



DRAFT DECISION

Australian Gas Networks

Access Arrangement

2016 to 2021

Attachment 1 – Services

covered by the access

arrangement

November 2015

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Note

This attachment forms part of the AER's draft decision on Australian Gas Networks' access arrangement for 2016–21. 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

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Shortened forms

Shortened form	Extended form
AA	Access Arrangement
AAI	Access Arrangement Information
AER	Australian Energy Regulator
ATO	Australian Tax Office
capex	capital expenditure
CAPM	capital asset pricing model
CCP	Consumer Challenge Panel
CESS	Capital Expenditure Sharing Scheme
CPI	consumer price index
CSIS	Customer Service Incentive Scheme
DRP	debt risk premium
EBSS	Efficiency Benefit Sharing Scheme
ERP	equity risk premium
Expenditure Guideline	Expenditure Forecast Assessment Guideline
gamma	Value of Imputation Credits
GSL	Guaranteed Service Level
MRP	market risk premium
NECF	National Energy Customer Framework
NERL	National Energy Retail Law
NERR	National Energy Retail Rules
NGL	national gas law
NGO	national gas objective
NGR	national gas rules
NIS	Network Incentive Scheme
NPV	net present value
opex	operating expenditure
PFP	partial factor productivity
PPI	partial performance indicators
PTRM	post-tax revenue model
RBA	Reserve Bank of Australia

Shortened form	Extended form
RFM	roll forward model
RIN	regulatory information notice
RoLR	retailer of last resort
RPP	revenue and pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	Service Target Performance Incentive Scheme
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 Australian Gas Networks (AGN) proposes to offer customers by means of that pipeline.¹

1.1 Draft decision

We accept AGN's proposal because it is compliant with the NGR.²

1.2 AGN's proposal

AGN proposed to offer the following services on its network over the 2016–21 access arrangement period:

- the reference services, comprising:
 - haulage reference services
 - ancillary reference services, and
- non-reference services.³

AGN proposed three haulage reference services:

- Domestic haulage service—for the delivery of gas to delivery points where natural gas is used primarily for domestic purposes
- Demand haulage service—associated with the delivery of gas to delivery points with an annual consumption that is equal to or greater than 10 terajoules per year
- Commercial haulage service—applicable to all delivery points that are not demand delivery points or domestic delivery points.⁴

The above haulage reference services include:

- receiving gas injected into the network from an upstream pipeline at an injection point (referred to as a receipt point)
- odourisation of gas where required
- haulage (that is, transport) of gas from a receipt point to a delivery point
- allowing the withdrawal of gas at a delivery point

¹ NGR, r. 48(1)(a), 48(1)(b).

² NGR, r. 48(1).

³ AGN, *Access arrangement information*, July 2015, pp. 103–105.

⁴ AGN, *Access arrangement information*, July 2015, p. 103.

- the provision and maintenance of a standard metering installation (this being the least cost technically acceptable meter and associated equipment that is able to measure and record the quantity of gas that is reasonably expected to be consumed by the customer at the delivery point)
- meter reading and associated data services (every three months for domestic and commercial haulage services and daily for demand haulage reference services).⁵

The above services include recoveries for unaccounted for gas and all services that are necessary for AGN to comply with its obligations under the access arrangement and the retail market procedures.⁶

AGN proposed six ancillary reference services:

- Disconnection—installing locks or plugs at the metering installation of a domestic delivery point in order to prevent the withdrawal of gas at the delivery point
- Reconnection—this reinstates the ability to withdraw gas at a domestic delivery point, following a previous disconnection, which service includes the removal of any locks for plugs used to isolate supply, performance of a safety check and the lighting of appliances where necessary
- Special meter read—meter reading for a delivery point that is in addition to the scheduled meter reading that forms part of the haulage reference service
- Meter and gas installation test—on-site testing to check the measurement accuracy of a metering installation and the soundness of the gas installation downstream of the metering installation
- Meter removal—removal of a meter at a metering installation in order to prevent the withdrawal of natural gas at the delivery point
- Meter reinstallation—reinstallation of a meter at a metering installation, performance of a safety check and the lighting of appliances where necessary.⁷

AGN also proposed to provide non-reference services to customers on an as requested basis.⁸ These services are not sought by a significant part of the market, and, as such, cannot be classified as reference services. AGN proposed to negotiate a price on a case-by-case basis, where the price will depend on the specific conditions attached to the provision of the service requested by the network user. AGN noted that if requested, the same non-reference service would be offered to different network users but under a universal set of terms and conditions.⁹

⁵ AGN, *Access arrangement information*, July 2015, pp. 103–104.

⁶ AGN, *Access arrangement information*, July 2015, p. 104.

⁷ AGN, *Access arrangement information*, July 2015, p. 104.

⁸ AGN, *Access arrangement information*, July 2015, p. 104.

⁹ AGN, *Access arrangement information*, July 2015, p. 104.

1.3 AER's assessment approach

AGN is required by the NGR to specify all reference services in its access arrangement proposal.¹⁰ 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 service
 - service facilitating the interconnection of pipelines
- service ancillary to one of these services.

AGN's proposed reference service is also required to be consistent with the National Gas Objective.¹¹

Our approach to assessing these requirements is to identify:

- the covered pipeline under the current access arrangement
- any extensions or expansions that were completed during the earlier access arrangement and which are taken to be 'covered' under that access arrangement's extension and expansion requirements.

The next step is to review the service provider's description of the pipeline services and reference services.

1.4 Reasons for draft decision

Our assessment is that AGN has complied with the NGR's services requirements as outlined in Table 1.1 and section 1.4.1. We note AGN's proposed reference services for the 2016–21 access arrangement is generally consistent with those reference services we found compliant with NGR for the current access arrangement.

¹⁰ NGR, r. 48.

¹¹ NGR, r. 100(a).

Table 1.1 Assessment of AGN'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. Clause 1.1 and Annexure A of the AGN 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. Clause 2 of the AGN access arrangement proposal.
specify the reference services — NGR clause 48(1)(c)	Compliant. Clause 2.2, 2.3 of the AGN access arrangement proposal.
specify for each reference service:	
(i) the reference tariff; and	Compliant. Clauses 3 & 6 and Annexure B of the AGN access arrangement proposal.
(ii) the other terms and conditions on which the reference service will be provided	
— NGR clause 48(1)(d)	
if the access arrangement is to contain queuing requirements – set out the queuing requirements — NGR clause 48(1)(e)	Not applicable.
set out the capacity trading requirements — NGR clause 48(1)(f)	Compliant. Clause 7 of the AGN access arrangement proposal.
set out the extension and expansion requirements — NGR clause 48(1)(g)	Compliant. Clause 8 of the AGN access arrangement proposal.
state the terms and conditions for charging receipt and delivery points — NGR clause 48(1)(h)	Compliant. Clause 6 and Annexures F & G of the AGN access arrangement proposal.
if there is to be a review submission date – state the review submission date and the revision commencement date — NGR clause 48(1)(i)	Compliant. Clause 9 of the AGN access arrangement proposal.
if there is to be an expire date – state the expiry date — NGR 48(1)(j)	Not applicable.

Source: AER analysis; NGR clause 48(1); AGN, *Access arrangement for AGN's South Australian Gas Distribution Network 1 July 2016 – 30 June 2021*, July 2015.

1.4.1 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 and ancillary activities. Accordingly, we consider that the reference services provided by AGN are likely to be sought by a significant part of the market.¹²

¹² NGR, r. 101.

Haulage reference services

We accept AGN's proposed three haulage reference services. The proposed haulage reference services are consistent with the haulage reference services offered by AGN during the 2011–16 access arrangement period.

We note the Consumer Challenge Panel put forward that—consistent with electricity—the provision and maintenance of meters, meter reading and associated data services should be separated from the haulage reference services to encourage competition.¹³ We do accept that an aggregated reference service (AGN's preferred approach) may not be conducive to contestability. However, we have found no compelling reasons to reject AGN's proposal. We note:

- The market to implement gas meter reading contestability in South Australia has not changed over the current access arrangement period and we have not seen any evidence that it may change in the next five years.
- One significant driver of electricity metering contestability has been a desire to foster a competitive rollout of more efficient tariffs and metering arrangements to mass market electricity customers. There is no equivalent gas network or retail imperative for time of use pricing and associated behavioural change. The problem of peak demand does not exist to the same degree in gas as it does for electricity.

If the market for metering services begins to develop substantively in coming years and disaggregation of services is considered warranted, this can be proposed (and considered by us) at that time. We note the aggregation of the service does not lead to the aggregation of the underlying costs. Therefore we are satisfied there is no double recovery of the costs for these services. For these reasons we accept AGN's proposal.

Nonetheless, if stakeholders can provide to us compelling reasons not to include these metering services in the haulage reference services, we may review our draft decision position when making the final determination.

Ancillary reference services

We accept AGN's proposed six ancillary reference services. Three of these services—disconnection, reconnection and special meter read—are consistent with the ancillary reference services offered by AGN during the 2011–16 access arrangement period.

Three new additional ancillary reference services, for meter gas installation tests, meter removal and meter reinstallation, are also proposed. AGN included these services after being requested to do so from the retailer reference group.¹⁴

¹³ Consumer Challenge Panel, *Advice to AER from Consumer Channel Panel sub-panel 8 regarding Australian Gas Networks' (SA) access arrangement 2016–2021 proposal*, 25 August 2015, p. 18.

¹⁴ AGN, *Access arrangement information*, July 2015, p. 104; Origin Energy, *Submission on ActewAGL Access Arrangement Proposal 2016–21*, 10 August 2015, p. 6.

1.4.2 Non-reference services

AGN proposed negotiated services as a non-reference service. Clause 2.4 of the AGN proposal states that a negotiated service is a network service that is different from a reference service.¹⁵ AGN explains in its AAI that negotiated services are non-reference services as they are not sought by a significant part of the market.¹⁶ The AER agrees that negotiated services are a non-reference service as they are not likely to be sought by a significant part of the market and should not be specified as a reference service.¹⁷

¹⁵ AGN, *Access arrangement for AGN's South Australian Gas Distribution Network 1 July 2016 – 30 June 2021*, July 2015, clause 2.4.

¹⁶ AGN, *Access arrangement information*, July 2015, p. 104

¹⁷ NGR, r. 101.