

evoenergy

2023–24 TARIFF VARIATION NOTICE

1 July 2021 – 30 June 2026 access arrangement
for the ACT and Queanbeyan-Palerang gas
distribution network

March 2023

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1. Introduction

1.1. Purpose

Clause 8.18 of the 2021–26 access arrangement for the Australian Capital Territory (ACT) and Queanbeyan-Palerang gas distribution network (access arrangement) requires Evoenergy 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.

Evoenergy hereby provides its variation notice for the 2023–24 reference tariffs in accordance with clause 8.18 of the access arrangement. The variation notice:

- sets out Evoenergy’s proposed reference tariffs for the 2023–24 financial year (Attachment 1);
- demonstrates how these proposed 2023–24 reference tariffs comply with the relevant annual tariff variation mechanisms specified in clause 8.4 of the access arrangement;
- calculates the automatic adjustment factor as per Schedule 4 of the access arrangement; and
- includes a statement to support the independently audited gas quantity inputs used in the annual reference tariff variation mechanism in clause 8.4.

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 8.4 of the access arrangement;
- the automatic adjustment factor for 2023–24;
- the cost pass through factor for 2023–24; and
- the annual allowed X-factor, updated by the AER to account for the return on debt for 2023–24.

The X-factor has been updated by the AER for 2023–24 to negative 2.77552212321702 per cent, which supersedes the X-factor approved by the AER in its access arrangement Final Decision¹, published on 30 April 2021.

1.2. Submission structure and access arrangement compliance

Evoenergy has structured this submission to demonstrate compliance with each requirement in clause 8 of the access arrangement.

Section 2: Tariff categories – Schedule 3

Section 3: Annual variation notice – Clause 8.18

Section 4: Annual reference tariff variation mechanism – Clause 8.4

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 2023–24 reference tariffs comply with the formula in clause 8.4 of the access arrangement.

As shown in the model, for 2023–24 Evoenergy has updated its reference tariffs for:

¹ AER (2021), Final Decision - Evoenergy Approved Access Arrangement 2021–26 – 30 April 2021.

- CPI (calculated in accordance with clause 8.4 of the access arrangement), being 7.83 per cent;
- annual X-factor (adjusted for the return on debt update), being negative 2.78 per cent ;
- the automatic adjustment factor that reflects Unaccounted for Gas (UAG) costs, actual licence fees, carbon costs and relevant taxes, being 0.46 per cent; and
- verified gas quantity inputs for financial year t-2 (2021–22) (see Section 3.3).

Based on these inputs, Evoenergy has calculated the allowable annual movement in total notional revenues of 11.34 per cent for 2023–24.

1.4. Submission standards and terminology

This submission employs the following terms and standards.

- Unless otherwise stated, all prices are expressed in \$2023–24.
- 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 2023–24 financial year ending on 30 June 2024
 - *financial year t-1* is the 2022–23 financial year ending on 30 June 2023
 - *financial year t-2* is the 2021–22 financial year ending on 30 June 2022
- 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 2023–24. The tariff categories for each reference service are those approved by the AER in its access arrangement Final Decision on 30 April 2021 and are described in Schedule 3 of Evoenergy’s access arrangement.

Table 1 Evoenergy tariff categories

Tariff category	Description
Demand tariffs	
DC	Demand Capacity
DT	Demand Throughput
Volume tariffs	
VI	Volume Individual
VB	Volume Boundary

3. Variation notice

3.1. Effective date of the proposed variation

The effective variation date for Evoenergy's 2023–24 reference tariffs is 1 July 2023 for the purpose of clause 8.18 (b) of the access arrangement.

3.2. Compliance with the annual reference tariff variation mechanism

For the purpose of clause 8.18(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 2023–24 variation notice, Evoenergy must use the audited quantities that correspond to financial year $t-2$, i.e. 2021–22.

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 8.4. The KPMG report and the accompanying regulatory reporting statement are provided in Attachment 3.

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 8.4 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 8.24, 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.

If the ABS does not, or ceases to, publish the index, then CPI will mean an inflation index which the relevant regulator considers is the best available alternative index.

X_t	means the X factor for Financial Year t , determined in accordance with the PTRM, updated for the return on debt in accordance with section 7;
A_t	is the automatic adjustment factor for Financial Year t calculated in accordance with section 1 of Schedule 4: and
PT_t	is the cost pass through factor for Financial Year t calculated in accordance with clause 2.5 of Schedule 4.

For 2023–24, the two formulas respectively constrain:

- the annual movement in total notional revenues to no more than 11.3351 per cent; and
- the annual movement in the notional revenues from any individual tariff to no more than 13.5618 per cent.

Evoenergy’s proposed tariff basket model (*Attachment 2*) provides a detailed explanation of how Evoenergy has applied the formula in clause 8.4 of the access arrangement, to ensure the proposed 2023–24 haulage reference tariffs meet the constraints set out in this clause.

4.2. Calculation of components of the 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 2023–24 tariff variation mechanism is 7.83 per cent (rounded to two decimal places). Evoenergy calculated this in accordance with clause 8.4.

This calculation involves obtaining the ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in 2021 and 2022.² CPI is calculated by dividing the CPI December 2022 index value of 130.8 by the CPI December 2021 index value of 121.3. Based on this calculation, CPI_t is 7.83 per cent.

Please refer to *Attachment 2* for details of the calculation.

4.2.2. Calculation of the updated X-factor

In accordance with clause 7.1 (b) of the access arrangement, the AER has updated Evoenergy’s return on debt for 2023–24. On 15 December 2022, the AER provided Evoenergy with the updated X-factor for 2023–24 of negative 2.77552212321702 per cent.

² Australian Bureau of Statistics (ABS), *6401.0 Consumer Price Index*, Australia, January 2023.

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 2*.

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 2021/22; and
- (b) the value of PT'_t determined in the Financial Year $t-1$ for all other Financial Years in the 2021 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 2016–21 access arrangement) occurring in the 2016 Period that Evoenergy immediately 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; and

- CPI_t has the same meaning as set out in clause 8.4;
- X_t has the same meaning as set out in clause 8.4;
- A_t is the automatic adjustment factor for Financial Year t as defined in this Schedule 4;
- p_{t-1}^{ij} has the same meaning as set out in clause 1 of this Schedule 4; and
- q_{t-2}^{ij} has the same meaning as set out in clause 8.4.

4.2.5. Calculation of the determined pass through amount, AP_t

Clause 8.7 of the 2021–26 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 8.5 defines a cost pass through event as one of the following:

- (a) a Regulatory Change Event;
- (b) a Service Standard Event;
- (c) an Insurance Coverage Event;
- (d) an Insurer Credit Risk Event;
- (e) a Terrorism Event; and/or
- (f) a Natural Disaster Event;

As per clause 8.11 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 in **Equation 4** is equal to zero for 2023–24.

This results in a value of zero for PT'_t in **Equation 3**.

4.2.6. Calculation of the prices (p) and quantities (q)

In line with clause 8.18 (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 2023–24 variation notice, Evoenergy must use the actual quantities that correspond to financial year $t-2$ (i.e. 2021–22), which is the most recent actual financial year for which quantity inputs are available.

5. Calculation of the 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 (A_t) is given by 0.042 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 2021-22; and

the value of A'_t determined for the Financial Year $t-1$ for all other years;

and

A'_t is:

Equation 6

$$A'_t = \frac{(L_{t-2} + U_{t-2} + C_{t-2} + T_{t-2}) \times [(1 + \text{realWACC}_t) \times (1 + \text{realWACC}_{t-1}) \times (1 + \text{CPI}_{t-1})]}{(1 - X_t) \sum_{i=1}^n \sum_{j=1}^m p_{t-1}^{ij} q_{t-2}^{ij}}$$

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 $t-2$;

realWACC_t is the real WACC 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 real WACC for Financial Year $t-1$;

U_{t-2} is the 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, as defined below in this Schedule 4, for Financial Year $t-2$;

CPI_t has the same meaning as set out in clause 8.4;

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 8.4;

P_{t-1}^{ij} has the same meaning as set out in clause 8.4; and

Q_{t-2}^{ij} has the same meaning as set out in clause 8.4.

From Equation 5, A'_{t-1} is negative 0.417 per cent (the value approved in Evoenergy's 2022–23 tariff variation notice³) and A'_t is 0.042 per cent.⁴ Accordingly, the value of A_t is calculated to be 0.461 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. The licence fee factor amount for a financial year is defined as the difference between actual licence fee costs and forecast licence fee costs allowed in the AER's relevant decision, plus an adjustment for the Utilities Network Facilities Tax (UNFT).⁵

For the 2023–24 tariff variation notice, Evoenergy's licence fee factor comprises adjustments for the Energy Industry Levy (EIL) and UNFT, both payable to the ACT Government.

In accordance with Schedule 4 of the access arrangement, Evoenergy has calculated the licence fee factors amounts for 2021–22 as shown in Table 2. The resulting licence fee factor adjustment (L_{t-2}) included in the 2023–24 tariff variation notice is negative \$658,815.26.

Table 2 Licence fee factor amounts (\$, nominal)

	EIL adjustment	UNFT adjustment	Licence fee factor amount
Licence fee factor amount 2021–22 (L_{t-2})	\$16,287.75	-\$675,103.01	-\$658,815.26

The EIL and UNFT adjustments are described in the sections below.

5.1.1. EIL adjustment

Table 5.2 shows the relevant EIL adjustments for 2021–22, calculated as the difference between actual and forecast payments.

Table 3 EIL adjustment (\$, nominal)

	Actual	Forecast	Difference
2021–22	\$718,143.17	\$701,855.42	\$16,287.75

Actual amounts are taken from the ACT EIL assessment notices, provided as confidential attachments to this submission. Forecasts amounts are from the AER's Final Decision for 2021-26.

³ Evoenergy, 2022-23 Tariff Variation Notice, March 2022

⁴ Evoenergy - Attachment 2 2023-24 Tariff Basket Model_March 2023 Confidential.

⁵ 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 intended to recover the costs of regulating utilities.

5.1.2. UNFT adjustment

The calculation of the UNFT adjustment is set out in Clause 2.1 of the access arrangement. The clause gives effect to a gradual transition from calculating UNFT adjustments based on a financial year (as was done under the 2016–21 access arrangement) to calculating UNFT based on an April to March year (to align with UNFT payment period set by the ACT Government).

The calculation of the UNFT adjustment for 2021–22 is shown in Table 4, in accordance with clause 2.1 of the access arrangement.

Table 4 UNFT adjustment 2021–22 (\$ nominal)

Calculation step under Clause 2.1	Amount included in 2023–24 tariffs	Calculation description
(a) actual cost incurred by Evoenergy as a result of the UNFT:		
(i) for any period for which an estimate of the actual cost (rather than the actual cost) incurred by Evoenergy as a result of the UNFT for Financial Year 2020-21 is included in the UNFT adjustment for that Financial Year for the purpose of the 2022- 23 Tariff Variation Notice; and	\$1,930,901.00	Actual UNFT paid for 1 April 2021 to 30 June 2021; calculated as 3/12ths of UNFT paid for the UNFT reporting period 1 April 2021 to 31 March 2022
(ii) for the period 1 July 2021 to 31 March 2022;	\$5,792,703.00	Actual UNFT paid for 1 July 2021 to 31 March 2022; calculated as 9/12ths of UNFT paid for the UNFT reporting period 1 April 2021 to 31 March 2022
	minus	
(b) if an estimate of the actual cost (rather than the actual cost) incurred by Evoenergy as a result of the UNFT for Financial Year 2020-21 is included in the UNFT adjustment for that Financial Year for the purpose of the 2022-23 Tariff Variation Notice, that estimate;	\$1,938,831.21	UNFT estimate for 1 April 2021 to 30 June 2021, as was included in Evoenergy's 2022-23 Tariff Variation Notice
	minus	
(c) the forecast of the cost incurred by Evoenergy as a result of the UNFT for the period 1 July 2021 to 31 March 2022 that is included in the forecast of operating expenditure in the AER's Final Decision.	\$6,459,875.80	Forecast UNFT for 1 July 2021 to 31 March 2022; calculated as 9/12ths of the AER Final Decision 2021–26 UNFT forecast for 2021–22.
UNFT adjustment	-\$675,103.01	

UNFT invoices are provided as a confidential attachment to this submission.

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. 2021–22). The calculation is shown in Table 5. The benchmark UAG costs for 2021–22 are calculated by multiplying total gas receipts by the UAG cost (in \$/GJ) and then by the UAG target rate of 2.49 per cent. The UAG factor adjustment is then calculated by subtracting the 2021–22 forecast UAG of [REDACTED] from the benchmark UAG cost of [REDACTED]. This gives a UAG factor adjustment of [REDACTED] (\$2021–22).

Table 5 Calculation of the UAG cost pass through amount

2021–22	
A. Total gas receipts in GJ for 2021–22	██████████
B. UAG cost in \$/GJ for 2021–22	██████████
C. UAG target rate	2.49%
D. Evoenergy benchmark costs for purchases of gas as UAG (A x B x C)	██████████
E. Forecast total UAG costs (\$2021-22)	██████████
F. UAG factor amount, U_{t-2} (D – E)	██████████

The UAG cost in \$/GJ for 2021–22 is calculated as the average invoiced price for 2021–22. UAG invoices are provided as a confidential attachment.

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.

There is no carbon cost adjustment required for the 2021–22 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 2021–22 as the difference between the actual and forecast costs incurred by Evoenergy in paying any relevant tax.

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 did not incur any relevant taxes for the financial year 2021–22, 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 2021–22, 2022–23 and 2023–24 as outlined in the AER’s letter to Evoenergy dated 18 January 2023, and shown in Table 6 below.

Table 6 Evoenergy pre-tax real WACC

	2021–22	2022–23	2023–24
Pre-tax real WACC (%)	3.03	2.92	3.00

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 3.50 per cent (rounded to two decimal places).

In accordance with clause 8.4, CPI is calculated using the ABS CPI All Groups Weighted Average of Eight Capital Cities. The index value for December quarter 2021 (121.3) is divided by the index value for December quarter 2020 (117.2) to arrive at CPI_{t-1} of 3.50 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 2023–24 variation notice, *t-1* prices are the 2022–23 tariffs, as approved by the AER in its Final Decision on Evoenergy’s 2022–23 tariff variation notice on 19 April 2022. These are the current Evoenergy prices that are in place until the 2023–24 tariff variation notice is approved by the AER and takes effect.
- **t-2 audited quantities:** in line with the requirements of clause 8.18 (d) of the access arrangement, and as outlined in section 4 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 2023–24.

Attachment 1. 2023–24 Gas distribution network schedule of charges

Attached as a separate document.

Attachment 2. 2023–24 Tariff Basket Model - Confidential

Attached as a separate document.

Attachment 3. KPMG gas volume audit report and regulatory statement

Attached as a separate document.