Attachment 8.6

Response to Draft Decision on Redundant Service Abolishment Opex Step Change

Revised Final Plan 2026/27 – 2030/31

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PUBLIC

Australian Gas Networks

1 Redundant service abolishments

1.1 AER's Draft Decision

In its alternative estimate of AGN SA's operating expenditure (opex) forecast, the AER has not included a step change for the removal of 3,500 redundant services. The AER considers AGN has not provided sufficient information to demonstrate that these costs are required to address a safety issue. The AER's concerns are:

- There is no regulatory obligation to remove redundant services
- AGN did not provide evidence of any incidents involving redundant services
- AGN did not provide evidence of an increased risk if redundant services are not abolished
- AGN did not demonstrate that it had considered other options to address this risk, or analysis showing the proposed approach to be the best option
- AGN did not provide a basis for the proposed 24-month period for a service to be deemed redundant
- It is likely that some customers with a redundant connection would value that connection in the future, and consequently, not every connection would need to be removed.[1]

Further, the AER considers AGN did not provide evidence that it sought, or received, advice from the South Australian Office of the Technical Regulator (OTR), the relevant safety regulator, on the need for this program.[2]

Our response to these matters is provided in the following section.

1.2 AGN's response to the Draft Decision

We maintain our original proposal that the $900,000 p.a. step change is prudent and efficient expenditure; that it is required to address an avoidable safety risk and has been forecast on a reasonable basis.

Following an assessment of our metering database, we have identified all metering locations where the meter has been removed, and the service inlet remains in position and live. Around 3,500 domestic service connections have been redundant for more than two years.

Over the next five years we are proposing to abolish these 3,500 redundant services. The redundant services in question are those we have identified where:

- The gas supply has been 'dormant' for a minimum of two years
- There is no meter at the property
- There is a low likelihood that the service will be requested to be reconnected by the customer and/or the customer has changed since the original disconnection
- The service pipes are not shown on BYDA Dig records

[1] AER, Draft Decision, Attachment 3, pp. 22-23.

[2] Ibid.

We highlight that this redundant service abolishment program is distinct from the customer-driven abolishments service, for which we charge a fee to customers who ask for their service to be removed. In the case of these 3,500 redundant services, there is no active customer (or retailer), and the property owner may have changed since the original disconnection. In some cases, the building/house once served by natural gas is no longer there. We need to abolish these services on safety grounds.

Leaving the services is not consistent with good industry practice or reducing the risk to 'As Low As Reasonably Practicable' (ALARP). Wherever there is a live gas pipeline, there is risk. Although these redundant service pipelines are no longer supplying gas into a building, they are still connected to the main and will still contain pressurised gas.

Having live, unmetered service pipes is particularly risky as there may have been a change in ownership or property configuration. The new owner may be unaware that there was once a gas connection to the property and there are service pipes in the ground. BYDA records typically do not include the location of service pipes, therefore where there is no meter installed, there may be little or no indication of where in the property the service is located. If the property owner or a building contractor were to excavate, there is a risk these live service pipes could be struck which could result in agas escape, posing a risk of injury. Therefore, the best way to eliminate this risk is to abolish the service completely by disconnecting from the main and capping the service to remove the pressurised gas from within the property boundary.

Abolishing these redundant services requires access to private property but we will always contact the customer prior to undertaking any abolishment works. This allows us to confirm whether they intend to reconnect in the future and to ensure we are not removing services they value or for which reconnection activities may already be underway. It also provides an opportunity to educate the customer about their live service, associated safety risk, and process reconnect within a reasonable timeframe.[3]

We have estimated the volume of units to be undertaken, and we maintain our original position that 3,500 redundant services should be removed during the next five years. This is prudent expenditure to address a legitimate safety risk.

Further information in response to the AER's concerns is provided in the following sections.

1.2.1 Obligation to abolish redundant services and reduce risk

We have an obligation under our Safety Case to assess risk and take action accordingly. Although there is no specified requirement to abolish redundant services, in line with our duty of care, we actively manage risks associated with all our assets to ensure customer safety. This work is subject to ongoing engagement with the South Australian OTR, and the program has in-principle support.

We manage the integrity of mains and services consistent with the relevant standards for managing risks on gas distribution networks. AS/NZS 4645.1:2018 Gas distribution networks Part 1: Network management (AS/NZS 4645) is the Standard that applies to the management of gas distribution networks in Australia. This standard prescribes a risk management approach in accordance with ISO 31000.

[3] Note there is a risk that a customer will advise us that they plan to use the service in the future even if they do not, simply to avoid works on their site. Therefore, if no reconnection request is made within a few months of us advising the customer their service is redundant, we will revisit the need for the abolishment.

AS/NZS 4645 requires that all actions and activities not unduly expose personnel, the public or the environment to unacceptable risks. Measures to mitigate those risks are to be identified, reviewed and documented. The areas to be considered include:

- Safety of the public
- Safety of personnel working on the gas distribution network
- Integrity of the network
- Minimisation of environmental impacts
- Protection of property.

The underlying principle of AS/NZS 4645 is to reduce all risks to Low or ALARP. As discussed above, there is risk associated with all live gas assets. Where a service pipe on a customer's property is still connected to the gas main, it will still contain pressurised gas. Even where the service pipe is no longer connected to the building, gas is still present, which means there is still a risk of harm, leaks, and property damage if the service is struck. The likelihood of this risk event increases where the meter has been removed, meaning the customer may be unaware of the service pipes' location. Service pipes will typically not feature on BYDA Dig plans.

When a customer disconnects from the gas network, our records show that the average timeframe for reconnection is 18 months (discussed further in section 1.2.3). Typically, if a customer has not requested a reconnection within this timeframe, they will not request a reconnection at all. Therefore, where the service has been disconnected from the meter and dormant for several years it is reasonable to assume the live service is no longer required. In this scenario, it is prudent to abolish the service, reducing the risk to ALARP.

1.2.1.1 Advice from Australian Safety and Technical Regulators

The Gas Regulations 2012 (SA), in combination with section 55 of the Gas Act 1997, place an obligation on us to ensure our gas infrastructure is:

> *… designed, installed, operated and maintained to be safe for the gas service conditions and the physical environment in which it will operate and so as to comply with any applicable requirements of AS/NZS 4645, AS/NZS 1596 and AS 2885 or achieve, to the satisfaction of the Technical Regulator, the same or better safety and technical outcomes;*[4]

We have engaged with the South Australian OTR on the matter of redundant services. Consideration of service abolishments in South Australia is less well-progressed than in Victoria, therefore the OTR has not yet developed a formal position on its preferred approach to abolishments. However, we have received advice that the OTR is supportive of the overall approach to abolish redundant 'inlet only' services, particularly as there is currently no process to address this issue and many connections have been dormant for a significant number of years.

As discussed in the previous section, we have an obligation to operate our networks in line with AS/NZS 4645, and the OTR expects us to maintain this obligation. Section 8 of AS/NZS 4645 requires that *'a gas asset must be decommissioned in a way that the disconnected elements cannot become unsafe at the time of disconnection or any time afterwards'*. This supports our view that safety investments are not constrained by the timeframe of a regulatory period. We therefore maintain our position that abolishing a redundant service that has been dormant for at least two years – subject to permission from the customer – is a practicable and reasonable way of ensuring these unused yet live assets cannot become unsafe in the future.

[4] Gas Regulations 2012 (SA), Division 1, section 37 1()(a).

The Victorian safety regulator, Energy Save Victoria (ESV), provides guidance on determining what risk mitigation activities are practicable or reasonably practicable. ESV advises that any risk assessment must be made with a *clear presumption in favour of safety*, and that *no single matter (e.g. cost) determines the outcome of an assessment*.[5]

Further, ESV advises that: *If there are multiple controls that achieve the same result in eliminating or minimising a risk, then the most cost-effective option may be chosen. However, choosing a lower-cost option that is less effective on the sole basis that it is cheaper is unlikely to meet the test of 'practicable' or 'reasonably practicable', especially if the severity of harm is significant*.[6]

While we appreciate that South Australia is outside ESV's jurisdiction, we apply ESV's guidance when managing assets in our Victorian networks (AGN Victoria and Multinet Gas Networks) and consider it reasonable to adopt this guidance when managing our South Australian networks. In the case of unused and unwanted live assets on a customer's property, the hierarchy of controls used in engineering and safety management indicates that the most effective risk treatment is elimination – that is, abolishing the service. Therefore, once we have established with the customer that the service mains are not needed, it is prudent and reasonably practicable to permanently decommission them.

In a recent (2023) submission from ESV to the AER during the Multinet Gas Networks regulatory review, ESV advised that:

> *It has been the practice to use permanent abolishment to minimise the safety risks as far as practicable, where a gas service is permanently disconnected. This is because if gas remains in a service line but there is no need for the energy source, a gas escape could occur as a result of a service line damage due to a strike or material degradation over time. There is then the potential for gas to travel inside the property causing gas accumulation, asphyxiation or ignition. Overtime, changes in property ownership will further increase the risk, as the new owners may be unaware of the live gas assets within the premises.*[7]

The risk ESV describes equally applies to South Australia and is the risk we are attempting to mitigate through the AGN SA redundant service abolishment program. While the SA OTR has not yet issued a formal public position for South Australia, we consider it reasonable to assume the SA OTR will adopt a similar approach based on its advice to us to inform our plan.

Risk and options assessment

The risk reduction associated with the redundant service removal project is documented within SA AGN's Distribution Mains and Services Integrity Plan (DMSIP), which formed part of our Final Plan.

Please refer to the extracted relevant sections below. Further information can be found in the DMSIP on the risk identification, drivers, risk management and risk reductions across the broader portfolio.

The risk assessment was undertaken in accordance with the Risk Assessment Framework.

The risk event and category for the redundant services abolishment project is summarised in Table 1. It shows that the risk associated with redundant services is a significant health and safety event.

[5] ESV, Energy Infrastructure Safety Case Guidelines, December 20204, p11.
[6] Ibid, p12
[7] Letter to AER, 18 April 2023: Abolishment of gas connection due to electrification.

Table 1: Summary of the redundant services abolishment risk

Asset type	Risk event	Primary risk consequence category	Severity
Redundant services	No gas usage or gas meter is at the house. The customer may be unaware that a live service and standpipe is within the property boundary. Live infrastructure is damaged due to construction works, causing a leak and potential fire causing harm to people or property.	Health and safety	Significant

The likelihood and risk event consequence are combined and presented in Table 3.4 of the DMSIP. For ease of reference the redundant services row of the table is reproduced in Table 2 below.

Table 2: Summary of the redundant services abolishment untreated and treated risk assessment

Service category	Likelihood	Consequence	Untreated Risk	Treatment in next AA	Treated Risk
Redundant services	Unlikely[8]	Significant	Moderate*	Remove	Low

**not ALARP*

Again, taking guidance from AS/NZS 4645, our Risk Assessment Framework enables us to determine if the risk is being managed to ALARP, where the costs of risk reduction are prohibitive. Our records of asset strikes over the past two years shows that the number of service strikes where no meter is present is disproportionately high compared to the general population.

Table 3: Third party strikes on services

Year	3rd party strikes on services with meter present	Total strikes on services with no meter recorded	% of strikes on sites without meters present	% of services without meters in the network
2023	320	70	18%	0.7%
2024	338	42	11%	0.7%

Third party strikes on services where no meter is present accounted for between 11% to 18% of domestic service strikes over 2023 and 2024, however these sites only account for approximately 0.7% of the total meter population. It is therefore reasonable to conclude that sites without meters are significantly more at risk of third-party asset strikes.

When a gas service on private property has been left redundant for more than two years, its underlying risk profile effectively remains unchanged from this point. Beyond the 2-year mark, the likelihood and consequence of failure no longer meaningfully change, as a service that has been redundant for two years presents the same inherent risk as one left unused for greater than five years. For portfolio-level assessment, this means all services exceeding the two-year

[8] An unlikely event is defined as one that is "possible when certain circumstances prevail". While AGN does not have the reporting granularity to definitively identify whether a struck service was redundant, anecdotal evidence indicates that such redundant services have been impacted on multiple occasions across gas networks. On this basis, the assessment that redundant services present a reasonable and intuitive risk is well-founded, even if precise categorisation within reporting processes is not currently achievable.

threshold fall into the same risk category, allowing them to be treated uniformly within the overall risk ranking framework. In terms of risk reduction, this allows us to best plan the most efficient program of removal based on resources and geographic areas.

1.2.1.2 Options considered

Service abolishment is the most effective and prudent risk mitigation approach from an operational perspective. However, as part of scoping solutions we have considered additional activities to manage risks associated with redundant services, including:

1. Additional leak surveys for redundant services
2. Third party damage prevention management
3. Reinstatement of a meter

We therefore considered these alternatives to abolishment when developing our forecast redundant services program. We highlight that all three of these risk treatments are *complementary* to abolishment and not necessarily a substitute for permanently removing the service. We will continue general leak detection of services, continue initiatives to prevent third party damage, and however unlikely, we may reinstall meters on some properties within the period. Therefore, it is prudent to start abolishing redundant services where it is clear there is no longer a need for them.

The various methods of mitigating the risks associated with redundant services were not presented as options in the DMSIP. Nevertheless, we have provided further details below on each of the additional activities potentially employed to manage the risks associated with redundant services.

1.2.1.2.1 Additional redundant service leak surveys

AGN SA undertakes network leak surveys of residential properties, ensuring every house with a meter is inspected at least once every five years. While this leak detection survey may detect leaks on redundant services, there will be many instances where certain areas are not surveyed through this program. The survey could be expanded to properties with redundant services, or survey frequency increased. This approach would allow small leaks to be detected and addressed early.

However, this does not mitigate the risk of the live service pipe being struck during excavation. Further, where a service has been redundant for several years and there is little prospect of reconnection, it seems inefficient to continue to periodically survey the services. It would be more prudent and efficient to deploy resources to abolish the service pipe at the main, negating the need for ongoing surveys.

1.2.1.2.2 Third party damage prevention management

For high-pressure pipelines traversing private properties, AGN SA implements a third-party engagement process. This involves regular direct conversations with property owners to confirm the location of assets and outline restrictions designed to prevent inadvertent damage that could lead to incidents.

In addition, we conduct regular patrols of high-risk assets, including high-pressure pipelines, to detect and address unapproved activities around our infrastructure. Given the increased likelihood of asset strikes on redundant services, we could establish a dedicated register and incorporating these services into pipeline patrols. This would provide an additional safeguard by identifying works occurring near live assets.

We considered extending this engagement regime to residential property owners who may be unaware of assets located on their land. However, the cost of maintaining such a program on a regular basis, particularly when ownership changes, renders it impractical and not cost-effective. As per the previous option, where a service has been redundant for several years, it makes more sense to abolish the connection and remove the risk.

1.2.1.2.3 Reinstatement of meter

A further option considered is the reinstatement of a gas meter at the property, thereby bringing the site back under standard asset management practices such as routine meter reading and regular site visits.

To implement this, the customer would be required to cover the installation costs as well as ongoing fixed charges, despite not using gas at the property. It is highly unlikely the homeowner will agree to this or provide permission for AGN SA to install a meter even if we were to cover the full cost. In addition to the impracticality of this option, the financial burden of installing the meter and then maintaining these assets – with no incremental increase in revenue – is likely to outweigh the benefits to AGN and its customers. We therefore chose not to pursue this option.

1.2.2 Timeframe to determine a gas service is redundant

Once a gas meter has been removed, it is common for customers to undertake renovation, or repair works before considering whether to reinstate a meter and re-establish a full connection. This is typically achieved with 18 months and in our experience, and if a customer has completed renovations/repairs and has not initiated a reconnection request within this timeframe, it is highly likely they have settled on alternative energy solutions to meet their household needs, and they will not reconnect to natural gas at all.

Identifying when a service is completely redundant and no longer required by customers is not a precise science. There is no industry standard for defining when a service is redundant, and customer behaviours can vary significantly from case to case. However, given the inherent risk associated with unmarked live services on a customer's property, it makes sense to abolish the live gas pipes as soon as we are reasonably confident the service is no longer required. There is little value in waiting; the risk of the pipeline being struck arises once the customer or homeowner is likely to be unaware of it (and we have assumed this to be around 18 months plus).

We therefore apply a 24-month timeframe for commencing the abolishment process. This provides a reasonable window to allow renovations to be completed and includes an additional touch point with customers to ensure redundant services are not removed where reconnection is planned.

The 24-month threshold therefore serves as a clear and fair marker: it respects customer flexibility during a period of transition, while also providing certainty that redundant connections are not left indefinitely. This balance ensures safety, whilst allowing customers a timeframe to determine whether meter reinstatement is genuinely required.

While there may be a small number of instances where customers with a redundant service value the connection and intend to reconnect, our experience suggests the vast majority will not. Most customers who have not had a domestic gas supply for over 24 months and have no appliances or household needs requiring gas, would likely see no benefit in keeping the service connected. We will, however, engage with the customer prior to abolishment as a final check that the natural gas service is no longer wanted.

When we conduct this final check with the property owner, we are mindful that some customers may suggest they would use gas in the future (even if they have no intention of doing so) if it means AGN does not have to dig up the road outside their house or remove gas infrastructure from their property. In this scenario we may apply a reasonable timeframe for the customer to take proactive action to reconnect to the network, perhaps a few months, to avoid redundant services remaining in place indefinitely.

1.2.3 Forecast is estimated on a reasonable basis

The redundant service removal project represents a new initiative for AGN SA, with no prior precedent in our operations. The closest comparable activity is the customer-initiated service abolishment. Customer-initiated abolishments are an ancillary reference service.

To establish a basis for developing a unit rate for the redundant service removal project, AGN first conducted a detailed assessment of customer-initiated service abolishments. The findings of this assessment were provided to the AER in our response to information request 001.

Table 4 shows the volumes of abolishments relative and the respective unit rate over the year.

Table 4: Abolishments unit rates during 2024/25

Service abolishment	CY24-H1	CY24-H2	CY25-H1	Weighted average
Actual $/Unit	1,138	1,204	1,383	1,251
Actual Volume (meters)	876	1,175	1,166	
Proposed rate	1,250	1,250	1,250	

The graph below shows the trend of actuals as the market-tested rates take effect. It clearly demonstrates the unit rate is trending strongly upwards, however AGN has taken a conservative approach and applied a flat $1,250 forward forecast.

Figure 1: Actual vs proposed unit rate.

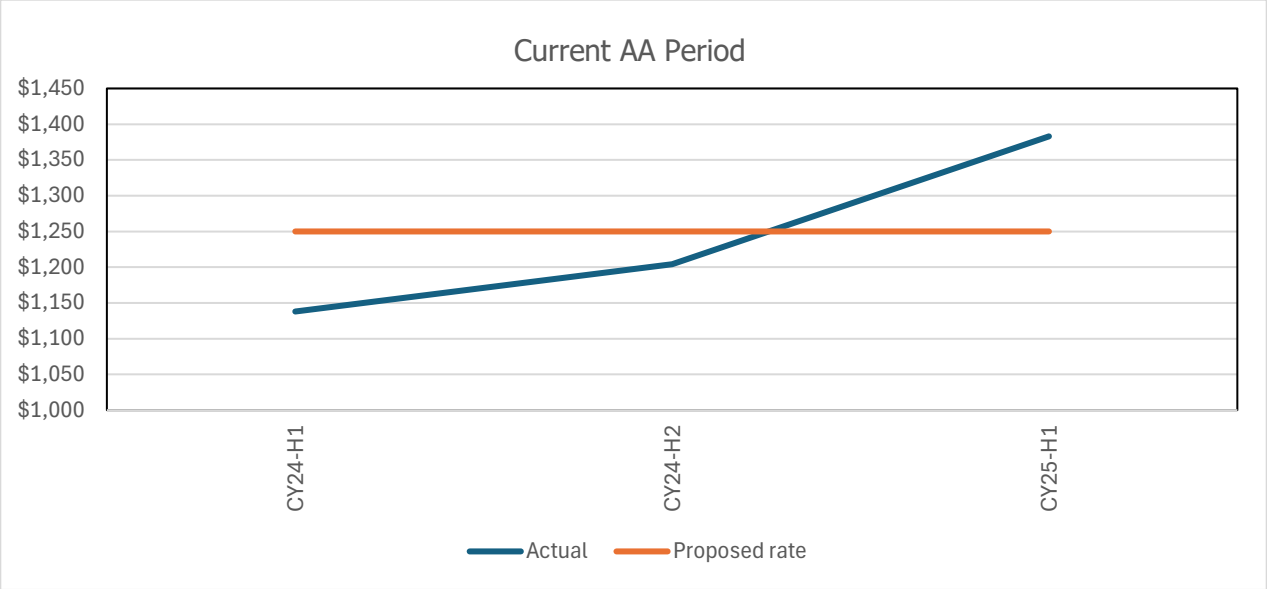

Table 5: Build up of abolishments unit rate

Category	Description	% of cost	Average per unit	Total unit cost ($)
Labour Internal	Internal crew	46%	575	575.00
Labour - Contractor	Traffic Management	34%	425	425.00
Labour - Contractor	Reinstatement	19%	237.5	237.50
Category	**Description**	**% of cost**	**No. Items / metre**	**Total unit cost ($)**
Materials	Consumables	1%	12.5	12.50
Total ($)				**1,250.00**

For comparison, Table 6 shows how the $1,250 rate for AGN SA compares with peers' rates.

Table 6: Australian domestic disconnection fees (data January 2024)

Distribution business	Permanent disconnection (abolishment)
Victoria – AusNet, AGN, Multinet	$220 - $251 (inc GST) Prior to AER socialisation decision $822.44 to $95039
New South Wales – Jemena	$1,381.6 (inc GST)
Western Australia – ATCO	$1,303.28 (inc GST)

Source: Section 7.3, Gas connection decommissioning (abolishment) technical review, ACT Government