



2007 Network Tariff Report

20 April 2007

Multinet Gas (DB No.1) Pty Ltd

and

Multinet Gas (DB No.2) Pty Ltd

Trading as

**Multinet Gas Distribution Partnership for the
Distribution System ("Multinet")**

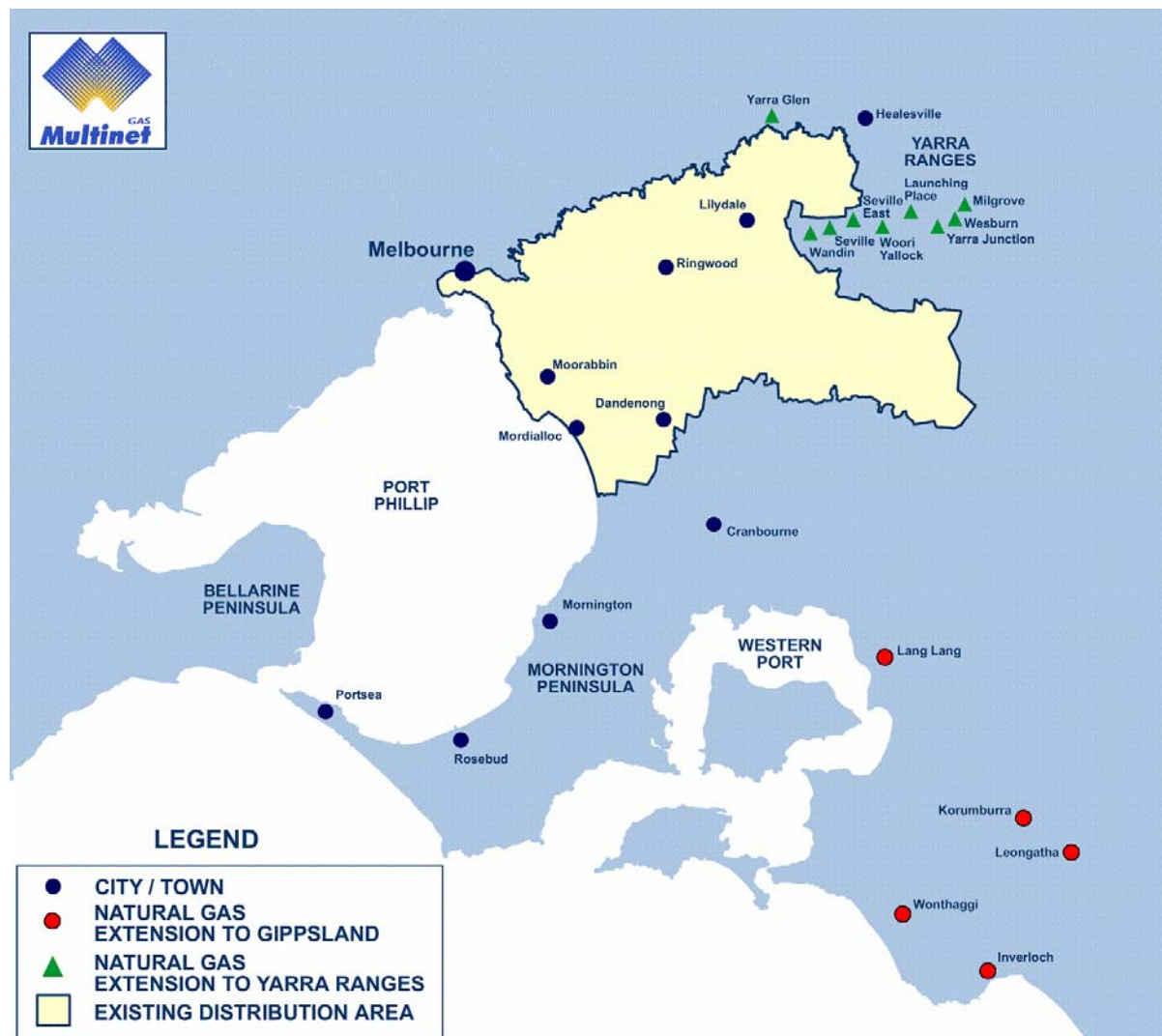
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1 Introduction

This report is intended to meet the requirements of Multinet's Access Arrangement (Clause 4.5 of Part B - Reference Tariffs and Reference Tariff Policy), providing information to enable users to understand the basis of tariff policies adopted in 2007.

Multinet is the largest distributor of natural gas in Victoria and serves connections in Melbourne's inner, outer eastern and south-eastern suburbs. Multinet owns the distribution network assets used to transport gas from the high-pressure transmission network to the premises of residential, commercial, and industrial gas users.



2 Tariff Setting Principles

Reference tariffs exist for services that are commonly sought by the market.

Tariffs are designed to be consistent with the requirements of the National Third Party Access Code for Natural Gas Distribution Systems and Multinet's Access Arrangement. Variations to the tariffs introduced in 2007 are also consistent with these documents.

The design of the tariffs sought to incorporate the following policy principles:

- **Regulatory compliance.** Maintain compliance with the National Third Party Access Code for Natural Gas Pipeline Systems, and in particular Reference Tariffs and Reference Tariff Policies as approved by the Essential Services Commission in October 2002 and in the Further Final Approval.
- **Market equity.** Having regard to the continuity of previously applicable price levels. Pricing should apply to all retailers in a neutral manner and not impede the viability of full retail contestability.
- **Cost reflectivity.** Seek appropriate mechanisms for achieving inter-customer group equity in the recovery of distribution revenue requirements. Pricing is to recognise cost-reflectivity, within the constraints imposed by: interpretation of regulatory requirements, customer group averaging assumptions, cost allocation methodologies employed, and historical imperatives. Have due regard to reasonable economic bounds on upper and lower limits, particularly as pertaining to efficient investment signalling and network usage.
- **Behavioural elasticity.** Seek to utilise rational consumer behavioural elasticity in terms of usage pattern responses to pricing signals.
- **Practicality.** Seek to simplify mechanisms balancing against economic functionality, while having regard to minimising transaction and pricing administration cost.
- **Environmental.** Within the limitations of the scope and context of gas distribution pricing, have regard to opportunities to improve utilisation efficiency, and accommodate emerging energy technologies, particularly in respect of greenhouse gas emission reduction.

Understandably, not all principles can be satisfied to their full extent, while fully complying with the Access Arrangement, particularly as some principles have conflicting implications requiring tradeoffs to be made. Multinet, however, has sought to achieve as much as possible in satisfying these principles within the given constraints.

3 Distribution Use of System (DUOS) Tariffs

The regulated price control formula allowed Multinet an average increase in distribution tariffs in 2007 of 5.53% over the 2006 tariffs. The major components of this change are shown below:

CPI = 3.94%

X = -0.90%

L = 0.63%

Allowable price change = $(1+CPI) \times (1-X) \times (1+L)$

Within the average tariff increase, the price control formulae allow individual tariffs to increase by a maximum of 6.7%. This allows Multinet some flexibility as to where the average 5.53% increase is allocated.

For the Yarra Valley towns a surcharge is applied to the standard Multinet Residential and Non-residential Tariffs. This surcharge is increased by CPI each year and accordingly rises to \$3.2872 per GJ above the Multinet Tariff V Residential and Non Residential tariffs for all seasons and all tariff bands.

4 Changes in Tariffs, Tariff Structure and New Tariffs

A new L tariff has been introduced for the 2007 period. No structural changes have been made to any of the other tariffs in 2007 other than to accommodate the new L Tariff and rebalance prices.

4.1 New L Tariff

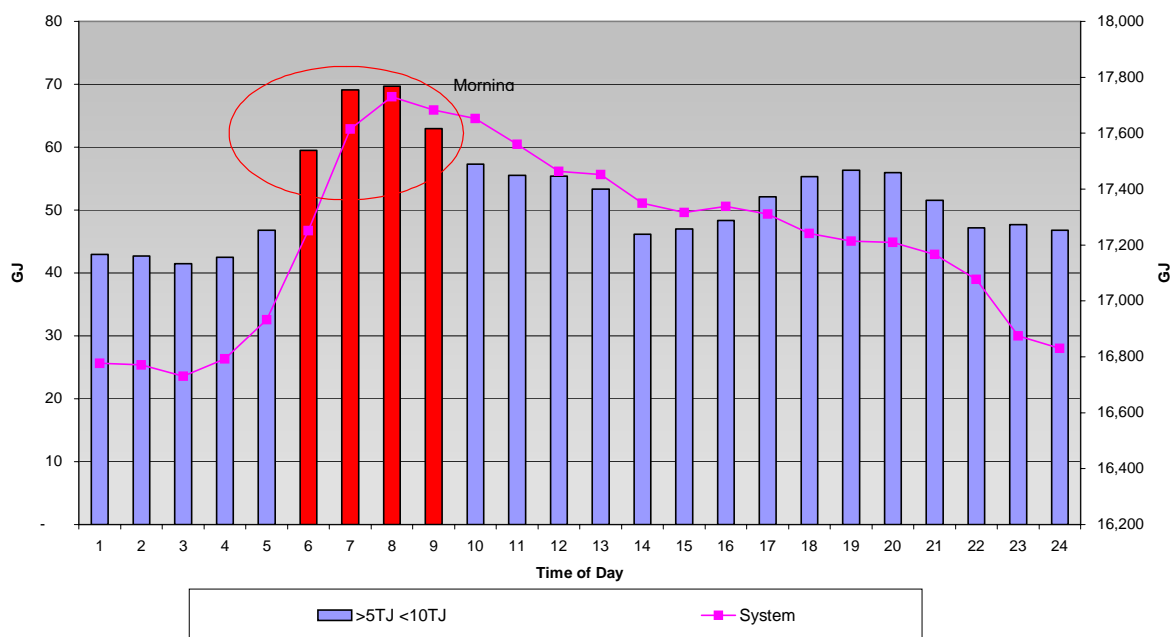
The new tariff is aimed at addressing pricing inequities for customers consuming more than 5TJ per consecutive 6 month period. Part of the pricing inequity is that these customers faced additional costs for interval metering and ongoing data provision. This new tariff will cease to apply for customers who consume either greater than 10TJ per annum or greater than 10 GJ per hour; as these customers are then deemed to be Tariff D customers.

Design features of the new tariff include:

- Cost signals are split evenly between energy and demand
- Two demand signals have been introduced
- More cost reflective than a straight volume tariff
- Priced below the Business V tariff on a unit cost basis

Cost reflectivity of the Peak demand tariff component gives customers financial incentive to reduce gas demand at times of high system load. The below graph indicates the Peak demand profile of customers eligible for the L Tariff overlaid on the Multinet system load profile. The four hour Peak demand pricing period is highlighted. This four hour period is also consistent with the new VENCORP market settlement periods. The below graph shows that the time of maximum aggregate demand of customers eligible for placement on the L Tariff is coincident with maximum system demand.

Peak Day profile of >5TJ <10 TJ customers against System profile



In concert with this action Multinet Gas has withdrawn the Non-residential V tariff to customers consuming more than 5TJ per consecutive 6 month period, with the new tariff being the default Haulage Reference Tariff for these customers when they have appropriate metering.

The main pricing features of the new tariff (as shown in Appendix A) include:

- 2 band energy based charges for each season (peak, shoulder1, shoulder 2, off-peak)
- 2 MHQ demand based components covering:
 - o rolling maximum demand, and
 - o peak demand during a 4 hour window during peak season, weekday, mornings.

Rules covering calculation of the demand charges are included in Appendix B.

L Tariff customers must:

- pay for an appropriate meter which is capable of recording MHQ
- pay an excluded distribution services charge for providing connection assets and mains extensions that have been previously undertaken for that distribution supply point; and
- continue to be assigned to Tariff L for a period of over 1 year.

Tariff L has also voluntarily been opened to Non-residential customers consuming more than 1TJ per annum. Similar to the Mandatory L tariff customers, these customers are also required to:

- o pay for an appropriate meter which is capable of recording MHQ
- o pay an excluded distribution services charge for providing connection assets and mains extensions that have been previously undertaken for that distribution supply point; and
- o continue to be assigned to Tariff L for a period of over 1 year.

Tariff V Non-residential has had applicability criteria changed to accommodate the new L Tariff. The upper consumption range for a Tariff V Non-residential customer in 2006

was 10TJ per annum or 10GJ MHQ. The 2007 upper consumption range for a Tariff V Non-residential customer in 2007 is 5TJ per 6 month period (above which the customer is considered to be Tariff L) or 10GJ MHQ (above which the customer is considered to be Tariff D).

This new tariff is designed and implemented in agreement with the tariff creation and setting principles.

4.2 Price Changes to Existing Tariffs

As discussed in Section 3, the overall price movement for Multinet's gas distribution tariffs is an increase of 5.53% for 2007. This is in line with the price path allowed by the Essential Service Commission. Rebalancing constraints allow for individual tariffs to change by different rates.

Average price movement of individual tariffs from 2006 to 2007 are:

Tariff V - Multinet Residential	5.5%
Tariff V - Multinet Non-Residential	6.4%
Tariff D – Multinet	5.3%
Tariff L – Multinet	0.2%

Within the above tariffs, individual tariff components have also changed, with the general trend being fixed charges reducing and variable charges increasing.

Rebalancing is taking place because Multinet has reviewed and revised its Cost of Supply model. The review has shown a gradual drift in the last 3 years of prices away from placing an emphasis on variable charges toward fixed charging. While tariffs at an average level are consistent with Pricing Principles used to set tariffs, the drift towards fixed charging has been de-emphasising signals to customers on the impact of additional usage on future network investment costs.

This change in tariff rates is in agreement with the tariff setting principles.

5 Future Direction of Multinet's Tariffs

Multinet will continually change its tariffs in response to changes in the demand profile of customers connected to its network, and will seek appropriate mechanisms for achieving inter-customer group equity in the allocation of distribution costs.

A tariff change is anticipated for Tariff D in 2008. This change will alter the methodology for charging MHQ. Currently the calculation of the volume for which a D tariff customer is charged is based on a complex and dated methodology. The tariff charges are based on the maximum demand (MHQ) in a calendar year, with billing only able to be broken down into monthly increments. Under these arrangements a review of demand is undertaken in October and reimbursement of any over-paid maximum demand is subsequently made. This methodology does not meld well with customer contestability and creates customer confusion on transfer and moving.

Multinet anticipates changing the calculation methodology to be a rolling 12 month maximum demand (MHQ), with billing able to be broken down into daily increments for ease of customer transfer under FRC. The new calculation methodology will have negligible effect on the volume of demand that is charged in any calendar year.

Other than the calculation methodology, all other business rules will continue to apply for the D tariff.

The GAAR may see other influences introduced such as Yarra Valley and Gippsland Surcharges being converted to tariffs in their own right rather than being calculated as a base tariff with surcharge applied.

6 Consultation

Multinet continues to encourage stakeholders to discuss ideas on how mutual needs may be better met. Many of the 2007 changes will be familiar to those stakeholders who participated in sessions hosted by Multinet during 2006. It is hoped that this liaison can be further enhanced in coming years.

Consultation on Multinet related tariff issues is undertaken in conjunction with the Stakeholder Relationship Managers in accordance with the Stakeholder Business Plan.

Over and above stakeholders identified by Multinet, stakeholders who wish to be included in community consultation are able to identify themselves to Multinet through the Multinet Service Desk on 1300 131 689, or emailing via customerrelations@alinta.net.au or by mail:

Multinet Gas Pty Ltd
C/- Alinta
Locked Bag 7000
Mt Waverley
VIC 3149

Communication with stakeholders on 2007 tariffs was undertaken via a mix of workshops and individual stakeholder meetings. The main stakeholder presentation which laid out the proposals for 2007 price and tariff changes was undertaken in late September 2007 to allow sufficient time for feedback to be incorporated into the final tariff submission. This presentation alone was attended by over 30 people from 13 organisations.

Appendix A: 2007 Distribution Tariff Rates GST Exclusive

Schedule of Multinet Distribution Tariffs

SCHEDULE OF GAS DISTRIBUTION TARIFFS - MULTINET

Date of Application - 1 January 2007

Tariff V

Multinet - Residential

Distribution Fixed Tariff Component

\$0.1166 per day (exclusive of GST)

Consumption Range (GJ/day)	Distribution Volume tariff component - peak period (\$/GJ) (exclusive of GST)	Distribution Volume tariff component - off peak period (\$/GJ) (exclusive of GST)	Distribution Volume tariff component - May Shoulder period (\$/GJ) (exclusive of GST)	Distribution Volume tariff component - Oct Shoulder period (\$/GJ) (exclusive of GST)
0 - 0.05	4.9884	4.7666	4.9884	4.9884
> 0.05 - 0.1	4.6509	4.6739	4.6509	4.6509
> 0.1 - 0.15	3.0342	4.6388	3.0342	3.0342
> 0.15 - 0.25	1.8553	1.4100	1.8553	1.8553
> 0.25	1.3060	0.9488	1.3035	1.3035

Multinet - Non Residential

Distribution Fixed Tariff Component

\$0.2041 per day (exclusive of GST)

Consumption Range (GJ/day)	Distribution Volume tariff component - peak period (\$/GJ) (exclusive of GST)	Distribution Volume tariff component - off peak period (\$/GJ) (exclusive of GST)	Distribution Volume tariff component - May Shoulder period (\$/GJ) (exclusive of GST)	Distribution Volume tariff component - Oct Shoulder period (\$/GJ) (exclusive of GST)
0 - 0.25	4.0211	3.4180	4.0211	4.0211
> 0.25 - 1	1.8643	1.3559	1.5237	1.5237
> 1 - 1.5	0.7784	0.7413	0.7253	0.7253
> 1.5 - 5	0.6541	0.5225	0.6541	0.6541
> 5	0.2181	0.1853	0.2181	0.2181

Tariff L

Multinet - Non Residential

Consumption Range (GJ/day)	Distribution Volume tariff component - peak period (\$/GJ) (exclusive of GST)	Distribution Volume tariff component - off peak period (\$/GJ) (exclusive of GST)	Distribution Volume tariff component - May Shoulder period (\$/GJ) (exclusive of GST)	Distribution Volume tariff component - Oct Shoulder period (\$/GJ) (exclusive of GST)
< 5	0.5151	0.3623	0.4568	0.4568
> 5	0.1105	0.0824	0.1037	0.1037

Rolling 12 month Maximum MHQ Distribution Demand tariff component (\$/MHQ per day) (exclusive of GST)	Peak MHQ Distribution Demand tariff component (\$/MHQ per day) (exclusive of GST)
0.4790	1.4332

Tariff D

Annual MHQ (GJ/hr)	Distribution Demand tariff component (\$/MHQ) (exclusive of GST)
0 - 50	491.10
> 50	83.55

Period Definitions

Peak	June - September
Off Peak	November - April
Shoulder	May
Shoulder	October

Schedule of Yarra Valley Distribution Tariffs

SCHEDULE OF GAS DISTRIBUTION TARIFFS - MULTINET

Date of Application - 1 January 2007

Yarra Valley Towns

Tariff V

Multinet - Residential

Distribution Fixed Tariff Component \$0.1166 per day (exclusive of GST)

Consumption Range (GJ/day)	Distribution Volume tariff component - peak period (\$/GJ) (exclusive of GST)	Distribution Volume tariff component - off peak period (\$/GJ) (exclusive of GST)	Distribution Volume tariff component - May Shoulder period (\$/GJ) (exclusive of GST)	Distribution Volume tariff component - Oct Shoulder period (\$/GJ) (exclusive of GST)
0 - 0.05	8.2756	8.0538	8.2756	8.2756
> 0.05 - 0.1	7.9381	7.9611	7.9381	7.9381
> 0.1 - 0.15	6.3214	7.9260	6.3214	6.3214
> 0.15 - 0.25	5.1425	4.6972	5.1425	5.1425
> 0.25	4.5932	4.2360	4.5907	4.5907

Multinet - Non Residential

Distribution Fixed Tariff Component \$0.2041 per day (exclusive of GST)

Consumption Range (GJ/day)	Distribution Volume tariff component - peak period (\$/GJ) (exclusive of GST)	Distribution Volume tariff component - off peak period (\$/GJ) (exclusive of GST)	Distribution Volume tariff component - May Shoulder period (\$/GJ) (exclusive of GST)	Distribution Volume tariff component - Oct Shoulder period (\$/GJ) (exclusive of GST)
0 - 0.25	7.3083	6.7052	7.3083	7.3083
> 0.25 - 1	5.1515	4.6431	4.8109	4.8109
> 1 - 1.5	4.0656	4.0285	4.0125	4.0125
> 1.5 - 5	3.9413	3.8097	3.9413	3.9413
> 5	3.5053	3.4725	3.5053	3.5053

Period Definitions

Peak	June - September
Off Peak	November - April
Shoulder	May
Shoulder	October

Appendix B: Tariff L Demand Component Terms and Conditions

Rolling 12 Month Maximum MHQ Charge Business Rules:

- The 12 Month Rolling Maximum Demand Charge is a daily charge based on the highest demand (MHQ) delivered over 12 months to the end of the billing period.
- There is no minimum chargeable demand and no tariff step based on MHQ.
- In exceptional circumstances, customers can apply for their Rolling 12 month Maximum MHQ to be decreased:
 - If a particular customer has changed their gas usage over a shorter term than the 12 months covered by the Rolling 12 month Maximum MHQ (eg. 3 - 6 months), then they are eligible (on their request) to accelerate their reduction in demand before the 12 month period is up.
 - If a customer wants to reduce their chargeable demand, they must complete a "**Demand Reset Form**" which can be obtained from the Multinet website. This should be faxed to 03 9256 5590 or emailed to billing@alinta.net.au
 - The form allows for input of the reason for the demand reset being requested. If the reset is being requested because of an unusual event that has caused a peak during one month that is outside the normal operating thresholds for the business, this event will be investigated. If it is substantiated then a reset may be approved.
- Where a customer ceases to take supply or changes retailer the maximum demand will be calculate with respect to the 12 months prior to the end of the billing period in question.

Peak MHQ Distribution Demand Charge Business Rules:

The Peak MHQ Distribution Demand Charge is a daily charge based on the highest demand (MHQ) delivered in any billing period during the hours 6 am to 10 am on weekdays over the 4 Peak months. There is no minimum chargeable demand and no tariff step based on MHQ

For ease of explanation, the means of calculating the Peak MHQ Distribution Demand Charge is broken down into:

1. Periods when maximum demand may be measured for calculating a Peak MHQ Distribution Demand Charge quantity.
2. Calculation of the Peak MHQ Distribution Demand Charge quantity to be applied to the billing calculations.
3. Application of the Peak MHQ Distribution Demand Charge quantity to the billing period.

Times that are relevant to identify the Peak MHQ Distribution Demand Charge:

- Peak months, where Peak is defined as 1 June to 30 September.
- Weekdays, excluding public holidays.
- Hours between 6am and 10am local time.

The Peak MHQ Distribution Demand Charge demand quantity to be applied to the billing calculation is:

- The highest MDQ measured in the relevant times during each billing period

Application of Peak MHQ Distribution Demand Charge quantity to the billing period:

- The billing period is the period covered by the bill which is generally a period between; scheduled meter reads, or special meter reads.
- The 4 Hour Peak Demand Charge for the billing period is the product of; the 4 Hour Peak Demand Charge quantity multiplied by the 4 Hour Peak Demand Charge unit rate multiplied by the number of peak days in the billing period.