Final decision

Multinet Gas Networks
Gas distribution access arrangement
1 July 2023 to 30 June 2028

Attachment 9 – Reference tariff setting

June 2023

AUSTRALIAN ENERGY REGULATOR

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9 Reference tariff setting

This attachment outlines our assessment of the reference tariffs proposed by Multinet Gas Networks (MGN) against the requirements of the National Gas Rules (NGR). Our assessment takes into account the revenue and pricing principles.

This attachment describes our assessment of MGN's proposed reference tariffs and sets out the revisions required by this decision. Our assessment focuses on the design and structure of tariffs and the allocation of costs to services.

9.1 Final decision

Our draft decision accepted MGN's proposed structure for its reference tariffs for the 2023–28 access arrangement period (the 2023−28 period), with one exception. We did not approve the proposed stand-alone tariff for the newly proposed abolishment ancillary reference service for residential customers (small customer connection abolishments). This included not accepting the proposed stand-alone price capped ancillary reference service tariff of $950.

Our final decision is to:

- cap the small customer connection abolishment ancillary reference service tariff at $220 in real terms over the 2023−28 period
- socialise the balance of small customer abolishment costs up to $950 across haulage tariffs
- provide the Victorian distributors with an ex ante operating expenditure (opex) allowance for small customer abolishment based on the difference between their cost reflective abolishment tariff and $220, and forecast abolishment numbers
- establish a new true-up mechanism to lower (or raise) haulage tariffs in subsequent financial years if the number of small customer abolishments is lower (or higher) than forecasts in any given year
- require distributors to pass through to customers the benefit of any lower cost abolishment methods approved by Energy Safe Victoria, via the abolishment true-up mechanism
- not accept the MGN's newly proposed abolishment cost pass-through event.

Haulage reference service tariffs must be updated for our building block final decision on revenues.

Our reasons for our final decision are set out below.

9.2 MGN's revised proposal

With its revised proposal, MGN retained its position from its initial proposal to recover the cost of small customer abolishments as an ancillary reference service. Consistent with its initial proposal, MGN submitted that the ancillary reference service tariff should be $950. MGN further proposed to introduce a new cost pass through event for it to recover from all customers any small customer abolishment costs unable to be recovered from permanently disconnecting customers.

We note that with respect to small customer abolishment tariffs, MGN's revised proposal aligned with revised proposals submitted by MGN and AusNet in that all three distributors proposed cost reflective abolishment tariffs and a new cost pass through event for otherwise unrecoverable small customer abolishment costs. Further, as AGN and MGN share common ownership and corporate structures, details of their revised proposals in respect of small customer abolishment were largely identical with differences limited to proposed ancillary reference service tariffs stemming from varying costs across the two networks.

In support of their position on small customer abolishment, AGN and MGN submitted feedback elicited from customer workshops, arguments based on the NGR and on equity considerations, and arguments derived from both our draft decision and from a previous access arrangement determination.

On their customer workshops, AGN and MGN described participants as preferring cost reflective abolishment tariffs in addition to government financing all or part of small customer abolishment costs. Socialising abolishment costs across remaining gas customers was described by MGN as workshop participants' least preferred option.

On the NGR, AGN and MGN submitted that cl. 93 of the NGR suggests that costs directly attributable to a reference service should be allocated to that service. On equity, AGN and MGN argued that socialising abolishment costs across their customer bases would be inequitable for remaining customers.

AGN and MGN further described our draft decision for the 2023−28 period which noted that the abolishment service does not use shared network assets. On this basis AGN and MGN argued that abolishment costs should not be recovered from shared network haulage tariffs. Similarly, AGN and MGN referred to our draft decision for the 2020−25 JGN access arrangement in which we determined that ancillary reference services, including abolishment, were not substitutable with the haulage service.

9.2.1 Submissions on MGN's revised proposal

Stakeholders expressed mixed perspectives on small customer abolishment tariffs within written submissions.

Stakeholders supporting socialisation of abolishment costs by one means or another were Red-Lumo, Brotherhood of St Laurence, Darebin Climate Action Now, David Strang, Alan Pears and John Godfrey. A subset of the above stakeholders recommended that abolishment costs be socialised across electricity customers to mitigate the cost burden on remaining gas customers.

AGL and Origin noted in their submissions the unfairness of burdening remaining customers with abolishment costs under a socialised approach. Both expressed support for the distributors' revised proposals, though they did so without materially engaging with the safety issue driving our considerations.

Red-Lumo's submission engaged with the safety and moral hazard issues raised by the Victorian distributors' revised proposals, also noting the difficulty and cost of dealing with customers who choose not to engage with the retailer following their final meter read. Red-Lumo recommended socialising abolishment costs.

CCP28 proposed that abolishment costs be managed under a comprehensive plan for network wind-down, while noting that under the revised proposals socialisation of abolishment costs would likely become the de facto approach even if not intended.

Several submissions urged networks to research cheaper ways of making connections safe.

John Godfrey provided a link to a Facebook page, which we have reviewed, dedicated to avoiding abolishment charges. Gas customers are actively sharing tips on how to permanently disconnect from gas networks while avoiding the abolishment charge. Connection pipes are remaining in situ with gas in them.

At a meeting of the distributors' Retailer Reference Group on 21 February 2023, attended by AER staff, retailers noted:

- the difficulty they already experience in clarifying customer intentions to either temporarily or permanently disconnect from gas networks and their concerns that the problem will grow in scale
- some customers are actively avoiding paying abolishment charges, where currently applicable, by incorrectly stating that they intend to re-connect or by simply not engaging with their retailer following their final meter read
- a number of gas connections have been dormant for multiple years but have not been abolished (we note there appears to be no process for systematically abolishing dormant connections)
- the moral hazard issue arising under the distributors' proposed approach – customers who do the right thing would pay a cost reflective abolishment charge while customers who avoid the charge would systematically have their debt socialised via the proposed abolishment cost pass through event.

9.3 Assessment approach

We set out our assessment approach for reference tariff setting in our draft decision.[1]

9.4 Reasons for final decision

This section focuses on small customer (residential) abolishment because other issues were settled with our draft decision and the Victorian distributors' revised proposals.

9.4.1 Public safety

In reaching our final decision on small customer abolishment tariffs we placed significant weight on the need to mitigate risks to public safety. Underlying our final decision is the price differential between the cost reflective tariffs for the various cease-of-service options – temporary disconnection, meter removal and abolishment.

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1 AER, MGN 2023-28 - Draft Decision - Attachment 9 – Reference tariff setting - December 2022, pp. 3-5.

Across the 3 Victorian distributors, temporary disconnection ancillary reference service tariffs range from $58.33 to $81. Meter removal tariffs vary from $69.68 to $115, although AusNet does not provide a stand-alone meter removal service (for safety reasons). The cost reflective tariff for abolishment varies between $822.44 and $950 across the 3 Victorian distributors. With our draft decisions on the Victorian distributors' access arrangement proposals, we noted our assessment of the abolishment tariffs proposed by AGN, MGN and AusNet and our conclusion that they reflect the efficient cost of undertaking small customer abolishments.

We have reached our final decision only after deep consideration of the issues, including exploring whether there are lower cost options for safe practice regarding unused gas connections. However, the decision on appropriate abolishment methods is not ours to make. That responsibility sits with Energy Safe Victoria.

We consider that, were we to approve the proposed, cost reflective, ancillary reference service tariffs for abolishment, a proportion, potentially a large proportion, of customers who decide they no longer want a reticulated gas supply would avoid the tariffs by not requesting an abolishment. We formed this view based on:

- retailer reports that they are already experiencing this customer behaviour
- a submission from Evoenergy, the gas distributor in the ACT, in response to the Victorian distributors' initial proposals, describing the same behaviour occurring in the ACT
- audited Evoenergy data indicating growth in the number of temporary disconnections without corresponding growth in reconnections (while the number of abolishments remains steady or even declines) – supporting Evoenergy's submission
- viewing social media sites where customers are sharing tips on how to avoid abolishment tariffs.

As a customer request for an abolishment is currently the only trigger for abolishment to be undertaken by the Victorian distributors, we consider cost reflective ancillary reference service abolishment tariffs would result in an unacceptably large number of gas connection pipes remaining in situ with gas in them. This would contradict Energy Safe Victoria's current position that abolishment is necessary to ensure that hazards and risks to the safety of the public and customers arising from gas are minimised as far as reasonably practicable.

9.4.2 Ex ante opex allowance

The balance of abolishment costs not recovered from permanently disconnecting customers through the capped $220 abolishment reference tariff will be funded by an ex ante opex allowance. The opex allowance is recoverable through haulage tariffs and will have the effect of increasing haulage tariffs for all customers. See Attachment 6 Operating expenditure for discussion of the abolishment opex allowance.

9.4.3 True-up mechanism

An important element of our final decision is the establishment of a new abolishment true-up mechanism in the tariff control formula for each Victorian distributor. This will work like an unders and overs account, balancing out higher or lower variances from abolishment number forecasts. Details of the true-up mechanism are set out in Attachment 10 - Reference tariff variation mechanism.

We consider the true-up mechanism is necessary to protect customers from paying more than necessary for haulage services if actual abolishment numbers are lower than forecast. If this occurs in any given year of the 2023−28 period, the true-up mechanism will reduce haulage tariffs for subsequent years so that customers pay no more than necessary for haulage services. Equally, should abolishment numbers be higher than forecast in a given year, the true-up mechanism will increase haulage tariffs for subsequent years to match actual abolishment costs incurred by the Victorian distributors.

The true-up mechanism will also ensure that, should Energy Safe Victoria approve alternative, lower cost, abolishment methods, then haulage costs will again be reduced. In effect, the ex-ante opex allowance would be reduced mid-period to account for the lower cost abolishment method, again providing for gas customers to pay no more than necessary for haulage services.

Introducing the true-up mechanism to account for both forecast error in the number of abolishments undertaken and the per unit cost of performing abolishments is a prudent response to both the cost burden on remaining customers of socialising around three quarters of small customer abolishment costs, and the significant uncertainty about the number of Victorian customers who will decide they no longer want their gas supply service and ask for their connection to be abolished over the 2023−28 period.

9.4.4 Conclusion

We have considered stakeholder views expressed in submissions on our draft decision and the distributors' revised proposals. We have taken into account a submission received from Evoenergy which noted it is experiencing an increasing number of customers choosing to cease their gas supply service without requesting an abolishment. We subsequently ratified Evoenergy's submission by assessing its audited annual operating information. We have engaged with the distributors following release of our draft decisions and participated in a retailer workshop convened by the distributors. We have engaged with Energy Safe Victoria and with the Victorian Department of Energy, Environment and Climate Action (DEECA).

On balance, we consider our final decision achieves a balance between competing objectives regarding public safety, efficient price signals, bill impacts for customers and distributor revenue recovery, but we acknowledge the drawbacks associated with socialising a large proportion of abolishment costs:

- remaining gas customers will carry an abolishment cost burden through their retail bills
- vulnerable customers may remain connected to gas networks longer than customers with greater resources, meaning that socialising abolishment costs may be regressive

We consider that socialising some abolishment costs, as we determine to do for the 2023−28 period, is prudent but can only be an interim approach while governments, networks, market bodies and investors develop a long term strategy for taking gas networks forward. Should the number of gas customers permanently leaving gas networks each year grow, so the annual abolishment cost burden on remaining customers will also grow. Moreover, if total customer numbers decline, then that the socialised abolishment cost burden will fall on a diminishing customer base, magnifying retail bill impacts for remaining gas customers.

Our final decision small customer abolishment tariff of $220 is set to avoid creating perverse incentives for customers undertaking home or business renovations to request abolishment when temporary disconnection and meter removal are the most appropriate services. That is, the combined tariffs for temporary disconnection + meter removal will be lower than the abolishment tariff.

Our final decision considers the upcoming change to the National Gas Objective to reflect an emissions reduction objective, but that it isn't the main driver of our decision. We simply note that the Victorian distributors' proposed user pays approach to abolishment tariffs may deter some customers from electrifying due to the relatively high cost reflective tariff. The primary issue driving our final decision is public safety.

9.4.5 Legacy dormant or abandoned gas connections

The distributors have a responsibility to Energy Safe Victoria to abolish dormant gas pipelines safely. However, we have confirmed that industry practice is to abolish a connection only in response to a customer request. Victorian distributor staff have confirmed this in written responses to our information requests. Currently, connecting pipelines are remaining dormant in some cases for over 10 years whilst still incurring maintenance, meter reads and, in some cases, routine meter replacements.

MGN advised that it currently has 10,100 dormant (abandoned or disused) residential connection pipelines.[2] These connecting pipes are in situ under customers' property, currently connected to mains gas pipelines (with gas in them) but not in use. It is unclear how many of these dormant connections relate to premises where historical gas use as an energy source has now been permanently substituted with electricity.

We consider these legacy dormant connections are outside the scope of our determination on tariff setting and the abolishment tariff for the 2023-28 access arrangement period. While the total number of dormant gas connections is small relative to the number of Victorian gas customers, we consider Energy Safe Victoria should consider whether action is required in respect of dormant gas connections.

At time of writing, Energy Safe Victoria is undertaking a review of the abolishment process in Victoria, working with distributors, that may go to the timeliness of abolishments and whether lower cost abolishment methods could be appropriate. As discussed above, the true up incorporated into the tariff variation formula will accommodate any changes in tariffs and/or volumes to prevent customers paying more than necessary for haulage services.

9.4.6 Ancillary reference services

We accept the ancillary reference service tariffs in MGN's revised proposal. Compared to its proposed tariffs which we accepted with our draft decision, MGN adjusted the tariffs

2 Multinet (Victoria) - Gas Access Arrangement 2023-28- Information Request #IR028 - abolishments - 20230302

downwards to factor in updated CPI information. Our final decision on ancillary reference service tariffs is set out in Table 9-1. These tariffs will escalate annually by CPI.

Table 9-1 MNG's approved ancillary reference services tariffs

Ancillary reference service (individual price caps)	$2022-23 excl. GST
Disconnection	$58.33
Turn On/Reconnections	$49.17
Special meter reading	$7.47
Meter removal	$69.68
Meter reinstallation	$69.68
Meter investigations	$166.51
Service Abolishment – residential[3]	$220.00

9.5 Revisions

We require the following revisions to make the access arrangement proposal acceptable as set out in Table 9-2.

Table 9-1 – AER Final decision revisions

Clause	Required revision
9.1	Amend ancillary reference services tariffs in the access arrangement, to reflect the approved tariffs in table 9-.1 above.

3 The balance between this tariff and the $950 is subject to an ex ante opex allowance detailed in Attachment 6 - Operating expenditure.

Glossary

Term	Definition
AER	Australian Energy Regulator
MGN	Multinet Gas Networks National Gas Law
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules