



**DRAFT DECISION**  
**Australian Gas Networks**  
**Victoria and Albury gas access**  
**arrangement**  
**2018 to 2022**

**Attachment 1 – Services**  
**covered by the access**  
**arrangement**

July 2017

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## Note

This attachment forms part of the AER's draft decision on the access arrangement for AGN's Victoria and Albury gas distribution networks for 2018-22. It should be read with all other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 - Services covered by the access arrangement

Attachment 2 - Capital base

Attachment 3 - Rate of return

Attachment 4 - Value of imputation credits

Attachment 5 - Regulatory depreciation

Attachment 6 - Capital expenditure

Attachment 7 - Operating expenditure

Attachment 8 - Corporate income tax

Attachment 9 - Efficiency carryover mechanism

Attachment 10 - Reference tariff setting

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## Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
ATO	Australian Tax Office
capex	capital expenditure
CAPM	capital asset pricing model
CESS	Capital Expenditure Sharing Scheme
CPI	consumer price index
DRP	debt risk premium
ECM	(Opex) Efficiency Carryover Mechanism
ERP	equity risk premium
Expenditure Guideline	Expenditure Forecast Assessment Guideline
gamma	Value of Imputation Credits
MRP	market risk premium
NGL	National Gas Law
NGO	national gas objective
NGR	National Gas Rules
NPV	net present value
opex	operating expenditure
PTRM	post-tax revenue model
RBA	Reserve Bank of Australia
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
STTM	Short Term Trading Market
TAB	Tax asset base
UAFG	Unaccounted for gas
WACC	weighted average cost of capital
WPI	Wage Price Index

# 1 Services covered by the access arrangement

The NGR require the access arrangement to identify:

- the pipeline which the access arrangement relates to, and
- the services which AGN proposes to offer customers by means of that pipeline.<sup>1</sup>

A full access arrangement must specify as a reference service:

- (a) at least one pipeline service that is likely to be sought by a significant part of the market; and
- (b) any other pipeline service that is likely to be sought by a significant part of the market and which the AER considers should be specified as a reference service.

In deciding whether to specify a pipeline service as a reference service, we must take into account the revenue and pricing principles.<sup>2</sup>

## 1.1 Draft decision

We approve the haulage reference services proposed by AGN for its Victoria and Albury networks during the 2018–22 access arrangement. These services are the same as those in the current access arrangement period. These services are:

- Volume Haulage Service—delivery of gas to those customers using less than 10 TJs, and meter reading for that service every two months.
- Demand Haulage Service—delivery of gas to those customers using more than 10 TJ per annum and monthly meter reading for that service.

We approve the ancillary reference services proposed by AGN for its Victoria and Albury networks during the 2018–22 access arrangement. These services are the same as those in the current access arrangement period. These services are:

- Meter and gas installation test—on-site testing to check the measurement accuracy of the meter
- Disconnection—disconnection by installation of locks or plugs on a meter
- Reconnection—reconnection by removal of locks or plugs on a meter
- Meter removal—removing a meter at a premise
- Meter reinstatement—reinstating a meter at a premise
- Special meter read—Reading of a meter in addition to a scheduled meter reading.

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<sup>1</sup> NGR, r. 48(1)(a) and (b)

<sup>2</sup> NGR, r. 101.

## 1.2 AGN's proposal

For the 2018–22 access arrangement, AGN proposed the following services:

- reference services, comprising:
  - haulage reference services
  - ancillary reference services
- Non-reference services.

### Haulage Reference Services

For the 2018–22 access arrangement, AGN proposed haulage reference services for its Victoria and Albury networks be the same as those offered in the current access arrangement. These are:

- Volume Haulage Service—delivery of gas to those customers using less than 10 TJs, and meter reading for that service every two months.
- Demand Haulage Service—delivery of gas to those customers using more than 10 TJ per annum and monthly meter reading for that service.

AGN proposes the following two haulage reference services:

- Volume haulage reference service—which is for the delivery of gas to customers using less than 10TJs through a volume delivery point. Metering installation is included in this service, with meter readings occurring every two months. It is provided to residential customers (Tariff R Residential) and non-residential customers (called Tariff C Non-Residential).
- Demand haulage service—which is for the delivery of gas to customers through a demand delivery point. That is, where the quantity of gas delivered has exceeded 10 TJs over the preceding 12 month period (or has exceeded 10 TJs in any hour during the preceding 12 months). The charges for this service are based on Maximum Hourly Quantity, which is an amount agreed between the customers and AGN. Metering installation is included in this service, with meter readings occurring every month.

### Ancillary Reference Services

For the 2018–22 access arrangement, AGN proposes ancillary reference services for its Victoria and Albury networks should remain the same as those applying in the current access arrangement. The services are:

- Meter and gas installation test—on-site testing to check the measurement accuracy of the meter
- Disconnection—disconnection by installation of locks or plugs on a meter
- Reconnection—reconnection by removal of locks or plugs on a meter
- Meter removal—removing a meter at a premise

- Meter reinstallation—reinstating a meter at a premise
- Special meter read—Reading of a meter in addition to a scheduled meter reading

These services will be provided to residential and non-residential customers.

## Non-Reference Services

AGN will negotiate the price of non-reference services with requesting customers.

### 1.3 Assessment approach

AGN is required by the NGR to specify the reference services in its access arrangement proposal.<sup>3</sup> A reference service is a pipeline service that is likely to be sought by a significant part of the market. A pipeline service is a:

- service provided by means of a pipeline, including a:
  - haulage (i.e. transportation) service
  - service providing for, or facilitating, the interconnection of pipelines
- a service ancillary to one of these services.

AGN's access arrangement provisions regarding pipeline services are also required to be consistent with the National Gas Objective.<sup>4</sup>

In summary, this means that a gas distribution company is using its network of underground pipes to transport gas from the production source to households and commercial and industrial premises. These customers use the gas for heating homes and for cooking, and as an input into manufacturing goods and services or undertaking other industrial processes. Gas powered generators also use the gas as an input to produce electricity for the national electricity market.

Our assessment approach is to identify the covered pipeline<sup>5</sup> that is providing these services and any additions or expansion that have occurred during the current access arrangement period.

A full access arrangement must specify at least one reference service to customers, on the basis that it is likely to be sought by a significant part of the market.

For ancillary reference services, we have considered the services currently offered by AGN and the additional ancillary reference service that some stakeholders have submitted should be included as reference services.

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<sup>3</sup> NGR, r. 48.

<sup>4</sup> NGR r. 100(a)

<sup>5</sup> A covered pipeline means a pipeline that is regulated under the National Gas Law and National Gas Rules. In that respect, it is 'covered by regulation'.



For non-reference pipeline services or negotiated services, we are not required to set tariffs for these or the terms or conditions on which they are provided.

### 1.3.1 Interrelationships

AGN's services have an interrelationship with the tariffs it charges for the use of its services and the total revenues it can recover through the AER's total revenue requirement and the application of annual tariff variation mechanisms.

AGN's haulage reference tariffs are adjusted annually by the application of a weighted average price cap formula. Its haulage reference tariffs are derived from the total revenue requirement after consideration of demand for each tariff category. This means the tariffs we determine (including the means of varying the tariffs from year to year) are the binding constraint across the 2018–22 access arrangement period, rather than the total revenue requirement set out in our decision.

After the first year of the access arrangement period, AGN's ancillary reference service prices are set by application of the ancillary reference service tariff variation formula.

Our draft decision on:

- AGN's total revenue requirement is set out in the Overview attachment of our draft decision
- the tariffs AGN will charge for the provision of these services is set out in attachment 10—Reference tariff setting
- the annual tariff variation mechanism is set out in attachment 11—Reference tariff variation mechanism.

## 1.4 Reasons for draft decision

We first considered whether AGN has complied with the requirements of the NGR, which we set out in Table 1-1.

**Table 1-1 Assessment of AGN's compliance with the NGR**

NGR requirements	AER assessment
A full access arrangement must:	
identify the pipeline to which the access arrangement relates and include a reference to a website at which a description of the pipeline can be inspected — NGR clause 48(1)(a)	Compliant. Clause 1 of the access arrangement proposal.
describe the pipeline services the service provider propose to offer to provide by means of the pipeline — NGR clause 48(1)(b)	Compliant. Clause 2 of the access arrangement proposal.
specify the reference services — NGR clause 48(1)(c)	Compliant. Clause 2 of the access arrangement proposal.

The reference tariffs and other (non-tariff) terms and conditions on which the reference services will be provided are considered in attachments 10 and 12.

## Haulage Reference Services

We consider that a significant part of the market is likely to seek services that provide for the transportation of gas, meter reading and associated activities and ancillary activities. These are the main types of services that pipeline operators provide which help deliver gas each day to final customers for use in households or commercial enterprise. Retailer submissions supported AGN continuing to provide these services.<sup>6</sup>

Customers cannot access competing providers for these services. AGN has not sought to change the haulage reference services that it currently provides and is seeking to provide during the 2018–22 access arrangement period.

Accordingly, we consider that the proposed reference services are likely to be sought by a significant part of the market.<sup>7</sup>

In the past, we have approved these same services as reference services and there have been no changes to the market in recent years that would alter our view.

## Ancillary reference services

We approve AGN's proposed ancillary reference services for its Victoria and Albury networks, which are consistent with those offered in the current access arrangement period.

There were no stakeholder submissions that sought for these reference services to be removed from the access arrangement or modified.

However, AGL requested the inclusion of an additional reference service for all Victorian gas distributors which it described as 'installation of second service valve in a pit and disconnect gas supply' reference service.<sup>8</sup> This would be a new ancillary reference service. Origin Energy held a similar view.<sup>9</sup> AGL's submission noted the complexity associated with reconnecting a site following a street disconnection if AGN was unable to access the meter when it attended the site. It suggested the option of installing an additional service valve (which would be more accessible) would enable timelier reconnection of supply with minimal disruption following site disconnection. AGL noted that Multinet intends to provide this new service in response to feedback from retailers.

AGN advised that neither AGL nor other retailers had raised the possibility of the insertion of a second valve as a new reference service during AGN's consultation on its proposal.

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<sup>6</sup> Origin Energy, *Victorian Gas access Arrangement Review 2018–22 Response to Gas Distribution Business' Proposals*, February 2017, p.p. 2-3.

<sup>7</sup> NGR, r. 101.

<sup>8</sup> AGL Energy Limited, *Victorian gas access arrangement proposals*, 21 March 2017, pp. 2-3.

<sup>9</sup> Origin Energy, *Victorian Gas access Arrangement Review 2018–22 Response to Gas Distribution Business' Proposals*, February 2017, p. 3.

With reference to AGL's submission, AGN noted that it currently offers a similar service (crimping of the gas pipe connecting premises to the mains) as a negotiated service. Its experience suggests that demand for this new service would likely be limited, and that the need to include it in the access arrangement as a reference service was unclear.

AGN also advised that there would be health and safety risks associated with AGL's proposed service, which would need to be further explored and costed for pricing purposes.

We have approved Multinet providing this service as an ancillary reference service on the basis that it is willing to offer it. For this decision, however, we will not require AGN to do so on the basis that there is not a clear case that this new service is likely to be sought by a significant part of the market. Furthermore, retailers can access a similar service on behalf of their customers, which AGN offers as a negotiated service.