



UNITED ENERGY



Multinet^{GAS}

2018 to 2022 GAAR – Reference Group

Meeting 4 – 28 September 2016



Agenda

1. Welcome
2. Reference tariff variation mechanism
3. Tariff structure
4. Closing



Reference tariff variation mechanism

a) Haulage Reference Services

Proposal:

- Propose changing from weighted average price cap (WAPC) to revenue cap for next access arrangement period
- Propose using revenue cap formulae AER approved in Final Decision for UE for 2016 to 2020, subject to limited modifications

What is Reference Tariff Variation Mechanism?

- Mechanism that allows us to recover our approved revenue from customers over the access arrangement period
- Under a:
 - Revenue cap - We only recover the allowed revenue set by the AER via our approved tariffs; and
 - Weighted average price cap – We can recover more or less than the allowed revenue set by the AER via our approved tariffs:
 - If actual demand is greater than forecast – recover more
 - If actual demand is less than forecast – recover less



Reference tariff variation mechanism

Reasons:

- Revenue cap would best manage volume uncertainty
- We:
 - Don't have confidence that the AER can accurately forecast demand
 - Face risk of not recovering efficient costs if volumes lower than forecast
 - Under a revenue cap we are less reliant on the accuracy of our energy forecasts.
- Agree with AER's view in its Framework and Approach for UE that:

We consider that a revenue cap will result in benefits to consumers through a higher likelihood of revenue recovery at efficient cost, better incentives for demand side management, less reliance on energy forecasts and better alignment with the introduction of efficient prices. Furthermore, we consider that the detriments of a revenue cap – within period pricing instability and weak pricing incentives – are able to be mitigated.
- A revenue cap is permitted under Rules – Rule 97(2)(a)



Reference tariff variation mechanism

b) Ancillary Reference Services (ARS)

- Propose maintaining our Reference Tariffs for our ARS over the forthcoming Access Arrangement period, being:
 - Meter and gas installation tests
 - Disconnections, being:
 - Removal of the meter at a metering installation
 - The use of locks or plugs at a metering installation
 - Energisation and reconnection
 - Special meter reading
 - Removal of service pipe
 - Asset relocation.
- We also propose to continue to adjust these tariffs by changes in inflation only



Tariffs - Principles

- We consider the following principles when setting our tariffs and undertaking any annual rebalancing:
 - Simple
 - Attractive to retailers
 - Forward looking
 - Manage volatility
 - Predictable
 - Cost-reflective
 - Compliant
- Consistent with Rule 94(3), revenue expected to be recovered from each tariff class should be between:
 - Upper bound, being the stand alone cost of providing the reference service
 - Lower bound, being the avoidable cost of not providing the reference service



Tariffs - Structure

(a) Pricing Zones:

- We have three zones for the purposes of pricing: Metropolitan, Yarra Valley, South Gippsland.

(b) Tariff type:

- **Tariff V** - Applies to customers using less than 10,000 GJ a year and less than 10 GJ MHQ.
 - Within Tariff V there are two classifications: Residential and Non-Residential.
- **Tariff D**: Applies to customers using greater than 10,000 GJ a year or more than 10 GJ MHQ.
- **Tariff L**: Open to customers who consume more than 1TJ per annum or less than 10TJ per annum and have an MHQ demand of less than 10 GJ per hour.

We are not proposing any changes to our tariff structure in the next AA period.



Tariffs

(c) Tariff Structure

(i) Tariff V

- Contains a fixed and variable charge:
 - Fixed charge recovers unavoidable network infrastructure costs such as service connection, standard meters, and systems for billing and collection
 - Variable peak, shoulder and off peak charges recover all other costs associated with the Distribution use of System. The variable charge (price per GJ) decreases with increased usage. There are five usage blocks for Residential and Non-Residential Customers:

Tariff V Residential usage blocks	Consumption Range (GJ/day) – Residential	Consumption Range (GJ/day) – Non - Residential
Usage Block 1	0 - 0.05	0 - 0.25
Usage Block 2	>0.05 - 0.1	>0.25 - 1.0
Usage Block 3	>0.1 - 0.15	>1.0 - 1.5
Usage Block 4	>0.15 - 0.25	>1.5 - 5.0
Usage Block 5	>0.25	>5.0



Tariffs

(i) Tariff V (continued)

- Both Residential and Non Residential Tariff V customers, have seasonal usage charges (\$/GJ) for the following periods:
 - Off Peak Summer Period (November-April inclusive)
 - May Shoulder period (May)
 - Peak Winter period (Jun-September inclusive.)
 - October Shoulder period (October).

(ii) Tariff D

- Customers are charged based on their Maximum Hourly Quantity (MHQ) measured in Giga Joules (GJ) per hour. The MHQ unit rates are stepped as follows:

Maximum Hourly Quantity (GJ/hr)	
Demand Step 1	0 - 50
Demand Step 2	> 50



Tariffs

(iii) Tariff L

- Is a hybrid of the Tariff V and D tariff structures.
- Does not have a fixed charge but it contains seasonal stepped usage charges and two demand charges.
- There are currently two usage blocks for Tariff L customers:

Tariff L usage block	
Usage Block 1	0 - 5
Usage Block 2	>5

- Tariff L also contains seasonal usage charges (\$/GJ) for the following periods:
 - Off Peak Summer Period (November-April inc.)
 - May Shoulder period (May)
 - Peak Winter period (June-September inc.)
 - October Shoulder period (October)