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Dear Mr Little

**RE: APPLICATION TO VARY REFERENCE TARIFFS TO APPLY FROM 1 JULY 2004**

On 10 May 2004, Envestra submitted to the Commission an application to adjust its reference tariffs in accordance with the Reference Tariff Policy set out in the Access Arrangement.

Envestra re-submitted its application on 20 May 2004 to incorporate the impact of the increase in the 2004/05 licence fee relative to that provided for in the Access Arrangement. The increase in the licence fee constitutes a change in impost under the Reference Tariff Policy of the Access Arrangement.

The government has advised the Commission that Envestra's 2004/05 licence fee will be \$1,691,000. This represents an increase of \$599,000 over the allowance for a licence fee in the Access Arrangement.

As required by section 8.3(F) of the National Third Party Access Code for Natural Gas Pipeline Systems (the Code), this letter sets out the Commission's reasons for allowing a variation of a reference tariff. This letter will be made available on the Commission's website.

**Code requirements**

Section 8.3A of the Code allows reference tariffs to change within an Access Arrangement period only through implementation of an Approved Reference Tariff Variation Method, as provided for in sections 8.3B to 8.3H of the Code. Section 8.3B(a) of the Code requires

Envestra to provide a notice to the Commission if a specified event occurs. This notice must contain:

- ▲ the proposed variations to the reference tariffs and the proposed effective date for those variations; and
- ▲ an explanation of how the variations proposed are consistent with the Approved Reference Tariff Variation Method contained in the Reference Tariff Policy.

The Commission published Envestra's notice on its website on 24 May 2004 and provided a copy to the Code Registrar, pursuant to clause 8.3C of the Code.

Section 8.3D of the Code states that the reference tariffs will vary automatically on and from the later of:

- ▲ the date specified in a notice from the service provider; or
- ▲ any minimum notice period set out in the Reference Tariff Policy; or
- ▲ if the reference tariff policy does not specify a minimum notice period for the variation, 35 days after the date of the notice.

For the purpose of the annual tariff variations, the reference tariffs will vary from 1 July 2004, which is the date specified by Envestra in its notice to the Commission. The Commission has also applied the licence fee pass through to apply from this time. Both reference tariff variations are specified events under the Reference Tariff Policy in the Access Arrangement.

### **Access Arrangement**

Section 3.3.6.7 of the Reference Tariff Policy in the Access Arrangement states that Envestra will apply to the Regulator to adjust reference tariffs with effect from 1 July each year in accordance with the adjustment mechanisms in sections 3.3.6.1 to 3.3.6.4. An errata to sections 3.3.6.1 to 3.3.6.3 of the Access Arrangement was issued on 3 June 2003.

Section 3.3.6.1 of the Access Arrangement requires Envestra's reference tariffs for demand haulage services to be adjusted by the percentage change in the annual CPI minus 0.5%. A transitional adjustment is also applied in accordance with section 8.6.7 of the South Australian Independent Pricing and Access Regulator's Final Decision on Envestra's Access Arrangement.

Sections 3.3.6.2 and 3.3.6.3 of the Access Arrangement requires Envestra's reference tariffs for domestic and commercial haulage services to be adjusted by the percentage change in the annual CPI minus 0.3%. A transitional adjustment is also applied to these reference tariffs.

Section 3.3.6.4 of the Reference Tariff Policy in the Access Arrangement also requires that reference tariffs for ancillary reference services be adjusted on 1 July each year by the percentage change in the annual CPI.

In terms of the licence fee pass through, section 3.3.2 of the Reference Tariff Policy in the Access Arrangement states:

Whenever Envestra determines that the cost of operating the Network or performing its obligations under the Agreement have increased or decreased materially as a result of a New Impost or change in an Impost, Envestra may apply to the Regulator for approval to increase or decrease the Reference Tariffs accordingly, in accordance with the provisions of the Code.

Where an impost is defined in the Access Arrangement as:

...any royalty, duty, excise, tax, impost, levy, fee or charge imposed by the Commonwealth of Australia or any State or Territory of Australia on or in respect of the Network (or any part of it) or on or in respect of the operation, repair, maintenance, administration or management of the Network (or any part of it) or on or in respect of the provision of Network Services.

The licence fee, which is set by the Minister for Energy, is a fee in respect of the operation of the distribution system (unless a licence is held, Envestra cannot legally operate the distribution system). The increase in the 2004/05 licence fee therefore represents a change in an impost for the purpose of section 3.3.2 of the Access Arrangement.

### **Commission's Reasons**

A specified event is defined by the Code as an event that is specified in a Reference Tariff Policy as triggering a variation in reference tariffs. The Reference Tariff Policy in the Access Arrangement specifies the manner by which annual tariff variations are to occur. The Reference Tariff Policy also specifies a change in impost.

The Commission is therefore satisfied that the annual tariff variation and the change in the 2004/05 licence fee, which represents a change in impost, is a specified event under the Reference Tariff Policy of the Access Arrangement. The Reference Tariff Policy constitutes an Approved Reference Tariff Variation Method under the Code.

The two major adjustments required to the reference tariffs in respect of the annual tariff variation relate to the CPI-X adjustment and the transitional adjustment.

The Access Arrangement requires reference tariffs to be adjusted by the annual change in the March quarter CPI, which was 1.98%. This was calculated as the change in the 2004 March quarter Index Number (weighted average of 8 capital cities) of 144.1 from the 2003 March quarter Index Number of 141.3.

The X factors of 0.5% for demand haulage reference tariffs and 0.3% for commercial and domestic haulage reference tariffs have been subtracted from the annual change in the CPI. This results in an upward adjustment of 1.48% for demand haulage reference tariffs and 1.68% for domestic and commercial haulage reference tariffs.

The Commission is satisfied that Envestra has applied the CPI-X adjustments to its reference tariffs in a manner that is consistent with the Reference Tariff Policy in the Access Arrangement. Envestra has also correctly applied the CPI adjustment to its reference tariffs for ancillary services.

The method for applying the transitional adjustment is set out in section 8.6.7 of the Final Decision of the Access Arrangement. The transitional adjustment sets out a process for phasing in the impact of the introduction of zonal prices for gas demand customers. This is achieved by applying an annual transitional adjustment to the reference tariffs.

The transitional adjustment is included in the annual tariff variation process and is targeted at users located in the Southern and Central zones. Each year the Access Arrangement sets out an amount of revenue that is subtracted from the total revenue that would have otherwise been recovered through the cost reflective central and southern zone tariffs. This revenue is recovered from all other gas customers.

The transitional adjustment allowance for 2004/05 is \$224,000. The Final Decision of the Access Arrangement sets out the method to calculate the proportion of this allowance that is allocated to demand customers in the southern and central zones. The resultant allocation is \$123,200 and \$100,800 to demand customers located in the southern and central zones respectively.

This is applied by reducing Envestra's reference tariffs for southern and central demand customers such that the total revenue that would have otherwise been collected from these tariffs is reduced by the required amounts. The reference tariffs for all other gas consumers are increased in an equal proportion by the amount of the transitional allowance.

The Commission is satisfied that Envestra has applied the transitional adjustment in a manner that is consistent with the Final Decision. No transitional adjustment applies to ancillary services.

The Commission is therefore satisfied that Envestra's 2004/05 reference tariffs have been calculated in accordance with the requirements of the Reference Tariff Policy in the Access Arrangement. Given this, the Commission is satisfied that the tariffs have been varied in accordance with the requirements of section 8.3A of the Code.

Envestra's reference tariffs to apply from 1 July 2004 have increased (on average) relative to the current reference tariffs by 1.4% for domestic haulage services and 0.3% for commercial haulage reference services. The average increase in reference tariffs for demand haulage services is 2.2%.

The approved 2004/05 reference tariffs have been attached to this letter. The Commission notes that the Access Arrangement requires Envestra to publish on its website details of the adjusted reference tariffs (including Tariff Schedules).

Please contact Craig de Laine (8463 4447) if you would like to discuss any aspects of this letter further.

Yours sincerely

Lewis W. Owens  
**CHAIRPERSON**

## **SA Access Arrangement**

### **TARIFF SCHEDULE**

(1 July 2004 to 30 June 2005)

**Table 1:**  
**1 July 2004 to 30 June 2005 Demand Haulage Reference Service - Adelaide Region**

<b>MDQ at Delivery Point</b>	<b>Monthly Charge (exc GST)</b>			
	<b>North Western Zone</b>	<b>Northern Zone</b>	<b>Central Zone</b>	<b>Southern Zone</b>
<b>50GJ or less</b>	\$1,914.60	\$1,914.60	\$1,914.60	\$1,914.60
<b>Next 50GJ</b> \$/GJ of MDQ for MDQ over 50GJ	\$24.40	\$25.22	\$29.55	\$36.20
<b>Next 900GJ</b> \$/GJ of MDQ for MDQ over 100GJ	\$4.98	\$16.97	\$19.90	\$24.10
<b>Additional GJ</b> \$/GJ of MDQ for MDQ over 1,000GJ	\$0.93	\$5.35	\$6.00	\$7.30

*Notes*

- 1. The Charge for a calendar month accrues from day to day in equal portions.*
- 2. Charges will be calculated to the nearest cent, with one-half of a cent rounded upwards.*
- 3. For the purposes of calculating overrun charges in accordance with clauses 6 and 7 of the terms and conditions set out as Annexure E of the Access Arrangement, the Overrun Rate is \$10 per GJ (exc GST).*

**Table 2:  
1 July 2004 to 30 June 2005 Demand Haulage Reference Service - Other  
Regions**

MDQ at Delivery Point	Monthly Charge (exc GST)				
	Port Pirie Region	Riverland Region	South East Region	Peterborough h Region	Whyalla Region
<b>50GJ or less</b>	\$1,914.60	\$2,694.99	\$1,914.60	\$2,694.99	\$1,914.60
<b>Next 50GJ</b> \$/GJ of MDQ for MDQ over 50GJ	\$25.25	\$37.90	\$25.35	\$38.50	\$25.25
<b>Next 400GJ</b> \$/GJ of MDQ for MDQ over 100GJ	\$13.60	\$24.90	\$13.60	\$24.90	\$13.60
<b>Next 500GJ</b> \$/GJ of MDQ for MDQ over 500GJ	\$4.96	\$24.90	\$13.60	\$24.90	\$13.60
<b>Greater than 1,000GJ</b> \$/GJ of MDQ for MDQ over 1,000GJ	\$4.95	\$5.35	\$5.35	\$5.35	\$5.35

*Notes*

- 1. The Charge for a calendar month accrues from day to day in equal portions.*
- 2. Charges will be calculated to the nearest cent, with one-half of a cent rounded upwards.*
- 3. For the purposes of calculating overrun charges in accordance with clauses 6 and 7 of the terms and conditions set out as Annexure E of the Access Arrangement, the Overrun Rate is \$10 per GJ (exc GST).*



**Table 3:  
1 July 2004 to 30 June 2005 Domestic Haulage Reference Service**

<b>Daily Charges (exc GST)</b>	
Base Charge	\$0.2180
Charge for the first 0.0493 GJ of Gas delivered (\$ per GJ)	\$9.502
Charge for additional Gas delivered (\$ per GJ)	\$4.540

*Notes*

- 1. The total daily Charge will comprise the base Charge plus a Charge for the Quantity of Gas delivered (or estimated to have been delivered) that day to or for the account of the Network User.*
- 2. The Charge for the Quantity of Gas delivered (or estimated to have been delivered) to or for the account of the Network User will be calculated at the rates shown in the table.*
- 3. A reference in the table to the Gas delivered is a reference to Gas delivered whether to or for the account of the Network User or any other person or persons.*
- 4. Charges will be calculated to the nearest cent, with one-half of a cent rounded upwards.*

**Table 4:**  
**1 July 2004 to 30 June 2005 Commercial Haulage Reference Service**

<b>Daily Charges (exc GST)</b>	
Base Charge	\$0.464
Charge for the first 0.9863 GJ of Gas delivered (\$ per GJ)	\$7.010
Charge for the next 4.2740 GJ of Gas delivered (\$ per GJ)	\$4.024
Charge for the next 11.1780 GJ of Gas delivered (\$ per GJ)	\$1.756
Charge for additional Gas delivered (\$ per GJ)	\$0.750

*Notes*

- 1. The total daily Charge will comprise the base Charge plus a Charge for the Quantity of Gas delivered (or estimated to have been delivered) that day to or for the account of the Network User.*
- 2. The Charge for the Quantity of Gas delivered (or estimated to have been delivered) to or for the account of the Network User will be calculated at the rates shown in the table.*
- 3. A reference in the table to the Gas delivered is a reference to Gas delivered whether to or for the account of the Network User or any other person or persons.*
- 4. Charges will be calculated to the nearest cent, with one-half of a cent rounded upwards.*

**Table 5:  
1 July 2004 to 30 June 2005 Ancillary Reference Services**

<b>Daily Charges (exc GST)</b>	
Inlet Disconnection Service	\$224
Inlet Reconnection Service	\$244
Special Meter Reading Service	\$7.60

Note: Inlet Disconnection and Reconnection tariffs shall be rounded to the nearest dollar. Special Meter Reading tariff shall be rounded to the nearest ten cents.