

Draft Decision

**Australian Gas Networks (Victoria
and Albury)**

Access Arrangement 2023 to 2028

(1 July 2023 to 30 June 2028)

Attachment 1

**Services covered by the access
arrangement**

December 2022

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Note

This attachment forms part of the AER's draft decision on the access arrangement that will apply to Australian Gas Networks (Victoria and Albury) (AGN) for the 2023–28 access arrangement period. It should be read with all other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Services covered by the access arrangement

Attachment 2 – Capital base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency carryover mechanism

Attachment 9 – Reference tariff setting

Attachment 10 – Reference tariff variation mechanism

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1 Services covered by the access arrangement

The National Gas Rules (NGR) require a network service provider's access arrangement to:

- identify the pipeline to which the access arrangement relates¹
- describe all of the pipeline services the network service provider can reasonably provide on the pipeline, having regard to the characteristics of different pipeline services²
- from the pipeline services identified above, specify the services the network service provider proposes to specify as reference services having regard to the reference service factors.³

1.1 Draft decision

Our draft decision is to accept the reference service proposal by Australian Gas Networks (AGN) for the 2023–28 access arrangement period (2023–28 period). Our draft decision is to accept the newly proposed service abolishment – residential (small customer connection abolishment) as a reference service but not as a stand-alone price capped ancillary reference service.

1.2 AGN's proposal

AGN's proposal for reference services⁴ is largely consistent with the AER's reference services decision made in November 2021. The reference service proposal was submitted by AGN in July 2021 for the 2023–28 access arrangement.

AGN proposed to offer the following services during the 2023–28 access arrangement period:

- the reference services, comprising:
 - haulage reference services
 - ancillary reference services
- non-reference services.

AGN's addendum proposal for the 2023-28 access arrangement, submitted to the AER in September 2022, incorporated a small customer connection abolishment ancillary reference service. AGN incorporated this new reference service on the basis of an expected increase in demand for small customer connection abolishments in light of the Victorian Gas Substitution Roadmap (Roadmap).⁵

¹ NGR, modified r. 48(1)(a).

² NGR, modified r 48(1)(b).

³ NGR, modified r. 48(1)(c) and 47A(15).

⁴ AGN, Final Plan, July 2022, pp. 67-69.

⁵ AGN, Addendum to Proposal, September 2022, p. 17.

1.2.1 Haulage Reference services

AGN proposed the following haulage reference services, which are the same as those in the current access arrangement:

- allowing injection of gas at transfer points
- conveyance of gas from transfer points to distribution supply points
- allowing withdrawal of gas at distribution supply points
- meter installation and scheduled meter reading.

AGN offers two types of haulage reference services:

- residential haulage reference services — Tariff V customers
- non-residential haulage reference services — Tariff D, Tariff L and Tariff V customers.
- In providing these services, AGN transports gas through a distribution pipeline to end-use customers. Gas retailers pay this transportation charge to AGN, and retailers recoup that cost via their retail gas tariffs charged to customers.

1.2.2 Ancillary reference services

- AGN proposed one additional service to its list of ancillary reference services, the abolishment services, for the 2023–28 access arrangement. Its proposed list of ancillary reference services are:
 - Abolishment
 - Meter and gas installation tests
 - Disconnections, being:
 - removal of the meter at a metering installation
 - the use of locks or plugs at a metering installation.
 - Energisation and reconnection
 - Special meter reading
 - Installation of a service valve (proposed new service).

1.2.3 Non-reference services

Non-reference services will be available to users or prospective users as agreed or as determined in accordance with Part 12A of the NGR. The services will be supplied on terms and conditions in Part C of the access arrangement.

1.3 Assessment approach

The NGR require a service provider to submit a reference service proposal to the AER 12 months in advance of the submission date for its access arrangement revisions proposal.⁶ We must complete our assessment of a reference service proposal no later than six months in advance of the due date for submission of the relevant access arrangement revisions proposal.⁷

In its access arrangement proposal, a service provider must then:

- describe all of the pipeline services that the service provider can reasonably provide on the pipeline, and
- specify the reference services,

which must be consistent with the AER's reference service proposal decision unless there has been a material change in circumstances.⁸

Our assessment of a revenue service proposal—in the initial approval stage and in this access arrangement decision—must have regard to the reference service factors:⁹

- the actual and likely demand for the pipeline's services and the number of prospective users
- the extent to which the pipeline service is substitutable with another service
- the feasibility of allocating costs to the pipeline service
- the usefulness of specifying the pipeline service as a reference service in supporting negotiations and dispute resolution for other pipeline services
- the likely regulatory cost for all parties (including the AER, users, prospective users and the service provider) in specifying the pipeline service as a reference service.

1.3.1 Interrelationships

AGN's services have an interrelationship with the tariffs it charges for the use of its services and the total revenues it can recover through the AER's total revenue requirement and the application of annual tariff variation mechanisms.

AGN's haulage reference tariffs are adjusted annually by the application of a weighted average price cap formula. Its haulage reference tariffs are derived from the total revenue requirement after consideration of demand for each tariff category. This means the tariffs we determine (including the means of varying the tariffs from year to year) are the binding constraint across the 2023–28 access arrangement period, rather than the total revenue requirement set out in our decision.

⁶ NGR, r. 47A(3).

⁷ NGR, r. 47A(9).

⁸ NGR, r. 48(1)(b), (c).

⁹ NGR, r. 47A(1)(c); 47A(13)(a); 47A(14). 47A(15).

After the first year of the access arrangement period, AGN's ancillary reference service prices are set by application of the ancillary reference service tariff variation formula.

Our draft decision on:

- AGN's total revenue requirement is set out in the Overview attachment of our draft decision
- the tariffs AGN will charge for the provision of these services is set out in Attachment 9—Reference tariff setting
- the annual tariff variation mechanism is set out in Attachment 10—Reference tariff variation mechanism.

1.4 Reasons for draft decision

We first considered whether AGN complied with the requirements of the NGR, which we set out in Table 1.1.

Table 1.1 Assessment of AGN's compliance with the NGR

NGR requirements	AER assessment
A full access arrangement must:	
<ul style="list-style-type: none"> • identify the pipeline to which the access arrangement relates and include a reference to a website at which a description of the pipeline can be inspected — NGR clause 48(1)(a) 	Compliant. Chapter 2 of the access arrangement proposal.
<ul style="list-style-type: none"> • describe the pipeline services the service provider propose to offer to provide by means of the pipeline — NGR clause 48(1)(b) 	Compliant. Chapter 7 of the access arrangement proposal.
<ul style="list-style-type: none"> • specify the reference services — NGR clause 48(1)(c) 	Compliant. Chapter 7 of the access arrangement proposal.

The reference tariffs and other (non-tariff) terms and conditions on which the reference services will be provided are considered in Attachments 9 and 10.

1.4.1 Haulage Reference Services

We consider that a significant part of the market is likely to seek services that provide for the transportation of gas, meter reading and associated data activities. These are the main types of services that pipeline operators provide which help deliver gas each day to final customers for use in households or commercial enterprise. There are no competing providers for these services. AGN has not sought to change haulage reference services that it currently provides and is seeking to provide during the 2023–28 access arrangement period.

Accordingly, we consider that the proposed reference services are likely to be sought by a significant part of the market.¹⁰ We have in the past approved these same services as reference services and there have been no changes to the market in recent years that would alter our view.

¹⁰ NGR, r. 101.

1.4.2 Ancillary Reference Services

We accept that proposed ancillary reference services are likely to be sought by a significant part of the market. Our draft decision is therefore to approve the proposed ancillary reference services.

AGN added small customer connection abolishment to its ancillary reference services on the basis of an expected increase in demand for this service. We accept there has been a material change in circumstances warranting AGN's proposal to depart from its initial reference service proposal which we approved in November 2021. Namely, publication of the Roadmap which is expected to drive increased demand for small customer connection abolishments. Therefore, our draft decision is to approve this new reference service as we consider it now aligns with the NGR reference service factors.

However, we consider there is more than one potential pathway for the Victorian distributors to recover the cost of providing small customer abolishments. For that reason, our draft decision is to accept small customer abolishment as a reference service but not as an ancillary reference service. Our decision on how to apply the form of control, and which form of control to apply, is set out in Attachment 9 – Reference tariff setting.

Like the haulage references services discussed above, ancillary reference services are long standing services provided to customers on a user pays basis. That is, customers only pay for these services in the event that they need them.

The costs for these services are therefore directly attributed to the requesting customer. For instance, a customer via their retailer may request that they have a special meter reading in order to confirm a prior estimated reading, or to resolve a dispute about gas consumption. Only that customer will pay for this service, rather than the cost of it being spread across all AGN's customers, the clear majority of whom would never need to use this service.

In the case of small customer connection abolishments, a range of considerations specific to that service arise. We recognise that those considerations may lead stakeholders to prefer the cost of performing this service be socialised across all customers rather than be charged to individual customers. For details please see Attachment 9 – Tariff Setting.

On other issues, the Brotherhood of St Lawrence¹¹ submitted that 'No-access (gas meter)' and 'Reconnect service in street after payment' should be ancillary reference services. In response, we consider, consistent with the NGR, that it is not appropriate for the AER to price regulate services that are very low volume and generate little revenue. The administrative cost of price regulating such services is likely to be high relative to any potential benefit. As such, our draft decision is that services 'No access (gas meter)' and 'Reconnect service in street after payment' will not be ancillary reference services.

¹¹ Brotherhood of St Lawrence, *2023-28 Gas Access Arrangement Submission*, p. 28.

1.5 Revisions

We require the following revisions to make the access arrangement proposal acceptable as set out in Table 1.2.

Table 1.2 AGN's services covered by the access arrangement revisions

Revision	Amendment
Revision 1.1	We require AGN make all necessary amendments to reflect our draft decision for the 2023–28 access arrangement period.

Glossary

Term	Definition
AER	Australian Energy Regulator
AGN	Australian Gas Networks (Victoria and Albury)
NGR	National Gas Rules