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Multinet Cost Pass Through Application – Carbon Tax Repeal



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1. Executive Summary

The Clean Energy Legislation (Carbon Tax Repeal) Bill 2014 passed the Senate and received Royal Assent on 17 July 2014, which retrospectively repealed the carbon tax obligations from 1 July 2014. Following the Royal Assent, Multinet Gas no longer charges for carbon tax.

Multinet's AER (Australian Energy Regulator) approved haulage tariffs for 2014 included a carbon tax component which was intended to apply for the full calendar year 2014. Multinet's pricing arrangement is structured to only recover actual carbon liability cost, and any costs overrun or underrun is trued up, leaving Multinet neutral to the carbon tax scheme.

On the day following Royal Assent, Multinet removed the carbon tax component and stopped recovering this cost.

This Pass Through submission is seeking AER's approval to return \$1,110,287 to Retailers for the over recovery of carbon tax costs. Multinet is seeking to return this value to retailers using a credit carbon tax tariff in 2015 with the same structure as the 2014 carbon tax tariffs.

2. Background

On 17 July 2014 the Clean Energy Legislation (Carbon Tax Repeal) Bill 2014 passed the Senate and received royal assent.

Both the ESC (Essential Services Commission) and the AER have consulted with electricity and gas retailers on amendments to retail tariffs following assent of this legislation, however these processes did not extend to gas distributors. On 15 July Multinet sought from the AER confirmation that Multinet could amend the carbon tax component of its tariffs to zero following the day of royal assent.

Multinet's current access arrangements require Multinet to notify the AER of a relevant Pass Through event within 90 Business days where the impact of the event would lead to a Negative Pass Through Amount.

The current access arrangement establishes a framework where there are provisions for cost recovery of unforeseen events that are able to be included within the Access Arrangement. These arrangements also include the return of costs to end users where obligations on Multinet change.

The passage of the Carbon repeal legislation fits into this category as defined below:

Part B, clause 8 of the current Multinet gas access arrangement states:

'The Service Provider... must notify the AER of a Relevant Pass Through Event within 90 Business days of the Relevant Pass Through Event occurring, whether the impact of the event would lead to a Negative Pass Through Amount.'

'Subject to the approval of the AER under the NGR, Reference Tariffs may be varied after a Relevant Pass Through event occurs.

Any such variation will take effect from 1 January following the AER's decision.'

Relevant Pass Through Event means each of the following:

- a) Change in Taxes Event;
- b) Declared Retailer of Last Resort Event;
- c) Insurer Credit Risk Event;
- d) Insurance Cap Event;
- e) Regulatory Change Event;
- f) Service Standard Change Event;
- g) Terrorism Event;
- h) Disaster Event;
- i) National Energy Customer Framework Event;
- j) Mains Replacement Event.

Change in Taxes Event means an event where:

- a) any of the following occurs during the course of the Access Arrangement period:
 - 1. a change in a Relevant Tax, in the application or official interpretation of a Relevant Tax, in the rate of a Relevant Tax, or in the way a Relevant Tax is calculated;
 - 2. the removal of a Relevant Tax;
 - 3. the imposition of a Relevant Tax; and
- b) in consequence:
 - 1. the costs to the Service Provider of providing Reference Services are Materially increased or decreased.

Relevant Tax means any Tax payable by the Service Provider, other than:

- a) income tax and capital gains tax;
- b) stamp duty, financial institutions duty and bank account debits tax;
- c) penalties, charges, fees and interest on late payments, or deficiencies in payments, relating to any Tax; or
- d) any Tax that replaces or is the equivalent of or similar to any of the taxes referred to in paragraphs (a) to (b) (including any State equivalent tax).'

Just as the carbon tax was considered a Relevant Tax when the Clean Energy Act was introduced following royal assent on 18 Nov 2011 in the third access period, the repeal of the Act also requires Multinet's to notify the AER of a Negative Pass Through Amount in this fourth access period.



3. Supporting Information

3.1. Carbon Permit Liability

3.1.1. Carbon Tax Tariff Set to Zero, effective 18 July 2014

Multinet sought approval from the AER for a within year tariff change under clause 4 of Part B of the Access Arrangement on 15 July 2014.

Multinet set the carbon tax tariff component of its tariff to zero with effect from the day following the date of assent, 18 July 2014.

The following tables outline Multinet’s carbon tax tariff effective from 1 January 2014, and subsequently the \$0 rates from the day following the date of Royal Assent (or 1 July 2014) – 31 December 2014.

Multinet Gas: Carbon Recovery Charges effective 1 January 2014 – 17 July 2014

Reference	Service Description	GST Exc \$/GJ	GST Inc \$/GJ
EXCLSERCRR	Tariff V Residential	0.1406	0.1547
EXCLSERCRCRB	Tariff V Commercial	0.0481	0.0529
EXCLSERDL<	Tariff D+L <100,000 GJ/year	0.0073	0.0080
EXCLSERDL>	Tariff D+L >100,000 GJ/year	0.0023	0.0025

Multinet Gas: Carbon Recovery Charges effective 18 July 2014 - 31 December 2014 inclusive

Reference	Service Description	GST Exc \$/GJ	GST Inc \$/GJ
EXCLSERCRR	Tariff V Residential	0	0
EXCLSERCRCRB	Tariff V Commercial	0	0
EXCLSERDL<	Tariff D+L <100,000 GJ/year	0	0
EXCLSERDL>	Tariff D+L >100,000 GJ/year	0	0



3.1.2. True up for Calendar year 2013 and Jan-June 2014, July 1-17 2014.

Multinet's tariffs include a component to allow for recovery of costs associated with carbon tax compliance. Formula 4, in Appendix 1 of Part B of the current Multinet gas access arrangement, sets maximum carbon tax revenue (**MCTR**) for each calendar year and includes a correction factor to account for any under or over recovery from year to year. This formula also caters for the unwinding of the carbon tax obligations.

Multinet proposes that any under or over recovery be dealt with through the k-factor in formula 4, in Appendix 1 of Part B of the current Multinet gas access arrangement. Multinet amended its tariffs effective from the day following the date of assent of the relevant legislation. Based on the 2013 and 2014 true ups of actual/estimated revenue versus costs, revenue has been over recovered, therefore the MCTR should be negative for 2015, leading to a small negative carbon component in the tariffs in 2015.

At the time of this submission the table below, which outlines the carbon tax revenue, carbon tax liability, and under/over recovery applicable to Multinet Gas in 2015. Actual quantities have been audited as required under the Access Arrangement, the audit report is included in Multinet's 2015 annual tariff submission.

	Carbon Tax Revenue	Carbon Tax Liability	Under/Over Recovery	Plus CPI/WACC
2013 (act)	\$7,217,158	\$6,209,665	-\$1,007,494	-\$1,168,262
2014 Jan-June (est)	\$2,251,300	\$3,100,812	\$849,512	\$915,440
2014 Jul (est)	\$502,945	\$0	-\$502,945	-\$541,977
TOTAL (2015 Correction Factor)	\$9,971,403	9,310,477	-\$660,926	-794,799
2015 Forecast (Carbon Tax OPEX)	-\$300,000	\$0	-\$300,000	-\$313,556
TOTAL (Maximum Carbon Tax Revenue)	\$9,671,403	\$9,310,477	-\$960,926	-\$1,108,355

2015 Correction factor:

The 2015 correction factor of \$794,799 is based on actual over-recovery of \$1,168,262 in calendar year (CY) 2013, and the net under-recovery of \$373,463 in CY 2014.

2015 Forecast (Carbon Tax OPEX):

To meet the administrative requirements of carbon reporting and purchasing/surrender of permits, the AER approved a step change of \$100k per annum in this GAAR period. As part of the pass through amount a credit of \$313,556 which relates to this Carbon Tax OPEX 2015-2017 needs to be added to the k factor in the 2015 tariffs. The Carbon Tax OPEX charges of \$100K per annum for 2015, 2016, and 2017 are required to be credited back to Retailers in 2015. These have been escalated by applicable CPIs to achieve \$313,556.

2015 Maximum Carbon Tax Revenue:



The 2015 Maximum Carbon Tax Revenue to be credited back to Retailers in the 2015 calendar year is \$1,108,355, which consist of the over recovered cost of \$794,799 in years (CY) 2013 and 2014 and the Carbon Tax OPEX cost for years 2015-2017 of \$313,556.

3.1.3. Pass Through of Over Recovered Amounts

This submission is seeking AER confirmation that the net over recovery, \$1,108,355, is able to be included in the 'k' factor calculation in the 2015 Annual Tariff Submission.

The net over recovered amount would be included in the calendar year 2015 tariffs as a small credit on retailer's invoices at the MIRN level, consistent with the billing of the carbon tax tariff. The carbon tax tariffs would apply all year and a time value of money (CPI/WACC) component is already included in the approved carbon tax formula.

The table below includes the applicable carbon tax tariffs proposed for 2015 compared to 2014. There have been no structural amendments from 2014 to 2015. All tariffs remain as \$/GJ. All tariffs are negative as a credit is owed to all Retailers.

Multinet Gas: Carbon Tax Tariff (\$/GJ)

Reference	GST Exc 2014 (\$/GJ)	GST Exc 2015 (\$/GJ)
Tariff V Residential	\$0.1406	-\$0.0274
Tariff V Non-Residential	\$0.0481	-\$0.0094
Tariff L/D - Multinet		
<100000	\$0.0073	-\$0.0014
>100000	\$0.0023	-\$0.0004