

25 October 2013

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



Dear Mr Madden,

**Proposed 2014 Victorian Reference Tariffs**

This letter sets out Envestra's reasons for varying its Reference Tariffs to apply from 1 January 2014. Envestra is proposing to vary its Reference Tariffs in a manner that is consistent with clause 4.3 of the *Access Arrangement for Envestra's Victorian Gas Distribution System* (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 January 2014 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 section 4.4 and Annexure D of the Access Arrangement. Annexure D contains a Reference Tariff Control Formula and a Rebalancing Control Formula.

In broad terms, the Reference Tariff Control Formula allows Envestra 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  $(1+CPI) \times (1-X) \times (1+L)$ . The CPI is the change in the CPI for the 12 months to September 2013, which CPI is 2.2 per cent. The Licence Fee factor is 0.01% and X factor -1.5 per cent. The combination of the CPI, L factor and X factor results in an allowed change in Reference Tariffs for 2014 of 3.7 per cent.

The Rebalancing Control Formula allows Envestra 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  $(1+CPI) \times (1-X) \times (1+L) \times (1+2\%)$ . This allows a particular tariff to increase by no more than 5.9 per cent.

Envestra's proposed 2014 Reference Tariffs comply with both the Reference Tariff Control Formula and the Rebalancing Control Formula. This has been demonstrated by the model provided to the AER setting out the application of the above formulae and the resultant Reference Tariffs. The model, tariff schedule and Licence Fee advice comprise attachments 1, 2 and 3 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 2012. An independent review verifying the gas quantities has been undertaken and the associated report 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.

#### **Change in Average Customer Charge**

##### **Central Zone**

Component	2014 (\$)	2013 (\$)	Quantity (p/a)	Cost Change (\$)
Tariff R	316.3	304.6	52.6 GJ	11.6
Tariff C	1,203.5	1,171.8	329.5 GJ	31.7
Tariff D	21,542.8	20,772.6	22.1 GJ MHQ	770.2

##### **North Zone**

Component	2014 (\$)	2013 (\$)	Quantity (p/a)	Cost Change (\$)
Tariff R	275.7	265.3	50.3 GJ	10.4
Tariff C	906.0	881.2	263.3 GJ	24.9
Tariff D	30,264.9	29,183.0	33.6 GJ MHQ	1,081.9

##### **Murray Valley Victoria Zone**

Component	2014 (\$)	2013 (\$)	Quantity (p/a)	Cost Change (\$)
Tariff R	251.5	241.2	39.6 GJ	10.3
Tariff C	847.5	823.5	200.4 GJ	24.0
Tariff D	30,016.6	28,943.7	27.5 GJ MHQ	1,072.9



**Bairnsdale Zone**

Component	2014 (\$)	2013 (\$)	Quantity (p/a)	Cost Change (\$)
Tariff R	391.2	374.8	30.1 GJ	16.4
Tariff C	3,569.4	3,483.5	893.7 GJ	85.9
Tariff D	16,292.3	15,710.0	7.9 GJ MHQ	582.4

**Reference Tariffs: Ancillary Reference Services**

Envestra 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 annual change in the CPI, which is also calculated as the change in CPI for the 12 months ending September 2013. The calculation and resultant tariffs also form part of attachments 1 and 2.

**Carbon Pass Through Tariffs**

Envestra has also calculated the 2014 Carbon Pass Through in a manner consistent with Formula 4 of Annexure D of the Access Arrangement. The Carbon Pass Through Tariff calculation and resultant tariffs also form part of attachments 1 and 2.

At this stage, Envestra has assumed the carbon tax will continue into the second half of 2014. If the carbon tax is repealed from 1 July 2014, Envestra will liaise with the AER to determine actions required to remove the pass through tariff.

**Summary**

Attachment 1 comprises the model demonstrating the derivation of the proposed Reference and Carbon Pass Through Tariffs while attachment 2 comprises the tariff schedule detailing the proposed tariffs to apply from 1 January 2014. Attachment 3 provides the licence fee advice while attachment 4 comprises the findings of the independent review of the 2012 quantities.

Please contact Peter Bucki (08 8418 1112) should you wish to discuss this matter further.

Yours sincerely



Craig de Laine  
Group Manager - Regulation

