



Attachment 7.1

Services

Response to AER Draft Decision

January 2023

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1 Services

We have largely accepted the AER's Draft Decision in respect of Services. In this revised Final Plan we have modified the Draft Decision such that the costs associated with a permanent residential abolishment be recovered directly from the customer through an ancillary reference service (the "Abolishment service – Residential").

1.1 Overview

This attachment sets out our revised Final Plan services proposal for the Victoria gas distribution networks over the next (2023/24 to 2027/28) Access Arrangement (AA) period in response to the AER's Draft Decision.

In the next AA period we propose to maintain our existing suite of reference services, and add two new services for abolishment of connections - a residential abolishment ancillary reference service and a commercial abolishment non-reference service. This is consistent with our Final Plan Gas Substitution Roadmap (GSR) Response and a modification to the AER's Draft Decision in respect of the service charge for residential abolishments. We have also proposed the introduction of a pass through event, titled "unrecovered abolishment event".

The AER's Draft Decision accepted our reference service proposal for the next AA period. However, while the AER accepted the newly proposed service abolishment – residential (small customer connection abolishment) as a reference service, it did not approve this service as a stand-alone ancillary reference service requesting that we undertake further customer and stakeholder consultation on the service.

The AER's Draft Decision accepted all but one of our proposed reference services for the next AA period. We do however maintain our GSR Response position on the introduction of an ancillary reference service for residential abolishment. In presenting our response to the AER's Draft Decision we:

- outline feedback from further engagement with end use customers and stakeholders;
- set out our GSR Response forecasts of small customer residential abolishment numbers per annum;
- provide estimated bill impacts of socialising small customer abolishment costs through haulage tariffs;
- consider the efficiency, costs and benefits of both approaches;
- outline the framework for setting out a list of distinct pipeline services and defining reference services, and for cost allocation of reference services in the NGL and NGR; and
- outline the AER's decisions to date using the framework.

1.2 Customer and Stakeholder Feedback

In preparing our revised Final Plan we have continued to engage with stakeholders, including our Reference Groups and through consideration of public submissions to the AER on our Final Plan and GSR Response.

A summary of customer and stakeholder feedback is provided in **Error! Not a valid bookmark self-reference.** below.

Table 1.1: Summary of submissions on services

What we heard	Our response
Public submissions on our Final Plan and GSR Response	
<p>On the residential abolishment service:</p> <ul style="list-style-type: none"> BSL stated it was concerned about high abolishment costs and meter removal fees, it considered charges should reflect most efficient means of safe disconnection, and the most efficient cost for those works and abolishment charges should not be implemented to deter disconnections, or to attempt to recover additional revenue from those leaving the network.¹ Darebin Climate Action Now said measures to maintain and stimulate demand, such as high fees for abolishment of gas connections, should be rejected.² EnergyAustralia said it has concerns new abolishment fees of up to \$950 are a de facto exit fee, with implications on recovery of sunk costs and accelerated depreciation. EnergyAustralia considers exit fees represent a barrier to switching and suggested the AER explore the circumstances in which abolishment is necessary or a customer choice, as well as ensure customers are appropriately informed of the cheapest options to electrify and avoid paying fixed services.³ Friends of the Earth Melbourne consider fees for abolishment of gas connections to be a strategy to maintain customers who would otherwise choose electrification and should be rejected.⁴ Origin appreciate the need for the new abolishment service category but are concerned that the associated fee (\$950) may act as a disincentive for customers to disconnect and potentially undermine the intent of the Gas Substitution Roadmap initiatives.⁵ TRAC Partners do not support a requirement that a customer looking to permanently disconnect from the network must pay for an abolishment service. TRAC Partners asks for further support for the cost of abolishment and that customer have the option to disconnect or permanently abolish gas supply.⁶ 	<ul style="list-style-type: none"> We are not trying to discourage disconnection. Rather we have an obligation to make it safe when customers choose to disconnect and we have to incur costs to do so. The new service abolishment charge passes on the actual cost of the service abolishment only. The abolishment of a service includes dig up, de-energising, capping at both ends, removal of all above ground assets and reinstatement. Meter plugs are only used for short-term disconnection in the aid of debt recovery. Meter removal only is only applied where there are other meters still utilising the service (i.e. where there is a multi-user service and manifold at the property). Customers are required to abolish their connection when they ask to be completely disconnected from the network or are knocking down and rebuilding. It is not safe to leave live service pipes in situ for a period of time (i.e. capping only at the meter end) as it increases safety risks to the public where there is no visible gas connection. Where assets are left in place (i.e. a meter is plugged) we still incur costs to read and maintain the assets, which we consider is not prudent or efficient where the customer is permanently disconnecting from our network.
VGNSR/RRG Meetings November and December 2022	
<ul style="list-style-type: none"> Stakeholders and retailers understand the cost recovery requirement for abolishments, and are keen to see options explored for how those costs could be recovered. 	<ul style="list-style-type: none"> We have continued to propose separate service charges be applied to customers requiring permanent disconnection. We have also proposed a passthrough event to capture any unrecovered abolishment costs.

What we heard	Our response
January 2023 Customer Workshops	
<p>Most customers prefer that the disconnecting household pay the costs incurred through the abolishment. Many customers supported Government either paying in full or contributing to this cost. Distributing these charges across remaining gas customers was the least preferred model of cost recovery.</p> <ul style="list-style-type: none"> 45% of customers prefer the household requesting the disconnection pay the \$950 abolishment cost 68% of customers indicated that payment of abolishment costs by remaining gas customers is their lowest preference 39% of customers selected Government as their first choice to pay for the disconnection 	<ul style="list-style-type: none"> Our revised Final Plan reflects the preferences of our customers. We have proposed separate service charges be applied to customers requiring disconnection. We have also proposed a passthrough event to capture any unrecovered abolishment costs.

1.3 AER Draft Decision

The AER's Draft Decision accepted our reference service proposal for the next AA period. However, while the AER accepted the newly proposed service abolishment – residential (small customer connection abolishment) as a reference service, it did not approve it as a stand-alone price capped ancillary reference service.

We have provided a summary of the AER's Draft Decision on services for the next AA period in below.

¹ Brotherhood of St Laurence, 2022 Victorian gas access arrangements, September 2022, p 27-28.

² Darebin Climate Action Now, Submission to the Australian Energy Regulator Distributors' Access Arrangements 2023-2028, September 2022, p 3.

³ EnergyAustralia, Gas Access Arrangement proposals 2023-28 for AusNet, Multinet and AGIG – 1 July 2022, September 2022, p 6.

⁴ Friends of the Earth Melbourne, Distributor's gas access arrangement proposals 2023-2028 From Ausnet and AGIG (owners of AGN and Multinet), September 2022, p 2.

⁵ Origin Energy, Submission to Victorian gas access arrangement proposals, September 2022, p 4.

⁶ TRAC Partners for BSL, Response to Vic DBs' 2023-28 Access Arrangement Proposals, September 2022, pp 88-89.

Table 1.2: Summary of the AER's Draft Decision on opex

	AER Draft Decision	AER Comment
Haulage Reference Services	Accept	The AER's Draft Decision approves our proposed haulage reference services.
Ancillary Reference Services	Modify	The AER's Draft Decision approves our proposed ancillary reference services, however has accepted the small customer abolishment as a reference service but not as an ancillary reference service.
Non-reference Services	Accept	The AER's Draft Decision approves our proposed non-reference services including large customer connection abolishments.

Note: In this 'traffic light' table, green shading represents the AER's acceptance of our GSR Response, orange represents the AER's modification of our GSR Response and red shading represents the AER's rejection of our GSR Response.

The following sections outline the reasons for the AER's Draft Decision on services.

1.3.1 Small customer abolishment

The AER accepts there has been a material change in circumstances warranting a departure from our initial reference service proposal which the AER approved in November 2021 (namely, the release of the GSR which is expected to drive increased demand for small customer connection abolishments). It accepts small customer abolishment as a reference service, but not as an ancillary reference service considering there to be more than one potential pathway for us to recover the cost of providing small customer abolishment.⁷

The AER sought the advice of Energy Safe Victoria (ESV) in determining the appropriate physical options for a permanent disconnection from the gas network. ESV advised that to ensure that hazards and risks to the safety of the public and customers arising from gas are minimised as far as reasonably practicable, a connection should be abolished if the customer wishes to permanently disconnect from the gas network.⁸

On the reasonableness of proposed charges, the AER considers the charges to be reasonable based on its benchmarking analysis and cost build up assessment.⁹

The AER noted:

"abolishment charges reflect the labour cost of staff attending the customer's premises to perform the task. They do not incorporate any contribution to shared network cost recovery – they are not exit fees. Rather, proposed small customer connection abolishment charges are cost recovery in nature."¹⁰

The AER's Draft Decision is therefore focussed on determining how the cost of undertaking an abolishment should be recovered, and if the proposed charges are reasonable.

⁷ AER, Attachment 1: Services covered by the access arrangement | Draft decision – Multinet Gas Networks Access Arrangement 2023–28, p 5.

⁸ AER, Attachment 9: Tariff Setting | Draft decision – Multinet Gas Networks Access Arrangement 2023–28, p 10 (AER Draft Decision Tariff Setting).

⁹ AER Draft Decision *Attachment 9 Reference Tariff Setting*, p 10.

¹⁰ AER Draft Decision *Attachment 9 Reference Tariff Setting*, p.10

On how costs should be recovered, the AER states it is not yet satisfied it has sufficient information to approve the small customer connection abolishment as an ancillary reference service for the next AA period¹¹ and considers we need further time to discuss with stakeholders the relative strengths and weaknesses of:

- abolishment as an ancillary reference service (the cost is recovered directly from customers who choose to cease their gas supply); and
- “socialising” the costs by bundling small customer connection abolishment costs with haulage tariffs.¹²

Regarding direct cost recovery as an ancillary reference service the AER noted:

- the proposed abolishment service “is not a haulage service provided using shared network assets”;¹³
 - the proposed charges as ancillary reference services “are targeted directly to customers who choose to cease their gas supply” benefitting “customers who choose to remain connected to the reticulated gas network as they are not required to finance other customers’ abolishment activities”;¹⁴
 - however, the “approach of levying a material charge on customers may not be sustainable in the context of large numbers of customers ceasing gas supply” because the proposed abolishment charges may act as a disincentive for customers to engage the abolishment service;¹⁵
 - customers may opt for a cheaper temporary disconnection service, stating there is potential to reconnect in future and therefore avoiding incurring an abolishment charge, leaving a material number of customer connections remaining in situ with gas in them which the ESV has determined to be an unacceptable safety risk; and
 - retailers may be left with a significant financial risk in trying to recover abolishment charges from customers who no longer have a reticulated gas service or relationship with the retailer.
- Regarding socialising costs by bundling small customer connection abolishment costs with haulage tariffs the AER noted:
- under NGR 47A the Draft Decision considers “it is open for the AER to bundle, or socialise, connection abolishment costs should we consider that is the most appropriate approach”;¹⁶
 - equity issues arise from bundling (or socialising) of small customer abolishment costs, where the customer permanently disconnecting from the network is cross-subsidised by other gas customers who continue to utilise the network;
 - “Customers who remain connected to Victoria’s gas networks the longest, who may be expected to be amongst the most disadvantaged, would carry the heaviest financial burden under a socialised approach”;¹⁷
 - customers who switch earliest are the ones who benefit from socialisation of abolishment costs and these are likely to be the customers who have greater resources than customers who continue to use the gas network for longer (given the cost to a householder of switching out all gas appliances for electric);

¹¹ AER Draft Decision *Attachment 9 Reference Tariff Setting*, p 10.

¹² AER Draft Decision *Attachment 9 Reference Tariff Setting*, p 11.

¹³ AER Draft Decision *Attachment 9 Reference Tariff Setting*, p.11

¹⁴ AER Draft Decision *Attachment 9 Reference Tariff Setting*, p.11

¹⁵ AER Draft Decision *Attachment 9 Reference Tariff Setting*, p.12

¹⁶ AER Draft Decision *Attachment 9 Reference Tariff Setting*, p.12

¹⁷ AER Draft Decision *Attachment 9 Reference Tariff Setting*, p.13

- as large numbers of customers permanently disconnect from the networks over time, the financial burden of customer connection abolishment costs falls on a diminishing customer base, exacerbating equity issues;
- removing a financial barrier to individual customers switching from natural gas to electricity may facilitate realisation of the environmental benefits targeted by the GSR; and
- socialisation of abolishment costs may best align with ESV's determination on safety by increasing confidence that costs will be recovered.¹⁸
- We deal with these points in the sections that follow.

1.3.2 Large customer abolishment

The AER's Draft Decision approves large customer abolishment as a non-reference service as it expects large customer connection abolishment to be in low demand relative to small customer abolishment and the costs associated with large customer abolishment are varied and difficult to determine ex ante.¹⁹

The Draft Decision also notes that "[b]undling small customer abolishment costs across haulage tariffs for all customers means large customers would make a contribution to small customer costs until large customers cease their own gas supply,"²⁰ further cross-subsidising those choosing to leave the network earliest.

1.3.3 Next steps

The AER has asked that our revised Final Plan to:

- comment on the option of socialising small customer abolishment costs;
- provide updated forecasts of small customer abolishment numbers per annum; and
- provide estimated bill impacts of socialising small customer abolishment costs through haulage tariffs.²¹

1.4 Our revised Final Plan

The AER's Draft Decision accepted the majority of our proposed services. We do however maintain our GSR Response position on the introduction of a small customer abolishment ancillary reference service. In response to the AER's Draft Decision we:

- outline feedback from further engagement with end use customers and stakeholders;
- set out our GSR Response forecasts of small customer abolishment numbers per annum;
- provide estimated bill impacts of socialising small customer residential abolishment costs through haulage tariffs;
- consider the efficiency, costs and benefits of both approaches;
- outline the framework for setting out a list of distinct pipeline services and defining reference services, and for cost allocation of reference services in the NGL and NGR; and
- outline the AER's decisions to date using the framework.

¹⁸ AER Draft Decision Tariff Setting, pp 11-13.

¹⁹ AER Draft Decision *Attachment 9 Reference Tariff Setting*, p 13.

²⁰ AER Draft Decision *Attachment 9 Reference Tariff Setting*, p.13

²¹ AER Draft Decision *Attachment 9 Reference Tariff Setting*, p 13.

Further to the specific areas the AER asked us to address in our revised Final Plan, we also outline how we intend to engage with other distributors, retailers, the ESV and the Victorian government to develop a clear process and procedure for permanent disconnections from our gas network.

1.4.1 A summary of our response to the AER's Draft Decision is provided in Large customer abolishment

The AER's Draft Decision approves large customer abolishment as a non-reference service as it expects large customer connection abolishment to be in low demand relative to small customer abolishment and the costs associated with large customer abolishment are varied and difficult to determine ex ante.

The Draft Decision also notes that "[b]undling small customer abolishment costs across haulage tariffs for all customers means large customers would make a contribution to small customer costs until large customers cease their own gas supply," further cross-subsidising those choosing to leave the network earliest.

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1.5 Our revised Final Plan

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- set out our GSR Response forecasts of small customer abolishment numbers per annum;
- provide estimated bill impacts of socialising small customer residential abolishment costs through haulage tariffs;
- consider the efficiency, costs and benefits of both approaches;
- outline the framework for setting out a list of distinct pipeline services and defining reference services, and for cost allocation of reference services in the NGL and NGR; and
- outline the AER's decisions to date using the framework.

below.

Table 1.3: Summary of our response to the AER's Draft Decision on services

	AER Draft Decision	Our response	Our comment
Reference Services	Accept	Modify	The AER's Draft Decision approved the majority of our reference services for the next AA period. We maintain our position that abolishment costs should be recovered from the customer requiring the abolishment service.
Ancillary Reference Services	Modify	Modify	The AER's Draft Decision to approve the majority of our ancillary reference services for the next AA period. We maintain our position that small customer abolishment – residential should be an ancillary reference service.
Non-reference Services	Accept	Accept	The AER's Draft Decision to approve our non-reference services for the next AA period.

Note: In this 'traffic light' table, green shading represents our acceptance of the AER's Draft Decision, orange represents our modification of the AER's Draft Decision and red shading represents our rejection of the AER's Draft Decision.

The following sections provide further detail on our revised Final Plan services in response to the AER's Draft Decision.

1.5.1 Small customer abolishment

Customer insights

On 16 January 2023 we held two workshops with our customers. At the workshops we presented the outcome of the AER's Draft Decision, as well as discussing the topic of abolishments and their preferences for how the associated costs should be recovered.

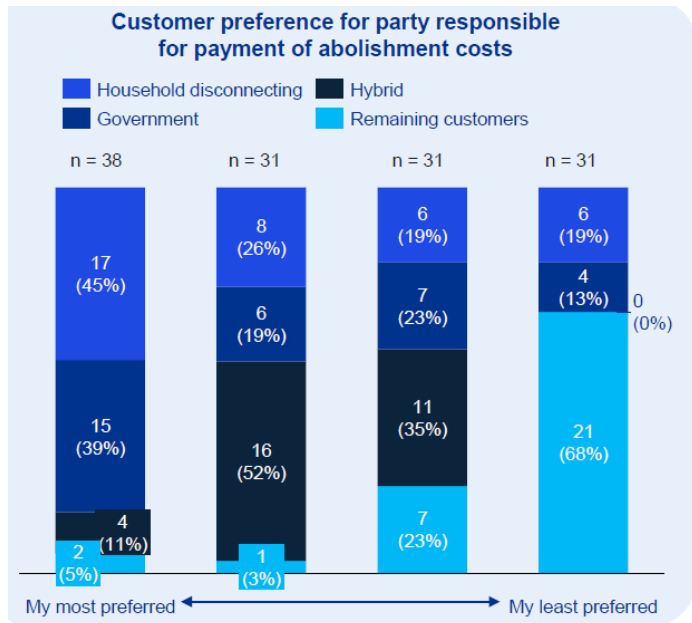
It is clear from both workshops that most customers prefer the use pays approach whereby the disconnecting household pays the costs of the abolishment. Many customers also supported Government either paying in full or contributing to this cost. Distributing these charges across remaining gas customers was the least preferred model of cost recovery:

- 45% of customers prefer the household requesting the disconnection pay the \$950 abolishment cost
- 68% of customers indicated that payment of abolishment costs by remaining gas customers is their lowest preference
- 39% of customers selected Government as their first choice to pay for the disconnection

In considering who should pay the abolishment costs, customers cited:

- A preference towards the fairness of a user pays model e.g. "It is fair that the householder requesting the abolishment bears that cost" and "I don't want to pay for those who disconnect", and "if you can afford to fully pay for the electrification of your home, the disconnection should be factored into it"
- The role of Government in incentivising or reducing the cost to customers e.g. "if Government are encouraging disconnections, then they should provide the incentives".

Figure 1.1 Customer Preferences – Abolishment Costs



Small customer residential disconnection forecast and bill impact of socialisation

The basis of our disconnections forecast is outlined in Attachments 13.4 and 13.1A to our GSR Response submitted 2 September, and remains unchanged in this revised Final Plan (discussed in Attachment 13.6). If the abolishment costs were to be socialised, we estimate this would increase the average customer’s bill by around \$33 per year.

Small customer residential abolishment should be recovered from the customers who are permanently disconnecting from the gas network in the first instance

Socialising the costs of abolishment would be a cross-subsidy of customers leaving the network by customers who remain. We are not aware of any explicit government policy, or more importantly legislative instrument, that states cross-subsidisation through network tariffs is the approach to be taken to address this issue in Victoria.

We therefore consider an approach which seeks to recover the cost of abolishments as an ancillary reference service from the customers who are permanently disconnecting from the gas network is the most preferred. But where a retail customer cannot be identified, the costs are unrecoverable from the customer or the abolishment is not requested but is required (for example safety reasons) we consider socialisation of the unrecovered costs is appropriate to ensure the ESV’s position on safety can be met and that we are provided with the opportunity to recover our efficient costs.

Importantly, the NGL and NGR provides a framework for defining “distinct” services, determining which services warrant classification as reference services, and for determining how costs should be allocated. It is clear this framework heavily favours an approach that allocates costs to services to which they are directly attributable.

The definition of a “pipeline service” in NGL specifically separates services provided (a) “by means of a pipeline” which would include haulage services and (b) those “ancillary to the provision of a service referred to in paragraph (a)”.

The proposed abolishment service is clearly distinct from a haulage service.²² The abolishment service does not use the physical assets of the pipeline nor does the service incur operating expenditure in maintaining the pipeline itself. As the AER's Draft Decision for the Victorian networks noted, it does not use shared assets. Furthermore, demand for the abolishment service is entirely distinct from demand for haulage services. On this basis the proposed abolishment service is distinct and warrants being listed as a distinct service in the list of services included in the AA.

The AER in its Draft Decision for the Jemena Gas Distribution Network, maintained in the Final Decision, noted with regard to ancillary reference services including Jemena's proposed abolishment service: "We consider the proposed ancillary services [including abolishment] in the reference service [proposal] do not overlap, and are not substitutable, with haulage."²³ This statement, that the abolishment service does not overlap with the haulage service confirms our assessment that an abolishment service is distinct from a haulage service.

NGR93 outlines the approach for cost allocation with subsection (2)(a) specifying the approach for reference services: "(a) costs directly attributable to reference services are to be allocated to those Services". This rule suggests costs directly attributable to a reference service should be allocated to that service.

Abolishment services required may not always be recoverable directly

As was noted by several stakeholders, the costs of some abolishment services may not be directly attributable to a specific customer, particularly where a retail customer cannot be identified. The example that has been given by stakeholders is where at some point previously the customer has closed their retail account and ceased using gas and no retail relationships exists at the time the need for an abolishment is identified. Nonetheless, in these instances to meet safety requirements, the network will be required to incur this expenditure as a prudent service provider acting in accordance with good industry practice.²⁴

While recovering the cost of abolishments from the customer causing it is the preferred approach, we consider it prudent to allow for a cost pass-through for costs of abolishments where a customer cannot be identified, there is no reasonable prospect of recovering from the customer or in circumstances where the service has not been requested, but is required for safety reasons.

This ensures safety obligations can be met and networks are provided with a reasonable opportunity to recover efficient costs. We have therefore proposed a cost passthrough event - 'Unrecovered Abolishment Event' – which is subject to the existing materiality threshold in the Access Arrangement. This passthrough is defined in the proposed Access Arrangement at Clause 4.6.1.

1.6 Summary

We have largely accepted the AER's Draft Decision in respect of Services. In this revised Final Plan we have however modified the AER's Draft Decision such that the costs associated with a permanent residential abolishment be recovered directly from the customer through an ancillary reference service (the "Abolishment service – Residential")²⁵.

²² NGR47A(2)

²³ AER Draft Decision Jemena Gas Networks Access Arrangement 2020 to 2025, *Attachment 1 Services covered by the access arrangement*, p.18

²⁴ NGR91(1)

²⁵ Abolishments for commercial and industrial customers will be charged the non-reference service (the "Abolishment service – Commercial and Industrial"), which charge will be based on a specific quote for the work.

We have also proposed a new cost passthrough event - 'Unrecovered Abolishment Event' – for those instances where abolishment costs cannot be recovered directly from those customers requiring the abolishment or where it is required for safety reasons, but is not a requested service.

We consider our revised Final Plan best meets and balances the expectations of our customers, stakeholders and the regulatory framework:

- Our customers indicated a preference that a customer requiring an abolishment service should meet the costs for the provision of that service;
- Retailers however advised that in some instances recovering these costs directly from those customers may not be possible. There may also be instances where an abolishment is identified for safety reasons, but has not been requested by a customer or retailer. We have therefore proposed the new cost passthrough event - 'Unrecovered Abolishment Event'.

We will continue to engage with stakeholders post submission of this revised Final Plan on the proposed new abolishment services.