



DRAFT DECISION
Multinet 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 Multinet Gas 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

Attachment 13 - Demand

Attachment 14 - Other incentive schemes

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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 Multinet 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 Multinet for the 2018–22 access arrangement. These services are the same as those in the current access arrangement period. 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
- Meter installation and scheduled meter reading.

These services will be offered to residential and non-residential customers.

We approve the following ancillary reference services for the 2018–22 access arrangement, which are offered to residential and non-residential customers:

- 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

¹ NGR, r. 48(1)(a) and (b).

² NGR, r. 101.

- Installation of a service valve.

1.2 Multinet's proposal

Multinet proposed to offer the following services during the 2018–22 access arrangement period:

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

Haulage Reference services

Multinet 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

Multinet 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, Multinet transports gas through a distribution pipeline to end-use customers. Gas retailers pay this transportation charge to Multinet, and retailers recoup that cost via their retail gas tariffs charged to customers.

Ancillary reference services

Multinet proposed one additional service to its list of ancillary reference services for the 2018–22 access arrangement (set out in Schedule 1 of Part A of the access arrangement). Its proposed list of ancillary reference services are:

- 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).

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.³

1.3 Assessment approach

Multinet is required by the NGR to specify the reference services in its access arrangement proposal.⁴ 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 providing for, or facilitating, the interconnection of pipelines
- a service ancillary to one of these above services.⁵

Multinet's access arrangement provisions regarding pipeline services are also required to be consistent with the National Gas Objective.⁶

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.

Our assessment approach is to identify the covered pipeline⁷ that is providing these services. We also determine any additions or expansion that have occurred during the current access arrangement period and therefore should also be subject to economic regulation.

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.

⁴ NGR, r. 48.

⁵ NGL, s 2.

⁶ NGR, r. 100(a).

⁷ 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'.

For ancillary reference services, we have considered the services currently offered by Multinet 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

Multinet'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.

Multinet'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, Multinet's ancillary reference service prices are set by application of the ancillary reference service tariff variation formula.

Our draft decision on:

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

1.4 Reasons for draft decision

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

Table 1-1 Assessment of Multinet'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. Chapter 5 of the access arrangement proposal.
describe the pipeline services the service provider propose to offer to provide by means of the pipeline — NGR clause 48(1)(b)	Compliant. Chapter 11 of the access arrangement proposal.
specify the reference services — NGR clause 48(1)(c)	Compliant. Chapter 11 of the access

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 data 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 ongoing provision of these services.⁸ There are no competing providers for these services. Multinet has not sought to change 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.⁹ 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:

- 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).

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

⁸ Origin, *Victorian Gas access Arrangement Review 2018–22 Response to Gas Distribution Business' Proposals*, February 2017, p.p. 2-3.

⁹ NGR, r. 101.

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 dispute about gas consumption. Only that customer will pay for this service, rather than the cost of it being spread across all Multinet's customers, the clear majority of whom would never need to use this service.

Multinet has proposed one additional ancillary reference services, being the addition of a service valve in a pit and disconnection of gas supply. We accept the addition of a second service valve to a pit as a new ancillary reference service.

Multinet added this service at the request of retailers during its consultation on its access arrangement proposal.¹⁰ The service's purpose is to make the process of disconnection and reconnection of gas at residential premises much easier, in instances where Multinet cannot get access to the gas meter.

In its submission, AGL advocated for inclusion of the second service valve as an ancillary reference service.¹¹ It noted the complexity associated with reconnecting a site following a street disconnection, where meter access was not available. AGL submitted the provision of the service valve would enable timelier reconnection of supply with minimal disruption following disconnection of a site.¹² It contended the benefit to customers is less inconvenience due to quicker reconnection of supply. Origin also supported this new service being introduced.¹³

On the basis of these submissions, we consider this service should be a reference service. In its proposal, Multinet has not set a tariff for this service. It will be required to determine a charge for this service as part of its revised access arrangement proposal.

1.5 Revisions

Clause	Information
Chapters 21 and 22	<p>Insert service valve to pit</p> <p>Calculate price for service and insert into opex model</p>

¹⁰ Multinet, *2018 to 2022 Access Arrangement Information*, December 2016, p.p.22, 44, 46.

¹¹ AGL Energy Limited, *Victorian gas access arrangement proposals*, 21 March 2017, pp. 2-3.

¹² AGL Energy Limited, *Victorian gas access arrangement proposals*, 21 March 2017, pp. 2-3.

¹³ Origin Energy, *Victorian Gas access Arrangement Review 2018–22 Response to Gas Distribution Business' Proposals*, February 2017, p. 3.