

Reference Service Proposal for the South Australian Distribution Network 2021/22 - 2025/26

June 2019



1. Introduction

We are developing our plans for our South Australian natural gas distribution network for the 2021/22 – 2025/26 period (the next Access Arrangement (AA) period). As part of this process we have developed this Reference Service Proposal to ensure our plans are developed based on services appropriate to our customer needs.

We offer several pipeline services to meet customer needs, including reference services for haulage and ancillary purposes.

Reference services will form the basis of the prices and terms and conditions we develop for the next AA period. Based on stakeholder feedback so far, we are proposing to maintain the same suite of reference services as was available in the 2016/17 - 2020/21 period (the current AA period). These services represent over 99% of our revenue in the current AA period to date.

For the next AA period, this document outlines:

- our pipeline services;
- stakeholder engagement undertaken about our services; and
- which of our services we propose will form reference services.

1.1. About AGIG

Australian Gas Infrastructure Group (AGIG) is one of Australia's largest gas infrastructure businesses. We have over two million customers across every Australian mainland state and the Northern Territory, 34,000km of distribution networks, over 4,000km of gas transmission pipelines and more than 42 petajoules of gas storage capacity.

1.2. South Australian distribution network

In South Australia, as Australian Gas Networks, we own and operate the gas distribution network.

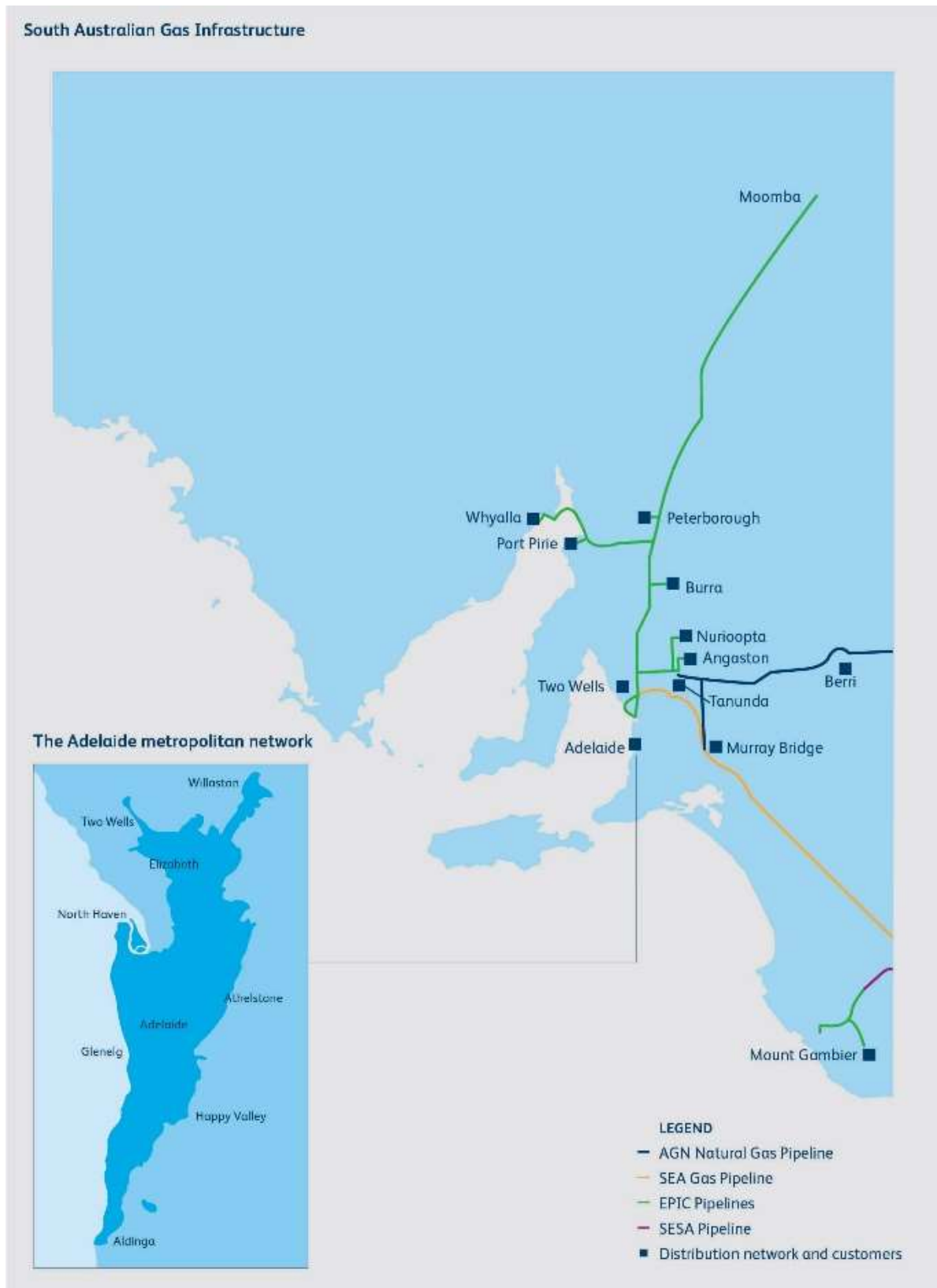
We serve residential, commercial and industrial business customers in Adelaide (from Two Wells in the north to Aldinga in the south) and regional centres in the upper North, Barossa, Riverland and South East of the state.

Natural gas is delivered to more than 450,000 homes and businesses through 8,100 km of distribution network. Retailers pay charges for our services, which are passed on to customers through retail gas bills.

Figure 1 on the next page shows our South Australian network and other key pieces of gas infrastructure in the state. A description of our South Australian distribution network is also available on our website

www.australiangasnetworks.com.au.

Figure 1: Our South Australian network



2. Our services

2.1. Regulatory framework

Recent changes to the National Gas Rules (NGR) formalise the process for determining reference services.

Under Rule 47A we are required to provide the Australian Energy Regulator (AER) with a Reference Service Proposal 12 months prior to the submission of our AA proposal for the South Australian distribution network.

Our Reference Service Proposal must list all the services we can reasonably offer on the network and specify at least one service as a reference service.

The AER considers and approves our proposed reference services based on reference service factors specified in the NGR,¹ and can undertake its own consultations with service users. The reference service factors are, in summary:

- actual and forecast demand for the service;
- whether the service is substitutable for another service;
- whether it is feasible to allocate costs to the service;
- whether the service is useful in supporting access negotiations; and
- the likely regulatory costs of making the service a reference service.

2.2. Customer and Stakeholder Engagement

In developing our Draft Plan for the next AA period for the South Australian distribution network we are undertaking a four stage approach to engage and involve customers and stakeholders in our planning process.

This includes ongoing engagement with two reference groups: our South Australian Reference Group (SARG); and our Retailer Reference Group.

SARG represents a wide cross section of the community to ensure our AA proposal is developed in the long-term interests of customers and stakeholders. Membership of our South Australian Reference Group reflects the diversity of our customer base, with organisations representing residential customers, vulnerable customers, older Australians, multicultural communities, business and industrial customers, builders and developers, and local government.

The Retailer Reference Group comprises representatives from gas retailers who operate in national markets which we serve, including South Australia.

Stage one of our engagement program has included a focus on all the services we offer as well as which services should be considered as reference services. This process has sought to understand whether the proposed reference services are appropriate to meet customer needs and whether customers require additional services.

We met with our South Australian Reference Group on 17 April and 3 June 2019, and with our Retailer Reference Group on 29 April 2019. The agenda in each meeting included a discussion on services and the new rule requirements for this Reference Service Proposal. We also met with a number of reference group members individually.

¹ NGR 47A(15)

During this engagement we introduced the service requirements of the NGR and our full list of services. We discussed whether the current list of services appropriately addressed customer needs. We then proposed that the current list of reference and non-reference services be maintained and asked reference group members whether any additional reference services were required.

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.

2.3. Services in 2016/17 – 2020/21

The reference services offered in the current AA period are outlined in Table 1.

In response to retailer requests during the last AA review, three services shifted from non-reference to reference services for the current AA period. These were:

- Meter and Gas Installation Test;
- Meter Refix; and
- Meter Remove.

Table 1: Reference Services available on the South Australian distribution network over the current period

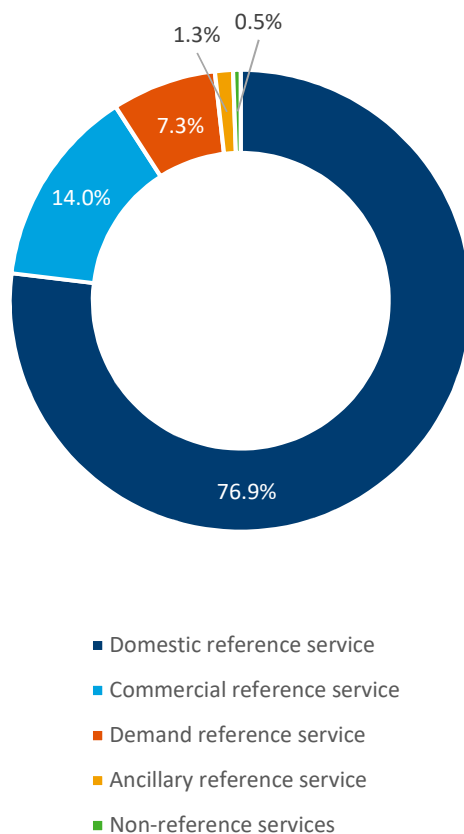
Service	
Haulage reference services	
Domestic Haulage Service	A haulage reference service that comprises the delivery of gas through an existing domestic Delivery Point (DP).
Demand Haulage Service	<p>A haulage reference service that comprises the delivery of gas through an existing demand DP.</p> <p>A DP is a demand DP at a given time if:</p> <p>(a) that DP is not a domestic DP at that time; and</p> <p>(b) the quantity of gas delivered through that DP during the then most recent metering year was equal to or greater than 10TJ in total.</p>
Commercial Haulage Service	A haulage reference service that comprises the delivery of gas through a Commercial DP.
Ancillary reference services	
Special Meter Read	A meter reading for a DP and provision of the associated meter reading data that is in addition to the scheduled meter readings that form part of the haulage reference services.
Disconnection	The use of locks or plugs at the metering installation of a domestic or commercial DP in order to prevent the withdrawal of gas at the DP.
Reconnection	Action to restore the ability to withdraw gas at a DP, following an earlier disconnection (that is, the removal of any locks or plugs used to isolate supply, performance of a safety check and, where necessary, the lighting of appliances).
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 DP.
Meter Reinstallation	Reinstallation of a meter at a metering installation, performance of a safety check and the lighting of appliances where necessary.

2.4. Proposed services for 2021/22 – 2025/26

Our full list of services is included in Table 2, including our proposed reference services for the next AA period. Table 2 reflects on the reference service factors, by considering what we think are key factors for each service. For all ancillary services, we have also included information on the total number of times the service has been used in the current AA period, and the average annual revenue from the service during the current period, as well as any other information relevant to the reference service factors.

In the current AA period, reference services make up over 99% of our revenue on the South Australian distribution network (see Figure 2).

Figure 2: SA distribution network revenue share July 2016 – April 2019



Our haulage reference services, supported by several commonly used ancillary reference services, remain the most appropriate to specify as reference services. These services:

- are the most demanded and form the basis of our forecasts;
 - are generally not substitutable with other services;
 - have largely predictable costs which can be attributed to individual users, and others can be reasonably allocated across users of a particular service;
 - form the basis for negotiated access; and
 - generate most of our revenues;
- or
- were specifically requested by retailers or other stakeholders to be reference services.

We consider that other services do not meet one or more of the reference service factors, particularly those relating to substitutability, consistency of demand and the allocation of costs.

Firstly, some ancillary non-reference services are substitutable with regular services. For example premium services like out of hours special meter reading and same day service can in almost every case be substituted with the equivalent ancillary reference service.

In addition, a number of ancillary non-reference services have low and/or unpredictable demand. For example, the removal and relocation of a service pipe is not frequently required, while three services (cut-off service in street for debt, reconnect service in street after cut-off and upgrade service request) have not been utilised at all.

Similarly, ancillary non-reference services often have highly variable costs depending on the specific customer requirements. For example, the costs of altering the position of a meter or the removal or relocation of a service pipe to a property, will vary depending on the specific circumstances.

Furthermore, in the current AA period to date, ancillary non-reference services make up only 0.5% of our revenues.

Three proposed ancillary non-reference services (meter alter position/removal, out of hours special meter reading and same day service) generate more revenue and are generally in higher demand than two reference services. However, we believe these should remain as non-reference services for specific reasons.

Firstly, meter alter position / removal, represents a highly variable service, with charges ranging from \$100 to \$77,000. Over 80% of requests for the service were within a still significant range of \$500 and \$5,000. It is important to ensure that costs for this service are allocated to the customers who stand to benefit. Given the highly variable nature of these costs, a standard charging methodology risks allocating costs unfairly and is not consistent with the long-term interests of customers.

Secondly, out of hours special meter reading and same day service represent premium charges for other reference services. We believe these services are substitutable with reference services.

Finally, it is worth noting AGN operates across a range of markets, not just in South Australia, and we aim to maintain a consistent set of reference services across all of these areas. Consistency in approach across markets is important for minimizing our costs.

We therefore do not propose to change the suite of reference services offered in the next AA period.

Our stakeholders were comfortable with the services proposed as reference services. Customer representatives also recognised that only a small proportion of our revenue comes from the non-reference services, and did not request any additional services be specified as reference services. No retailers or other stakeholders requested any additional services be added as reference services.

3. Conclusion

This Reference Service Proposal has been prepared to ensure our plans are developed based on services appropriate to our customers' needs and to meet the new requirements of the NGR.

We offer several pipeline services to meet our customers' needs, including reference services for haulage and ancillary purposes.

Based on stakeholder and customer representative group feedback, we are proposing to maintain the same suite of reference services for the next AA period.

Table 2: Proposed services for the South Australian distribution network 2021/22 – 2025/26

Service	Description	Issues relevant to the Reference Service Factors
<i>Haulage reference services</i>		
Domestic Haulage Service	A haulage reference service that comprises the delivery of gas through an existing domestic Delivery Point (DP).	High demand Not substitutable Predictable costs which can be reasonably allocated across users Forms the basis of regulatory proposals
Demand Haulage Service	A haulage reference service that comprises the delivery of gas through an existing demand DP. A DP is a demand DP at a given time if: (a) that DP is not a domestic DP at that time; and (b) the quantity of gas delivered through that DP during the then most recent metering year was equal to or greater than 10TJ in total.	High demand Not substitutable Predictable costs which can be reasonably allocated across users Forms the basis of regulatory proposals
Commercial Haulage Service	A haulage reference service that comprises the delivery of Gas through a Commercial DP.	High demand Not substitutable Predictable costs which can be reasonably allocated across users Forms the basis of regulatory proposals

Ancillary reference services

Special Meter Reading	A meter reading for a DP and provision of the associated meter reading data, that is in addition to the scheduled meter readings that form part of the haulage reference services (Special Meter Reads will be charged in accordance with location as either metropolitan or non-metropolitan).	<p>Annual average usage: 116,675</p> <p>Annual average revenue: \$1.2 million</p> <p>High demand</p> <p>Fixed charge allocated to individual user</p>
Disconnection	The use of locks or plugs at the metering installation of a domestic or commercial DP in order to prevent the withdrawal of gas at the DP.	<p>Annual average usage: 8,971</p> <p>Annual average revenue: \$642,030</p> <p>Moderate demand</p> <p>Fixed charge allocated to individual user</p>
Reconnection	Action to restore the ability to withdraw gas at a DP, following an earlier disconnection (that is, the removal of any locks or plugs used to isolate supply, performance of a safety check and, where necessary, the lighting of appliances).	<p>Annual average usage: 8,368</p> <p>Annual average revenue: \$603,249</p> <p>Moderate demand</p> <p>Fixed charge allocated to individual user</p>
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.	<p>Annual average usage: 43</p> <p>Annual average revenue: \$9,268</p> <p>Low demand</p> <p>Fixed charge allocated to individual user</p>

Meter Removal	Removal of a meter at a metering installation in order to prevent the withdrawal of natural gas at the DP.	<p>Annual average usage: 2,714</p> <p>Annual average revenue: \$143,322</p> <p>Moderate demand</p> <p>Fixed charge allocated to individual user</p>
Meter Reinstallation	Reinstallation of a meter at a metering installation, performance of a safety check and the lighting of appliances where necessary.	<p>Annual average usage: 70</p> <p>Annual average revenue: \$4,024</p> <p>Low demand</p> <p>Fixed charge allocated to individual user</p>
<i>Ancillary non-reference services</i>		
Meter Alter Position / Removal	When a customer is requesting the relocation of an existing gas meter to a new position, or the removal of a second meter on the premises.	<p>Annual average usage: 178</p> <p>Annual average revenue: \$206,715</p> <p>Low demand</p> <p>Variable costs requiring quotation</p> <p>Charges for this service vary to reflect the cost for each customer. In the current AA period charges range from \$100 to \$77,000. 80% of requests for the service were between \$500 and \$5,000.</p>

Out of Hours Special Meter Reading

Request for an appointment to read a meter (Special Meter Reads will be charged in accordance with location as either metropolitan or non-metropolitan).

Annual average usage: 682

Annual average revenue: \$23,431

Unpredictable demand: the service was requested 1,154 times in 2016/17, but only 513 times in 2017/18

Substitutable with during hours Special Meter Reading (Reference Service): the service represents 0.58% of special meter reads, with the vast majority undertaken as a reference service

Fixed charge allocated to individual user

Same Day Service

Request for a service on the day of request in addition of the charge for the requested service.

Annual average usage: 198

Annual average revenue: \$42,576

Low/unpredictable demand: the service was requested 212 times in 2016/17, but only 140 times in 2017/18

Substitutable with regular service

Fixed charge allocated to individual user

Relocate / Remove Service Pipe

Relocate the service or "Inlet" pipework.

Annual average usage: 3

Annual average revenue: \$5,233

Low/unpredictable demand

Variable costs requiring quotation

Cut-off Service in Street for Debt	Requested by retailer, or by Distributor as a matter of safety, when disconnection of supply is intended to be longer term due to non-payment of outstanding account by customer.	<p>Annual average usage: 0</p> <p>Annual average revenue: \$0</p> <p>Low/unpredictable demand</p> <p>Variable costs requiring quotation</p>
Reconnect Service in Street After Cut-Off	Reconnection of gas supply, previously disconnected in the street, following satisfactory payment by customer (or other agreed arrangement).	<p>Annual average usage: 0</p> <p>Annual average revenue: \$0</p> <p>Low/unpredictable demand</p> <p>Variable costs requiring quotation</p>
Upgrade Service Request	Increased gas load requires a larger capacity of service line to be installed.	<p>Annual average usage: 0</p> <p>Annual average revenue: \$0</p> <p>Low/unpredictable demand</p> <p>Variable costs requiring quotation</p>
Other Negotiated Service	A network service that is different from the Reference Services, on terms and conditions that differ in from the general terms and conditions.	<p>Annual average usage: 5</p> <p>Annual average revenue: \$45,122</p> <p>Low/unpredictable demand</p> <p>Variable costs requiring quotation</p>