

19 April 2018

Mr Craig Madden
Director
Australian Energy Regulator
360 Elizabeth Street
Melbourne VIC 3001

Dear Mr Madden

Proposed 2018/19 South Australian Reference Tariffs

This letter sets out Australian Gas Networks' (AGN) reasons for varying its Reference Tariffs to apply in South Australia from 1 July 2018. AGN is proposing to vary its Reference Tariffs in a manner that is consistent with clause 4.3 of the Access Arrangement for AGN's South Australian Distribution Network (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 July 2018 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 clause 4.4 and Annexure E of the Access Arrangement. Annexure E 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 $(1+CPI)*(1-X)*(1+U)*(1+PT)$. Reference Tariffs are to be adjusted by the change in CPI for the 12 months ending December 2017, which CPI is 1.91 per cent. The adjusted X factor is -3.30 per cent, the UAFG price adjustment -0.35 per cent and the Cost Pass Through factor is zero. As such, the allowed change in Reference Tariffs for 2018/19 is 4.91 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 $(1+CPI)*(1-X)*(1+U)*(1+PT)*(1+2\%)$. This allows a particular tariff to increase by no more than 7.00 per cent.

AGN's proposed 2018/19 Reference Tariffs comply with both the Reference Tariff Control Formula and the Rebalancing Control Formula. This has been demonstrated by the model provided by AGN to the

AER setting out the application of the above formulae and the resultant Reference Tariffs. The model and tariff schedule comprise Attachments 1 and 2 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 2016/17. An independent review verifying the gas quantities has been undertaken and the associated report is provided as Attachment 3. A copy of the schedule to the confidential gas sale agreement to meet AGN's South Australian UAFG requirements 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.

Component	2018-19 (\$)	2017-18 (\$)	Quantity (p/a)	Cost Change (\$)
Tariff R	480.0	456.6	17.2 GJ	23.4
Tariff C	4,398.1	4,089.0	296.3 GJ	309.1
Tariff D	230,793.5	220,001.0	468.1 GJ MDQ	10,792.4

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 change in CPI for the 12 months ending December 2017, which CPI is 1.91 per cent. The calculation and resultant tariffs also form part of attachments 1 and 2.

Summary

Attachment 1 comprises the model demonstrating the derivation of the proposed Reference Tariffs while attachment 2 comprises the tariff schedule detailing the proposed tariffs to apply from 1 July 2018. Attachment 3 comprises the findings of the independent review of the 2016/17 quantities. Attachment 4 is a copy of the schedule to the confidential gas sale agreement to meet AGN's South Australian UAFG requirements.

Please contact Will Chivell (08 8418 1119) should you wish to discuss this matter further.

Yours sincerely



Peter Bucki

Head of Regulation