Access Arrangement Information

Multinet Gas (DB No 1) and Multinet Gas (DB No 2) Gas Distribution Network

1 January 2013 – 31 December 2017

April 2013

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1. INTRODUCTION

1.1 Purpose of this Document

This document is the Access Arrangement Information in relation to the Access Arrangement for the Multinet Gas (DB No 1) Pty Ltd and Multinet Gas (DB No 2) Pty Ltd (Multinet) gas distribution network (the Network) for the period 1 January 2013 to 31 December 2017 (fourth access arrangement period).

The purpose of this document is to set out such information as is necessary to enable users and prospective users to understand the derivation of the elements of the Access Arrangement for the fourth access arrangement period.

1.2 The Network

The Network serves more than 665,000 customers throughout the south and east areas of metropolitan Melbourne, Yarra Ranges and South Gippsland Towns. The area serviced by the network is shown in the figure below.

The Network covers an area of 1,790 km^2 and the network assets consist primarily of:

- 165 km of licensed transmission pipelines
- 9,815 km of distribution mains
- Five City Gate stations and 279 Supply Regulator sites that facilitate the reduction and management of gas pressure throughout the network.

The majority of the Network's service territory is urban and fully developed, including many predominantly residential suburbs. The Network's territory encompasses the Yarra Ranges,

parts of which present environmental challenges in terms of meeting stakeholder expectations for new construction, even within existing road reserves.

1.3 Interpretation

Terms used in this Access Arrangement Information have the same meaning as they have in the Access Arrangement (see clause 2 of the Access Arrangement).

In this document:

- Numerical values in tables may not tally due to arithmetic rounding
- A reference to opex is a reference to operating expenditure, and a reference to capex is a reference to capital expenditure
- A reference to the third access arrangement period is a reference to the access arrangement period from 1 January 2008 to 31 December 2012.

In the Access Arrangement Information, unless the context otherwise requires, where a word or meaning is capitalised it has:

- the meaning given to that word or phrase in the National Gas Rules (NGR); or
- the meaning given to that word or phrase in the glossary contained in the Access Arrangement.

2. PIPELINE SERVICES

2.1 Reference Services

Multinet provides two references services–Residential Haulage Reference Services and Non-Residential Haulage Reference Services–and Ancillary Reference Services.

2.2 Haulage Reference Services

The Haulage Reference Services for the fourth access arrangement period are:

- Residential Haulage Reference Services – this service applies where the withdrawal of gas is by or in respect of a Residential Customer. A Residential Customer is defined as a customer who uses gas primarily for domestic purposes.

- Non-Residential Haulage Reference Services – this service applies where the withdrawal of gas is by or in respect of a Non-Residential Customer. A Non-Residential Customer is defined as a customer that is not a Residential Customer.

Refer to chapter 2 of the AER's final decision for further information.

2.3 Ancillary Reference Services

The Ancillary Reference Services for the fourth access arrangement period are:

(a) Meter and Gas Installation Test – on-site testing to check the accuracy of a Meter and the compliance of a Gas Installation with relevant standards, in order to determine whether the Meter is accurately measuring the Quantity of Gas delivered;

(b) Disconnection – by the carrying out of work being –

(1) removal of the Meter at a Metering Installation, or

(2) the use of locks or plugs at a Metering Installation

in order to prevent the withdrawal of Gas at the Distribution Supply Point in response to:

(3) the direction in writing of a User,

(4) a request from a Customer, or

(c) Energisation and reconnection being–

(1) reinstallation of a Meter if it has been removed; or

(2) the removal of any locks or plugs used to isolate Supply,

and the performance of a safety check and the lighting of appliances where necessary

(d) Special Meter Reading being–Meter readings in addition to scheduled Meter Readings that form part of the Haulage Reference Services

2.4 Non-Reference Services

Multinet will make Pipeline Services other than Reference Services available on terms agreed with the User or Prospective User.

3. OPERATING EXPENDITURE

3.1 Forecast operating expenditure

The table below summarises the forecast operating expenditure (including debt raising costs) for the fourth access arrangement period.

Refer to chapter 7 of the AER's final decision for further information regarding the basis on which the opex forecast has been derived.

Table 3.1: Forecast Opex ($m, 2010-11)

	2013	2014	2015	2016	2017	Total
Total opex (exc. debt raising costs)	57.0	62.5	64.7	64.4	65.2	313.7
Debt raising costs	0.6	0.6	0.6	0.6	0.6	2.9
Total opex (inc. debt raising costs)	57.5	63.0	65.3	64.9	65.8	316.5

4. CAPITAL EXPENDITURE

4.1 Forecast capital expenditure

Table 4.1 summarises the forecast capital expenditure which complies with the NGR.

Table 4.1: Forecast capex for the 2013-17 access arrangement period ($million, 2012)

Category	2013	2014	2015	2016	2017	Total 2013–17
Mains replacement	12.6	3.6	12.3	22.6	5.7	56.7
Residential connections	12.8	14.5	14.4	14.0	14.1	69.8
Commercial/industrial connections	1.3	1.3	1.3	1.3	1.3	6.6
Meters	3.4	2.5	2.4	1.8	2.1	12.2
Augmentation	7.0	5.6	5.2	5.5	0.4	23.7
IT	28.1	6.4	4.2	5.3	1.6	45.7
SCADA	0.8	0.1	0.0	0.0	0.0	1.1
Other	15.3	4.9	3.4	6.8	4.3	34.7
Internal direct overheads	1.4	2.8	2.8	2.8	2.9	12.7
Indirect overheads	0.0	0.0	0.0	0.0	0.0	0.0
GROSS TOTAL	82.8	41.7	46.1	60.2	32.4	263.2
Customer contributions	11.6	4.3	1.6	1.6	1.6	20.7
Government contributions	0.0	0.0	0.0	0.0	0.0	0.0
NET TOTAL	71.2	37.4	44.5	58.6	30.8	242.5

Refer to attachment 4 of the AER's final decision for further information on the basis and reasoning for the forecast capex.

4.2 Capital expenditure in the earlier access arrangement period

Table 4.2 summarises the capital expenditure for 2007-2011 which is conforming capex[1]. For the purpose of the capital base roll forward, the AER has adopted the ESC's benchmark capex for 2012, adjusted for actual growth. Refer to attachment 4 of the AER's final decision for further information on the basis and reasoning for the assessment of conforming capex for 2007-11.

Table 4.2: Conforming capex for the 2007-11 access arrangement period ($million, 2012)

Category	2007	2008	2009	2010	2011	2012(a)
Mains replacement	22.4	7.8	4.9	4.7	4.2	21.3
Residential connections	45.9	17.8	18.8	12.6	14.0	12.7
Commercial/industrial connections	1.6	1.6	2.8	1.9	2.5	0.9
Meters	2.2	1.8	2.0	2.5	1.8	4.4
Augmentation	7.6	6.0	6.5	7.9	12.0	5.2
IT	0.9	0.8	1.1	5.8	21.9	0.3
SCADA	0.2	0.1	0.1	0.0	0.1	0.3
Other	1.8	1.2	1.3	1.4	1.6	2.6
Internal direct overheads	0.0	0.0	0.0	0.0	0.0	0.0
Indirect overheads	0.0	4.1	1.6	4.1	6.4	0.0
GROSS TOTAL	82.6	41.2	39.1	40.7	64.5	47.6
Customer contributions	3.4	2.4	2.4	2.4	2.2	2.0
Government contributions	0.0	0.0	23.6	0.0	0.0	0.0
NET TOTAL	79.2	38.8	13.2	38.3	62.3	45.6

Notes: (a) The AER has approved 2012 capex values equal to the ESC's benchmark capex, adjusted for actual growth. This is consistent with the ESC's capex incentive scheme and is discussed in attachment 3 of the AER's final decision.

1 NGR, r.77(2).

5. CAPITAL BASE

5.1 Summary

The capital base at 1 January 2013 is $1024.9 million ($ nominal) and is forecast to be $1169.1 million ($ nominal) at 31 December 2017 as shown below.

Table 5.1: Forecast capital base as at 31 December 2017

	$m
Closing Value of Capital Base (nominal)	$1169.1
Closing Value of Capital Base (real $2012)	$1033.3

5.2 Opening Capital Base for the third access arrangement period

Multinet's opening capital base as at 1 January 2008 is $1090.5 million in real 2012 dollar terms.

5.3 Opening capital base

The capital base is adjusted in accordance with rule 77(2) of the NGR.

Conforming capital expenditure was calculated by deducting capital contributions from gross capital expenditure.

Regulatory depreciation for the third access arrangement period has been set equal to the depreciation approved by the ESC (adjusted for actual inflation).

For the purposes of rolling forward the regulatory asset base, the actual percentage change in the September to September CPI has been used. The Consumer Price Index is defined in the Access Arrangement as the "All Groups Weighted Average for the Eight Capital Cities, as published by the Australian Bureau of Statistics or its successor".

Using the inputs outlined above, the closing capital base for the third access arrangement period is set out in table 5.2.

Table 5.2: Roll-forward of the Capital Base 2008 to 2012 ($m, 2012)

	2008	2009	2010	2011	2012
Opening Capital Base	1090.5	1080.2	1041.6	1026.2	1034.2
Less Depreciation	49.1	51.8	53.6	54.3	54.9
Plus Conforming Capital Expenditure	38.8	13.2	38.3	62.3	45.6

Closing Capital Base	1080.2	1041.6	1026.2	1034.2	1024.9

5.4 Projected Capital Base in the fourth access arrangement period

The projected capital base in the fourth access arrangement period has been determined by adjusting the closing value at 31 December 2012 for forecast capital expenditure, depreciation and inflation in the period. A CPI value of 2.50 per cent has been assumed for 2013 to 2017. It is forecast that the capital base will increase to $1169.1 million by December 2017 as set out in the summary table below.

Table 5.3: Projected capital base for the fourth access arrangement period ($m, nominal)

	2013	2014	2015	2016	2017
Opening Capital Base	1024.9	1084.8	1102.6	1126.3	1164.4
plus Capital Expenditure	74.5	40.2	48.9	66.1	35.6
less Straight-line Depreciation	40.3	49.5	52.9	56.1	60.0
Inflation Adjustment	25.6	27.1	27.6	28.2	29.1
Closing Capital Base	1084.8	1102.6	1126.3	1164.4	1169.1

6. RATE OF RETURN

6.1 Introduction

This section sets out the rate of return to apply for the fourth access arrangement period.

6.2 Rate of Return

The rate of return on capital determined by the AER is based on the cost of equity plus the cost of debt weighted by the respective proportions of equity and debt in the benchmark capital structure. This is commonly referred to as the weighted average cost of capital (WACC).

The details of how the WACC parameters have been established are set out in the rate of return chapter 5 of the AER final decision. The input parameters and the calculated rate of return are summarised below:

Table 6.1: WACC Parameters

WACC Parameters	Estimate
Risk Free Rate	3.12%
Inflation Forecast	2.50%
Equity Beta	0.80
Market Risk Premium	6.00%
Debt Risk Premium	3.32%
Cost of Equity	7.92%
Cost of Debt	6.44%
Value of Imputation Credits	0.25
Gearing	60.00%
Benchmark Credit Rating	BBB+
Nominal vanilla WACC	7.03%

6.3 Other Parameter Values

6.3.1 Gearing

The AER has applied a benchmark gearing of 60% debt for Multinet's regulated assets.

6.3.2 The Value of Imputation Credits

The AER has applied a value of 0.25 for the assumed utilisation of imputation credits, or gamma (γ), of 0.25. Refer to section 7.5 for further information.

6.3.3 Inflation

The AER has estimated the annual rate of inflation to be 2.50% for the fourth access arrangement period.

6.3.4 Debt Raising Costs

The AER has approved an allowance of 9.3 basis points per annum as the benchmark level of debt raising costs in the operating expenditure forecasts.

6.4 Derivation of the WACC

The nominal vanilla WACC of 7.03% has been derived from the formula below. In this formulation of the WACC corporate taxes are dealt with in the forecast cash flows.

$$\text{WACC} = R_e \times \frac{E}{V} + R_d \times \frac{D}{V}$$

The cost of equity is calculated using the CAPM formula set out below:

$$R_e = R_f + \beta_e \times MRP$$

The cost of debt is calculated using the formula set out below:

$$R_d = R_f + DRP$$

where

R_e	7.92%, which is the risk adjusted post-tax cost of equity required by investors derived from the Capital Asset Pricing Model (CAPM)
E	40%, which is the benchmark level of equity expressed as a percentage of V
D	60%, which is the benchmark level of debt expressed as a percentage of V
V	Sum of assumed debt level plus assumed equity level (V = D + E)
R_f	3.12%, nominal risk free rate of return
DRP	3.32%, debt risk premium
R_d	6.44%, cost of debt (R_f + DRP)
MRP	6.00%, the market risk premium
β_e	0.80, the equity beta for the benchmark service provider

7. COST OF TAX

7.1 Introduction

A post-tax regulatory framework has been used to derive the revenue requirement for the Access Arrangement.

7.2 Calculating the Cost of Tax

The forecast cost of tax (FCT) for each year of the fourth access arrangement period is calculated in accordance with the following formula:

$$FCT = (RTI_t x STR_t)(1 - \gamma)$$

where:

RTI_t is an estimate of the regulatory taxable income for regulatory year *t* that would be earned by a benchmark efficient distributor as determined by the AER post-tax revenue model;

STR_t is the expected statutory tax rate for regulatory year *t*; and

γ is the assumed utilisation of imputation credits.

The determination of RTI is based on the same inputs used to determine the regulatory revenue requirement. Specifically, RTI is calculated as the regulatory revenue requirement less operating expenditure that is deductible for tax purposes, tax depreciation and interest expense. The STR is set at 30 per cent while the value of imputation credits (γ or gamma) is set at 0.25.

The benchmark tax liability for Multinet is calculated as total tax payable (RTI multiplied by STR) adjusted for the value of imputation credits (gamma).

7.3 Setting the Tax Asset Value

The opening Tax Asset Base (TAB) was $343.8 million ($ nominal) as at 1 January 2013. The TAB is discussed in the AER's draft and final decisions.

7.4 Tax Losses Carried Forward

There was no tax loss carried forward.

7.5 Value of Imputation Credits (Gamma)

Gamma is the factor used to adjust tax payable for the value attributed to imputation credits[2]. Gamma is the product of two components, known as "the distribution rate" (the proportion of created franking credits that are distributed to shareholders by attaching them to dividends) and "theta" (the value to the relevant shareholder of each franking credit that is distributed to them).

[2] The terms 'gamma', franking credits and 'value of imputation credits' are used interchangeably throughout this submission.

In the regulatory context, the higher (lower) the value of gamma the lower (higher) the revenue and cash flow available to the regulated business. Consequently, the value of gamma affects the revenue and cash flow available to support the business's operations and credit rating, and to provide the required return to its investors.

A gamma value of 0.25 has been adopted, consistent with the decision of the Australian Competition Tribunal.

7.6 Benchmark Cost of Tax

The cost of tax calculation, applying the approach and parameters set out in this section, is shown in table 7.1.

Table 7.1: Benchmark Cost of Tax Calculation, 2013 to 2017 ($m, nominal)

	2013	2014	2015	2016	2017
Total Revenue	160.7	172.3	178.1	184.6	194.1
less Opex	57.5	64.7	68.7	70.1	72.7
less Interest	39.6	41.9	42.6	43.5	45.0
less tax depreciation	42.9	45.9	45.5	46.2	46.2
less tax losses carried forward	0.0	0.0	0.0	0.0	0.0
Taxable Income	20.8	19.7	21.3	24.8	30.2
Tax payable	6.3	5.9	6.4	7.4	9.1
less Value of Imputation Credits	1.6	1.5	1.6	1.9	2.3
Benchmark Cost of Tax	4.7	4.4	4.8	5.6	6.8

8. INCENTIVE MECHANISM

8.1 Summary

This section sets out the incentive mechanism to apply for the access arrangement period.

8.2 Incentive Mechanism for the access arrangement period

The AER approved a rolling carryover incentive mechanism which will operate during the access arrangement period in accordance with r. 98 of the NGR. Details regarding the operation of this incentive mechanism are set out in section 5 of the Access Arrangement. For further information regarding the basis on which the incentive mechanism was approved for the fourth access arrangement period refer to chapter 7 of the AER's final decision.

9. TOTAL REVENUE

Multinet's total revenue requirement was determined using a building block approach (in accordance with Rule 76 of the NGR). The building block components are:

- a return on the projected capital base.
- depreciation of the projected capital base.
- a forecast of opex.
- a forecast of the Cost of Tax.

Multinet's total required revenues and X factors for each year of the fourth access arrangement period are calculated using the Post Tax Revenue Model and summarised in the following table.

Table 9.1: Annual revenue requirement and X factors ($m, nominal)

	2013	2014	2015	2016	2017
Return on capital	72.1	76.3	77.5	79.2	81.9
Return of capital	14.7	22.3	25.3	28.0	30.9
plus operating and maintenance	59.0	66.2	70.3	71.7	74.4
plus benchmark tax liability	4.7	4.4	4.8	5.6	6.8
less ancillary services	1.5	1.5	1.6	1.6	1.7
Total reference services revenue requirement	148.9	167.8	176.4	182.8	192.3
Smoothed reference services revenue	174.6	160.5	167.5	176.1	184.9
X factors	13.3%	5.0%	–2.0%	–2.5%	–2.5%

10. DEMAND FORECASTS

10.1 Network Usage for the earlier access arrangement period

Multinet's demand over the earlier access arrangement period is set out in Table 10.1 below. These figures are based on actual demand for calendar years 2008 to 2011, and forecast demand for 2012.

Table 10.1: Demand over the third access arrangement period

	2008	2009	2010	2011	2012F
Residential tariff V					
Customer numbers	634 319	639 107	643 572	647 956	652931
Demand (TJ)	40 602	39 280	41 028	39 566	39 318
Non–residential tariff V					
Customer numbers	16 613	16 523	16 457	16 428	16 411
Demand (TJ)	5 873	5 484	5 662	5 536	5 602

	2008	2009	2010	2011	2012F
Tariff D					
Customer numbers	264	263	266	269	268
Demand - MHQ (GJ)	3 558	3 532	3 494	3 556	3 498
Tariff L					
Customer numbers	16	15	15	16	21
Demand (TJ)	101	92	87	83	152

10.2 Forecast customer numbers and demand

Forecast customer numbers and demand by tariff class for the access arrangement period are set out in Table 10.2 below.

Table 10.2: Demand forecasts for the fourth access arrangement period

	2013	2014	2015	2016	2017
Residential tariff V					
Customer numbers	665 666	671 349	676 996	682 434	687 629
Demand (TJ)	39 074	38 753	38 592	38 519	38 446

Non–residential tariff V					
Customer numbers	16 478	16 381	16 298	16 291	16 296
Demand (TJ)	5 564	5 515	5 487	5 472	5 457

	2013	2014	2015	2016	2017
Tariff D					
Customer numbers	264	260	258	256	255
Demand - MHQ (GJ)	3 441	3 386	3 343	3 310	3 279
Tariff L					
Customer numbers	28	34	41	47	54
Demand (TJ)	192	236	276	317	359

11. REFERENCE TARIFFS

11.1 Introduction

Multinet recovers its regulated revenue by charging tariffs to customers for Haulage Reference Services and Ancillary Reference Services. The Haulage Reference Tariffs will apply to three categories of Delivery Points as in the 2008–12 access arrangement period:

- Volume Tariffs residential and non residential (Tariff V)
- Demand Tariffs (Tariff D)
- Demand Tariffs (Tariff L).

In the fourth access arrangement period, Multinet's initial tariffs will apply from 1 July 2013.

11.2 Haulage Reference Service Tariff Classes

Table 11.1 below details Multinet's Tariff Classes.

Table 11.1 Multinet Tariff Classes

Tariff Class	Haulage Reference Service Type	Geographical Zone
Tariff V – Residential	Volume	Metropolitan
Tariff V – Residential	Volume	Yarra Valley
Tariff V – Residential	Volume	South Gippsland
Tariff V – Non Residential	Volume	Metropolitan
Tariff V – Non Residential	Volume	Yarra Valley
Tariff V – Non Residential	Volume	South Gippsland
Tariff D – Non Residential	Demand	Metropolitan
Tariff D – Non Residential	Demand	Gippsland Towns
Tariff L – Non Residential	Volume	Metropolitan

11.2.1 Volume Tariff Classes – Tariff V (Residential and Non Residential)

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. New customers eligible for Tariff V are assigned their appropriate residential or non-residential classification by their retailer. Tariff V contains a fixed and variable charge. The fixed charge recovers unavoidable network infrastructure costs such as service connection, standard meters, and systems for billing and collection. The variable peak, shoulder and off peak charges recover all other costs associated with the Distribution use of System. Tariff V customers are charged a fixed daily charge and a price per GJ which decreases with increased usage.

There are currently five usage blocks for Residential and Non-Residential Customers as shown in the tables below. 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).

The structure and the initial level of these tariffs are set out in the tables below.

Table 11.2 Multinet Haulage Reference Tariff V — Metropolitan Zone

Tariff V Residential				
Distribution Fixed Tariff Component		$0.1500		
Consumption Range (GJ/day)	Off peak period ($/GJ)	Peak period ($/GJ)	May shoulder period ($/GJ)	October shoulder period ($/GJ)
0 - 0.05	5.6949	6.6990	6.3647	6.3647
> 0.05 - 0.1	4.0726	4.7913	4.5517	4.5517
> 0.1 - 0.15	2.1063	2.4771	2.3541	2.3541
> 0.15 - 0.25	1.0656	1.2537	1.1910	1.1910
> 0.25	0.8014	0.9304	0.8956	0.8956
Tariff V Non–residential				
Distribution Fixed Tariff Component		$0.2465		
Consumption Range (GJ/day)	Off peak period ($/GJ)	Peak period ($/GJ)	May shoulder period ($/GJ)	October shoulder period ($/GJ)
0 - 0.05	2.5346	3.0455	2.7949	2.7949
> 0.05 - 0.1	1.6751	1.9274	1.7347	1.7347
> 0.1 - 0.15	1.0026	1.1565	1.0987	1.0987
> 0.15 - 0.25	0.6076	0.6436	0.6271	0.6271
> 0.25	0.1716	0.2148	0.1932	0.1932

Table 11.3 Multinet Haulage Reference Tariff V — Yarra Valley Zone

Tariff V Residential	
Distribution Fixed Tariff Component	$0.1500

Consumption Range (GJ/day)	Off peak period ($/GJ)	Peak period ($/GJ)	May shoulder period ($/GJ)	October shoulder period ($/GJ)
0 - 0.05	8.4890	9.4354	9.1199	9.1199
> 0.05 - 0.1	6.9614	7.6382	7.4126	7.4126
> 0.1 - 0.15	5.1097	5.4598	5.3431	5.3431
> 0.15 - 0.25	4.1297	4.3069	4.2478	4.2478
> 0.25	3.8808	4.0141	3.9696	3.9696
Tariff V Non–residential				
Distribution Fixed Tariff Component		$0.2465		
Consumption Range (GJ/day)	Off peak period ($/GJ)	Peak period ($/GJ)	May shoulder period ($/GJ)	October shoulder period ($/GJ)
0 - 0.05	5.5752	6.0689	5.8267	5.8267
> 0.05 - 0.1	4.7447	4.9885	4.8023	4.8023
> 0.1 - 0.15	4.0949	4.2437	4.1877	4.1877
> 0.15 - 0.25	3.7133	3.7481	3.7321	3.7321
> 0.25	3.2920	3.3337	3.3129	3.3129

Table 11.4 Multinet Haulage Reference Tariff V — Gippsland Towns Zone

Tariff V Residential				
Distribution Fixed Tariff Component		$0.1500		
Consumption Range (GJ/day)	Off peak period ($/GJ)	Peak period ($/GJ)	May shoulder period ($/GJ)	October shoulder period ($/GJ)
0 - 0.05	9.2638	10.2687	9.9336	9.9336
> 0.05 - 0.1	7.6415	8.3602	8.1207	8.1207
> 0.1 - 0.15	5.6752	6.0470	5.9230	5.9230
> 0.15 - 0.25	4.6344	4.8226	4.7599	4.7599
> 0.25	4.3701	4.5117	4.4645	4.4645
Tariff V Non–residential				
Distribution Fixed Tariff Component		$0.2529		
Consumption	Off peak period	Peak period	May shoulder	October

Range (GJ/day)	($/GJ)	($/GJ)	period ($/GJ)	shoulder period ($/GJ)
0 - 0.05	6.1695	6.6938	6.4366	6.4366
> 0.05 - 0.1	5.2876	5.5465	5.3487	5.3487
> 0.1 - 0.15	4.5975	4.7555	4.6961	4.6961
> 0.15 - 0.25	4.1923	4.2293	4.2122	4.2122
> 0.25	3.7449	3.7892	3.7670	3.7670

11.2.2 Volume Tariff Class L – Tariff L

Tariff L is 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. The tariff structure of Tariff L is a mixture of the Tariff V and D tariff structures. Tariff L has no fixed charge, however it contains seasonal stepped usage charges and two demand charges. There are two usage blocks for Tariff L customers. The structure and the initial level of tariff L are set out in the table below.

Table 11.5 Multinet Haulage Reference Tariff L — Metropolitan Zone

Tariff L				
Distribution demand tariff components				
12 month rolling maximum demand ($/GJ per day)				0.4725
Peak maximum demand ($/GJ per day)				1.4138
Distribution Volume Tariff Component				
Consumption Range (GJ/day)	Off peak period ($/GJ)	Peak period ($/GJ)	May shoulder period ($/GJ)	October shoulder period ($/GJ)
< 5	0.3574	0.5082	0.4506	0.4506
> 5	0.0812	0.1090	0.1024	0.1024

11.2.3 Demand Tariff Class D – Tariff D

Tariff D applies to customers using greater than 10,000 GJ a year or more than 10 GJ MHQ. Customers are charged based on their Maximum Hourly Quantity (MHQ) measured in Giga Joules (GJ) per hour. The structure and the initial level of tariff L are set out in the table below.

Table 11.6 Multinet Haulage Reference Tariff D — Metropolitan Zone

Tariff D	
MHQ (GJ)	12 month rolling maximum demand ($/GJ per day)
All demand 0-50	474.4634
Any demand > 50	80.7258

Table 11.7 Multinet Haulage Reference Tariff D — Gippsland Towns Zone

Tariff D	
MHQ (GJ)	12 month rolling maximum demand ($/GJ per day)
All demand 0-50	608.6116
Any demand > 50	103.5439

11.3 Ancillary Reference Services

Reference Tariffs for Ancillary Reference Services will be maintained in real terms over the fourth access arrangement. The tariffs reflect a continuation of charges in the third access arrangement period, with increases reflecting inflation only.

12. TARIFF VARIATION MECHANISM

The formulae for annual routine adjustment of tariffs are described in section 3.5 of the Access Arrangement and set out in Appendix 1 of the Access Arrangement. Those formulae are unchanged from those that currently apply.

12.1 Haulage Reference Services

12.1.1 Tariff Variation Mechanism

A tariff basket annual tariff variation mechanism in the form of a weighted average price cap (WAPC) formula applies to haulage reference services through to 2014-17.

The Tariff Control Formula is detailed in Box 1.

BOX 1 TARIFF CONTROL FORMULA

$$(1+CPI_t)(1-X_t)(1+L_t)(1+A_t) \geq \frac{\sum_{i=1}^{n}\sum_{j=1}^{m} p_t^{ij} \bullet q_{t-2}^{ij}}{\sum_{i=1}^{n}\sum_{j=1}^{m} p_{t-1}^{ij} \bullet q_{t-2}^{ij}}$$

where:

CPI_t is defined as in the glossary;

X_t is 0.05 for 2014;

X_t is –0.02 for 2015;

X_t is –0.025 for 2016;

X_t is –0.025 for 2017;

p_t^{ij} is the proposed Haulage Reference Tariff for Haulage Reference Tariff Component j of Haulage Reference Tariff i in Calendar Year t

p_{t-1}^{ij} is the proposed Haulage Reference Tariff for Haulage Reference Tariff Component j of Haulage Reference Tariff i in Calendar Year t-1

q_{t-2}^{ij} is the audited quantity of component j of Reference Tariff *i* that was sold in year ***t – 2*** (expressed in the units in which that component is expressed (e.g. GJ)).

L_t is the licence fee factor for calendar year t as defined below;

A_t is an approved pass through factor for calendar year t as defined below.

The license fee factor is detailed in Box 2.

BOX 2 License fee factor formula

The Licence Fee Factor pass through adjustment Lt, for the Service Provider is:

$$1+L_t=\frac{(1+L'_t)}{(1+L'_{t-1})}$$

where:

$$L'_t=\frac{lf_{t-1}(1+pretaxWACC_D)^{3/2}(1+CPI_t)^{3/2}}{(1+CPI_t)(1-X_t)(1+A_t)\sum_{i=1}^{n}\sum_{j=1}^{m}p_{t-1}^{ij}q_{t-2}^{ij}}$$

L'_{t-1} (a) if Calendar Year t is the Calendar Year ending 31 December 2013, is zero; and

(b) if Calendar Year t is after the Calendar Year ending 31 December 2013, is the value of L'_t determined in the Calendar Year t - 1;

lf_{t-1} is the Licence Fee paid by the Service Provider for the Financial Year ending in June of the Calendar Year t -1;

CPI_t is the CPI for Calendar Year t, as defined in the Glossary;

X_t is 0.05 for 2014;

X_t is –0.02 for 2015;

X_t is –0.025 for 2016;

X_t is –0.025 for 2017;

p_{t-1}^{ij} is the proposed Haulage Reference Tariff for Haulage Reference Tariff Component j of Haulage Reference Tariff i in Calendar Year t-1

q_{t-2}^{ij} is the audited quantity of component j of Reference Tariff i that was sold in year $t-2$ (expressed in the units in which that component is expressed (e.g. GJ)).

A_t is an approved pass through factor for calendar year t as defined below

Pre-tax $WACC_D$ is 5.32, per cent, being defined by the alignment of the service provider's building block revenue requirement with the NPV of its forecast revenues.

The adjustment factor formula is detailed in Box 3.

BOX 3 Adjustment factor formula

A_t is the adjustment to the Distribution price control in Calendar Year t for the Service Provider and is determined below:

$$1+A_t=\frac{(1+A'_t)}{(1+A'_{t-1})}$$

where:

$$A'_t = \frac{ap_{t-1}(1+pretaxWACC_D)^{3/2}(1+CPI_t)^{3/2}}{(1+CPI_t)(1-X_t)\sum_{i=1}^{n}\sum_{j=1}^{m} p_{t-1}^{ij} q_{t-2}^{ij}}$$

A'_{t-1} (a) if Calendar Year *t* is the Calendar Year ending 31 December 2013, is zero;
(b) if Calendar Year t is after the Calendar Year ending 31 December 2013, is the value of A'_t determined in the Calendar Year *t* - 1;

ap_{t-1} (a) if Calendar Year *t* is the Calendar Year ending 31 December 2013, is the amount of any cost Pass Through paid or payable by the distributor for the Calendar Year *t* - 1;
(b) if Calendar Year t is after the Calendar Year ending 31 December 2012, is the amount of any approved Pass Through paid by the Service Provider for the financial Year ending June of the Calendar Year *t* -1;

p_{t-1}^{ij} is the proposed Haulage Reference Tariff for Haulage Reference Tariff Component j of Haulage Reference Tariff i in Calendar Year t-1

q_{t-2}^{ij} is the audited quantity of component i of Reference Tariff *i* that was sold in year ***t – 2*** (expressed in the units in which that component is expressed (e.g. GJ));

CPI_t is the CPI for Calendar Year t, as defined in the Glossary;

X_t is 0.05 for 2014;

X_t is –0.02 for 2015;

X_t is –0.025 for 2016;

X_t is –0.025 for 2017; and

$pretaxWACC_D$ is 5.32, per cent being defined by the alignment of the service provider's building block revenue requirement with the NPV of its forecast revenues.

The rebalancing control formula is detailed in Box 4.

BOX 4 REBALANCING CONTROL FORMULA

No rebalancing control is applied for the calendar year 2013.

$$(1+CPI_t)(1+Y_t)(1-X_t)(1+L_t)(1+A_t) \geq \frac{\sum_{i=1}^{n}\sum_{j=1}^{m} p_t^{ij} \bullet q_{t-2}^{ij}}{\sum_{i=1}^{n}\sum_{j=1}^{m} p_{t-1}^{ij} \bullet q_{t-2}^{ij}}, i = 1,...n$$

where:

p_t^{ij} is the proposed Haulage Reference Tariff for Haulage Reference Tariff Component j of Haulage Reference Tariff i in Calendar Year t

p_{t-1}^{ij} is the proposed Haulage Reference Tariff for Haulage Reference Tariff Component j of

Haulage Reference Tariff i in Calendar Year t-1

q_{t-2}^{ij} is the audited quantity of component j of Reference Tariff *i* that was sold in year *t – 2* (expressed in the units in which that component is expressed (e.g. GJ)).

CPI_t is the CPI for Calendar Year t, as defined in the Glossary;

X_t is 0.05 for 2014;

X_t is –0.02 for 2015;

X_t is –0.025 for 2016;

X_t is –0.025 for 2017;

Y_t is 0.02;

A_t is an approved pass through factor for calendar year t. If A_t <0, then $1+A_t=1$

L_t is the License Factor Fee as defined above. If L_t <0, then $1+L_t=1$

12.1.2 Carbon tax tariff

The carbon tax tariff is set out in Appendix (formula 4) of the Access Arrangement Part B. The real pre–tax WACC applying to the carbon tax tariff is 5.32 per cent.

12.1.3 Tariff Variation Process

Multinet is required to submit an annual reference tariff proposal to the AER for approval at least 50 business days prior to the relevant financial year in which the proposed tariffs are to apply.

12.2 Ancillary Reference Services

Reference Tariffs for Ancillary Reference Services will increase by inflation (CPI) in each year of the fourth Access Arrangement period.

12.2.1 Ancillary Reference Tariff Variation Mechanism

Reference Tariffs for Ancillary Reference Services will be varied annually on the basis of the following Reference Tariff Control Formula:

The ancillary reference tariff to apply for the six month period from 1 July 2013 is based on the following formula:

$$ART_t = ART_{t-1} + (ART_{t-1} * CPI)*2$$

The ancillary reference tariff control formula for the calendar year 2014 is:

$$ART_t = ART_{t-2} * (1+CPI_{t-1}) * (1+CPI_t)$$

The ancillary reference tariff control formula for the calendar year 2015 to 2017 is:

$$ART_t = ART_{t-1} * (1 + CPI)$$

where:

ART_t is the ancillary reference tariff that applies in calendar Year t;

ART_{t-1} is the ancillary reference tariff that applies in calendar Year t-1;

CPI_t is the CPI for calendar year t, as defined in the access arrangement.

CPI_{t-1} is the CPI for calendar year t-1, as defined in the access arrangement.

12.2.2 Ancillary Tariff Variation Process

The tariff variation process will follow Multinet's Haulage Reference Tariff variation process.

12.3 Cost Pass Through Events and Process

In accordance with Rule 97(c) of the NGR, Multinet has proposed a number of defined events or Cost-Pass Through Events for the fourth access arrangement period. These events are defined in the glossary in Schedule 2 to Part A of the Access Arrangement. The AER has approved the events, and the process for assessment of Cost Pass Through Events in chapter 12 of its final decision for Multinet.

The process for assessment of Cost Pass Through Events is defined in section 8 of Part B of the Access Arrangement.

12.3.1 Materiality Threshold

All Cost Pass Through Events, excluding the National Energy Consumer Framework Event and the Mains Replacement Event are subject to a materiality threshold.

13. NON-TARIFF COMPONENTS

13.1 Capacity Trading

The capacity trading policy is outlined in section 5.4 of the Access Arrangement. Refer to chapter 13 of the AER's final decision for further information.

13.2 Network Extensions and Expansions

The extensions and expansions policy is outlined in section 5.5 of the Access Arrangement. Refer to chapter 13 of the AER's final decision for further information.

13.3 Terms and Conditions

13.3.1 Overview of Terms and Conditions

The terms and conditions (T&C) applicable to the provision of Reference Services are dealt with in section 5.3 of the Access Arrangement. The detailed T&C are contained in Part C of the Access Arrangement.

The following summary of the T&C may assist Prospective Users in understanding aspects of the terms of access:

The terms and conditions address matters including:

- Co-operation
- The nature of the relationship
- The provision of distribution services
- Cessation of delivery and entitlement to refuse service
- Capacity management
- Title
- Custody
- Disconnection, curtailment and re-connection
- Payment and invoicing
- Information exchange and communication
- Force majeure
- Enforcement of Multinet's rights against Customers
- Term
- Termination
- Remedies
- Liabilities and indemnities
- Insurance obligations
- Dispute resolution

- Representations and warranties
- Notices
- Confidentiality
- Assignment
- other general provisions

The obligations, duties and responsibilities of Multinet and any User described in the T&C are in addition to those established in law or by any relevant regulatory instrument.