



FINAL DECISION
Australian Gas Networks
(South Australia)
Gas Distribution Determination

2021 to 2026

Reference Service

November 2019

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Note

This AER final decision applies to Evoenergy's reference service for the 2021–26 gas access arrangement period commencing 1 July 2021 to 30 June 2026.

Under the National Gas Rules (NGR), gas network service providers are required submit their reference service proposals to the AER twelve (12) months in advance of the submission date for their access arrangement revisions proposal.

The NGR require us to complete our assessment of a reference service proposal no later than six (6) months in advance of the due date for submission of the relevant access arrangement revisions proposal.

Evoenergy's access arrangement revisions submission date is 30 June 2020. We are required to conclude our assessment no later than 31 December 2019.

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Shortened forms

Shortened form	Extended form
AA	access arrangement
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
AGN SA	Australian Gas Networks (South Australia)
Cl.	clause
NGR	National Gas Rules

1 Overview

The Australian Energy Regulator (AER) works to make all Australian energy consumers better off, now and in the future. We regulate energy networks in all jurisdictions except Western Australia. We set the amount of revenue that network businesses can recover from customers for using these networks.

The National Gas Law and Rules (NGL and NGR) provide the regulatory framework governing gas transmission and distribution networks. Our work under this framework is guided by the National Gas Objective (NGO):¹

to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas

Australian Gas Networks (South Australia) (AGN SA) provides reticulated natural gas distribution services in South Australia including Adelaide.

On 30 June 2019 AGN SA submitted to the AER a reference service proposal for its gas distribution network for the 2021/22 – 2025/26 access arrangement period. We have assessed the proposal against the requirements set out in the NGR.

We published AGN SA's proposal on the AER website and called for submissions. Submissions were received from:

- AGL
- South Australian Federation of Residents and Ratepayers Associations Inc.

Both submissions were supportive of AGN SA's reference service proposal.

Our final decision is to approve AGN SA's reference service proposal. We consider the proposal is consistent with the regulatory requirements and we note support provided by submissions.

¹ *National Gas (South Australia) Act 2008*, s. 23.

2 Background

This section discusses the new reference service requirement in the NGR and describes AGN SA's gas distribution network.

2.1 AGN SA's gas distribution network

AGN SA's gas distribution network serves around 450,000 customers in Adelaide and South Australia's regional centres in the upper North, Barossa, Riverland and south east. The network comprises around 8,100 km distribution pipeline.

2.2 Background

In March 2019, the Australian Energy Market Commission (AEMC) made a final determination to implement a range of improvements to regulation of covered transmission and distribution gas pipelines across Australia.^{2 3}

Within this package of reforms the AEMC introduced a new approach to determine which pipeline services should be specified as reference services for a full regulation pipeline's access arrangement. This included:⁴

- a new process requiring identification of reference services at the start of an access arrangement assessment process
- new criteria for determining appropriate reference services.

2.2.1 New process

In terms of process, gas network service providers (NSPs) are now required to submit a separate reference service proposal to the AER for assessment. Previously, a reference service proposal was an element of a NSP's broader access arrangement revisions proposal.

Further, NSPs must now submit their reference service proposals to the AER twelve (12) months in advance of the submission date for their access arrangement revisions proposal.

The amended NGR require us to complete our assessment of a reference service proposal no later than six (6) months in advance of the due date for submission of the relevant access arrangement revisions proposal.

AGN SA's access arrangement revisions submission date is 30 June 2020.⁵ This means AGN SA was required to submit its reference service proposal to the AER by

² Covered pipelines are those pipelines that are regulated under Parts 8 to 12 of the National Gas Rules by the Australian Energy Regulator or the Economic Regulation Authority of Western Australia.

³ AEMC, *Regulation of covered pipelines*, March 2019.

⁴ NGR, cl. 47A.

no later than 30 June 2019, which it did. We are required to conclude our assessment no later than 31 December 2019.

2.2.2 Criteria

In preparing its reference service proposal and in undertaking our assessment, the NGR require AGN SA and ourselves to have regard to the reference service factors specified in the NGR.⁶ The factors include:⁷

- 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
- likely regulatory costs for all parties in specifying the pipeline service as a reference service.

Relevant elements of cl. 47A are listed in our detailed compliance assessment in section 4 of this decision paper.

⁵ Access arrangement revisions for the 2021/22 to 2025/26 access arrangement period.

⁶ NGR, cl. 47A(1)(c); 47A(13)(a); 47A(14).

⁷ NGR, cl. 47A(15).

3 AGN SA's reference service proposal

This section outlines AGN SA's reference service proposal including the stakeholder consultation it undertook in developing its proposal.

3.1 AGN SA's stakeholder consultation

AGN SA submitted that it undertook stakeholder consultation in two ways, by:⁸

- engaging with its customer reference group, the South Australian Reference Group (SARG)
- engaging with its Retailer Reference Group.

3.1.1 AGN SA's South Australian Reference Group

AGN SA described its SARG as comprising a cross section of its consumers including residential, business, industrial, vulnerable and older customers.⁹

AGN SA submitted it met with:

- SARG on 17 April and 3 June 2019
- Retailer Reference Group on 29 April 2019
- a number of customers individually.

With respect to this engagement AGN SA submitted:¹⁰

Through this engagement, stakeholders and customer representative groups have indicated they are supportive of a continuation of the current reference services in the next AA period on the basis they remain consistent with the requirements of the NGR. Importantly, there was no indication that any additional services should be reference services.

3.2 AGN SA's reference service proposal

Reference services

AGN SA proposed to continue its existing reference services, comprising:¹¹

- haulage reference services – for the domestic, demand and commercial sectors
- ancillary reference services
 - special meter read

⁸ AGN SA, *Reference service proposal*, June 2019, p.3.

⁹ AGN SA, *Reference service proposal*, June 2019, p.3.

¹⁰ AGN SA, *Reference service proposal*, June 2019, p.4.

¹¹ AGN SA, *Reference service proposal*, June 2019, p.6.

- disconnection
- reconnection
- meter and gas installation test
- meter removal
- meter reinstallation

AGN SA submitted that its proposed reference services are the most demanded of its services, are not substitutable with other services, have predictable costs and generate most of its revenues – or were specifically requested by stakeholders to be reference services.¹²

Non-reference services

In addition to the reference services listed above, AGN SA proposed to offer several non-reference services:¹³

- meter alter position / removal
- out of hours special meter read
- same day service
- relocate / remove service pipe
- cut off service in street for debt
- reconnect service in street after cut off
- upgrade service request
- other negotiated service.

AGN SA noted in its reference service proposal that while demand for most proposed non-reference services is low (to the point of there being zero demand), demand for some proposed non-reference services is high relative to some reference services.¹⁴ Nonetheless, AGN SA submitted these services did not meet one or more of the reference service factors. For example, the premium service *out of hours special meter read* is substitutable with the equivalent ancillary reference service. Its demand is also highly variable, being demanded 1,154 times one year and only 513 times in another year.

Another example cited by AGN SA was *altering the position of a meter* – this service has a highly variable cost depending on the specific customer requirements. AGN SA submitted that retaining this as a non-reference service would allow it to continue to levy service fees appropriate to the specific circumstances.

¹² AGN SA, *Reference service proposal*, June 2019, p.6.

¹³ AGN SA, *Reference service proposal*, June 2019, Table 2.

¹⁴ Out of hours special meter read is demanded on average 682 times per annum.

4 AER assessment

This section sets out our assessment of AGN SA's reference service proposal, including the stakeholder consultation we undertook.

4.1 AER stakeholder consultation

We published AGN SA's reference service proposal on the AER website on 2 July 2019. We called for written submissions by no later than 2 August 2019. To alert stakeholders to this process we issued a communications notice on 2 July 2019 which was emailed to all AER website subscribers.

In response, we received two written submissions on AGN SA's reference service proposal, from AGL and the South Australian Residents and Ratepayers Associations Inc. We were not otherwise contacted by stakeholders wishing to express views on this issue.

The submissions we received were supportive of AGN SA's reference service proposal.

With its submission, AGL noted it had participated in AGN SA's Retailer Reference Group. AGL submitted that through this participation it had been provided with information and been consulted with on AGN SA's reference service proposal. AGL further noted that as a result of this consultation it supports AGN SA's reference service proposal.¹⁵

AGL ... notes AGN's preference to retain ... three services as ancillary non-reference services ... AGL supports the position that meter relocation should be a non-regulated quoted service to reflect the variable costs and low volume of requests. AGL also understands the reasoning in keeping the other two services as non-regulated ancillary services for this regulatory period was the current low demand for these services and the ability to use the standard regulated service as an alternative. AGL believes this is a reasonable approach for this regulatory period.

We note though that AGL struck a note of caution about maintaining the proposed approach into the future:¹⁶

However, AGL would highlight that retailers are looking to utilise these services more often in the future given customers' changing preferences and requirements. AGL has discussed this with AGN and does not believe its retention as a non-regulated service will be an impediment in the near future but would signal to the AER that in medium term, accelerated demand for these services may require them to be better classified as regulated ancillary services.

¹⁵ AGL, *Australian Gas Networks (SA) – Reference Service Proposal – 2021-26 Gas Access Arrangement*, August 2019, p. 1.

¹⁶ AGL, *Australian Gas Networks (SA) – Reference Service Proposal – 2021-26 Gas Access Arrangement*, August 2019, p. 1.

With its submission, the South Australian Federation of Residents and Ratepayers Associations Inc. indicated that, while it had concerns about the cost of gas supply, it supported AGN SA’s reference service proposal.¹⁷

SAFFRA Inc. believes this Reference Service Proposal meet’s the customers’ needs and the new NGR requirements. The services listed as high demand, moderate demand and low demand are all very important and the low demand over time may increase to moderate demand and further environmental and technology changes which should not be treated lightly.

We conclude from our stakeholder consultation on AGN SA’s reference service proposal that customers and potential customers support the proposal but are open minded about making changes in future. They consider that any future decision, by either AGN SA or ourselves, to make the currently non-reference services into reference services should be based on changes in demand for those services.

In undertaking our reference service assessment we place considerable weight on the views of stakeholders, particularly customers or prospective customers of the gas network in question.

4.2 AER assessment of AGN SA’s reference service proposal

To assess AGN SA's reference service proposal we considered the extent to which it conforms to each regulatory requirement set out in the NGR cl 47A. Our detailed assessment is set out in Table 4-1.

Table 4-1 Summary of NGR cl. 47A reference service requirements

NGR cl. 47A requirement	Compliance assessment
(1) A service provider in respect of a full regulation pipeline must, whenever required to do so under subrule (3), submit to the AER a reference service proposal in respect of a forthcoming full access arrangement proposal that:	
(a) identifies the pipeline and includes a reference to a website at which a description of the pipeline can be inspected;	Compliant. See pages 1 and 2 of AGN SA's reference service proposal.
(b) sets out a list of all the pipeline services that the service provider can reasonably provide on the pipeline and a description of	Compliant. See Table 2.

¹⁷ South Australian Federation of Resident and Ratepayers Associations Inc., *SAFFRA INC Submission – Reference service proposal for the South Australian Distribution Network*, August 2019, p. 3.

those pipeline services having regard to the characteristics in subrule (2);

(c) from the list referred to in subrule (1)(b), identifies at least one of those pipeline services that the service provider proposes to specify as reference services having regard to the reference service factors including any supporting information required by the AER; and

Compliant. See Table 2.

(d) if the service provider has engaged with pipeline users and end users in developing its reference service proposal, describes any feedback received from those users about which pipeline services should be specified as reference services.

Compliant. See section 2.2.

(2) A pipeline service is to be treated as distinct from another pipeline service having regard to the characteristics of different pipeline services, including:

AGN SA's reference service proposal appropriately defines pipeline services in regard to their characteristics, priority and receipt points.

(a) the service type (for example, forward haul, backhaul, connection, park and loan);

(b) the priority of the service relative to other pipeline services of the same type; and

(c) the receipt and delivery points.

(14) In deciding whether or not a pipeline service should be specified as a reference service, the AER must have regard to the reference service factors.

We have had regard to the reference service factors in assessing AGN SA's reference service proposal.

(15) The reference service factors are:

(a) actual and forecast demand for the pipeline service and the number of prospective users of the service;

AGN SA's reference service proposal is premised on there being ongoing high demand for the haulage reference services and its proposed ancillary reference services.

In respect of AGN SA's proposed non-reference services, it submitted these are either not frequently required, have never been used or are subject to uncertain and fluctuating demand.

We accept AGN SA's proposition that demand for its proposed non-reference services is difficult to forecast and/or likely to be low or

nil.

(b) the extent to which the pipeline service is substitutable with another pipeline service to be specified as a reference service;

The haulage reference services and ancillary services are not substitutable with other services.

(c) the feasibility of allocating costs to the pipeline service;

Costs may be allocated to the proposed reference services. We accept that allocating costs to AGN SA's proposed non-reference services may be difficult due to uncertain demand and/or variable costs.

(d) the usefulness of specifying the pipeline service as a reference service in supporting access negotiations and dispute resolution for other pipeline services, such that:

(i) reference services serve as a point of reference from which pipeline services that are not reference services can be assessed by a user or prospective user for the purpose of negotiating access to those other pipeline services;

The reference services will be a point of reference for negotiations.

(ii) a reference tariff serves as a benchmark for the price of pipeline services that are not reference services; and

As above.

(iii) reference service terms and conditions serve as a benchmark for the terms and conditions of pipeline services that are not reference services;

As above.

(e) 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.

By specifying haulage services and commonly used ancillary services as reference services the current arrangements will be continued. As a result, regulatory costs for all parties will be minimised.