



DRAFT DECISION
AusNet Services
Gas access arrangement
2018 to 2022

Attachment 1 – Services
covered by the access
arrangement

July 2017

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Note

This attachment forms part of the AER's draft decision on the access arrangement for AusNet Services for 2018-22. 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 - Value of imputation credits

Attachment 5 - Regulatory depreciation

Attachment 6 - Capital expenditure

Attachment 7 - Operating expenditure

Attachment 8 - Corporate income tax

Attachment 9 - Efficiency carryover mechanism

Attachment 10 - Reference tariff setting

Attachment 11 - Reference tariff variation mechanism

Attachment 12 - Non-tariff components

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Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
ATO	Australian Tax Office
capex	capital expenditure
CAPM	capital asset pricing model
CESS	Capital Expenditure Sharing Scheme
CPI	consumer price index
DRP	debt risk premium
ECM	(Opex) Efficiency Carryover Mechanism
ERP	equity risk premium
Expenditure Guideline	Expenditure Forecast Assessment Guideline
gamma	Value of Imputation Credits
MRP	market risk premium
NGL	National Gas Law
NGO	national gas objective
NGR	National Gas Rules
NPV	net present value
opex	operating expenditure
PTRM	post-tax revenue model
RBA	Reserve Bank of Australia
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
STTM	Short Term Trading Market
TAB	Tax asset base
UAFG	Unaccounted for gas
WACC	weighted average cost of capital
WPI	Wage Price Index

1 Services covered by the access arrangement

The NGR requires the access arrangement to identify:

- the pipeline which the access arrangement relates to, and
- the services which AusNet proposes to offer customers by means of that pipeline.¹

A full access arrangement must specify as a reference service:

- (a) at least one pipeline service that is likely to be sought by a significant part of the market; and
- (b) any other pipeline service that is likely to be sought by a significant part of the market and which the AER considers should be specified as a reference service.

In deciding whether to specify a pipeline service as a reference service, we must take into account the revenue and pricing principles.²

1.1 Draft decision

We approve the haulage reference services proposed by AusNet for the 2018–22 access arrangement. These are the same as the current access arrangement period which have previously been considered by us to be sought by a significant part of the market. The services are:

- 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.

These services will be applied to Tariff V, Tariff D and Tariff M customers (residential and non-residential).

We approve the following ancillary reference services for the 2018–22 access arrangement. These are the same as the current access arrangement period which have previously been considered by us to be sought by a significant part of the market:

- On-site meter and gas installation test
- Disconnection service
- Reconnection service
- Special meter reading service.

These services are offered to residential and non-residential customers.

¹ NGR, r. 48(1)(a) and (b)

² NGR, r. 101.

1.2 AusNet's proposal

For the 2018–22 access arrangement, AusNet proposed the following services:

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

AusNet will use its 11,000km of pipelines to deliver these services to its 660,000 customers throughout western and northern metropolitan Melbourne and western and northern regional Victorian centres.

Haulage Reference Services

AusNet 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.

In essence, this means providing transport of gas through a distribution pipeline to end use customers. Gas retailers pay this transportation charge to AusNet, and retailers recoup that cost via their retail gas tariffs charged to customers.

These haulage reference services will apply to Tariff V, Tariff M and Tariff D customers as:

- **Tariff V Haulage Reference Service**—where the withdrawal of gas is at a Tariff V Distribution Supply Point. This includes domestic and commercial customers who consume less than 10,000 Gigajoules of gas in a 12 month period, and/or less than 10 Gigajoules in any one hour
- **Tariff M Haulage Reference Service**—where the withdrawal of gas is at a Tariff M Distribution Supply Point. To qualify for Tariff M, a customer previously taking supply under Tariff V Haulage Reference Service should be using either more than 10,000 Gigajoules of gas in a 12 month period, or more than 10 Gigajoules in an hour. Tariff M customers are not required to pay any additional charges for operation and maintenance or load capacity charge as these have been embedded in the tariff.
- **Tariff D Haulage Reference Service**— where the withdrawal of gas is at a Tariff D Distribution Supply Point, but does not include Tariff D connection. To qualify for Tariff D, a customer should be using or expecting to use either more than 10,000 Gigajoules of gas in a 12 month period, or more than 10 Gigajoules in an hour. In addition to the tariff charges, customers on Tariff D are also required to pay an operations and maintenance charge for any dedicated distribution assets, in particular the meter and regulator set installed at the connection point.

Ancillary Reference Services

AusNet proposed to continue to provide the same suite of ancillary reference services in the 2018–22 access arrangement as it does for the current access arrangement. These are set out in Schedule 1 of Part A of AusNet's access arrangement and comprise:

- On-site meter and gas installation test—testing to check the accuracy of a Meter and the soundness of a Gas Installation, in order to determine whether the Meter is accurately measuring the Quantity of Gas delivered.
- Disconnection Service—disconnection by the carrying out of work, being:
 - removal of the Meter at a Metering Installation, or
 - the use of locks or plugs at a Metering Installation in order to prevent the withdrawal of Gas at the Distribution Supply Point.
- Reconnection Service—reconnection by turning on Supply, including the removal of locks or plugs used to isolate Supply or reinstallation of a Meter if it has been removed, performance of a safety check and the lighting of appliances where necessary.
- Special Meter Reading Service—Meter reading for a Distribution Supply Point in addition to the scheduled meter readings that form part of the Haulage Reference Services.

1.3 Assessment approach

AusNet is required by the NGR to specify all reference services in its access arrangement proposal.³ A reference service is a pipeline service that is likely to be sought by a significant part of the market. A pipeline service is a:

- service provided by means of a pipeline, including a:
 - haulage (i.e. transportation) service
 - service facilitating the interconnection of pipelines
- service ancillary to one of these services.

AusNet's services are also required to be consistent with the National Gas Objective.⁴

In summary, this means that a gas distribution company is using its network of underground pipes to transport gas from the production source to households and commercial and industrial premises. These customers use the gas for heating homes and for cooking, and as an input into manufacturing goods and services or undertaking other industrial processes. Gas powered generators also use the gas as an input to produce electricity for the national electricity market.

³ NGR, r. 48.

⁴ NGR, r. 100(a)

Our assessment approach is to identify the covered pipeline⁵ that is providing these services and any additions or expansion that have occurred during the current access arrangement period.

A full access arrangement must specify at least one reference service to customers, on the basis that it is likely to be sought by a significant part of the market

Pipelines that are covered are required to provide at least one reference services to customers, on the basis that a significant part of the market will demand that service.

For ancillary reference services, we have considered the services currently offered by AusNet and the additional ancillary reference service that some stakeholders have submitted should be included as reference services.

For non-reference pipeline services or negotiated services, we are not required to set tariffs for these or the terms or conditions on which they will be provided.

1.3.1 Interrelationships

AusNet'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.

AusNet'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 2018–22 access arrangement period, rather than the total revenue requirement set out in our decision.

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

Our draft decision on:

- AusNet's total revenue requirement is set out in the Overview attachment of our draft decision
- the tariffs AusNet will charge for the provision of these services is set out in attachment 10—Reference tariff setting.
- the annual tariff variation mechanisms are set out in attachment 11—Reference tariff variation mechanism.

⁵ A covered pipeline means a pipeline that is regulated under the National Gas Law and National Gas Rules. In that respect, it is 'covered by regulation'.

1.4 Reasons for draft decision

We first considered whether AusNet has complied with the requirements of the NGR, which we set out in Table 1-1.

Table 1-1 Assessment of AusNet's compliance with the NGR

NGR requirements	AER assessment
A full access arrangement must:	
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. Part A clause 5.1 of the access arrangement proposal. Also, access arrangement chapter 2.
describe the pipeline services the service provider propose to offer to provide by means of the pipeline — NGR clause 48(1)(b)	Compliant. Compliant. Part A clause 5.1 of the access arrangement proposal.
specify the reference services — NGR clause 48(1)(c)	Compliant. Part A, clause 5.2 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 10 and 12.

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 activities and ancillary activities. These are the main type of services that pipeline operators provide which help deliver gas each day to final customers for use in households or commercial enterprise. Retailer submissions supported these services being provided.⁶

There are no competing providers of these services to which customers would have access. AusNet has not sought to change the haulage reference services that it currently provides and is seeking to provide during the 2018–22 access arrangement period.

Accordingly, we consider that the proposed reference services are likely to be sought by a significant part of the market.⁷ 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.

Ancillary Reference Services

We accept that the proposed ancillary reference services are likely to be sought by a significant part of the market:

⁶ Origin, *Victorian Gas access Arrangement Review 2018–22 Response to Gas Distribution Business' Proposals*, February 2017, p.p. 2-3.

⁷ NGR, r. 101.

- On-site meter and gas installation test
- Disconnection Service
- Reconnection Service
- Special Meter Reading Service.

Like the haulage references services discussed earlier, these are long standing services providers to customer 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 AusNet's customers, the clear majority of whom would never need to use this service.

There were no stakeholder submissions recommending a deletion of these services.

AGL requested that all Victorian gas distributors should provide a new 'installation of second service valve in a pit and disconnect gas supply' reference service.⁸ This would be a new ancillary reference service. Origin Energy submitted a similar view.⁹ AGL's submission noted the complexity associated with reconnecting a site following a street disconnection if AusNet was unable to access the meter when it attended the site. It suggested the option of installing an additional service valve, which would be more accessible and enable timelier reconnection of supply with minimal disruption following site disconnection. AGL noted that Multinet intends to provide this new service in response to feedback from retailers.

AusNet advised that neither AGL nor other retailers raised the possibility of the insertion of a second service valve as a new reference service for consideration as part of AusNet's consultation on its proposal.¹⁰

Considering the issues in AGL's submission, AusNet noted that it currently offers a similar service (crimping of the gas pipe connecting premises to the mains) as a negotiated service. Its experience suggests that demand for this new service would likely be limited, and that the need to include it in the access arrangement as a reference service was unclear.

Absent a clear case that this new service is likely to be sought by a significant part of the market, we are inclined to agree. AusNet also advised that there would be health

⁸ AGL Energy Limited, *Victorian gas access arrangement proposals*, 21 March 2017, pp. 2-3.

⁹ Origin Energy, *Victorian Gas access Arrangement Review 2018–22 Response to Gas Distribution Business' Proposals*, February 2017, p. 2.

¹⁰ Discussion between staff of AER, AusNet Services, Multinet and AGN, 12 May 2017.

and safety risks associated with AGL's proposed service, which would need to be further explored and costed for pricing proposes.

Although we have approved Multinet providing this service as an ancillary reference service on the basis that it is willing to offer it, we will not require AusNet to do so for the reasons noted above. That said, retailers could access a similar service on behalf of their customers, which is offered as a negotiated service.