



**Victorian Distribution System
Access Arrangement
Part B**

**Reference Tariff Policy
and
Reference Tariffs**

15 November 2002

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Reference Tariff Policy

1 Haulage Reference Tariffs

1.1 Initial Haulage Reference Tariffs

The Haulage Reference Tariffs to apply from 1 January 2003 are the tariffs that are set out in Schedule 1 adjusted to comply with the Tariff Control Formula and rebalancing control formula in clause 3 and verified by the Regulator as if clause 4 applied (but for the timing requirements of clause 4.1).

The Service Provider may develop one or more new Haulage Reference Tariffs for application to Users in certain circumstances, providing that any new Haulage Reference Tariff is consistent with the Service Provider's Reference Tariff Policy.

1.2 Assignment of Haulage Reference Tariffs

(a) Assigned Reference Tariffs

Where the Service Provider is charging a particular Haulage Reference Tariff in respect of Supply at a particular DSP, then that particular Haulage Reference Tariff is to be regarded as being "assigned" to that DSP.

Tariff D will be assigned to a DSP at a given time if either the Quantity of Gas delivered at that DSP:

- exceeds 10 TJ in the preceding 12-month period (of if less than 12 months of data is available, the Quantity of Gas delivered pro-rata for 365 days); or
- exceeds 10 GJ in any hour in the preceding 12-month period.

Tariff V will be assigned to a DSP if it is not assigned Tariff D.

(b) Reference Tariffs assigned to New DSPs

The Service Provider will assign a Haulage Reference Tariff to a new DSP. In determining the Haulage Reference Tariff assigned to a DSP, the Service Provider will take into account:

- (1) the User's demand and Connection characteristics; and
- (2) Haulage Reference Tariffs assigned to DSPs with the same or materially similar demand and connection characteristics.

(c) No Meter

Tariff V will be assigned to any DSP which does not have a Meter, unless otherwise agreed between the Service Provider and the relevant User.

(d) Change in characteristics of a DSP

If, after the initial assignment of a Haulage Reference Tariff to a particular DSP, the Service Provider becomes aware or is advised that

- the Quantity of Gas withdrawn has changed or will change; or

- the Connection or gas demand characteristics have changed or will change

such that a different Haulage Reference Tariff should be assigned to the DSP, the Service Provider will, subject to clause 1.2(e), notify the relevant User accordingly in writing, prior to the reassignment occurring.

In determining the Haulage Reference Tariff assigned to a DSP, the Service Provider will take into account:

- (1) the User's demand and Connection characteristics; and
- (2) Haulage Reference Tariffs assigned to DSPs with the same or materially similar demand and connection characteristics.

(e) Notification by User regarding a different Haulage Reference Tariff

Where a User receives notice under clause 1.2(d), that a different Haulage Reference Tariff is to be assigned to a DSP, it will be assigned that different Haulage Reference Tariff unless the User submits a written and reasonable request to the Service Provider to remain on the original Haulage Reference Tariff and the Service Provider approves the request.

(f) Assignment of New Reference Tariffs

If a new Reference Tariff is introduced, the Service Provider will specify the characteristics or conditions under which a DSP will be assigned the new Reference Tariff.

1.3 New Haulage Reference Service or Haulage Reference Tariff Component

(a) Time Period for Reassignment

When introducing a new Haulage Reference Service and/or Haulage Reference Tariff Component, the Service Provider will, if necessary, reassign the Haulage Reference Tariff and/or Haulage Reference Tariff Component to a DSP within 30 Business Days of the earlier of:

- (1) receipt of a written notice that the Regulator has verified the Service Provider's proposed introduction of a new Haulage Reference Tariff and/or Haulage Reference Tariff Component; and
- (2) 20 Business Days from the date on which the Regulator received the Service Provider's notification.

(b) Information to be supplied to Regulator

Where the Service Provider is proposing to introduce a new Haulage Reference Tariff or a new Haulage Reference Tariff Component, the Service Provider will submit the following information to the Regulator, at the same time that it submits its Haulage Reference Tariff proposals, and in addition to the information required under clause 4.3:

- (1) a parent Haulage Reference Tariff(s), which is the Haulage Reference Tariff(s) currently assigned to those DSPs to which the new Haulage Reference Tariff is proposed to apply;
- (2) reasonable estimates of the quantities that would have been distributed (to Customers affected by the change) if the new Haulage Reference Tariff Components had existed in the Calendar

Year immediately prior to the current Calendar Year for each new Haulage Reference Tariff Component; and

- (3) reasonable estimates of the quantities that would have been distributed (to Customers affected by the change) if the new Haulage Reference Tariff Components had existed in the Calendar Year immediately prior to the current Calendar Year for each Haulage Reference Tariff Component of the parent Haulage Reference Tariff(s).

(c) Switching rates

If necessary, the Service Provider will submit information to the Regulator in relation to the switching rate of Customers moving from a given parent Haulage Reference Tariff to a new Haulage Reference Tariff.

(d) Details of estimates

The Service Provider will provide details to the Regulator of and the basis for all estimates under this clause 1.3. The Regulator can request that the Service Provider resubmit quantity estimates provided under this clause 1.3 where the Regulator considers the estimates to be incomplete, inconsistent or unsubstantiated. The Regulator must provide reasons for requesting such a re-submission.

(e) Timing of information

The elapsed time between the Regulator requesting that the Service Provider provide additional information under clause 1.3(d), and the Service Provider providing that information to the Regulator does not count towards the 20 Business Days under clause 1.3(a).

1.4 Withdrawal of Haulage Reference Tariff

(a) Time period for effecting withdrawal

When proposing the withdrawal of an existing Haulage Reference Tariff and/or Haulage Reference Tariff Component, the Service Provider will assign alternative Haulage Reference Tariffs to relevant DSPs within 30 Business Days of the earlier of:

- (1) the receipt of a written notice that the Regulator has verified the Service Provider's proposed withdrawal of the existing Haulage Reference Tariff and/or Haulage Reference Tariff Component; and
- (2) 20 Business Days from the date on which the Regulator received the Service Provider's notification.

(b) Notification of Users

Prior to the withdrawal of the existing Haulage Reference Tariff and/or Haulage Reference Tariff Component, the Service Provider will as soon as practicable notify all affected Users in writing.

(c) Additional information to be provided to Regulator

When the Service Provider proposes to withdraw a Haulage Reference Service, in addition to the information required under clause 4.3, the Service Provider will:

- (1) notify the Regulator in writing of the Haulage Reference Services that will replace the withdrawn Haulage Reference Services;
- (2) where more than one Haulage Reference Tariff will be reassigned to existing DSPs in Calendar Year t, provide a breakdown of the actual quantities, in relevant units that were distributed under each existing Haulage Reference Tariff Component to these Users under the existing parent Haulage Reference Tariffs in Calendar Year t-2; and
- (3) where more than one Haulage Reference Tariff has been assigned to DSPs in Calendar Year t-1, provide a breakdown of the actual quantities, in relevant units that were distributed to each User under each Haulage Reference Tariff Component which existed immediately prior to the reassignment under the parent Haulage Reference Tariffs that previously existed in Calendar Year t-1.

1.5 Annual Tariff Report

Following annual approval of tariffs by the Regulator, the Service Provider will publish by 1 March each year a report that sets out the approved tariffs and sufficient information to enable distribution customers to understand the basis for any changes to tariffs or tariff structure.

2 Ancillary Reference Tariffs

The Tariffs for Ancillary Reference Services for 2003 are set out in Schedule 2.

Ancillary Reference Tariffs are to be adjusted by the change in CPI in accordance with the Tariff Control Formula in Box 11 of Schedule 3.

3 Haulage Reference Tariff Control Formula

The Tariff Control Formula comprises the principles, procedures and formulae which apply during the Access Arrangement Period for:

- (1) varying;
- (2) withdrawing; and
- (3) introducing new,

Haulage Reference Tariffs.

Whenever the Service Provider proposes to vary, withdraw or introduce any new Haulage Reference Tariff, it will ensure that the proposed charge will be compliant with the Tariff Control Formulae set out in Schedule 3 to the reasonable satisfaction of the Regulator, and it will comply with the procedures set out in clause 4.

3.1 The Tariff Control Formula

The Tariff Control approach adopted is the tariff basket form of price control.

The Tariff Control Formulae for Haulage Reference Services are as shown in Boxes 1 to 8 of Schedule 3. In this clause 3, references to box numbers are references to boxes in Schedule 3.

3.2 New Haulage Reference Tariffs

- (a) Where the Service Provider is proposing to introduce new Haulage Reference Tariffs and/or new Haulage Reference Tariff Components the q_{t-2}^{ij} term in Boxes 1-3 will be interpreted in relation to:
 - (1) the estimates of the quantities that would have been distributed, in relevant units if the Haulage Reference Tariff Components had existed in Calendar Year t-2;
 - (2) the Haulage Reference Tariff Components of the parent Haulage Reference Tariff in Calendar Year t-2;
- (b) Where the Service Provider has introduced new Haulage Reference Tariffs and/or new Haulage Reference Tariff Components in Calendar Year t-1, the p_{t-1}^{ij} term in Boxes 1-3 will be interpreted in relation to the estimates of the quantities that would have been distributed, in relevant units if the Haulage Reference Tariff Components had existed in Calendar Year t-2, as provided by the Service Provider in accordance with clause 1.3(b).

3.3 Withdrawal of Haulage Reference Tariffs

- (a) Where the Service Provider is proposing to withdraw a Haulage Reference Tariff and to reassign only one other Haulage Reference Tariff to the DSPs to which the Haulage Reference Tariff to be withdrawn applied, the p_t^{ij} term in Boxes 1-3 for the Haulage Reference Tariff that is proposed to be withdrawn will be interpreted in relation to the Haulage Reference Tariff Components of the Haulage Reference Tariff which will be reassigned to those DSPs in Calendar Year t, in accordance with information submitted under clause 1.4.
- (b) Where the Service Provider is proposing to withdraw a Haulage Reference Tariff and to reassign more than one other Haulage Reference Tariff to the DSP to which the Haulage Reference Tariff to be withdrawn applied:
 - (1) the p_t^{ij} term in Boxes 1-3 for the Haulage Reference Tariff that is proposed to be withdrawn will be interpreted separately in relation to the Haulage Reference Tariff Components of each of the Haulage Reference Tariffs which will be reassigned to those DSPs in Calendar Year t, in accordance with information submitted under clause 1.4; and
 - (2) the q_{t-2}^{ij} term in Boxes 1-3 for the Haulage Reference Tariff that is proposed to be withdrawn in Calendar Year t will be the actual quantities, in relevant units of each Haulage Reference Tariff Component, that were distributed under the parent Haulage Reference Tariff at those DSPs to which the same Haulage Reference Tariff was assigned in Calendar Year t, in accordance with information submitted under clause 1.4; and
 - (3) the q_{t-2}^{ij} term in Boxes 1-3 for the Haulage Reference Tariff that has been withdrawn in Calendar Year t-1, will be the actual quantities, in relevant units of each Haulage Reference Tariff Component, that were distributed under the parent Haulage Reference Tariff at those DSPs to which the same Haulage

Reference Tariff was assigned in Calendar Year $t-1$, in accordance with information submitted under clause 1.4.

3.4 Haulage Reference Tariff information

Where the Service Provider submits information in accordance with clause 1.3(c) that switching rates of Users moving from a given parent Haulage Reference Tariff to a proposed new Haulage Reference Tariff will continue to be above zero from year to year, application of the Tariff Control Formula in Boxes 1 to 3 will distinguish between:

- (a) DSPs to which the new Haulage Reference Tariff has already been assigned, in which case the q_{t-2}^{ij} term in Boxes 1-3 will be based on the actual quantities distributed in relevant units at those DSPs to which the new Haulage Reference Tariff has already been assigned and p_t^{ij} is the new Haulage Reference Tariff; and
- (b) DSPs to which the new Haulage Reference Tariff is expected to be assigned during year t , in which case the q_{t-2}^{ij} term in Boxes 1-3 will be based on the estimates of the quantities which would have been distributed at those DSPs, as submitted by the Service Provider in accordance with clause 1.3(c), and p_t^{ij} is the new Haulage Reference Tariff.

3.5 Rebalancing controls on Haulage Reference Tariffs

- (a) The Service Provider will maintain Haulage Reference Tariffs between:
 - (1) an upper limit of the cost to bypass the network; and
 - (2) a lower limit of the marginal cost of supply.

In undertaking any rebalancing, the Service Provider will have regard to the desirability of maintaining cost-reflective tariffs. The Service Provider will also use rebalancing as the means by which cross-subsidisation between Haulage Reference Tariffs or between Haulage Reference Tariff Components is removed.

- (b) The rebalancing control to apply to annual variations to Haulage Reference Tariffs is set out in Boxes 9 and 10 of Schedule 3.
- (c) The rebalancing controls also apply to changes to Haulage Reference Tariffs made within a Calendar Year and the withdrawal of Haulage Reference Tariffs and the introduction of new Haulage Reference Tariffs.

3.6 Rebalancing controls for new and withdrawn Haulage Reference Tariffs

For the purposes of the application of the rebalancing control formulae (Boxes 9 and 10):

- (a) where the Service Provider proposes to introduce a new Haulage Reference Tariff and/or new Haulage Reference Tariff Components:
 - (1) the term q_{t-2}^j in the rebalancing control will be interpreted in relation to the estimates of the quantities that would have been sold, in

relevant units, if the Haulage Reference Tariff Components existed in Calendar Year t-2 ; and

- (2) the p_t^j term in the rebalancing control will be interpreted in relation to the Haulage Reference Tariff Components of the parent tariff in Calendar Year t-2.
- (b) where the Service Provider has introduced new Haulage Reference Tariffs and/or new Haulage Reference Tariff Components in Calendar Year t-1, the q_{t-2}^j term of the rebalancing control will be in relation to the estimates of the quantities that would have been sold, in relevant units, if the Haulage Reference Tariff Components had existed in Calendar Year t-2.
- (c) where the Service Provider proposes to withdraw a Haulage Reference Tariff and reassign those DSPs to another Haulage Reference Tariff:
 - (1) the p_t^j term in the rebalancing control for the Haulage Reference Tariff that is proposed to be withdrawn will be interpreted in relation to the Haulage Reference Tariff Components of the Haulage Reference Tariff that those existing DSPs will be reassigned to in Calendar Year t;
 - (2) the rebalancing control on Haulage Reference Tariffs will be applied separately in relation to each of the Haulage Reference Tariffs DSPs are reassigned to, and:
 - (A) the p_t^j term in the rebalancing control for the Haulage Reference Tariff that is proposed is to be withdrawn will be interpreted in relation to the Haulage Reference Tariff Components of each of the Haulage Reference Tariffs that those existing DSPs will be reassigned to in Calendar Year t ; and
 - (B) the q_{t-2}^j term in the rebalancing control for the Haulage Reference Tariff that is proposed to be withdrawn will be the breakdown of the actual quantities, in relevant units, that were sold under each Haulage Reference Tariff Component of the parent tariffs to each DSP reassigned to the same Haulage Reference Tariff.

4 Approval of annual and intra-year variations to Reference Tariffs and new Reference Tariffs

4.1 Submission to the Regulator

- (a) The Service Provider will, at least 30 Business Days prior to the commencement of the next Calendar Year submit proposed Reference Tariffs to apply from the start of the next Calendar Year for verification of compliance by the Regulator, in accordance with clauses 4.2(a), (b), (c) and (d).
- (b) Where the Service Provider proposes to change a Reference Tariff within a Calendar Year it will submit the proposed Reference Tariff change for

verification of compliance by the Regulator, in accordance with clauses 4.2(a), (b) and (c).

- (c) Where the Service Provider proposes to introduce a new Reference Tariff or new Reference Tariff Component or withdraw an existing Reference Tariff or existing Reference Tariff Component within a Calendar Year it will submit the proposal for verification of compliance by the Regulator, in accordance with clauses 4.2(a), (b), (c) and (d). The Service Provider will notify the Regulator in writing of its intent to introduce new Reference Tariffs or new Reference Tariff Components at least 60 Business Days prior to the proposed date of commencement of the new Reference Tariff or Reference Tariff component.
- (d) The Service Provider will ensure its proposed Reference Tariffs or proposed changes to Reference Tariffs submitted under clauses 4.1(a), (b) or (c) comply with:
 - (1) the Tariff Control Formulae in Schedule 3 in relation to Haulage Reference Tariffs; and
 - (2) the requirements for adjustments to Ancillary Reference Tariffs in Box 11 of Schedule 3.
- (e) If the Service Provider does not, at least 30 Business Days prior to the commencement of the next Calendar Year submit proposed Haulage Reference Tariffs to apply from the start of the next Calendar Year in accordance with clause 4.1(a):
 - (1) where the left-hand side of the relevant Tariff Control Formula (set out in Box 1,2 or 3 of Schedule 3) to be applied for Calendar Year t is greater than one, the Haulage Reference Tariffs applying in Calendar Year $t-1$ will apply for Calendar Year t ; and
 - (2) where the left-hand side of the relevant Tariff Control Formula (set out in Box 1,2 or 3 of Schedule 3) to be applied for Calendar Year t is less than one, the Haulage Reference Tariffs applying in Calendar Year $t-1$ will be scaled down by the left-hand side of the price control formula to be applied for Calendar Year t and will apply for Calendar Year t ,

unless the Regulator has, or been deemed to have, verified Haulage Reference Tariffs for Calendar Year t as compliant.

4.2 Assessment by the Regulator

- (a) The Regulator will provide the Service Provider with written notice of whether or not it has verified the Reference Tariffs proposed by the Service Provider and submitted under clauses 4.1(a), (b) or (c) as compliant with the relevant price controls. If the Regulator declines to verify the proposed Reference Tariffs as compliant, the Regulator must provide a written statement of reasons for that decision.
- (b) The proposed Reference Tariffs will be deemed to have been verified as compliant in writing by the Regulator by the end of 20 Business Days from the date on which the Regulator received the Service Provider's notification under clauses 4.1(a), (b) or (c) unless the Regulator has

notified the Service Provider in writing that it has declined to verify the proposed Reference Tariffs as compliant.

- (c) If the Regulator issues a written notice to the Service Provider that it has declined to verify proposed Reference Tariffs and/or Reference Tariff Components (including but not limited to any new Reference Tariff and/or any new Reference Tariff Component) as compliant for a new Calendar Year t , then each component of the Haulage Reference Tariffs applying in the current Calendar Year as adjusted by the left hand side of the relevant Tariff Control Formula (set out in Box 1,2 or 3 of Schedule 3) for Calendar Year t will continue to apply from the start of the new Calendar Year t , and each Ancillary Reference Tariff as adjusted by CPI will apply from the start of the new Calendar Year t .
- (d) If the Regulator has notified the Service Provider in writing that it has declined to verify as compliant the withdrawal of any existing Reference Tariffs and/or the withdrawal of any existing Reference Tariff Components proposed for Calendar Year t , the existing Haulage Reference Tariffs and/or Haulage Reference Tariff Components will continue to apply from the start of new Calendar Year t as adjusted by the left hand side of the relevant Tariff Control Formula (set out in Box 1,2 or 3 of Schedule 3) for Calendar Year t , and each component of the Ancillary Reference Tariffs applying in the current Calendar Year as adjusted by the CPI will continue to apply from the start of the new Calendar Year t .
- (e) The Service Provider may provide additional information and resubmit or revise its proposed Reference Tariffs in accordance with clauses 4.1(a), (b) or (c), if the Regulator declines to verify as compliant proposed Reference Tariffs under clause 4.2(a).
- (f) Where in a Calendar Year, changes to Reference Tariffs have been verified as compliant by the Regulator, the Service Provider will notify in writing all Users affected by the changes as soon as practicable.

4.3 Information Required from the Service Provider

At the same time as submitting proposed Reference Tariffs to the Regulator, the Service Provider will also provide to the Regulator information demonstrating that the proposed Reference Tariffs are, to the extent relevant, consistent with clause 2 and the Tariff Control Formula in Schedule 3.

5 Calculation of Charges for Haulage Reference Tariffs

Haulage Reference Tariffs are charged in accordance with the calculations described below.

(1) General

The Distribution Fixed Tariff Components and consumption ranges shown in Schedule 1, as applicable, are daily amounts. The Distribution Fixed Tariff Component or consumption range applied to calculate a charge for a billing period shall be the Reference Tariff Component or consumption range shown in Schedule 1, as applicable, multiplied by the number of days in the billing period.

(2) Distribution Volume Tariff Components

- (A) Distribution Volume Tariff Components are charged according to the actual GJs of Gas withdrawn in the billing period, or an estimate of the GJs of Gas withdrawn in the billing period which is acceptable to the Service Provider.
- (B) Where some of the days in the billing period are in the Peak Period and some are in the Off-Peak Period the total GJs of Gas withdrawn shall be allocated between the Peak Period and the Off-Peak Period proportionately according to the number of days falling in each period.

(3) Distribution Demand Tariff Components

- (A) Distribution Demand Tariff Components are charged according to the following formula:

$$MC = \frac{EAC - CBTD}{RBP}$$

where:

MC is the charge for a particular month in Calendar Year t.

EAC is the estimated annual charge calculated by applying the relevant Reference Tariff Components to EAD;

CBTD is the sum of the charges for all prior billing periods of Calendar Year “t”;

RBP is the remaining billing periods in Calendar Year t, as set out below:

Month	RBP
January	12
February	11
March	10
April	9
May	8
June	7
July	6
August	5
September	4
October	3
November	2
December	1

EAD is:

- (i) for billing periods between January and September, the higher of:
- (I) the forecast Annual MHQ for Calendar Year t; and

- (II) the Annual MHQ, as measured to date during Calendar Year t,

where the forecast Annual MHQ for Calendar Year t is either:

- (III) the actual Annual MHQ for Calendar Year t-1; or
- (IV) a Quantity agreed between the Service Provider and the User.

- (ii) for billing periods between October and December, the actual Annual MHQ for Calendar Year t.

- (B) Where a User's Customer withdraws Gas at a DSP and ceases to withdraw Gas at that DSP in a month:

- (i) the Service Provider may charge the User in respect of that DSP, for the whole of the month in which the Customer ceased withdrawal of Gas;
- (ii) the Service Provider will not charge the User in respect of that DSP, for any month after the month in which the Customer ceased withdrawal of Gas; and
- (iii) where another Customer starts to withdraw Gas at that DSP, the quantity of forecast highest MHQ for the year for that DSP must be agreed between the Service Provider and the relevant User in respect of that DSP.

- (C) Where a User's Customer withdraws Gas at a DSP and ceases to be a Customer of that User during a month and becomes:

- (i) a Customer of another User; or
- (ii) a User,

the Service Provider will charge:

- (iii) the User from whom the Customer purchases its Gas at that DSP in that month; or
 - (iv) the Customer as a User in that month,
- respectively, for that month.

(4) Unmetered Reference Tariff Components

Where Tariff V has been assigned to a DSP because it is an unmetered DSP, there is deemed to be no withdrawal of Gas at that DSP for charging purposes. For the avoidance of doubt, in such circumstances Tariff V is deemed to apply and the fixed component of the tariff may be charged as a fixed charge.

6 Effect of New Facilities Investment on Tariffs

6.1 New Facilities Investment

The Service Provider may at its discretion undertake New Facilities Investment that does not satisfy the requirements of section 8.16 of the Access Code. The Extensions/Expansions Policy in clause 5.6 of Part A of this Access Arrangement

explains how New Facilities Investment in relation to a New Facility which is to be treated as part of the Covered Pipeline will affect Reference Tariffs.

Clause 6.3 below sets out the principles of a Speculative Investment Fund which the Service Provider may operate in relation to New Facilities Investment that does not satisfy the requirements of section 8.16 of the Access Code.

6.2 Speculative Investment Fund

In accordance with section 8.19 of the Access Code, the amount of the Speculative Investment Fund for the Service Provider at any time is equal to:

- (a) the difference between the New Facilities Investment and the amount which satisfies section 8.16 of the Access Code, less any amount the Service Provider notifies the Regulator (at the time the expenditure is incurred) that it has elected to recover through a Surcharge under section 8.25 of the Access Code; plus
- (b) an annual increase in that amount calculated on a compounded basis at a risk adjusted Rate of Return approved by the Regulator; less
- (c) any part of the Speculative Investment Fund previously added to the Capital Base due to the type and volume of services provided using the increase in Capacity attributable to the New Facility change such that any part of the Speculative Investment Fund would then satisfy the requirements of section 8.16 of the Access Code.

7 Fixed Principles

7.1 General Fixed Principles

- (a) Section 8.47 of the Access Code provides that a Reference Tariff Policy will include certain Fixed Principles, being an element of the Reference Tariff Policy which cannot be changed when the Service Provider submits revisions to an Access Arrangement, without the agreement of the Service Provider.
- (b) No Fixed Principle can be changed by the Regulator at a review of the Access Arrangement without the approval of the Service Provider.
- (c) Each Fixed Principle will apply for the periods specified.
- (d) The period during which each Fixed Principle may not be changed is the Fixed Period.
- (e) In reviewing the Access Arrangement, the Regulator is to adopt the Fixed Principles set out below.
 - (1) The Regulator will use incentive-based regulation adopting a CPI-X approach and not rate of return regulation.
This Fixed Principle will apply until the end of the Third Access Arrangement Period.
 - (2) The Capital Base at the commencement of an Access Arrangement Period will be the Capital Base at the commencement of the previous Access Arrangement Period, adjusted to take account of:
 - (A) changes to CPI since 1 January 2003;
 - (B) depreciation;

- (C) New Facilities Investment meeting the requirements of section 8 of the Access Code;
- (D) the sale value of assets that are disposed of in the ordinary course of business since 1 January 2002, other than a disposal of:
 - (i) all or part of the Distribution System;
 - (ii) assets pursuant to which the assets of the Service Provider are sold and leased back to the Service Provider;
- (E) the Capital Base will not be reduced as a result of assets forming part of the Capital Base becoming redundant;
- (F) the difference between forecast and actual capital expenditure in the year prior to the commencement of the previous Access Arrangement Period;
- (G) the difference between forecast and actual disposals in the year prior to the commencement of the previous Access Arrangement Period.

This Fixed Principle will apply for a period of 30 years from the commencement of the Second Access Arrangement Period.

- (3) The following costs will be included in the Third Access Arrangement Period (to be reflected in the Reference Tariffs):
 - (A) the present value of any outstanding capital costs at the end of Calendar Year 2007 approved under the Cost Recovery Order in Council dated 15 November 2001 (OIC) will be included in the Capital Base to be used to calculate Reference Tariffs for the Access Arrangement Period commencing 1 January 2008, and for the avoidance of doubt, any outstanding capital amount means any FRC capital costs approved under the OIC that have not been recovered by the prices, fees and charges determined by the Regulator under section 12 of the OIC; and
 - (B) any adjustment factor determined by the Regulator pursuant to, or in a manner consistent with, clause 14 of the OIC, and not recovered as prices, fees or charges determined by the Regulator under section 12 of the OIC at the end of Calendar Year 2007.

Capital and non-capital costs to be incurred in the Third Access Arrangement Period for or in connection with, or in relation to, the implementation and operation of the Retail Gas Market Rules will be considered under the Access Code and reflected in Reference Tariffs for that period.

This Fixed Principle will apply until the end of the Third Access Arrangement Period.

- (4) To the extent that the Rate of Return is relevant to the determination of Reference Tariffs, the Rate of Return on the Capital Base shall be calculated using the Capital Asset Pricing Model.

This Fixed Principle will apply until the end of the Third Access Arrangement Period.

- (5) In the event that the Regulator applies a post-tax return to the Capital Base in the Second Access Arrangement Period, then the same post-tax approach will be applied to the Capital Base in the Third Access Arrangement Period and subsequent Access Arrangement Periods.

This Fixed Principle will apply for a period of 30 years.

7.2 Efficiency sharing mechanism

Section 8.44 of the Access Code provides for a Service Provider's Reference Tariff Policy to include an incentive mechanism that permits the Service Provider to retain all, or any share of any, returns to the Service Provider from the sale of the Reference Services:

- during the Access Arrangement Period, that exceed the level of returns expected for that Access Arrangement Period; or
- during a period approved by the Regulator that exceeds the level of returns expected for that period.

(a) General principles

- (1) The incentive arrangements that are to apply to cost-related efficiencies achieved by the Service Provider, and the adjustment to preserve the incentive to meet efficient growth in demand are a combination of:

- a tariff basket form of price control; and
- the carryover that would result in the Service Provider retaining the reward associated with an efficiency-improving initiative for five years after the year in which the gain was achieved, ie. a reward (being the net amount of the efficiency gains (or losses) relating to capital and operating expenditure) earned in one year of an Access Arrangement Period would be added to the Total Revenue and carried forward into the Third Access Arrangement Period if necessary, until it has been retained by the Service Provider for a period of five years.

- (2) There would be no claw-back of gains that have already been made (or losses that have been incurred) during the Second Access Arrangement Period.

- (3) Efficiency gains (or losses) related to capital expenditure in any year would reflect the difference between the actual expenditure and the original forecast (or benchmark) expenditure level, as follows:

$$\text{Efficiency Gain} = \text{WACC} * (\text{Capex}_t^{\text{Forecast}} - \text{Capex}_t^{\text{Actual}})$$

where:

WACC is the prevailing regulatory WACC, expressed in pre-tax terms.

- (4) For operating expenditure the annual efficiency gain (or loss) in Calendar Year t would be calculated as:

$$\text{Efficiency Gain} = \text{Underspending}_t - \text{Underspending}_{t-1}$$

where:

$$\text{Underspending}_t = \text{Opex}_t^{\text{Forecast}} - \text{Opex}_t^{\text{Actual}}$$

- (5) The costs associated with FRC obligations, a Change in Taxes Event, complying with RoLR requirements, or the reticulation of unreticulated townships which were not included in the calculation of Reference Tariffs, will be excluded from the operation of the efficiency carryover mechanism;
- (6) Any other activity that the Service Provider and the Regulator agree to be excluded from the operation of the efficiency carryover mechanism will be so excluded;

(b) The mechanism for carrying over efficiency gains

- (1) For operating expenditure, it will be assumed that the Service Provider does not achieve more than the forecast productivity gain between the penultimate and last years of the Second Access Arrangement Period. As a result, if the Service Provider makes an efficiency gain in the last year of the Second Access Arrangement Period, there would be no carryover in respect of that year. However, the operating expenditure benchmark for the Third Access Arrangement Period will then be higher than otherwise for the Third Access Arrangement Period by the amount of the efficiency gain. This would provide the Service Provider with precisely the same reward had the expenditure level in the last year been known.
- (2) For capital expenditure, it will be assumed that the actual expenditure in the last year of the Second Access Arrangement Period was equal to the forecast for that year. As a result, if the Service Provider makes an efficiency gain in the last year of the Second Access Arrangement Period, there would be no carryover in respect of that year. However, the regulatory asset base (and thus the return on assets) would be higher than otherwise over the next period. This would imply that the 'return on assets' included in the revenue benchmarks would be higher, and provide the Service Provider with precisely the same reward as the carryover had the expenditure level in the last year been known. At the following review, the regulatory asset base would be adjusted to take account of the difference between the forecast and actual capital expenditure for the last year of the Second Access Arrangement Period.
- (3) There will be no adjustment to the original expenditure benchmarks against which the assessment of the efficiency gains in excess of the forecast would be measured, with the following exceptions (as well as the exception in clause 4 below):
- (A) the carryover of cost-related efficiency gains will be calculated in a manner that takes account of any change in

the scope of the activities which form the basis of the determination of the original benchmarks. Any adjustment will be made following the provision of relevant information to the Regulator and the assessment of that information by the Regulator; and

- (B) actual expenditure will also be adjusted to take account of the difference between forecast and actual output. This will be done by taking into account the difference in the number of connections (compared to forecast) multiplied by the capital expenditure per connection and operating expenditure per connection.
 - (4) The carryover in respect of cost-related efficiency gains will be calculated in a manner that takes account of any difference between the capital replacement works assumed in Reference Tariffs for the Second Access Arrangement Period and the works actually undertaken in the Second Access Arrangement Period.
- This clause shall not be construed to mean that the Service Provider
- (A) is required to undertake the capital works; or
 - (B) is constrained in its discretion to determine the timing, size or nature of those capital works.
 - (5) To the extent that the application of this clause results in a positive efficiency carryover at the end of the Second Access Arrangement Period, the reward earned in the Second Access Arrangement Period is to be added to the Total Revenue and carried forward into the Third Access Arrangement Period, until it has been retained by the Service Provider for a period of five years, in accordance with this clause.

This Fixed Principle will apply until the end of the Third Access Arrangement Period.

8

Change in Tax Pass-Through

Whenever the Service Provider determines that its costs have increased or decreased materially or will increase or decrease materially as a result of a new Relevant Tax or a change in a Relevant Tax, the Service Provider may apply to the Regulator for approval to increase or decrease the Reference Tariffs, in accordance with the procedures contained in this clause 8.

8.1 Change in Taxes Event

If a Change in Taxes Event occurs, or will occur, the Service Provider may give a statement to the Regulator within 3 months of the Change in Taxes Event occurring specifying:

- (a) details of the Change in Taxes Event concerned;
- (b) the date the Change in Taxes Event took or takes effect;
- (c) the estimated financial effect of the Change in Taxes Event on the Service Provider;

- (d) the Pass Through Amount the Service Provider proposes in relation to the Change in Taxes Event; and
- (e) the basis on which the Pass Through Amount is to apply.

8.2 Obligations of the Regulator

- (a) If the Regulator receives a statement under clause 8.1, the Regulator must decide whether the Change in Taxes Event specified in the statement will occur, occurred or is continuing, and if the Regulator decides that the Change in Taxes Event will occur, occurred or is continuing, the Regulator must decide:
 - (1) the Pass Through Amount; and
 - (2) the basis on which the Pass Through Amount is to apply,
 and notify the Service Provider in writing of the Regulator's decision.
- (b) If the Regulator does not give a notice to the Service Provider under clause 8.2(a) within 30 Business Days of receiving a statement from the Service Provider under clause 8.1, on the 31st Business Day after receiving the statement from the Service Provider under clause 8.1 the Regulator is deemed to have notified the Service Provider of its decision under clause 8.2(a) that the Pass Through Amount and the basis on which the Pass Through Amount is to apply are as specified in the statement given by the Service Provider under clause 8.1.

8.3 Powers of the Regulator where a Change in Taxes Event occurs

- (a) If a Change in Taxes Event occurs and the Service Provider is likely to be affected by the Change in Taxes Event but does not give the Regulator a statement under clause 8.1 concerning the Change in Taxes Event, the Regulator may decide on a Pass Through Amount and the basis on which the Pass Through Amount is to apply.
- (b) Where under clause 8.3(a) the Regulator decides on a Negative Pass Through Amount, the Regulator:
 - (1) may decide to require the Service Provider to pass through the Negative Pass Through Amount decided by the Regulator on the basis decided by the Regulator; and
 - (2) must notify the Service Provider in writing of the Negative Pass Through Amount, the basis on which the Negative Pass Through Amount is to apply and the reasons for the Regulator's decision.

8.4 Factors which the Regulator must consider

In deciding the Pass Through Amount and the basis on which the Pass Through Amount is to apply under clauses 8.2 and 8.3, the Regulator must ensure that the financial effect on the Service Provider associated with the Change in Taxes Event concerned is economically neutral taking into account:

- (a) the relative amounts of Reference Services supplied to each User;
- (b) the time cost of money for the period over which the Pass Through Amount is to apply;

- (c) the manner in which and period over which the Pass Through Amount is to apply;
- (d) the financial effect to the Service Provider associated with the provision of Reference Services directly attributable to the Change in Taxes Event concerned, and the time at which the financial effect arises;
- (e) the amount of any change in another tax which, in the Regulator's opinion, was introduced as complementary to the Change in Taxes Event concerned;
- (f) the effect of any other previous Change in Taxes Event since the later of the date of:
 - (i) this Part B of the Access Arrangement ; and
 - (ii) the last decision made under clauses 8.2 and 8.3(b);
- (g) any Pass Through Amount applied under this clause 8 relating to a previous Change in Taxes Event which resulted in the Service Provider recovering an amount either more or less than the estimated financial effect on the Service Provider of that previous Change in Taxes Event; and
- (h) any other factors the Regulator considers relevant.

8.5 When the Service Provider applies a Pass Through Amount

- (a) The Service Provider:
 - (i) may, after
 - (A) receipt of a notice from the Regulator or a deemed receipt of a notice under clause 8.2 as to a Positive Pass Through Amount; and
 - (B) notifying its Users of:
 - the Positive Pass Through Amount which the Regulator has approved or is deemed to have approved; and
 - the basis on and date from which the Service Provider will apply the Positive Pass Through Amount,

apply the Positive Pass Through Amount specified in the notice to Users on the basis indicated in the notice; and
 - (ii) must, after receipt of a notice or deemed receipt of a notice from the Regulator, under clause 8.2, or after receipt of a notice under clause 8.3 as to a Negative Pass Through Amount apply the Negative Pass Through Amount on the basis decided by the Regulator.
- (b) The Pass Through Amount must be:
 - (i) shown separately on each User's invoice; or
 - (ii) otherwise identified in a manner approved by the Regulator.
- (c) The Service Provider can only seek to reclaim from Users' Positive Pass Through Amounts in respect of Services provided from the time that the Service Provider:
 - (i) notified its Users under clause 8.5(a)(1)(B); and

- (ii) started showing or identifying the Positive Pass Through Amount as required under clause 8.5(b).

8.6 Pass Through Amount not included in price control calculations

A Pass Through Amount applied by the Service Provider under this clause 8 is not:

- (a) taken into account in deciding whether the Service Provider's Reference Tariffs or Reference Tariff Components comply with the principles and Tariff Control Formula in clauses 2 and 3 of Part B of this Access Arrangement; and
- (b) subject to the procedures in clause 4.

Schedule 1 – Tariffs V and D

Note: Tariffs shown are for 2002. Tariffs for 2003 are calculated by application of the Tariff Control Formulae (Schedule 3) to 2002 tariffs.

Tariff V

Tariffs for 2002, excluding GST.

Central	
Fixed Charge (Daily)^a	\$0.07238
Band (GJ/day)	\$/GJ ^b
Peak 0 - 0.1	\$5.2047
Peak 0.1 - 0.2	\$3.6240
Peak 0.2 - 1.4	\$2.6657
Peak > 1.4	\$0.8949
Off Peak 0 - 0.1	\$4.6785
Off Peak 0.1 - 0.2	\$3.1084
Off Peak 0.2 - 1.4	\$2.3075
Off Peak > 1.4	\$0.7585

North	
Fixed Charge (Daily)^a	\$0.07238
Band (GJ/day)	\$/GJ ^b
Peak 0 - 0.1	\$4.1936
Peak 0.1 - 0.2	\$3.9294
Peak 0.2 - 1.4	\$1.8965
Peak > 1.4	\$0.8949
Off Peak 0 - 0.1	\$3.6769
Off Peak 0.1 - 0.2	\$3.4138
Off Peak 0.2 - 1.4	\$1.6112
Off Peak > 1.4	\$0.7585

Murray Valley	
Fixed Charge (Daily)^a	\$0.10344
Band (GJ/day)	\$/GJ ^b
Peak 0 - 0.1	\$3.2342
Peak 0.1 - 0.2	\$3.2342
Peak 0.2 - 1.4	\$2.6446
Peak > 1.4	\$1.0639
Off Peak 0 - 0.1	\$2.7492
Off Peak 0.1 - 0.2	\$2.7492
Off Peak 0.2 - 1.4	\$2.2442
Off Peak > 1.4	\$0.9160

^aDistribution Fixed Tariff Component

^bDistribution Volume Tariff Component

Tariff D

Tariffs for 2002, excluding GST.

Tariff D Zone - North & Central	
MHQ (GJ)	\$/GJ
0 - 10	\$804.00
10 - 50	\$512.30
> 50	\$92.80

Tariff D Zone - Murray Valley	
MHQ (GJ)	\$/GJ
0 - 10	\$964.60
10 - 50	\$614.90
> 50	\$111.90

Zone Postcodes to which Tariff D and Tariff V apply

Zone	Postcode
North	2731, 3561, 3564, 3616, 3618, 3620, 3621, 3623, 3624, 3629, 3630, 3631, 3658, 3659, 3660, 3662, 3666, 3672, 3677, 3690, 3691, 3694, 3753, 3756, 3757, 3763, 3764, 3775
Central	3000, 3002, 3003, 3005, 3008, 3050, 3051, 3052, 3053, 3054, 3055*, 3056, 3057, 3065, 3066, 3067, 3068, 3070, 3071, 3072, 3073, 3074, 3075, 3076, 3078, 3079, 3081, 3082, 3083, 3084, 3085, 3087, 3088, 3089, 3090, 3091, 3093, 3094, 3095, 3096, 3097*, 3099, 3121, 3139, 3175*, 3197, 3198, 3199, 3200, 3201*, 3750, 3751, 3752, 3754, 3755, 3759, 3760, 3761, 3777, 3803, 3804*, 3805, 3806, 3807, 3808, 3809, 3810, 3812, 3813, 3814, 3815, 3816, 3818, 3820, 3822, 3823, 3824, 3825, 3840, 3842, 3844, 3847, 3850, 3851, 3852, 3860, 3910, 3911, 3912, 3913, 3915, 3916, 3918, 3919, 3920, 3921, 3926, 3927, 3928, 3929, 3930, 3931, 3933, 3934, 3936, 3937, 3938, 3939, 3940, 3941, 3942, 3943, 3944, 3975, 3976, 3977, 3978, 3980, 3981, 3984, 3987
Murray Valley	3636, 3638, 3640, 3641, 3644, 3683, 3685, 3687, 3730

*shared with another Service Provider

Schedule 2 – Initial Ancillary Reference Tariffs

Tariffs for 2003, excluding GST.

Ancillary Reference Service	Tariff
Meter and Gas Installation Test	\$127
Disconnection	\$32
Reconnection	\$42

Schedule 3 – Tariff Control Formulae

BOX 1: TARIFF CONTROL FORMULA – 2003, 2006 AND 2007

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

where the Service Provider has n Reference Tariff categories, each category having up to m Reference Tariff components and where:

p_t^{ij} is the proposed Reference Tariff for component j of Reference Tariff i in year t ;

p_{t-1}^{ij} is the Reference Tariff being charged for component j of Reference Tariff i in year $t - 1$;

q_{t-2}^{ij} is the quantity of component j of Reference Tariff i that was sold in year $t - 2$;

CPI_t is the CPI, as defined in the glossary, for year t ;

X_t is 0.089 for 2003 and 0.01 for 2006 and 2007; and

L_t is the Licence Fee factor as defined in Box 4

BOX 2: TARIFF CONTROL FORMULA – 2004

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

where the Service Provider has n Reference Tariff categories, each category having up to m Reference Tariff components and where:

p_t^{ij} is the proposed Reference Tariff for component j of Reference Tariff i in 2004;

p_{t-1}^{ij} is the Reference Tariff being charged for component j of Reference Tariff i in 2003;

q_{t-2}^{ij} is the quantity of component j of Reference Tariff i that was sold in 2002;

CPI_t is the CPI, as defined in the glossary, for 2004;

X_t is 0.01;

L_t is the Licence Fee factor for 2004, as defined in Box 4; and

A is the adjustment factor to account for the un-recovered correction factor in the First Access Arrangement Period, as defined in Box 5.

BOX 3: TARIFF CONTROL FORMULA – 2005

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

where the Service Provider has n Reference Tariff categories, each category having up to m Reference Tariff components and where:

p_t^{ij} is the proposed Reference Tariff for component j of Reference Tariff i in 2005;

p_{t-1}^{ij} is the Reference Tariff being charged for component j of Reference Tariff i in 2004;

q_{t-2}^{ij} is the quantity of component j of Reference Tariff i that was sold in 2003;

CPI_t is the CPI, as defined in the glossary, for 2005;

X_t is 0.01;

L_t is the Licence Fee factor for 2005, as defined in Box 4; and

A is the adjustment factor to account for the un-recovered correction factor in the first Access Arrangement Period, as defined in Box 5.

BOX 4: LICENCE FEE FACTOR

$$Lt = \frac{1 + \frac{lf_{t-1} \bullet (1 + WACC)}{SR_t}}{1 + \frac{lf_{t-2} \bullet (1 + WACC)}{SR_{t-1}}} - 1$$

where:

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

lf_{t-2} is the Licence Fee paid by the Service Provider for the Financial Year ending June $t - 2$;

SR_t is the smoothed revenue for Calendar Year t , as defined below:

$$SR_t = SREV_t \bullet Inf_t$$

where $SREV_t$ is set out in the table below:

	2003	2004	2005	2006	2007
Envestra Victoria	106,124,603	107,117,221	108,071,100	108,993,426	109,883,311

Inf_t is set out for each year below:

$$2003 = (1 + CPI_{2002}) \bullet (1 + CPI_{2003})$$

$$2004 = (1 + CPI_{2002}) \bullet (1 + CPI_{2003}) \bullet (1 + CPI_{2004})$$

$$2005 = (1 + CPI_{2002}) \bullet (1 + CPI_{2003}) \bullet (1 + CPI_{2004}) \bullet (1 + CPI_{2005})$$

$$2006 = (1 + CPI_{2002}) \bullet (1 + CPI_{2003}) \bullet (1 + CPI_{2004}) \bullet (1 + CPI_{2005}) \bullet (1 + CPI_{2006})$$

$$2007 = (1 + CPI_{2002}) \bullet (1 + CPI_{2003}) \bullet (1 + CPI_{2004}) \bullet (1 + CPI_{2005}) \bullet (1 + CPI_{2006}) \bullet (1 + CPI_{2007})$$

SR_{t-1} is the smoothed revenue for Calendar Year $t - 1$;

WACC is 0.070; and

For 2003, the term:

$$1 + \frac{lf_{t-2} \bullet (1 + WACC)}{SR_{t-1}} = 1$$

Where the Service Provider has not been notified of the Licence Fee payable for the relevant period by the time that it is required to submit tariffs for approval, the most recent Licence Fee paid will be used as lf_{t-1} above. Any difference between that amount and the actual Licence Fee paid will be multiplied by $(1+WACC)$ and added to the recoverable Licence Fee amount for the following year.

BOX 5: ADJUSTMENT FACTOR A

$$A = \frac{F_{2004}}{SR_{2004}}$$

where:

F_{2004} is a correction factor, as calculated in Box 6; and

SR_{2004} is the smoothed revenue for Calendar Year 2004.

BOX 6: CORRECTION FACTOR F

$$F_{2004} = (Fa_{2004} + Fb_{2004}) \cdot (1 + WACC) \cdot (1 + CPI_{2004})$$

where:

Fa_{2004} is a correction factor for Calendar Year 2002, as calculated in Box 7;

Fb_{2004} is a correction factor for Calendar Year 2001, as calculated in Box 8;

$WACC$ is 0.070; and

CPI_{2004} is the CPI, as defined in the glossary, for 2004.

BOX 7: CORRECTION FACTOR Fa

$$Fa = [(ADV_{2002} \bullet MADT_{2002}) - ADR_{2002}] \bullet (1 + CPI_{2003})(1 + WACC) - [681,730 \bullet (1 + CPI_{2002}) \bullet (1 + CPI_{2003})]$$

where:

ADV_{2002} is the total quantity of gas distributed in 2002;

$MADT_{2002}$ is the maximum average distribution tariff in 2002, calculated in accordance with clause B.3.3 of the Tariff Order;

ADR_{2002} is the total amount of distribution revenue earned in 2002;

CPI_{2002} is the CPI, as defined in the glossary, for 2002;

CPI_{2003} is the CPI, as defined in the glossary, for 2003;

$WACC$ is 0.070;

BOX 8: CORRECTION FACTOR Fb

$$Fb = [(ADV_{2001} - EDV_{2001}) \bullet MADT_{2001} - (ADR_{2001} - EDR_{2001})] \bullet (1 + I_{2002})$$

where:

ADV_{2001} is the total quantity of gas distributed in 2001;

EDV_{2001} is the estimated quantity of gas distributed in 2001, calculated in accordance with Clause B.3.5 of the Tariff Order;

$MADT_{2001}$ is the maximum average distribution tariff in 2001, calculated in accordance with clause B.3.3 of the Tariff Order;

ADR_{2001} is the total amount of distribution revenue earned in 2001;

EDR_{2001} is the estimated amount of distribution revenue earned in 2001, calculated in accordance with Clause B.3.5 of the Tariff Order; and

I_{2002} is the interest rate for 2002, as calculated in accordance with clause B.3.5 of the Tariff Order.

BOX 9: REBALANCING CONTROL FORMULA – 2003

$$P_{2003}^{ij} \leq P_{2002}^{ij} \bullet (1 + CPI_{2003} - 0.01), i = 1, \dots, n; j = 1, \dots, m$$

where:

P_{2003}^{ij} is the proposed Reference Tariff for component j of Reference Tariff i in 2003;

P_{2002}^{ij} is the Reference Tariff being charged for component j of Reference Tariff i in 2002; and

CPI_{2003} is the CPI, as defined in the glossary, for 2003.

BOX 10: REBALANCING CONTROL FORMULA – 2004-07

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

where:

p_t^j is the proposed Reference Tariff for component j of Reference Tariff i in year t ;

p_{t-1}^j is the Reference Tariff being charged for component j of Reference Tariff i in year $t-1$;

q_{t-2}^j is the quantity of component j of Reference Tariff i that was sold in year $t-2$;

CPI_t is the CPI, as defined in the glossary, for year t ;

Y_t is 0.02; and

L_t is the Licence Fee factor as defined in Box 4.

If $L_t < 0$, then $(1 + L_t) = 1$.

If for 2004:

$A > 0$ then the rebalancing control formula is:

$$(1 + CPI_t)(1 + Y_t)(1 + L_t)(1 + A) \geq \frac{\sum_{j=1}^m p_t^{ij} \cdot q_{t-2}^{ij}}{\sum_{j=1}^m p_{t-1}^{ij} \cdot q_{t-2}^{ij}}, i = 1, \dots, n;$$

where:

A is the adjustment factor A to account for the unrecovered correction factor in the First Access Arrangement Period, as defined in Box 5.

Otherwise the rebalancing control formula is unchanged.

If for 2005:

$A < 0$ then the rebalancing control formula is:

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

Otherwise the rebalancing control formula is unchanged.

BOX 11: ANCILLARY REFERENCE SERVICES FORMULA

$$ART_t = ART_{t-1} \bullet (1 + CPI_t)$$

where:

ART_t is the Ancillary Reference Tariff that applies in year t

ART_{t-1} is the Ancillary Reference Tariff that applied in year $t - 1$; and

CPI_t is the CPI, as defined in the glossary, for year t .

Ancillary Reference Service tariffs shall be rounded to the nearest dollar.