**15-2 Response to Draft Decision: Tariff Variation Mechanism**

**1. Introduction**

Envestra has amended the tariff variation and rebalancing control mechanisms to apply in Victoria and Albury to reflect the revised X factors. The AER also required Envestra to include in the mechanisms an Energy Safe Victoria (ESV) Levy factor (Victoria only) and a pass through adjustment factor (Victoria and Albury) and to reduce the rebalancing constraint (Y) from 10% to 2%. Envestra has made these changes.

Envestra however does not accept the AER’s requirement for the annual tariff variation notification to be supplied 50 days in advance. The current submission date of 35 days prior to commencement is sufficient and Envestra is unaware of any issue that the AER has had with this process to date. These matters are explored further below.

**2. Haulage Reference Services - Victoria**

**2.1 Tariff Variation Mechanism - Victoria**

The AER required Envestra amend its tariff variation mechanism to include a factor to recover the Energy Safe Victoria (ESV) levy and a pass through adjustment factor (that would be used if a pass through event were to arise over the 2013 to 2017 Access Arrangement period). Envestra has made these changes as required (see Victoria Box 1).

The AER also required Envestra provide third party verification of the quantities used in the annual tariff variation process. The AER requested the data be presented on an annual and quarterly basis. Envestra will provide the AER with independent third party verification of annual quantities as part of the yearly tariff variation process.

Envestra however does not support the AER’s decision to require quarterly data. This proposed obligation is not consistent with Rule 97(3)(b) which requires the AER to have regard for “the possible effects of reference tariff variation mechanism on administrative costs of the AER, the service provider, and users and potential users”. In considering its position on this issue, the AER has not had regard for Envestra’s administrative costs.

Quarterly data has no role in the tariff variation mechanism and imposes an increased administrative burden on Envestra and cost on consumers that is not justifiable. If quarterly data is required then the reasons for this data should be clearly established by the AER, including a discussion on how the provision of such data better meets the National Gas Objective. Envestra is unaware of any other regulatory requirement which requires audited quarterly data.

It is worth noting that in its Final Decision for Envestra’s South Australian and Queensland networks the AER withdrew the Draft Decision requirement for quarterly data, acknowledging it is not required for pricing purposes[[1]](#footnote-1).

**Victoria Box 1: FORMULA 1 - TARIFF CONTROL FORMULA**

 

where:

 is calculated as the September quarter CPI for the year immediately preceding year***t***, divided by the September quarter CPI for the year immediately preceding year***t-1***less 1;

 is – 0.048 for 2014;

 is – 0.048 for 2015;

 is - 0.048 for 2016;

 is - 0.048 for 2017;

 is the number of different Haulage Reference Tariffs;

 is the different components, elements or variables (“components”) comprised within a Haulage Reference Tariff;

 is the proposed component  of Haulage Reference Tariff ***i*** in year ***t***;

 is the prevailing component  of Haulage Reference Tariff ***i*** in year ***t – 1*** ;

 is the verified annual quantity of component  of Reference Tariff *i* sold in year ***t – 2*** (expressed in the units in which that component is expressed (eg, GJ));

**** is the Licence Fee factor as defined in Victoria box 2;

**** is the Energy Safe Victoria Levy factor as defined in Victoria box 3;

**** is the approved pass through amount as defined in Victoria box 4;

*CT* refers to the carbon tax tariff (refer Victoria box 5).

**2.2 Licence Fee Factor**

The proposed licence fee factor set out in both the tariff control formula and rebalancing control formula is the same as that applying in the 2008 to 2012 Access Arrangement period (see box 2) and is unchanged from the draft decision.

**Victoria Box 2: FORMULA 2 – LICENCE FEE FORMULA**

Lt is the Licence Fee pass through adjustment to the Distribution price control in Calendar Year ***t***, calculated as follows:

 -1

where:



L’t-1 is the value of L't determined in the Calendar Year ***t – 1***

**** is the licence fee paid by the distribution business for the Financial Year ending in June of the Calendar Year ***t - 1***

 is calculated as the September quarter CPI for the year immediately preceding year***t***, divided by the September quarter CPI for the year immediately preceding year***t-1***less 1;

 is - 0.048 for 2014;

 is - 0.048 for 2015;

 is - 0.048 for 2016;

 is - 0.048 for 2017;

**** is the approved pass through amount for Calendar Year *t*;

 is the prevailing component  of Haulage Reference Tariff in year ***t – 1***; and

 is the verified annual quantity of component  of Haulage Reference Tariff sold in year ***t–2*** (expressed in the units in which that component is expressed (eg, GJ)).

**2.3 Energy Safe Victoria Levy Factor**

The proposed Energy Safe Victoria (ESV) Levy set out in the tariff control formula is designed to allow for the actual ESV levy charged to Envestra to be passed through. As Envestra is proposing to recover a forecast of the levy as operating expenditure, this factor adjusts the tariffs to account for any difference between the forecast and actual levies over the 2013 to 2017 Access Arrangement period. This forms part of Schedule 3 of the Reference Tariff Policy of the Access Arrangement.

**Victoria Box 3: FORMULA 3 – ESV LEVY FORMULA**

Et is the ESV Levy pass through adjustment to the Distribution price control in Calendar Year ***t***, calculated as follows:

 -1

where:



E’t-1 is the value of E't determined in the Calendar Year ***t – 1***

**** is the difference between the actual levy paid by the distribution business and that forecast at the time of the 2013 to 2017 Victorian Gas Access Arrangement Review for the Financial Year ending in June of the Calendar Year ***t - 1***

 is calculated as the September quarter CPI for the year immediately preceding year***t***, divided by the September quarter CPI for the year immediately preceding year***t-1***less 1;

 is - 0.048 for 2014;

 is - 0.048 for 2015;

 is - 0.048 for 2016;

 is - 0.048 for 2017;

**** is the approved pass through amount for Calendar Year *t*;

 is the prevailing component  of Haulage Reference Tariff in year ***t – 1***; and

 is the verified annual quantity of component  of Haulage Reference Tariff sold in year ***t–2*** (expressed in the units in which that component is expressed (eg, GJ)).

**2.4 Passthrough Adjustment Factor**

The proposed passthrough adjustment factor is set out in Victoria box 4 below.

**Victoria Box 4: FORMULA 4 – PASSTHROUGH ADJUSTMENT FACTOR FORMULA**

At is the passthrough adjustment factor to the Distribution price control in Calendar Year ***t***, calculated as follows:

 -1

where:



A’t-1 is the value of A't determined in the Calendar Year ***t – 1***

**** is the amount of any cost pass through approved by the regulator for the Calendar Year ***t - 1***

 is calculated as the September quarter CPI for the year immediately preceding year***t***, divided by the September quarter CPI for the year immediately preceding year***t-1***less 1;

 is - 0.048 for 2014;

 is - 0.048 for 2015;

 is - 0.048 for 2016;

 is - 0.048 for 2017;

 is the prevailing component  of Haulage Reference Tariff in year ***t – 1***; and

 is the verified annual quantity of component  of Haulage Reference Tariff sold in year ***t–2*** (expressed in the units in which that component is expressed (eg, GJ)).

**2.5 Carbon Tax Factor**

Envestra proposes the formula set out in Victoria box 5 to determine the carbon tax (CT) factor in the tariff control formula. The formulae ensure Envestra’s carbon tax expense is recovered from consumers, incorporating true up mechanisms to account for the differences between forecast, estimate and actual carbon costs and recoveries. Envestra has amended the variable nomenclature to match that of the AER’s draft decision.

**Victoria Box 5 – FORMULA 5 – CARBON TAX TARIFF FORMULA**

When assessing Envestra’s proposed tariffs, submitted in accordance with this Access Arrangement, the AER will assess whether the Carbon Payment Revenue (CPRt), is less than or equal to the Maximum Carbon Payment Revenue allowed (MCPRt) as follows:



where:

*CPRt* is the total of Envestra’s proposed Carbon Payment Revenue charges multiplied by the corresponding forecast quantities to be distributed for each tariff component of each tariff, in calendar year *t*.

*MCPRt* is the maximum revenue that Envestra is allowed to receive from its Carbon Payment Revenue tariffs from all consumers for the calendar year *t* and is expressed as:

**

where:

*CPPt* is the aggregate of all charges that Envestra forecasts it will be required to pay in Carbon Payments in respect of calendar year *t*, and

*Kt* is a correction factor to account for any under or over recovery arising from actual Distribution Payment Revenue tariffs in relation to allowed revenue and is expressed as follows:



where:

*CPRat-2* is the actual total revenue earned by the Envestra from Carbon Payment tariffs in respect of all distribution customers in calendar year t–2;

*MCPRt-2* is the value calculated for MCPR for year t-2;

*CPPat-2* is the cost of carbon permit acquisition that Envestra actually incurred in respect of the Carbon Scheme in year calendar year t-2; and

*CPPt-2* is the figure used for CPPt when calculating MCPR for calendar year t-2.

Note: Kt is zero for calendar year 2013 and 2014.

**2.5 Rebalancing Control Mechanism**

The AER rejected Envestra’s proposal to increase the rebalancing constraint (Y) from 0.02 to 0.10. Envestra has accepted the AER’s decision and updated the rebalancing control mechanism in Victoria box 6 below. The rebalancing control mechanism will not apply to Ancillary Reference Services.

**Victoria Box 6: FORMULA 6 - REBALANCING CONTROL FORMULA**

The following formula applies separately to each Tariff Class



where:

 is calculated as the September quarter CPI for the year immediately preceding year***t***, divided by the September quarter CPI for the year immediately preceding year***t-1***less 1;

 is - 0.048 for 2014;

 is - 0.048 for 2015;

 is - 0.048 for 2016;

 is - 0.048 for 2017;

 is 0.02;

 is the number of different Reference Tariffs;

 is the components comprised within Haulage Reference Tariff ;

 is the proposed component  of Haulage Reference Tariff in year ***t***;

 is the prevailing component  of Haulage Reference Tariff in year ***t – 1***;

 is the verified annual quantity of component  of Haulage Reference Tariff sold in year ***t – 2*** (expressed in the units in which that component is expressed (eg, GJ));

**** is the Licence Fee factor as defined in Victoria Box 2;

**** is the ESV Levy factor as defined in Victoria Box 3; and

 **** is an approved pass through factor as defined in Victoria Box 4.

**3 Haulage Reference Services - Albury**

**3.1 Tariff Variation Mechanism - Albury**

The AER required Envestra amend its tariff variation mechanism to include a pass through adjustment factor (that would be used if a pass through event were to arise over the 2013 to 2017 Access Arrangement period). Envestra has made these changes as required (see Albury Box 1).

The AER also required Envestra provide third party verification of the quantities used in the annual tariff variation process. The AER requested the data be presented on an annual and quarterly basis. Envestra will provide the AER with independent third party verification of annual quantities as part of the yearly tariff variation process.

Envestra however does not support the AER’s decision to require quarterly data. This proposed obligation is not consistent with Rule 97(3)(b) which requires the AER to have regard for “the possible effects of reference tariff variation mechanism on administrative costs of the AER, the service provider, and users and potential users”. In considering its position on this issue, the AER has not had regard for Envestra’s administrative costs.

Quarterly data has no role in the tariff variation mechanism and imposes an increased administrative burden on Envestra and cost on consumers that is not justifiable. If quarterly data is required then the reasons for this data should be clearly established by the AER, including a discussion on how the provision of such data better meets the National Gas Objective. Envestra is unaware of any other regulatory requirement which requires audited quarterly data.

It is worth noting that in its Final Decision for Envestra’s South Australian and Queensland networks the AER withdrew the Draft Decision requirement for quarterly data, acknowledging it is not required for pricing purposes[[2]](#footnote-2).

**Albury Box 1: FORMULA 1 - TARIFF CONTROL FORMULA**

 

where:

 is calculated as the September quarter CPI for the year immediately preceding year***t***, divided by the September quarter CPI for the year immediately preceding year***t-1***less 1;

 is – 0.011 for 2014;

 is – 0.011 for 2015;

 is - 0.011 for 2016;

 is - 0.011 for 2017;

 is the number of different Haulage Reference Tariffs;

 is the different components, elements or variables (“components”) comprised within a Haulage Reference Tariff;

 is the proposed component  of Haulage Reference Tariff ***i*** in year ***t***;

 is the prevailing component  of Haulage Reference Tariff ***i*** in year ***t – 1*** ;

 is the verified annual quantity of component  of Reference Tariff *i* sold in year ***t – 2*** (expressed in the units in which that component is expressed (eg, GJ));

**** is the Licence Fee factor as defined in Albury box 2;

**** is the approved pass through factor as defined in Albury box 3;

**3.2 Licence Fee Factor**

The proposed licence fee factor set out in both the tariff control formula and rebalancing control formula is the same as that applying in the 2008 to 2012 Access Arrangement Period (see Albury box 2) and is unchanged from the draft decision.

**Albury Box 2: FORMULA 2 – LICENCE FEE FORMULA**

Lt is the Licence Fee pass through adjustment to the Distribution price control in Calendar Year ***t***, calculated as follows:

 -1

where:



L’t-1 is the value of L't determined in the Calendar Year ***t – 1***

**** is the licence fee paid by the distribution business for the Financial Year ending in June of the Calendar Year ***t - 1***

 is calculated as the September quarter CPI for the year immediately preceding year***t***, divided by the September quarter CPI for the year immediately preceding year***t-1***less 1;

 is - 0.011 for 2014;

 is - 0.011 for 2015;

 is - 0.011 for 2016;

 is - 0.011 for 2017;

 is the prevailing component  of Haulage Reference Tariff in year ***t – 1***; and

 is the verified annual quantity of component  of Haulage Reference Tariff sold in year ***t–2*** (expressed in the units in which that component is expressed (eg, GJ)).

**3.3 Pass through Adjustment Factor**

The proposed pass through adjustment factor is set out in Albury box 3 below.

**Albury Box 3: FORMULA 3 – PASSTHROUGH ADJUSTMENT FACTOR FORMULA**

At is the pass through adjustment factor to the Distribution price control in Calendar Year ***t***, calculated as follows:

 -1

where:



A’t-1 is the value of A't determined in the Calendar Year ***t – 1***

**** is the amount of any cost pass through approved by the regulator for the Calendar Year ***t - 1***

 is calculated as the September quarter CPI for the year immediately preceding year***t***, divided by the September quarter CPI for the year immediately preceding year***t-1***less 1;

 is - 0.011 for 2014;

 is - 0.011 for 2015;

 is - 0.011 for 2016;

 is - 0.011 for 2017;

 is the prevailing component  of Haulage Reference Tariff in year ***t – 1***; and

 is the verified annual quantity of component  of Haulage Reference Tariff sold in year ***t–2*** (expressed in the units in which that component is expressed (eg, GJ)).

**3.3 Rebalancing Control Mechanism**

The AER rejected Envestra’s proposal to increase the rebalancing constraint (Y) from 0.02 to 0.10. Envestra has accepted the AER’s decision and updated the rebalancing control mechanism in the box below. The rebalancing control mechanism will not apply to Ancillary Reference Services.

**Albury Box 3: FORMULA 3 - REBALANCING CONTROL FORMULA**

The following formula applies separately to each Tariff Class



where:

 is calculated as the September quarter CPI for the year immediately preceding year***t***, divided by the September quarter CPI for the year immediately preceding year***t-1***less 1;

 is - 0.011 for 2014;

 is - 0.011 for 2015;

 is - 0.011 for 2016;

 is - 0.011 for 2017;

 is 0.02;

 is the number of different Reference Tariffs;

 is the components comprised within Haulage Reference Tariff ;

 is the proposed component  of Haulage Reference Tariff in year ***t***;

 is the prevailing component  of Haulage Reference Tariff in year ***t – 1***;

 is the verified annual quantity of component  of Haulage Reference Tariff sold in year ***t – 2*** (expressed in the units in which that component is expressed (eg, GJ));

**** is the Licence Fee factor as defined in Albury box 2;

**** is an approved pass through factor as defined in Albury box 3*.*.

**4. Tariff Variation Process**

Envestra does not support the AER’s Draft Decision that would require Envestra to notify the AER of a tariff variation 50 days prior to commencement. This decision is not consistent with Rule 97(3)(b) of the NGR which require the AER to have regard to “the possible effects of the reference tariff variation mechanism on administrative costs of the AER, the service provider, and users or potential users”. In considering its position on this issue, the AER has had regard only for its own administrative costs.

Envestra is unaware of any issues the AER has had (or is aware of) under the 2008 to 2012 Access Arrangement, which provides 20 business days for the AER to review a tariff variation submission. The proposed tariff submission date of around 15 October is before the date at which the ABS releases the September Quarter CPI (normally late October.) This denies Envestra the opportunity to properly consider changes to reference tariffs in submitting those changes to the AER. This is not an efficient outcome having regard for the administrative costs of preparing the same submission twice.

Envestra is required to operate under the AER’s proposed tariff variation notification approach for its South Australian and Queensland networks. Envestra has found the experience unsatisfactory – the process is administratively cumbersome, necessitating two submissions due to the timing of the CPI release which in turn causes confusion for market participants as there are effectively two pricing proposals both with the same effective dates.

On balance, having regard for both the administrative costs on both the AER and Envestra and other stakeholders and Envestra’s experience for its South Australian and Queensland networks, Envestra supports a continuation of the current 35 business days. This provides Envestra with approximately 8 business days from the release of the September CPI to prepare a submission and the AER 20 business days to approve those tariffs.

**5. Rounding Convention**

Envestra proposes Haulage Reference Service tariffs to be rounded to four decimal places. Where the Reference Tariff for an Ancillary Reference Service (as varied) is less than $20, the Reference Tariff (as varied) will be rounded to the nearest 10 cents (with five cents rounded upwards). Where the Reference Tariff for an Ancillary Reference Service (as varied) is $20 or more, the Reference Tariff (as varied) will be rounded to the nearest dollar (with 50 cents rounded upwards).

The abovementioned rounding conventions are a continuation of that applied in the 2008 to 2012 Access Arrangement period.

**6. Cost Pass Through Events**

Envestra has made several amendments to section 4.5 of its access arrangements (Cost Pass Through Event Adjustment) in accordance with the Draft Decision.

Envestra has also made further amendments in order to cater for a:

1. UAFG Benchmark Event – this allows for interim arrangements in respect of UAFG benchmarks that apply to Envestra’s network. This is discussed in detail in section 6 of attachment 6.7 to the revised AAI.
2. Mains Replacement Volume Event (Victoria network only) – this allows for Envestra to seek AER approval for additional mains replacement expenditure once a specific criterion is met. This is discussed in detail in section 2.3.4 of attachment 7.7 to the revised AAI.
1. AER, *Final Decision Access Arrangement Proposal for the SA Gas Network,* page 130, June 2011. [↑](#footnote-ref-1)
2. AER, *Final Decision Access Arrangement Proposal for the SA Gas Network,* page 130, June 2011. [↑](#footnote-ref-2)