2013 – 2017 Gas Access Arrangements Review (GAAR)

SP AusNet Response to the AER's Draft Decision

RAAP Chapter 6:

UAFG

Submitted: 9 November 2012

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This chapter sets out SP AusNet's response on the Unaccounted for Gas (UAfG) arrangements to apply to the 2013–17 Access Arrangement.

In the event of inconsistency between information contained in this chapter and SP AusNet's Access Arrangement Information (AAI), the information contained in this chapter supersedes the AAI.

1 Introduction

The Draft Decision in relation to the UAfG arrangements remains unclear.

In section 6.5.2 of the Draft Decision, the AER stated that it was unlikely that the UAfG benchmarks could be adjusted to reflect the underlying level of unaccounted for gas within the SP AusNet system. As such, the AER suggested that SP AusNet propose an opex step change as part of its revised access arrangement proposal to cover the costs that will be incurred by SP AusNet as a result of the maintenance of the incorrect benchmarks set as part of the last review.[1]

However, subsequent correspondence from the AER (dated 4 October 2012), clarified that "*SP AusNet is not required to submit as part of its revised proposal, forecast opex (or an opex step change) for unaccounted for gas (UAfG) costs*".[2]

The current situation leaves SP AusNet without clarity on whether the UAfG benchmarks will be amended within the Victorian Gas Distribution System Code (GDSC) or whether an UAfG incentive framework is to apply at all for the coming access arrangement period.

SP AusNet understands that, in the event that the GDSC is not amended to set UAfG benchmarks beyond 2012, the benchmarks will cease to exist and the UAfG scheme itself will fall into abeyance.

SP AusNet explained in its Initial Access Arrangement Proposal that the current UAfG framework demonstrates few, if any, incentive properties and, as such, allowing the framework to fall away will not result in any tangible economic detriment.[3] Further, the incentive to replace aging infrastructure to reduce gas leakage already exists through the operation of the carbon tax arrangements and the operational risk that SP AusNet bears in regard to asset failure.

Notwithstanding the above, SP AusNet considers that it is appropriate to maintain regulatory arrangements that ensure operational and capital expenditure decisions are mindful of the impact on UAfG levels.

[1] AER, *Access Arrangement Draft Decision SPI Networks (Gas) Pty Ltd 2013-17*, Part 2, p.149.

[2] AER, Correspondence ref. 46771 Unaccounted for Gas, dated 4 October 2012.

[3] SP AusNet, *2013-2017 Gas Access Arrangement Review – Access Arrangement Information*, 30 March 2012, p. 199.

2 Resolution of the UAfG Benchmarks

SP AusNet understands that there is no basis upon which the 2012 UAfG benchmarks can apply beyond the end of the current access arrangement period unless the ESC makes a determination setting new benchmarks or the power to make such determinations is conferred on the AER.

Therefore the UAfG issue may be resolved in two ways:

- determine new benchmarks in collaboration with the ESC; or
- allow the current benchmarks to lapse, resulting in no UAfG mechanism in Victoria.

2.1 Determine new benchmarks

As noted above, Schedule 1 of the GDSC sets the UAfG benchmarks for each year of the current access arrangement period, but not beyond. The ESC, as the regulator responsible for administering the GDSC, can set new benchmarks to apply during the 2013-17 access arrangement period.[4]

For the reasons set out in its Initial Access Arrangement Proposal,[5] SP AusNet considers it is appropriate to continue the existing regulatory arrangements for UAfG into the forthcoming access arrangement period, provided the benchmarks are set appropriately. In sum, the Proposal noted the existing arrangements are consistent with section 24(3) of the NGL, and ensure that operational and capital expenditure decisions take account of the impact on UAfG levels.[6]

However, if new benchmarks are to be determined, the benchmarks must be reflective of recent actual UAfG levels to ensure the efficiency incentives do not result in windfall gains or penalties. That is, the benchmarks must be such that SP AusNet is rewarded for maintaining UAfG levels below the benchmark, and penalising it for UAfG levels above the benchmark. As explained in SP AusNet's Initial Access Arrangement Proposal, the current benchmarks have resulted in SP AusNet sustaining losses of approximately $1 million for each year of the current access arrangement period, irrespective of the fact that significant levels of low pressure mains replacement has occurred.[7] SP AusNet has proposed UAfG benchmarks for the forthcoming access arrangement period.[8]

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[4] *Essential Services Commission Act 2001* (Vic), section 11.

[5] SP AusNet, *2013-2017 Gas Access Arrangement Review – Access Arrangement Information*, 30 March 2012, Chapter 10.

[6] Ibid, p. 201.

[7] Ibid, p. 202.

[8] Ibid, Table 10-2, p. 202.

2.2 Allow current benchmarks to lapse

SP AusNet submits that the 2012 UAfG benchmarks cease to have any effect beyond the end of the current access arrangement period. If no new benchmarks are determined by 31 December 2012, the UAfG incentive framework remains in place but is frustrated.

This conclusion is based on way the matters provided for in Clause 2.4 and Schedule 1 of Part C of the GDSC operate. Schedule 1 fixes benchmarks for each year of the current access arrangement period. Clause 2.4 makes provision for a gas distribution business's performance against those benchmarks to be notified to and assessed by AEMO, and payments (called Reconciliation Amounts) calculated accordingly.

A benchmark is critical to this process. The GSDC does not contain a clause that expressly or impliedly extends the 2012 benchmarks beyond the end of the current regulatory year. Similarly, there are no express or implied provisions that specify what benchmarks (if any) are to apply if the ESC fails to set new benchmarks before the commencement of the next access arrangement period.

Therefore, it follows that, at the end of this access arrangement period, the UAfG incentive remains in place but its operation is frustrated by the absence of benchmarks. This would have the effect of suspending the operation of any UAfG incentive framework in Victoria.