses and formulae in JGN's AA as applicable to this tariff variation notice:
  - *financial year t* is the 2014–15 financial year ending on 30 June 2015
  - *financial year t-1* is the 2013–14 financial year ending on 30 June 2014
  - *financial year t-2* is the 2012–13 financial year ending on 30 June 2013
- the term 'customer' should be interpreted as an end consumer of energy rather than a retailer
- a reference to a clause is a reference to a clause of the AA.

## 2. TARIFF CLASSES

In this section JGN sets out its tariff classes for 2014–15. The tariff classes for each reference service are those approved by the AER Final Decision 2010.

### 2.1 JGN'S TARIFF CLASSES

JGN's approved tariff classes for all reference services are set out below and described in schedule 2 of its AA.

**Table 2–1: JGN's tariff classes**

Tariff class	Tariff class
Demand capacity (DC) 1	DCFR 7
DC 2	DCFR 8
DC 3	DCFR 9
DC 4	DCFR 10
DC 5	DCFR 11
DC 6	Demand major end-customer throughput (DMT) 1
DC 7	DMT 2
DC 8	DMT 3
DC 9	DMT 4
DC 10	DMT 5
DC 11	Demand major end-customer throughput—1 <sup>st</sup> response (DMTFR) 1
DC country	DMTFR 2
Demand throughput (DT)	DMTFR 3
Demand capacity—1 <sup>st</sup> response (DCFR) 1	DMTFR 4
DCFR 2	DMTFR 5
DCFR 3	Volume coastal
DCFR 4	Volume country
DCFR 5	
DCFR 6	

### 3. VARIATION NOTICE

Sections 3 to 7 of this submission constitute JGN's variation notice for the purpose of clause 3.4(b)(i) of the AA. This section sets out how JGN has complied with each of the variation notice requirements set out in clause 3.4(c) of the AA.

#### 3.1 EFFECTIVE DATE OF VARIATION

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The effective date of variation for JGN's 2014–15 reference tariffs is 1 July 2014 for the purpose of clause 3.4(c)(i) of the AA.

#### 3.2 COMPLIANCE WITH ANNUAL TARIFF VARIATION MECHANISM

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For the purpose of clause 3.4(c)(ii), JGN's compliance with the annual tariff variation mechanism is described in section 6 below and evidenced in JGN's proposed reference tariff model at **Attachment 1**.

JGN has also shown compliance with the meter data service reference tariff variation method set out in clause 3.5(c) in section 4 below and in **Attachment 1**.

#### 3.3 GAS QUANTITY INPUTS

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JGN's annual tariff variation mechanism relies upon actual haulage reference tariff quantity inputs from two years prior to the year in which the proposed tariffs will apply. For the 2014–15 variation notice JGN must use the actual quantities that correspond to Financial Year t-2.

JGN submitted its response to the AER's 2012–13 annual Regulatory Information Notice (RIN) to the AER on 15 Nov 13. In that RIN response, JGN stated the actual demand for 2012–13 (in petajoules (**PJ**)) for the volume market was 36.457 PJ and for the demand market was 57.892 PJ.

JGN re-ran the analysis of 2012–13 gas quantities on 6 Mar 14 for this 2014–15 variation notice to give the best quality data available. The 6 Mar 14 analysis gave a slightly different figure for total consumption of 36.386 PJ for the volume market and the same figure of 57.892 PJ for the demand market. The slight variance for the volume market is due to meter reading corrections processed after Dec 13 for billings which were originally calculated in the 2012–13 regulatory year.

##### 3.3.1 STATEMENT OF GAS QUANTITY INPUTS

Clause 3.4(c)(iii) of the AA requires JGN to provide an officer statement to support the gas quantity inputs in the tariff variation formula. This is provided at **Attachment 2**.



## 4. CALCULATION OF CPI ADJUSTMENT

This section shows how JGN has calculated the annual CPI adjustment.

The value of CPI applicable to the annual tariff variation mechanism and to meter data service reference tariffs in 2014–15 is 2.75% (rounded to two decimal places). JGN calculated this in accordance with clause 3.5B(a) of the AA as set out in the 'Input I General' worksheet of **Attachment 1**.

This calculation involved JGN obtaining the CPI: all groups index for the eight state capitals as published by the Australian Bureau of Statistics (**ABS**) for the December quarter in 2013 and 2012. JGN then divided the CPI Dec 13 index value of 104.8 by the CPI Dec 2012 index value of 102 and subtracted one.

Note that during 2012, the ABS adjusted the baseline of the CPI indices it publishes. This has implications for the tariff model that JGN uses for its annual tariff variation notice. JGN contacted the AER in Feb 2013 to outline the situation and propose an appropriate approach. The AER agreed to the JGN approach to use the historical ABS indices previously used up until 2011, with the new indices to be used from 2012 going forward. The supporting correspondence is provided at **Attachment 3**.

### 5. METER DATA SERVICE REFERENCE TARIFF VARIATION

This section shows how JGN has complied with the reference tariff variation method for meter data service reference tariffs and sets out its proposed 2014–15 meter data service reference tariffs.

#### 5.1 PROPOSED 2014–15 METER DATA SERVICE REFERENCE TARIFFS

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In accordance with clauses 3.5(c) and 3.5A, JGN has escalated all tariff components of its meter data service reference tariffs by CPI and the approved meter data service X factor of -0.80. CPI is 2.75% calculated in accordance with clause 3.5B(a)—see section 4.

JGN's proposed meter data service reference tariffs are set out in its proposed 2014-15 reference tariff schedule at **Attachment 4**.

## 6. HAULAGE REFERENCE TARIFF ANNUAL TARIFF VARIATION MECHANISM

This section explains how JGN has complied with the reference tariff variation mechanism for haulage reference tariffs described in clause 3.5A of the AA and sets out its proposed 2014–15 haulage reference tariffs.

### 6.1 VARIATION MECHANISMS

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JGN's annual tariff variation mechanism as defined in clause 3.5A includes two formulaic tests:

- weighted average price cap
- side constraint.

In 2014–15 these respectively constrain:

- the annual movement in total notional revenues<sup>2</sup> to no more than 11.369%
- the annual movement in the notional revenues from any individual tariff class to no more than 21.369%.

JGN's proposed reference tariff model, at **Attachment 1**, provides the mathematical proof that JGN's proposed 2014–15 haulage reference tariffs comply with both elements of the annual tariff variation mechanism (excluding any cost pass-through adjustments subsequently applied to the 2013–14 or the proposed 2014–15 charge components).

### 6.2 PROPOSED 2014–15 HAULAGE REFERENCE TARIFFS

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JGN's proposed 2014–15 haulage reference tariffs (before pass-through adjustment) are set out in sheet 'Input I Proposed Tariff' in the reference tariff model at **Attachment 1**.

JGN's proposed 2014–15 haulage reference tariffs (including pass-through adjustments) are set out in its proposed 2014–15 reference tariff schedule at **Attachment 4**.

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<sup>2</sup> For 2014-15 clause 3.5D calculates the notional revenues as the product of JGN's proposed 2014-15 haulage reference tariffs and the actual quantities for each haulage reference tariff in 2012-13.

### 7. PASS-THROUGH EVENT APPLICATION

#### 7.1 TARIFF ADJUSTMENTS AND PASS-THROUGH EVENTS

This section sets out any tariff adjustments and cost pass-through events applicable to 2014–15 haulage reference tariffs in accordance with clause 3.5C.

Of the various cost pass-through events provided for in clause 3.5C(b), the following are applicable to JGN's 2014–15 haulage reference tariffs: CPRS Event, UAG Adjustment Event and Licence Fee Adjustment Event.

#### 7.2 CARBON POLLUTION REDUCTION SCHEME

##### 7.2.1 COMPLIANCE WITH APPLICATION REQUIREMENT

Clause 3.4(f)(ii) sets out the requirements for a CPRS pass-through event application. The following **Table 7–1** explains how the various requirements specified in clause 3.4(f)(ii) are addressed for CPRS pass-through event in this section. **Table 7–2** sets out the CPT cost calculation and the relevant data sources.

**Table 7–1: Elements of CPRS pass-through event application**

Clause	Description	Relevant submission references
3.4(f)(ii) A—The details of the Cost Pass-Through Event	A CPRS Event (as defined in clause 3.5C) has occurred because JGN has incurred (and will continue to incur) CPT costs as a result of the introduction and operation of a legislated scheme which places a cost on carbon or carbon-containing emissions.	Section 7.2.2
3.4(f)(ii)B—The date on which the Cost Pass-Through Event occurred	7 December 2011	Section 7.2.2
3.4(f)(ii) C—The amount the Service Provider proposes to pass-through in relation to the Cost Pass-Through Event	A cost to customers of approximately \$9.493M	Section 7.2.3
3.4(f)(ii)D(i)—Evidence of the actual and likely increase or decrease in costs arising from the Cost Pass-Through Event	The evidence for this calculation is provided in section 7.2.3.	Section 7.2.3
3.4(f)(ii)D(ii)—Evidence that such costs occur solely as a consequence of the Cost Pass-Through Event	The defined CPT costs are not applicable to other elements of JGN's reference or non-reference services.	
3.4(f)(ii)E—Such other information as may be required under any relevant regulatory information notice	No relevant regulatory information notice has been provided.	

Clause	Description	Relevant submission references
<p>3.4(f)(iii)C—The efficiency of the Service Provider's decisions and actions in relation to the risk of the Cost Pass Through Event, including whether the provider has failed to take any action that could reasonably be taken in respect of that event and whether the Service Provider has taken or omitted to take any action where such action or omission has increased the magnitude of the amount in respect of the event</p>	<p>JGN has already incurred, and will continue to incur, CPT costs as a result of the imposition on JGN of a new legislated scheme, which commenced on 2 April 2012. In summary, these costs comprise:</p> <ul style="list-style-type: none"> <li>the cost of acquiring emissions units under this scheme, which are required as a consequence of assumed fugitive emissions from JGN's network calculated using the standardised methodology specified in the National Greenhouse and Energy Reporting (Measurement) Determination 2008</li> <li>direct operating costs.</li> </ul> <p>These costs all directly flow from the imposition of the new legislated scheme, a matter over which JGN has no control (compliance is mandatory). From an efficiency perspective, it is also relevant that had JGN failed to participate in this scheme by acquiring emissions units, the cost consequences to JGN would be significantly greater, in that JGN would instead be required by law to pay a unit shortfall charge (which the Commonwealth Government has stated will be set at a much higher rate than the emission unit cost).</p>	
<p>3.4(f)(iii)D—The time cost of money based on the WACC for the Service Provider</p>	<p>There is no time cost of money for CPT costs for this 2014–15 pass-through as JGN's proposed approach seeks to align all material CPT costs with the cost recovery.</p>	
<p>3.4(f)(iii)E—The need to ensure the Service Provider only recovers any actual or likely increment in costs to the extent that such increment is solely as a consequence of a Cost Pass Through Event</p>	<p>The methodology JGN has used to calculate its CPT costs and pass them through using the CPRS event addresses this requirement.</p>	<p>Section 7.2.3</p>
<p>3.4(f)(iii)F—Whether the costs of the Cost Pass Through Event have already been factored into the calculation of the Service Provider's annual revenue requirement</p>	<p>The costs of the CPRS pass-through event have not already been factored into JGN's annual revenue requirement.</p>	

## 7.2.2 DETAILS OF THE CPRS PASS-THROUGH EVENT

### 7.2.2.1 The CPRS event

Clause 3.5C(b) defines CPRS Event to mean:

*... the occurrence of an event whereby the Service Provider incurs costs as a result of the introduction and operation of a CPRS or similar legislated scheme which places a cost on carbon or carbon-containing emissions.*

## 7 — PASS-THROUGH EVENT APPLICATION

The CPRS Event that is the subject of this application is the proclamation, by the Governor-General of Australia, of 2 April 2012 as the commencement date of sections 3 to 303 of the *Clean Energy Act 2011* (Cth) (**CE Act**).<sup>3</sup> That proclamation occurred on 7 December 2011.

The AER approved this CPRS Event for JGN as part of JGN's tariff variation notices for 2012–13 and for 2013–14. JGN's notification to the AER, in accordance with clause 3.4(e) of the AA, that a CPRS event has occurred (which event is likely to meet the administrative threshold in clause 3.4(f)(iv) of the AA) was included in JGN's tariff variation notice dated 13 April 2012. In that tariff variation notice, JGN indicated that it expected to incur ongoing CPT costs to comply with obligations under the Clean Energy Legislative Package after 2012–13 through the remainder of the 2010–15 AA period. The details of the CPRS pass-through event can be found in JGN's tariff variation notice for 2012–13 reference tariffs.<sup>4</sup>

### 7.2.2.2 JGN continues to be a liable entity

Under section 20 of the CE Act, JGN continues to be a “liable entity”, because:

- JGN's gas distribution network is a facility, over which it has operational control (within the meaning set out in the CE Act)
- fugitive emissions of natural gas from JGN's gas distribution are “covered emissions”, within the meaning of that term set out in section 30 of the CE Act
- JGN has assessed in the third “eligible financial year” under the CE Act, that these emissions will substantially exceed the section 20 emissions threshold of 25,000 tonnes of carbon dioxide equivalence in this financial year. JGN has estimated the level of fugitive emissions for 2014–15 at approximately 369,000 tonnes of carbon dioxide equivalence, many times above the section 20 threshold.

This means that various obligations in the CE Act and the Clean Energy Legislative Package continue to apply to JGN, in the requirement to acquire emission units (or suffer a shortfall charge) as referred to in **Table 7–1**.

Consequently, JGN has included an amount in respect of its costs relating to the 2011 CPRS event, which it proposes to pass-through in haulage reference tariffs for 2014–15.

### 7.2.3 ESTIMATED FINANCIAL EFFECT

JGN is able to estimate the financial impact that this CPRS Event will have on it with a reasonable level of certainty for the following reasons:

- The cost of emissions units is fixed over this period (at \$25.40CO<sub>2</sub>-e tonnes, \$2015). As noted in **Table 7–2**, the cost of acquisition of emissions units represents the vast majority of the overall financial impact of this CPRS Event
- JGN is currently determining its natural gas distribution fugitive emissions using Method 1 under the *National Greenhouse and Energy Reporting (Measurement) Determination 2008*.

JGN will recover the cost of emissions units in respect of its gas distribution fugitive emissions determined by application of Method 1 by charging a throughput (\$/GJ) charge to all customers taking gas directly off JGN's gas distribution network (pipelines =<1050kPa).

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<sup>3</sup> The remainder of the CE Act had either already commenced, or by operation of that Act will commence at the same time as sections 3 to 303. Therefore, 2 April 2012 was the first day on which the CE Act as a whole was fully operative and in force.

<sup>4</sup> Jemena Gas Networks, Tariff Variation Notice – 2012–13 reference tariffs, 13 April 2012, pp. 12–19.

By applying a throughput approach, the costs incurred by JGN for these emissions units will be directly proportional to the costs charged to these customers. This is because the throughput charge has been calculated independently of the total sales for gas distribution fugitive emissions.

- JGN is currently determining its natural gas transmission fugitive emissions using Method 1 under the *National Greenhouse and Energy Reporting (Measurement) Determination 2008*. By determining fugitive emissions using Method 1, JGN's emissions unit cost liability will be calculated as a fixed percentage of the volume of gas transported.

The methodology for calculating JGN's emissions unit cost liability for natural gas transmission (pipelines >1050kPa) is unlikely to change over this period as it is based on the length of the system of pipelines measured in kilometres. JGN is not expecting any material change in the length of these pipelines over this period

- Operating costs of \$31,000 (\$2015) that arise from assurance from an external consultant on JGN's carbon price liability can be reasonably estimated.<sup>5</sup>

**Table 7–2: 2014–15 CPT cost components**

Item	Basis of calculation	Value (\$2015)
Emissions units for gas distribution fugitive emissions (pipelines=<1050kPa)	<p>Method 1 - National Gas Distribution Emissions (E) x Fixed Carbon Price FY14/15</p> <p>Where:</p> <ul style="list-style-type: none"> <li>Method 1 = <math>E_{jp} = S_p \times \%UAG_p \times 0.55 \times C_{jp}</math></li> <li><math>E_{jp}</math> = fugitive emissions</li> <li><math>S_p</math> = 85,000 TJ forecast</li> <li><math>\%UAG_p</math> = 2.4%</li> <li><math>C_{jp}</math> = 328.8 CO<sub>2-e</sub> tonnes per TJ</li> <li>Fixed Carbon Price = \$25.40/CO<sub>2-e</sub> tonnes</li> </ul> <p>Therefore,</p> <p>Method 1 = E x Fixed Carbon Price FY 14/15                      = 85,000 x 2.4% x 0.55 x 328.8 x 25.40                      = 9,370,405</p> <p>We can rearrange the above formula to solve on a cost per GJ basis:</p> <p>= Fixed Carbon price x 2.4% x 0.55 x <math>C_{jp}</math>                      = \$25.40 x 2.4% x 0.55 x 328.8/1000                      = \$0.110 (to 3 decimal places)</p>	\$9,370,405

<sup>5</sup> This estimate is based on the approval and appointment letter from Ernst and Young dated 6 May 2013 for \$31,000 to provide assurance of Jemena's 2013–14 NGERS reporting as well as assurance over Jemena's estimated carbon liability under the CE Act. The quote sets out the allocation to JGN.

## 7 — PASS-THROUGH EVENT APPLICATION

Item	Basis of calculation	Value (\$2015)
Emissions units for gas transmission fugitive emissions (pipelines=>1050kPa)	Method 1 - National Gas Transmission x Fixed Carbon Price FY14/15  where: - Method 1 = $E_{ij} = Q_i \times EF_{ij}$ - $Q_i = 414\text{km}$ - $EF_{ij} = 8.72$ Fixed Carbon Price = \$25.40/CO <sub>2-e</sub> tonnes	\$91,696
Operating costs	Audit costs	\$31,000
<b>Total</b>		<b>\$9,493,101</b>

As mentioned above, the gas distribution fugitive emission charge in **Table 7–2** is an estimate only based on forecast sales in 2014-15. The actual cost to JGN will be recovered as a throughput charge of \$0.110/GJ (\$2015) to ensure JGN's carbon price liability for gas distribution fugitive emissions is directly proportional to the costs charged to JGN's gas distribution customers. The throughput charge of \$0.110 /GJ (\$2015) is calculated in the Carbon Pricing Model at **Attachment 5**. This charge will not be applied to transportation services to delivery points that are connected to a section of the network that is designed to operate at more than 1050kPa.

The gas transmission fugitive emissions charge and operating costs, which together amount to \$122,696 (\$2015) (**Adjustment Cost**), will be applied to all of JGN's haulage reference tariffs using the same methodology as is applied to the UAG adjustment. JGN will calculate the numerator of the Adjustment Cost as the sum of revenues for all haulage reference tariff components except the ancillary charges.<sup>6</sup> By dividing the required Adjustment Cost by this numerator, a common factor was calculated that JGN applied to all haulage reference service tariff components, except the components relating to ancillary charges. The result is for all haulage reference service tariffs being raised by approximately 0.02 per cent.<sup>7</sup>

### 7.3 UAG ADJUSTMENT EVENT

#### 7.3.1 COMPLIANCE WITH APPLICATION REQUIREMENTS

Clause 3.4(f)(ii) sets out the requirements for the UAG adjustment pass-through event application. The following **Table 7–3** explains how the various requirements specified in clause 3.4(f)(ii) are addressed for UAG in this section.

**Table 7–3: Elements of UAG pass-through application**

Clause	Description	Relevant submission references
3.4(f)(ii) A—The details of the Cost Pass-Through Event	Annual UAG adjustment event as defined in clause 3.5D because JGN's actual UAG costs were more than its forecast UAG costs in 2013–14.	

<sup>6</sup> This is because the ancillary charges are for customer initiated services rather than for gas transportation services which will be impacted by this CPRS Event.

<sup>7</sup> This is calculated as \$122,696 divided by forecast revenue of \$602,920,599 (\$2015) (excluding ancillary revenue), giving 0.0204%.



Clause	Description	Relevant submission references
3.4(f)(ii) B—The date on which the Cost Pass-Through Event occurred	2013–14 financial year	
3.4(f)(ii) C—The amount the Service Provider proposes to pass-through in relation to the Cost Pass-Through Event	A cost to customers of [REDACTED]	Table 7.4
3.4(f)(ii)D(i)—Evidence of the actual and likely increase or decrease in costs arising from the Cost Pass-Through Event	The evidence for this calculation is provided in section 7.3 in accordance with the specific provisions under clause 3.5D that apply to the UAG adjustment event.	Section 7.3
3.4(f)(ii)D(ii)—Evidence that such costs occur solely as a consequence of the Cost Pass-Through Event	The defined UAG costs are not applicable to other elements of JGN’s reference or non-reference services.	
3.4(f)(ii)E—Such other information as may be required under any relevant regulatory information notice	No relevant regulatory information notice has been provided.	
3.4(f)(iii)D—The time cost of money based on the WACC for the Service Provider	The AER determined a nominal vanilla WACC of 10.43% for JGN. Consistent with an AER request in 2012 the WACC adjustment is made for a half year only.	

### 7.3.2 UAG ADJUSTMENT

JGN has calculated its UAG adjustment in accordance with clause 3.5D by calculating the difference between its recoverable UAG cost and allowed UAG cost.

#### 7.3.2.1 Recoverable UAG cost

Clause 3.5D(d) defines JGN’s recoverable UAG cost as the product of:

- the latest forecast of gas receipts for Financial Year t – 1
- the average UAG Cost per gigajoule for purchases of gas in Financial Year t – 1
- the UAG Target Rate.

**Table 7–4** sets out this calculation and the relevant data sources.

**Table 7–4: 2013–14 JGN recoverable UAG cost**

Item	Data source	Value
Forecast gas receipts for 2013–14	<p>JGN latest forecast of gas receipts is the sum of the gas receipts in the network for the 2014–15 financial year.</p> <p>The first 9 months is the actual receipts into the JGN network.</p> <p>The last 3 months are estimated and reflect JGN's latest board/business financial forecast. These three months are forecast for the three component elements of gas receipts namely: gas required for demand market, gas required for volume market and forecast UAG.</p> <ul style="list-style-type: none"> <li>The demand market the forecast per month is based on historical loads which reflect seasonality and current customers as well as forecast connections and disconnections.</li> <li>The volume market is based on seasonal load as well as forecast customer numbers</li> <li>UAG is the monthly forecast of UAG based on historical data.</li> </ul>	92,916,034 GJ
Average UAG cost per GJ	<p>JGN obtains its gas for UAG via annual competitive tender. JGN invites all natural gas shippers and producers who supply natural gas in NSW (being registered participants in NSW retail gas market or registered shippers to NSW Short Term Trading Market Hub) to submit a tender for JGN's UAG requirements.</p> <p>The average gas price for the period 1 July 2013 to 30 June 2014 is the weighted (by gas purchased) average of:</p> <ul style="list-style-type: none"> <li>the successful tender price for the period 1 July 2013 to 30 August 2013</li> <li>the successful tender price for the period 1 September 2013 to 30 June 2014.</li> </ul>	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> <div style="background-color: black; width: 100%; height: 15px;"></div>
UAG target rate	Defined term in JGN's AA	2.34% of gas receipts
Recoverable UAG cost	Calculated as product of above inputs	<div style="background-color: black; width: 100%; height: 15px; margin-bottom: 5px;"></div> <div style="background-color: black; width: 100%; height: 15px;"></div>

### 7.3.2.2 Calculation of the UAG adjustment

In accordance with clause 3.5D(c) of the AA, JGN has calculated the UAG adjustment as the difference between:

- the UAG allowance in the AA Final Decision of \$13.0 million (\$2010) for 2013–14
- the recoverable UAG cost of [REDACTED].

This calculation is provided in the 'calc I UAG' worksheet of JGN's proposed reference tariff model at **Attachment 1**.

JGN has had regard to clause 3.4(f)(iii)D and has adjusted the difference for the time value of money. Consistent with the AER's request<sup>8</sup> in its email of 4 May 2012, this is based on the assumption that the relevant adjustments are in end of financial year dollars (30 June) and that the adjustments will be provided for evenly over the 2014–15 financial year (i.e. JGN has applied the adjustment for 0.5 years). Also, consistent with the AER request in 2012, JGN has used the AER's determined nominal vanilla WACC of 10.43%<sup>9</sup> for this calculation.

JGN has applied the requested adjustment to the haulage reference tariffs to which UAG costs relate in proportion to revenues consistent with its approved<sup>10</sup> cost allocation method.

In 2014–15 the UAG adjustment from the 2013–14 period involves a cost to the market of [REDACTED]. JGN calculated the numerator of the adjustment value as the sum of revenues for all haulage reference tariff components except the ancillary charges. The ancillary charges are for customer-initiated services that do not influence UAG. By dividing the required UAG adjustment by this numerator, a common factor was calculated that JGN applied to all haulage reference service tariff components, except the components relating to ancillary charges.

## 7.4 LICENCE FEE ADJUSTMENT EVENT

### 7.4.1 COMPLIANCE WITH APPLICATION REQUIREMENTS

Clause 3.4(f)(ii) of the AA sets out the requirements for the Licence Fee adjustment pass-through event application. The following **Table 7–5** explains how the various requirements specified in clause 3.4(f)(ii) are addressed for the licence fee adjustment event in this section. **Table 7–6** sets out this calculation and the relevant data sources.

**Table 7–5: Elements of licence fee pass-through event application**

Item	Description	Relevant submission reference
3.4(f)(ii) A. The details of the Cost Pass-Through Event	Annual Licence Fee adjustment event as defined in clause 3.5C because JGN's actual licence fee costs for 2012-13 were less than the \$801,235 (\$2013) allowed in the AA.	
3.4(f)(ii) B. The date on which the Cost Pass-Through Event occurred	2013–14 financial year.	
3.4(f)(ii) C. The amount the Service Provider proposes to pass-through in relation to the Cost Pass-Through Event	A refund to customers of [REDACTED].	Table 7–6

<sup>8</sup> Email from AER to JGN dated 4 May 2012 titled *Tariff variation notice – time value of money calculation*. As previously advised to the AER, JGN has made these adjustments even though JGN does not believe they reflect fair benchmark efficient financing costs.

<sup>9</sup> See Appendix 10 JGN regulatory model (Merits review) v2AER.xls

<sup>10</sup> AER, *Final Decision Jemena Gas Networks Access arrangement proposal for the NSW gas networks 1 July 2010 – 30 June 2015*, June 2010, p. 336.

## 7 — PASS-THROUGH EVENT APPLICATION

Item	Description	Relevant submission reference
3.4(f)(ii)D(i). Evidence of the actual and likely increase or decrease in costs arising from the Cost Pass-Through Event	The evidence for this calculation is provided in section 7.4.2 in accordance with the specific provisions under clause 3.5D that apply to the Licence Fee adjustment event.	Section 7.4.2
3.4(f)(ii)D(ii) Evidence that such costs occur solely as a consequence of the Cost Pass-Through Event	The defined Licence Fee costs are not applicable to other elements of JGN's reference or non-reference services.	
3.4(f)(ii)E. Such other information as may be required under any relevant regulatory information notice	No relevant regulatory information notice has been provided.	
3.4(f)(iii)D The time cost of money based on the WACC for the Service Provider	The AER determined a nominal vanilla WACC of 10.43% for JGN. Consistent with an AER request in 2012, and since the Licence Fee adjustment event relates to the 2011–12 year, JGN has applied the WACC adjustment for 1.5 years.	

### 7.4.2 LICENCE FEE ADJUSTMENT

JGN has calculated its licence fee adjustment by calculating the difference between its actual licence fee costs for 2012–13 and the amount allowed in the AA. JGN has had regard to clause 3.4(f)(iii)D and has adjusted the difference for the time value of money as the pass-through event relates to the 2012–13 year. Consistent with the AER request in 2012<sup>11</sup>, JGN has used the AER's determined nominal vanilla WACC of 10.43%<sup>12</sup> for this calculation and applied this adjustment for 1.5 years.

**Table 7–6** sets out this calculation and the relevant data sources.

**Table 7–6: 2012–13 recoverable licence fee costs**

Item	Data source	Value
Total licence fees paid by JGN in 2011–12	JGN paid a total of [REDACTED] in licence fees in 2012-13. This was made up of: <ul style="list-style-type: none"> <li>• Pipeline fees - [REDACTED]</li> <li>• EWON fees - [REDACTED]</li> <li>• AEMO fees - [REDACTED]</li> <li>• IPART fees - [REDACTED]</li> </ul>	[REDACTED]
AA licence fee allowance	JGN was given an allowance of \$740,692 (\$2010) in the AA, which adjusts to \$801,235 (\$2013) after inflation.	\$801,235 (\$2013)

<sup>11</sup> Ibid.

<sup>12</sup> See Appendix 10 JGN regulatory model (Merits review) v2AER.xls

Item	Data source	Value
Refund to customer (difference including allowance for WACC adjustment)	Allowance (\$801,235) less actual [REDACTED] [REDACTED] A WACC adjustment (for 1.5 years) is applied to translate from \$2013 to \$2015.	[REDACTED]