



FINAL DECISION
AusNet Gas Services
Gas Distribution Determination

2023 to 2028

Reference Services

November 2021

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Note

This AER final decision applies to AusNet Gas Services' reference services for the 2023–28 gas access arrangement period commencing 1 July 2023 to 30 June 2028.

Under the National Gas Rules (NGR), gas network service providers are required to 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.

AusNet Gas Services' access arrangement revisions submission date is 1 July 2022. We are required to conclude our assessment no later than 31 December 2021.

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Shortened forms

Shortened form	Extended form
ACCC	Australian Competition & Consumer Commission
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
AGN	Australian Gas Networks
COAG	Council of Australian Governments
Cl.	clause
ESC	Essential Services Commission
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
NSP	Network Service Provider

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

AusNet Gas Services (AusNet) distributes natural gas to central and western Victoria, including the outer northern and north-west metropolitan areas of Melbourne.

On 1 July 2021 AusNet submitted to the AER a reference service proposal for its gas distribution network. We have assessed the proposal against the requirements set out in the NGR.

Our final decision is to approve AusNet's reference service proposal. We consider the proposal is consistent with the requirements.

We published AusNet's proposal on the AER website and called for submissions. In response, we received a submission from Red Energy and Lumo Energy (Red and Lumo) on 30 July 2021.

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

2 Background

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

2.1 AusNet's gas distribution network

AusNet's gas distribution network services central and western Victoria, including the outer northern and north-west metropolitan areas of Melbourne. It comprises around 12,384 km of pipeline, serving around 752,882 customers.²

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.^{3 4}

These new rules follow a Council of Australian Governments (COAG) Energy Council rule change request based on recommendations in the AEMC's recent review of Parts 8-12 of the National Gas Rules to address concerns that customers may be paying more than necessary for gas pipeline services.⁵

The new rules are designed to help gas pipeline users negotiate lower prices and better deals. This will make it cheaper to move gas around the market, helping to keep gas and electricity prices for consumers as low as possible.⁶

In deciding whether a pipeline service should be specified as a reference service, the AER must have regard to the reference service factors.⁷ These factors are summarised in section 2.2.2 of this paper.

Services which we determine meet the reference service factors will be determined to be reference services. Services which we determine do not meet the reference service factors will be treated as non-reference services.

Determining a service to be a reference service, as compared to it being a non-reference service, makes a significant difference to how the service is regulated. Reference services are subject to AER price regulation. That is, we set maximum prices, or price caps, which gas networks may charge network users for reference services. Gas networks may choose to charge network users less than the price caps we determine but they may not charge more. Services we determine to be non-

² AusNet Gas Services, *Reference service proposal*, July 2021, p.3.

³ 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.

⁴ AEMC, *Regulation of covered pipelines*, March 2019.

⁵ AEMC, *New AEMC rules for stronger regulation of covered gas pipelines*, March 2019.

⁶ AEMC, *New AEMC rules for stronger regulation of covered gas pipelines*, March 2019.

⁷ NGR, cl. 47A(14).

reference services are not subject to price regulation. This means gas networks set their own charges for non-reference services.

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:⁸

- 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.

AusNet's access arrangement revisions submission date is 1 July 2022. This means AusNet was required to submit its reference service proposal to the AER by no later than 1 July 2021, which it did. We are required to conclude our assessment no later than 31 December 2021.

2.2.2 Criteria

In preparing its reference service proposal and in undertaking our assessment, the NGR require AusNet and ourselves to have regard to the reference service factors specified in the NGR.⁹ The factors include:¹⁰

- 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

⁸ NGR, cl. 47A.

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

¹⁰ NGR, cl. 47A(15).

- 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.

3 AusNet's reference service proposal

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

3.1 AusNet's stakeholder consultation

AusNet submitted that it undertook stakeholder consultation with the other two Victorian gas distributors to understand what is important to its customers and stakeholders, now and in the future.

AusNet submitted that its engagement program includes undertaking ongoing stakeholder consultation by engaging with its:

- Victorian Gas Networks Stakeholder Roundtable (VGNSR): represents a wide cross section of the community to ensure our access arrangement proposal is developed in the long-term interests of customers and stakeholders.
- Victorian Gas Networks Retailer Reference Group (VGNRRG): represents residential customers, vulnerable customers, multicultural communities, business and industrial customers, builders and developers, and local government.

Ausnet met with the groups twice in developing its reference services proposal. Ausnet submitted that it met with VGNSR on 27 May and VGNRRG on 28 May. Additionally, it facilitated an additional VGNRRG meeting on 16 June to deep dive the issues in submissions. The agenda in each meeting included a discussion on services and its reference service proposal.

Submissions were received by AusNet from AGL and Red Energy/Lumo Energy. Ausnet submitted that these submissions have been addressed in its reference service proposal.

3.2 AusNet's reference services

In deciding whether a pipeline service should be specified as a reference service, the AER must have regard to the reference service factors.¹¹ These factors are set out in section 2.2.2. Services that do not meet the reference service factors are considered non-reference services.

¹¹ NGR, cl. 47A(14).

Reference service

Haulage reference service

AusNet proposed to retain its existing reference service for haulage of gas.¹² Ausnet submitted that the current haulage services comprise:

- volume based haulage service (tariff V) - for all customers consuming up to 10TJ of gas energy, including connection services for tariff V customers. Separate charge rates apply to domestic and non-domestic customers, as well as four rates for each pricing zone:
 - business customers use more gas throughout the year whereas domestic customers use more gas during the peak period
 - different parts of the network have different operating costs, this is reflected in four tariff V zones (Central, Adjoining Central, West, Adjoining West)
 - tariff V has four declining block rates based on a daily consumption range that recognises that the marginal costs of delivery decline as volumes increase.
- demand based haulage services (tariff D) - for large gas uses consuming over 10TJ of gas energy:
 - customers are charged based on the maximum amount of gas used during any one-hour period over the calendar year
 - a separate operations and maintenance charge also applies to tariff D customers to recover the cost of operating and maintaining mains extensions, services, metering, data loggers and all other installation-related costs for the customers dedicated distribution assets.
- demand based haulage services (tariff M) - for customers originally connected on tariff V who have exceeded the 10TJ consumption limit with lower connection charges and includes the cost of operating and maintaining metering and data loggers to provide gas usage data.

Ausnet intends to engage with customers on potentially closing tariff M during the next access arrangement period, as it is applied to fewer than 200 customers. It proposed to retain tariff M as a haulage reference service for now to provide a more flexible transition to tariff D if the transition is supported by its customers.

Ancillary reference services

AusNet proposed to retain its existing four ancillary reference services in the next access arrangement period.¹³ Ausnet submitted that the current ancillary reference services comprise:

¹² Ausnet, *Reference service proposal*, July 2021, p.6.

¹³ Ausnet, *Reference service proposal*, July 2021, p.6.

- meter & gas installation test – onsite meter testing for tariff V customer
- disconnection – locks & plugs at the meter installation
- reconnection – following insertion of locks & plugs at the meter installation
- special read – final read, reference read, account investigation, customer transfer, or disconnection read.

Ausnet proposed three new ancillary reference services in the forthcoming access arrangement period. It submitted that the new ancillary reference services proposed are in moderate to high demand and are generally not substitutable with other services.¹⁴ They are:

- meter fix or reinstallation – reinstallation of a meter at a metering installation, performance of a safety check and the lighting of appliances where necessary
- meter and service removal – removal of a meter and service line to prevent the withdrawal of natural gas at the delivery point
- minor meter alter position – relocating an existing gas meter to a new position, within 4 meters of the original meter, in a single site visit.

Non-reference services

Ausnet proposed to change three of its non-reference services to reference services.¹⁵ It submitted that in the current period, non-reference services make up less than 2% of its total revenue. But with the move of three of these services to reference services, it expects non-reference service revenues to reduce to less than 1% in the forthcoming period.

Ausnet also proposed to update its service descriptions to better clarify existing services and better align services with the other Victorian gas distributors as much as practicable.

The non-reference services proposed to be offered in the forthcoming access arrangement period are:

- reconnection – following excavation and shut service tee
- disconnection – excavation and shut service tee
- detailed meter and retake test – meter removed for NATA testing of meter or on-site testing of tariff D or M customer
- cross meter investigation – attending site to trace fitting lines and check meters align with the meter identification registration number (MIRN) on the customer's account

¹⁴ Ausnet, *Reference service proposal*, July 2021, p.6-7.

¹⁵ Ausnet, *Reference service proposal*, July 2021, p.8.

- tracing of service lines – attending site to determine where on the customer’s property the service is located
- incomplete meter fix – original ‘meter fix request’ was unable to be completed on appointment date due to site not ready, including no access to site
- no access (gas meter) – field crew could not gain access to the property on the agreed day to perform the service
- upgrade meter or service line size – undertaking requested size upgrade
- downgrade meter size - where a retailer requests a customer’s meter to be downgraded
- pressure change - when a customer requests a change in gas pressure and may involve a regulator
- meter security and protection – installing bollards or meter cage in accordance with safety requirements
- other negotiated service – any other non-reference service the customer (or retailer on behalf of the customer) requests and which we agree to provide.

4 AER assessment

Our final decision is to approve AusNet's reference service proposal. We consider the proposal is consistent with the NGR cl 47A. Changes were made to some services which were mainly to align with AGN. There was stakeholder support for this alignment of reference services across the three Victorian gas distribution businesses.

This section sets out the AER's assessment of AusNet's reference service proposal, including the stakeholder consultation we undertook.

4.1 AER stakeholder consultation

We published AusNet's reference service proposal on the AER's website on 9 July 2021. We called for written submissions by no later than 30 July 2021.

To alert stakeholders to this process, we issued a communications notice on 9 July 2021 which was emailed to all AER website subscribers.

In response, we received a submission from Red Energy and Lumo Energy (Red and Lumo) on 30 July 2021 which supports efforts to align the reference services offered across the three businesses.¹⁶ Red and Lumo also submitted that it supports the proposal by AusNet to move the 'Meter Fix or Meter Reinstallation' service and the 'Meter and Service Removal' from a non-reference service to a reference service.

However, Red and Lumo submitted that it has concerns about non-reference services offered by the Victorian gas distributors not being subject to some form of price regulation. It considers the Energy and Water Ombudsman of Victoria (EWOV) is not an appropriate body to manage disputes for non-reference services. Rather it would prefer an economic regulator to be responsible for this, such as the AER.

In response to Red and Lumo's concerns, we note that Ausnet submitted that it expects non-reference services to represent less than 1% of its annual revenue. The benefits attributable to applying full price regulation must be weighed against the administrative cost of doing so.

¹⁶ Red Energy and Lumo Energy, *Submission - Reference Service Proposals for the Victorian gas distributors July 2023 - June 2028*, 30 July 2021, p. 1.

4.2 AER assessment of AusNet’s reference service proposal

To assess AusNet'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
<p>(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:</p>	
<p>(a) identifies the pipeline and includes a reference to a website at which a description of the pipeline can be inspected;</p>	<p>Compliant. See section 2 of AusNet's reference service proposal.</p>
<p>(b) sets out a list of all the pipeline services that the service provider can reasonably provide on the pipeline and a description of those pipeline services having regard to the characteristics in subrule (2);</p>	<p>Compliant. See appendix A.</p>
<p>(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</p>	<p>Compliant. See appendix A.</p>
<p>(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.</p>	<p>Compliant. See section 3.</p>
<p>(2) A pipeline service is to be treated as distinct from another pipeline service having regard to the characteristics of different pipeline services, including:</p>	<p>AusNet's reference service proposal appropriately defines pipeline services in regard to their characteristics, priority and receipt points.</p>
<p>(a) the service type (for example, forward haul, backhaul, connection, park and loan);</p>	

(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 AusNet'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;

AusNet's reference service proposal is premised on there being ongoing high demand for the haulage reference service.

Demand for AusNet's proposed ancillary reference services ranges between moderate and high.

In respect of AusNet's proposed non-reference services, AusNet submitted it expects low and/or unpredictable demand for these services.

We accept AusNet's proposition that demand for proposed non-reference services is likely to be low and/or unpredictable.

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

The haulage reference service is not substitutable with other services.

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

Costs may be allocated to the haulage service.

(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;

To the extent there is demand for the interconnection service or negotiated services, the reference service should be a point of reference for negotiations with AusNet.

(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 the haulage service as a reference service the current arrangements will be continued. As a result, regulatory costs for all parties will be minimised.