




Multinet Gas Customer Contribution Policy




Customer Contribution
Policy for the Expansion and
Augmentation of the Multinet
Gas Distribution System




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1 APPROVAL AND AMENDMENT RECORD

AUTHOR			
Title:	Name:	Signature:	Date:
Graduate Engineer	Anja Tomic		09/07/14

REVIEWED			
Title:	Name:	Signature:	Date:
Large Capex Manager	Michelle Wingrave		9/7/14
Gas Asset Manager	Todd Henderson		11/7/14
Senior Engineer Network Planning	John Koutsoukos		9/7/14

APPROVED			
Title:	Name:	Signature:	Date:
GM Gas Network	Mark Beech		11/7/2014
GM Service Delivery South Region	Phil Walters		7/10
GM Service Delivery North Region	Ross Musgrove		14/2/14

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2 REFERENCES AND GLOSSARY OF TERMS

References

The following documents are referred to in this Document.

Document Name
Gas Distribution System Code Version 9.0 (effective 1 January 2009)
Multinet's Access Arrangements
Customer Contributions Policy for the Expansion and Augmentation of the Multinet Gas Distribution System, September 2009

Glossary of Terms

Term	Definition
Access Arrangement	The arrangement for third party access to a distribution pipeline that has been approved by the Commission pursuant to the Access Code.
Access Code	The Natural Gas Third Party Access Code in force pursuant to the Gas Pipelines Access (Victoria) Act 1998 (Vic).
augmentation	The expansion or enhancement of a distribution pipeline.
AER	Australian Energy Regulator that regulates energy markets and networks.
Commission	The Essential Services Commission established under the Essential Services Commission Act 2001 (Vic).
connection	The joining of a gas installation to a distribution supply point to allow the flow of gas.
customer	In relation to a supply of gas from a distribution supply point, the person to whom the Distributor delivers gas through its distribution system at that distribution supply point and includes a person who has sought connection to the distribution system as a customer.
data logger	A device that collects and stores data relating to the quantity, temperature and pressure of gas and is capable of either: (a) transferring recorded data to a portable reading device; or (b) being accessed electronically by VENCORP through a data collection system.
Distribution Licence	A licence to provide distribution services by means of a distribution pipeline granted to the Distributor by the Commission under the Gas Industry Act.

Term	Definition
distribution supply point	<p>A point on a distribution system at which gas is withdrawn from the distribution system for delivery to a customer which is normally located at:</p> <ul style="list-style-type: none"> • the inlet of a gas installation of a customer; • the outlet of a meter; or • the end of a main; <p>and includes a “supply point” and an “ancillary supply point” as defined in the Gas Industry Act in relation to a distribution system.</p>
distribution system	Means a network of pipes, meters and controls which the Distributor uses to supply gas.
Distribution System Code	The Distribution System Code as issued and amended by the Commission from time to time.
Distributor	A person who holds a Distribution Licence under the Gas Industry Act.
Expansion	<p>The process of upgrading capacity or service potential of a distribution pipeline by:</p> <p>(a) replacing or enhancing existing plant or equipment; or</p> <p>(b) adding new plant or equipment.</p>
gas	Natural gas as defined in the Gas Industry Act which meets the prescribed standards of quality and other requirements prescribed under the Gas Safety Act 1997 (Vic) and includes natural gas that has been injected into and stored in a storage facility and, where applicable, TLPG.
Gas Industry Act	The Gas Industry Act 2001 (Vic).
gas installation	Any gas equipment located at a customer’s premises that is not part of a distribution system.
GJ	“Gigajoule”, being one thousand million Joules (1,000,000,000j).
main	A low, medium or high pressure pipe in the distribution system, other than a service pipe.
meter	An instrument that measures the quantity of gas passing through it and includes associated equipment attached to the instrument to filter, control or regulate the flow of gas.
metering installation	The meter and associated equipment and installations, which may include correctors, regulators, filters, data loggers and telemetry relating to a distribution supply point.
MHQ	Maximum hourly quantity

Term	Definition
residential customer	A customer who uses gas primarily for domestic purposes.
Retailer	A person authorised to sell gas under a Retail Licence issued by the Commission under the Gas Industry Act.
service pipe	A pipe ending at a metering installation or, for an unmetered site a gas installation, which connects a main or a transmission pipeline to customer's premises, as determined by a Distributor.
Standard metering installation	The least overall cost, technically acceptable meter able to measure and record the quantity of gas that is reasonably expected to be consumed by a customer at a distribution supply point at a metering pressure of 1.1 kPa, and for meters with a capacity in excess of a nominal 6m ³ /hr, at an hourly load factor of at least 5%.
TLPG	Tempered liquefied petroleum gas, being a mixture of vaporised commercial propane and air.
User	A market participant, Retailer, or a customer who has a contract for distribution services with the Distributor.
VENCorp	Victorian Energy Networks Corporation, being the transmission system operator established under the Gas Industry Act.
year	A calendar year or a period commencing on 1 July in a calendar year and terminating on 30 June in the following calendar year.

3 OBJECTIVES

The objectives of this policy are to ensure that all supply connections and associated expansion and augmentations are carried out in accordance with the Gas Distribution System Code, on a least cost technically acceptable basis and that any charges levied to the Tariff V and D customers are fair and reasonable.

4 GUIDANCE ON CONNECTION CHARGES

Distributors are required to determine the connection charge (if any) to be paid by a customer for connection to the existing distribution system, or areas in close proximity that may require a minor mains extension. To ensure consistency across all distribution businesses, the Essential Services Commission has provided guidance on connection charges in the Gas Distribution System Code Version 9.0 (effective 1 January 2009).

The Multinet Gas Customer Contribution Policy is based on the Gas Distribution System Code Version 9.0. The Code contains Schedule 2 that is intended to provide guidance in the determination of charges for customer connections. Refer to extract Clause 1 from the Schedule 2 immediately below.

1. Purpose and Limitation

The purpose of this Schedule is to provide guidance with respect to the determination of the charge component of the terms and conditions for the connection of a customer's gas installation to the distributor's distribution system within the minor or infill extension area. Nothing in this Schedule shall override any contractual provision relating to the charge levied on a customer for connecting to the distribution system that existed prior to the commencement of this Schedule.

The Australian Energy Regulator (AER) has approved Multinet's Access Arrangements and the Terms and Conditions, which will apply for the five year period commencing 1 January 2013. Under these arrangements, the key concepts for assessing the eligibility and value of customer contributions that can be charged for a new connection are Least Cost Technically Acceptable (LCTA) design and Economic Feasibility Test (EFT), which must be adopted for the assessment of all supply connection charges. Section 6.3 of the Policy details the considerations applied to the LCTA and also describes the framework for the application of the EFT. There are differences in how the EFT is applied to prospective domestic and commercial connections.

Section 8.1 of the Policy refers to Simple Connections under Tariff V, and the installation details are consistent with the LCTA described in Section 6.4. The Policy identifies that "...for the majority of these simple connections, applying the EFT would result in no connection charge. Therefore the EFT is not applied...". Consequently, the general guideline is that normal domestic connections are not subject to the EFT.

Section 8.2 of the Policy confirms that if a domestic or commercial connection request does not meet the criteria for a Simple Connection, the request shall be deemed to be Complex and subject to the EFT.

5 DEFENITION OF THE ECONOMIC FEASIBILITY TEST

The EFT refers to the calculation of revenue for a new connection and the cost of providing the connection in present value terms. Any short fall between the anticipated revenue and the cost of providing the connection service is the connection charge the customer is required to contribute.

Connection Charge = PV of Connection Cost – PV of Anticipated Revenue

PV – refers to present value.

6 ESTIMATION OF INCREMENTAL REVENUE AND COST

6.1 TARIFF V Customers

When applying the EFT, the Gas Distribution System Code (Schedule 2) requires distributors to adopt the following principles:

Discount Rate

The pre-tax Weighted Average Cost of Capital (WACC) as per the Approved Access Arrangements shall be applied.

Period of Analysis (Economic life)

Residential Connection = 20 years

Commercial/Industrial Connection = 15 years

Note: For commercial and industrial customers a different economic life may be used if there are grounds that the life of a connection may be less than 15 years.

Tariff Rates

The current approved tariff rates shall be extended forward by the prevailing X factor until the end of the current regulatory period (31 December 2017) and constant in real terms thereafter.

Where a connection is within the Yarra Ranges and South Gippsland towns networks the associated surcharge will be taken into account.

Quantities (consumption Gj)

A forecast based on the reasonably expected usage in gigajoules per annum over the forecast period shall be applied.

Incremental Capital Cost

The cost of connection includes cost of mains extensions (if required), provision of service pipe and standard meter plus 10% of the direct costs to reflect incremental overheads. It is assumed that the incremental cost associated with upstream reinforcement of the distribution system is immaterial.

Incremental Operating and Maintenance Cost

The incremental operating and maintenance cost for year 2014 is \$21.76.

The above figure is determined in accordance with Clause 4f from the Gas Distribution System Code - Version 9, Schedule 2, as seen immediately below.

Incremental operating and maintenance costs – shall be assumed to be \$17 per annum in dollars as at July 2006. This figure may be escalated by an annual amount of 0.32 per cent to account for the rate of change per connection, and for inflation to convert it into an equivalent cost in the year in which the economic feasibility test is being undertaken using the method for adjusting for inflation that is employed for reference tariffs.

For inflation, to convert it into an equivalent cost in the year applying the EFT, adjustment for inflation will be based on the method (CPI) used for calculating reference tariffs.

The incremental operating and maintenance cost is determined by applying the below formulae:

$$IOMC_t = (1.0032 * IOMC_{t-1}) + (1.0032 * IOMC_{t-1} * CPI_{t-1})$$

Where:

$IOMC_t$ is the incremental operating and maintenance cost for year t (year applying the EFT);

$IOMC_{t-1}$ is the incremental operating and maintenance cost for year t - 1 (year applying the EFT - 1);

CPI_{t-1} is the CPI for year t – 1 (year applying the EFT - 1).

For example, the incremental operating and maintenance cost for year 2007 can be determined as seen below.

The CPI for year 2006 is 3.94%.

$$IOMC_{2007} = (1.0032 * IOMC_{2006}) + (1.0032 * IOMC_{2006} * CPI_{2006})$$

$$IOMC_{2007} = (1.0032 * 17) + (1.0032 * 17 * 3.94\%)$$

$$IOMC_{2007} = 17.73$$

Therefore, the incremental operating and maintenance cost in year 2007 is \$17.73.

6.2 TARIFF D Customers

When applying the EFT, the Gas Distribution System Code (Schedule 2) requires distributors to adopt the following principles:

Discount Rate

The pre-tax Weighted Average Cost of Capital (WACC) as per the Approved Access Arrangements shall be applied.

Period of Analysis (Economic life)

Commercial/Industrial Connection = 15 years

Note: For commercial and industrial customers a different economic life may be used if there are grounds that the life of a connection may be less than 15 years.

Tariff Rates

The current approved tariff rates shall be extended forward by the prevailing X factor until the end of the current regulatory period (31 December 2017) and constant in real terms thereafter.

Where a connection is within the Yarra Ranges and South Gippsland towns networks the associated surcharge will be taken into account.

Quantities (Demand MHQ)

A forecast based on the reasonably anticipated maximum hourly quantity (MHQ) per annum over the forecast period shall be applied.

Incremental Capital Cost

Only the cost of installing additional upstream reinforcements (reinforcements to the existing distribution system as specified by System Planning engineers) plus 10% of direct costs to reflect incremental overheads shall be included in the EFT.

Note: For Tariff D customers, the direct cost of providing dedicated connection facilities should not be included in the EFT. Multinet's policy is to require the customer to fully fund the direct cost of providing dedicated connection facilities plus 10% of the direct cost to reflect incremental overheads.

Connection facilities dedicated to a customer mean those facilities that are used (or may be used) to transport gas to that customer and no other customer, i.e. meter/regulator, service pipe, data logger, meter security enclosure, bollards, etc.

Incremental Operating and Maintenance Cost

The cost shall be the direct cost of operating and maintaining the reinforced system less the direct cost of operating and maintaining the distribution system as it existed prior to the reinforcement. No allowances for overheads shall be included.

Note: For Tariff D customers, the direct cost of ongoing maintenance of connection facilities dedicated to a customer should not be included in the EFT. Multinet's policy is to levy these direct costs to the customer via the retailer on a monthly basis. No allowances for overheads shall be included.

6.3 Least Cost Technically Acceptable (LCTA)

The LCTA design for all projects is determined by Multinet and shall be based on prospective load details supplied by the customer. Network Planning engineers will determine the least cost technically acceptable design to supply the prospective load for all Complex Connections.

Multinet may install larger assets for future expansion of the network. Costs associated with the installation of these over and above the LCTA design will be borne by Multinet.

Multinet's LCTA design policy is to locate a Standard Metering Installation (as defined in the Gas Distribution System Code) as close as possible to the distribution supply point taking into account, among other things the cost of installation, ease of access and security. In the case of a multi-story building Multinet does not provide Metering Installation other than being as close as possible to the distribution supply point. Any Metering Installation beyond this point will be the responsibility of the customer.

If a customer requests a second option (other than the LCTA option), Multinet will provide the customer with a second option and apply an EFT, consistent with Schedule 2 of the Gas Distribution System Code, to determine a connection charge (if any) to be paid by a customer to connect to the distribution system.

7 APPLICATION OF ECONOMIC FEASIBILITY TEST

7.1 Greenfield Subdivisions

Residential

Multinet will apply the EFT on a case by case basis. The direct capital cost shall include the estimated costs of a standard meter, service pipe and additional mains required to service the development, plus 10% of all direct costs to reflect the incremental overheads.

In Greenfield developments where developers are only able to provide an estimate of customer numbers and when no estimate of proposed consumption is provided prior to evaluation, Multinet will use the total available number of house lots and an annual average consumption figure of 42.93 gigajoules for its evaluation. The forecast in these evaluations assumes that the current average penetration rate in the domestic sector of 90% will actually connect to gas.

Note: The consumption figure and penetration rate specified will be subject to an annual revision based on the current market conditions.

A contribution from the developer (who has applied for installation of gas mains only) is required where the EFT results in a short fall between the anticipated revenue and the cost of providing the connection service. The maximum contribution payable is the total cost of the mains (including overheads). Installation of individual services and meters will be subject to a further economic evaluation at the time of application by the Gas Retailer only if Multinet considers them as Complex Connections (these are all connections other than Simple Connections).

Commercial

As the average load of business customers is not a reliable indicator of the expected consumption for any prospective new group of business customers, only the expected loads of new users should be included in the EFT. The cost of services and meters for these identified users must also be included with the costs of gas mains to evaluate these developments.

In the cases where the EFT results in a short fall between the anticipated revenue and the cost of providing the connection service, a contribution from the developer, (who has applied for installation of gas mains only) is required. The maximum contribution payable is the total cost of the mains (including overheads). In instances where developers are unable to provide the connected load and definite end user details, Multinet's policy is to require the customer to fully fund the cost associated with the installation of gas mains. Installation of individual services and meters will be subject to a further economic evaluation at the time of application by the Gas Retailer only if Multinet considers them as Complex Connections (these are all connections other than Simple Connections).

8 AD HOC CONNECTION REQUESTS FROM RETAILERS

8.1 Simple Connections (Tariff V)

A Simple Connection for the purposes of EFT's is defined as a new connection point that will – "Consist of a connection load that when calculated to determine an annual load is not likely to incur an economic shortfall chargeable to the applicant".

Typically, these connections would include:

- no requirement for a mains extension,
- no request for additional infrastructure above the 'Standard Metering Installation' as defined in the Gas Distribution System Code,
- requires no more than 20 metres of 25mm polyethylene service connection pipe (inside the property boundary) and costing no more than the associated cost of constructing in natural ground using common construction methods.

Current new connection procedures in place with Gas Retailers use parameters that ensure the majority of these jobs to follow directly to Multinet contractors for both service pipe and the subsequent new meter installation transactions to maximise the expedition of connections.

For the majority of these 'simple connections', applying the EFT would result in no connection charge. Therefore, the **EFT is not applied in these cases.**

8.2 Request for Connection does not fit the description of a Simple Connection

If a request for connection does not meet the criteria of a "Simple Connection" it shall be deemed to be Complex and subject to the EFT.

Complex Connections on Tariff V

Multinet will apply the EFT using consumption data or a reasonable estimate based on the information provided by the retailer/customer. The Gas Connection Advice is received from an increasing number of licensed Retailers, whose staff exhibit differing levels of technical understanding and submit varying content of gas load detail. The most consistent parameter is the Connected Load value, and this is used by Planners who apply judgement to calculate a realistic value for Annual Consumption.

The customer connection charge shall include the following:

- (a) Any shortfall arising from the EFT.

In instances of Commercial and Industrial connections, where the customers are unable to provide the connected load and definite end user details, Multinet's policy is to require the customer to fully fund the cost associated with providing the connection service. Therefore, the **EFT is not applied in these cases.**

9 EFT APPROVAL

Project Planners are to obtain signoff on the EFT by their manager to demonstrate that the assumptions applied have been reviewed and approved.

10 INVOICING

- Retailer requests: invoicing for any contribution towards the short fall arising from the EFT or direct cost for dedicated facilities (capital and/or expense recovery) will be invoiced to the retailer following completion of the works.
- Developer requests for Greenfield Estates: requires invoicing and payment via cheque in advance before works commence.

11 PROVISION OF INFORMATION

Where a Tariff V customer is required to contribute to connection costs, Multinet shall provide the details of any contribution required for mains extension, service pipe, metering installation and any additional equipment such as bollards, security enclosure, etc.

The customer or retailer must also be advised that they have the right to request other quotes to perform the augmentation works from at least two persons other than Multinet. Multinet currently meets this obligation to the customer/retailer by providing within the Gas Connection Advice reference to clause 3.2(a) of the Gas Distribution System Code and providing the retailer/customer with a copy of section 3 of the Gas Distribution System Code.

Multinet may recover the reasonable costs it incurs in obtaining the quotes.

Should the retailer or customer specifically request an itemised quote, Multinet shall provide at least the following additional information:

- Present value of incremental revenue and assumptions made in the calculation
- Cost of mains extension
- Cost of service pipe installation

For Tariff D customers, all quotes for connections shall be itemised to include at least the following information:

- Cost of the connection facilities dedicated to the customer
- Operating and maintenance costs of the connection facilities dedicated to the customer
- Meter type and cost (including data logger)
- Additional equipment (meter security enclosure, bollards, etc.)

Should Multinet require the customer to fund any shortfall arising from the EFT for upstream reinforcement works, the customer or retailer must also be advised that they have the right to request other quotes to perform the augmentation works from at least two persons other than Multinet. Multinet currently meets this obligation to the customer/retailer by providing within the Gas Connection Advice reference to clause 3.2(a) of the Gas Distribution System Code and providing the retailer/customer with a copy of section 3 of the Gas Distribution System Code.

Multinet may recover the reasonable costs it incurs in obtaining the quotes.

Multinet shall on request provide at least the following additional information:

- Present value of incremental revenue and assumptions made in the calculation
- Cost of upstream reinforcement works (that is excluding assets dedicated to the customer)
- Multinet's contribution towards the cost of reinforcement works
- Incremental operating and maintenance costs associated with the reinforced system and assumptions made in the calculation