

# Attachment 3.10

Documents Pertaining to the  
Essential Services Commission of  
South Australia's Review of  
Australian Gas Networks'  
Jurisdictional Service Standards

**2016/17 to 2020/21 Access  
Arrangement Information**

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# 1 Introduction

This Attachment contains documents pertaining to the Essential Services Commission of South Australia's (ESCOSA's) Review of Australian Gas Networks Limited's (AGN's) Jurisdictional Service Standards to apply over the next (2015/16 to 2020/21) Access Arrangement (AA) period.

More specifically, the documents contained in this attachment are:

- ESCOSA 2014, "*Envestra's [AGN's] Jurisdictional Service Standards for the 2016-2021 Regulatory Period – Issues Paper*", March 2014.
  - Initiation of the review process and invitation for submissions from all members of the community.
- Envestra Limited [AGN] 2014, "*Envestra's [AGN's] Jurisdictional Service Standards for the 2016-2021 Regulatory Period Submission – Envestra*", April 2014.
  - AGN's (then known as Envestra) response to the issues paper.
- AGN 2015, "*Australian Gas Networks' Jurisdictional Service Standards for 2016-2021 Regulatory Period Further Submission – Australian Gas Networks*", February 2015.
  - A further response from AGN on the Issues Paper, following completion of the AGN Stakeholder Engagement program.
- ESCOSA 2015, "*Australian Gas Networks' Jurisdictional Service Standards for 2016-2021 Regulatory Period – Draft Decision*", March 2015.
  - ESCOSA's Draft Decision on the Jurisdictional Service Standards to apply to AGN over the next AA period.
- AGN 2015, "*Australian Gas Networks' Jurisdictional Service Standards for 2016-2021 Regulatory Period Draft Paper – AGN*", June 2015.
  - AGN's response to the ESCOSA Draft Decision.
- ESCOSA 2015, "*Australian Gas Networks' Jurisdictional Service Standards for 2016-2021 Regulatory Period – Final Decision*", June 2015.
  - ESCOSA's Final Decision on the service standards to apply to AGN's South Australian natural gas distribution network over the next AA period.

Further information (including submissions from businesses and organisations outside of AGN) is available on the ESCOSA website: <http://www.escosa.sa.gov.au/projects/208/australian-gas-networks-jurisdictionalservice-standards-for-the-2016-2021-regulatory-period.aspx>

# 2 Background

ESCOSA is the independent economic regulator of essential services in South Australia. ESCOSA is responsible for developing the service reliability standards to ensure network security and reliability – referred to as jurisdictional service standards.

# ENVESTRA'S JURISDICTIONAL SERVICE STANDARDS FOR THE 2016-2021 REGULATORY PERIOD

*Issues Paper*

March 2014



## REQUEST FOR SUBMISSIONS

The Essential Services Commission of SA (**the Commission**) invites written submissions from all members of the community on this paper. Written comments should be provided by **Thursday, 24 April 2014**. It is highly desirable for an electronic copy of the submission to accompany any written submission.

It is Commission's policy to make all submissions publicly available via its website ([www.escosa.sa.gov.au](http://www.escosa.sa.gov.au)), except where a submission either wholly or partly contains confidential or commercially sensitive information provided on a confidential basis and appropriate prior notice has been given.

The Commission may also exercise its discretion not to publish any submission based on content (for example containing material that is defamatory, offensive or in breach of any law).

Responses to this paper should be directed to:

Envestra's Jurisdictional Service Standards for the 2016-2021 regulatory period -  
Issues Paper

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**Contact Officers:** Amber Miller, Senior Policy Officer

The Essential Services Commission of South Australia is the independent economic regulator of the electricity, gas, ports, rail and water industries in South Australia. The Commission's primary objective is the *protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services*. For more information, please visit [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au).

## BACKGROUND

The Essential Services Commission of South Australia (**Commission**) is the independent economic regulator of essential services in South Australia, established under the *Essential Services Commission Act 2002 (ESC Act)*.

In undertaking its regulatory functions, the Commission's primary objective is the:

*"...protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services".*

The ESC Act also sets out seven other factors that the Commission must have regard to in performing its functions, particularly the need to:

- ▲ promote competitive and fair market conduct;
- ▲ prevent misuse of monopoly or market power;
- ▲ facilitate entry into relevant markets;
- ▲ promote economic efficiency;
- ▲ ensure consumers benefit from competition and efficiency;
- ▲ facilitate maintenance of the financial viability of regulated industries and the incentive for long term investment; and
- ▲ promote consistency in regulation with other jurisdictions.

The ESC Act and industry regulation Acts together provide the Commission with regulatory powers and functions in the electricity, gas, ports, rail and water industries. Each industry Act defines the specific scope of its regulatory powers and functions.

## ECONOMIC REGULATION OF ENVESTRA

Envestra Ltd (**Envestra**) is the owner of a monopoly natural gas distribution network in South Australia.

Economic regulation of the gas distribution services provided by Envestra is undertaken jointly by the Commission and the Australian Energy Regulator (**AER**).

The Commission's powers and functions in relation to Envestra are contained in the Gas Act 1997 (**Gas Act**) and the Australian Energy Market Agreement (**AEMA**).<sup>1</sup>

Under the Gas Act, Envestra is required to hold a licence authorising it to operate the gas distribution system in South Australia. The Commission is the licensing authority for the purposes of the Gas Act.

The Gas Act mandates certain licence terms and conditions, while providing the Commission with the discretionary power to include additional licence terms and conditions.

In addition, the AEMA provides for State and Territory Governments to retain responsibility for developing service reliability standards to ensure network security and reliability (**jurisdictional service standards**). The Commission is responsible for developing, implementing and administering the jurisdictional service standards for Envestra.

The current jurisdictional service standards for Envestra are set out in:

- ▲ the terms and conditions of its gas distribution licence;
- ▲ the Gas Distribution Code;

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<sup>1</sup> Refer Annexure 2 of the Australian Energy Market Agreement 2004 (**AEMA**) as last amended in December 2013 at <http://www.scer.gov.au/files/2014/01/Final-Amended-AEMA-Dec-2013-signed.pdf>.

- ▲ the Gas Metering Code; and
- ▲ Gas Industry Guideline Number 1.

Envestra is subject to the terms of a binding Access Arrangement, regulated by the AER under the National Gas Law (**NGL**) and National Gas Rules (**NGR**), which:

- ▲ sets out the default terms and conditions on which Envestra will provide access to its distribution system; and
- ▲ controls the revenue that Envestra may recover from customers.

Service standard and price regulation must work together:

- ▲ to ensure that customers receive the quality of service that they value and is cost-effective and feasible to deliver;
- ▲ to inform the prudent and efficient level of expenditure for the price determination/access arrangement; and
- ▲ to allow monitoring of performance to ensure that the set standards and targets are delivered.

Under the NGL and NGR, the AER assesses the efficient expenditure for distribution services overall, (including consideration of the expenditure required to deliver the service levels determined by the Commission), and determines the allowed revenues and/or prices for distribution network service providers, such as Envestra. Envestra is subject to five-yearly regulatory determination periods, with the current period ending 30 June 2016. Envestra is required to submit a Regulatory Proposal for the next regulatory period 2016-2021 to the AER in June 2015.

Accordingly, the Commission is now consulting on the jurisdictional service standards to apply to Envestra for the next regulatory period. This will allow Envestra sufficient time to ensure its Regulatory Proposal includes consideration of the

expenditure required to deliver service levels determined by the Commission.<sup>2</sup>

## CURRENT JURISDICTIONAL SERVICE STANDARDS

A broad overview of the current jurisdictional service standards applicable to Envestra is set out below.

### *Good Gas Industry Practice*

Envestra's gas distribution licence provides overarching guidance on the manner in which Envestra is expected to conduct the operation of its gas distribution network.

The requirement is that Envestra "*exercise that degree of skill, diligence, prudence and foresight that reasonably would be expected from a significant proportion of operators of gas distribution systems forming part of the Australian gas supply industry*". This provides an external measure of whether or not Envestra is conducting its operations in accordance with the required industry standard.<sup>3</sup>

### *Unaccounted for gas*

Unaccounted for Gas (**UAFG**) is the difference between the measured quantities of gas entering and leaving the distribution network.

At the time of undertaking the last review in 2010, it was estimated that approximately 80-90% of the UAFG was attributed to gas leakage from the older cast iron and unprotected steel gas pipelines in Envestra's network. Those pipelines are more

<sup>2</sup> Two such reviews have been undertaken by the Commission, the first in 2006 and the second in 2010. Refer <http://www.escosa.sa.gov.au/projects/115/gas-access-arrangement-review-associated-review-of-regulatory-instruments.aspx> and <http://www.escosa.sa.gov.au/projects/139/review-of-the-gas-regulatory-instruments-to-apply-to-vestra-for-2011-2016-regulatory-period.aspx>.

<sup>3</sup> Refer Envestra's licence, clause 5.

susceptible to corrosion, ground movement and joint failures.<sup>4</sup>

The Commission's attention to this issue was driven by the need to ensure the ongoing safe operation of Envestra's gas distribution network in the long-term interests of South Australian gas consumers. High levels of UAFG reported by Envestra had raised concerns around the potential for gas accumulation to create a risk of fire and/or explosion.<sup>5</sup>

Envestra proposed an accelerated Mains Replacement Program to address the UAFG issue, on the assumption that the increasing levels of UAFG suggested that the remaining cast iron and unprotected steel mains were deteriorating at an increasingly rapid rate.

While the accelerated Mains Replacement Program was expected to drastically reduce UAFG levels over an 8-year period, it was acknowledged that other factors can also contribute to the overall level of UAFG.<sup>6</sup>

The Commission introduced a requirement for Envestra to include a UAFG Plan as part of its Safety, Reliability, Maintenance and Technical Management Plan.<sup>7</sup> The UAFG Plan must include a Leakage Management Plan; Asset Management Plan and Mains Replacement Plan.

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<sup>4</sup> Refer <http://www.escosa.sa.gov.au/projects/139/review-of-the-gas-regulatory-instruments-to-apply-to-vestra-for-2011-2016-regulatory-period.aspx>.

<sup>5</sup> Clause 5.1(b) of Envestra's licence requires it to operate its gas distribution network so as to minimise the leakage of gas. Clause 5.1(c) further requires Envestra to account for the total amount of gas lost from the distribution system as a result of that leakage. It is important to note that clause 5.1(c) is not merely an accounting issue; rather, it relates broadly to Envestra's conduct in the operation of the gas distribution network.

<sup>6</sup> Such as timing differences in meter readings, inaccuracy in metering measurement, billing errors (meter readings), theft of gas and changes in ambient pressure and temperature.

<sup>7</sup> Refer Envestra's licence, clause 8.1.

To monitor the effectiveness of the UAFG Plan, the Gas Distribution Code<sup>8</sup> includes a UAFG target, requiring Envestra to use its its best endeavours to:

- ▲ achieve a level of UAFG for its distribution system of no more than 1,626 TJ by the end of the 2015/16 regulatory period; and
- ▲ reduce the levels of unaccounted for gas in each year of the current regulatory period.

Active monitoring and public reporting on Envestra's performance against the plan is required under Gas Guideline 1, with Envestra required to report:

- ▲ the level of UAFG each month; and
- ▲ the kilometres of cast iron and unprotected steel mains replaced each month

for each of the key networks identified for mains replacement.

Envestra is also required to prepare an annual report on its performance against the approved UAFG Plan, for public release.<sup>9</sup>

#### *Operating pressure*

Envestra is required to ensure that the pressure of gas delivered from the distribution system to each meter is within defined limits and within the meter manufacturer's designated pressure operating range.<sup>10</sup>

#### *Preconditions to connection*

Subject to the provisions of the National Energy Retail Law (**NERL**) and the NGR, Envestra must connect a customer to its distribution system on fair and reasonable terms.<sup>11</sup>

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<sup>8</sup> Refer Gas Distribution Code, clause 2.1.1(e).

<sup>9</sup> Refer Envestra's licence, clause 8.1(f).

<sup>10</sup> Refer Gas Distribution Code, clause 2.1.1(b).

<sup>11</sup> Refer Gas Distribution Code, clause 2.3.



### Reconnection after disconnection

Envestra is required to use its best endeavours to reconnect a disconnected customer's supply address within sufficient time for a retailer to meet its contractual obligations to the customer as set out in the NERL.<sup>12</sup>

## ISSUES FOR CONSIDERATION AS PART OF THIS REVIEW

### Consumer engagement by Envestra

The Commission recognises that jurisdictional service standards for utility businesses are best set by reference to customers' needs, expectations and willingness to pay for distribution services.

In the absence of a competitive market for the relevant services, effective customer engagement attempts to mimic the workings of competitive markets, by requiring monopoly service providers to engage with customers to determine the best price-service delivery outcomes. Such outcomes achieve the trade-off between the value to customers of service levels versus the costs of providing them.

To properly achieve this, it is essential that customers are informed on service level-cost trade-offs, that is, be provided with sufficient information to assess whether their preference would be for a lower/higher level of service in return for a reduction/increase in bills.

The Commission requires other regulated entities, such as SA Power Networks (the electricity distributor) and SA Water (the largest water and sewerage provider), to engage directly with their customers to understand customers' service requirements.

This approach is also advocated by the AER. Under the National Electricity Rules (NER), electricity network businesses are required to consult with their customers in preparing

Regulatory Proposals for the AER. SA Power Networks is currently undertaking such consultations with its customers.

While the NGR do not contain the same explicit customer engagement requirements for gas distribution businesses, such as Envestra, the AER's *Customer Engagement Guideline for Network Service Providers* notes that it regards consultation as applicable to gas service providers even without the NER requirements.<sup>13</sup>

Noting that:

- ▲ there is currently no specific obligation for Envestra to undertake customer consultation; and
- ▲ there are benefits in such consultation occurring as an integral part of the regulatory process,

the Commission is seeking community views on this matter.

**Should Envestra be required to consult with customers in relation to service standards? If so, what should the parameters for consultation be and on what areas of service (e.g. reliability and/or customer service) should Envestra be required to engage with its customers?**

<sup>12</sup> Refer Gas Distribution Code, clause 2.4.

<sup>13</sup> Refer <http://www.aer.gov.au/node/18894>.

### *Customer service standards and targets*

With the adoption of the NERL and National Energy Retail Rules (**NERR**) in South Australia in February 2013, for the first time Envestra has a direct contractual relationship with its end-use customers of gas.

In other industries regulated by the Commission, a minimum level of customer service responsiveness is delivered through telephone and written responsiveness standards and targets.

**Should Envestra have the same/similar customer service obligations as energy retailers, SA Power Networks and SA Water (i.e. telephone and written responsiveness standards and targets)?**

**Are any other customer service measures considered more appropriate?**

### *Measures of network reliability*

Most reliability indices are average values of reliability data for a particular reliability characteristic for an entire system or for a specific operating region.

Two commonly used reliability indices are:

- ▲ System Average Interruption Duration Index (**SAIDI**): a measure of the total duration of interruptions for the average customer over the course of a year (for a fixed number of customers, SAIDI can be improved by reducing the number of interruptions or by reducing the duration of interruptions); and
- ▲ System Average Interruption Frequency Index (**SAIFI**): a measure of how often the average customer experiences an interruption over the course of a year (for a fixed number of customers, the only way to improve SAIFI is to reduce the number of interruptions experienced by customers).

Together, SAIDI and SAIFI measure how long and how frequently customers are without supply, on average.

While not currently used for Envestra's South Australian network, Envestra measures and reports on the reliability performance of its Victorian gas distribution network<sup>14</sup> using the SAIDI and SAIFI indices.

**Noting that the measures are currently used in Victoria, should Envestra be required to monitor and report on network reliability in South Australia using SAIDI and SAIFI?**

**Are any other reliability measures considered more appropriate?**

### *Unaccounted for gas target*

Envestra is on track to meet the UAFG target in the Gas Distribution Code by the end of the current regulatory period.

The Commission is seeking advice from the Technical Regulator on whether the level of UAFG in Envestra's network is now at a safe and acceptable level or whether additional work is required in this area.

**Is a revised UAFG target required for the 2016-2021 regulatory period?**

**Are any other approaches to managing UAFG more appropriate than a UAFG target?**

### *Guaranteed Service Level Scheme*

Ultimately, it may be uneconomic to ensure all customers receive average service level targets.

Guaranteed Service Level (**GSL**) payment schemes used in other industries regulated by the Commission are designed to make payments to customers where it is too costly to provide the average service standards to an individual customer.

The principles underlying any GSL payment scheme developed by the Commission are:

- ▲ customers value that area of service;
- ▲ the GSL target is a reasonable measure of the customer's expectation;

<sup>14</sup> Refer <http://www.aer.gov.au/node/23302>.

- ▲ the GSL payment is made to customers receiving a level of service below a predetermined level; and
- ▲ the reason for failure to meet the GSL is within the control of the network operator.

Areas of service targeted by a GSL payment scheme can include (but are not limited to):

- ▲ customers experiencing multiple or lengthy interruptions; and
- ▲ timeliness of connections or other appointments.

Envestra is not currently subject to a GSL payment scheme for its South Australian gas distribution network. Envestra’s Victorian gas distribution network has a GSL payment scheme of this nature.<sup>15</sup>

While GSL payments are directed at individual customers, by their nature, they provide a financial incentive for the network business to assess the trade-off between making the GSL payments or undertaking capital and/or operational expenditure to address any underlying issues.

**Should Envestra be required to investigate areas of service where GSL payments should be made to individual customers?**

**Are there any areas of service that should be subject to a GSL payment scheme?**

#### *Other issues*

The Commission invites submissions on any other issues considered relevant to the review of Envestra’s jurisdictional service standards for the 2016-2021 regulatory period.

**Are there any other issues that should be considered as part of this review?**

## NEXT STEPS

The Commission invites submissions on the issues raised in this paper, or any other issues considered relevant to the review of Envestra’s jurisdictional service standards for the 2016-2021 regulatory period.

Following consideration of the issues raised, the Commission will release its Draft Decision for a further period of public consultation in August 2014. The Final Decision will be released in December 2014.

STAGE	TIMING
Issues Paper released	7 March 2014
Public Consultation	7 March – 24 April
Draft released	August 2014
Public Consultation	August-September 2014
Final released	December 2014

## FURTHER INFORMATION

Any queries relating to this consultation should be directed to:

- ▲ Amber Miller, Senior Policy Officer

If you would like to keep up to date with the Commission’s activities and the release of papers for consultation, subscribe at <http://www.escosa.sa.gov.au/subscribe.aspx>.

<sup>15</sup> Refer <http://www.aer.gov.au/node/23302>.





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22 April 2014

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Senior Policy Officer  
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By email: [escosa@escosa.sa.gov.au](mailto:escosa@escosa.sa.gov.au)

Dear Amber

**Re: Envestra's Jurisdictional Service Standards for the 2016-21 Regulatory Period  
"Issues Paper"**

Envestra is pleased to provide comment on the review of service standards applicable to the South Australian natural gas distribution network. Envestra is commencing work on its Access Arrangement revisions for the 2016/17 to 2020/21 period and it is important for Envestra to take into account any change to its regulatory obligations and the cost impact of those changes.

Envestra has reviewed the Issues Paper released by the Commission and provides comments which are attached to this letter. The Commission's issues have been set out in a box and are then followed by Envestra's comments.

Envestra trusts that this submission is of assistance to the Commission and would be happy to elaborate on any aspect of this submission if required.

Yours sincerely

Ralph Mignone  
Manager Engineering & Technical Regulation

**Issue 1.**

Should Envestra be required to consult with customers in relation to service standards? If so, what should the parameters for consultation be and on what areas of service (e.g. reliability and/or customer service) should Envestra be required to engage with its customers?

As noted in the Issues Paper, the AER, as part of the “Better Regulation” program, has released its Final Consumer Engagement Guideline (the Guideline). This Guideline stemmed from a desire by the AER, rule makers and different levels of government for a much greater emphasis on consumer engagement by service providers.

The AER states in the Guideline that service providers should undertake consumer engagement so they can provide services that better align with the long term interests of consumers. Consumer engagement is therefore intended to provide an essential input into the AER’s consideration of whether a regulatory proposal is consistent with the National Gas Objective.

The AER notes in its Guideline that it will, on a case by case basis, have regard to how a service provider engaged with consumers and accounted for the long term interests of those consumers in its regulatory proposal. To this end, the recently established Consumer Challenge Panel is tasked with advising the AER on the effectiveness of a service provider’s consumer engagement.

There is therefore already a regulatory requirement for Envestra to actively engage with stakeholders on its regulatory proposal. Importantly, effective consumer engagement should not occur only for the purpose of a regulatory review, but should instead be an ongoing process. Envestra therefore does not consider that ESCOSA should impose an additional regulatory requirement to that which already exists in the AER Guideline.

The Guideline may require Envestra to make some changes to the way it provides gas distribution services. The Guideline is a new requirement imposed on Envestra, and as such, we are currently in the process of developing “fit-for-purpose” consumer engagement strategies. We envisage that service standards will be an important element of consumer engagement.

That aside, Envestra currently undertakes various levels/types of customer consultation. Providing superior customer service has always been important given that gas is a fuel of choice. The types of customer consultation already undertaken include surveys and customer focus groups, which are used as an important input into understanding those aspect of our product/service that are most valued by customers.

Envestra intends to liaise with ESCOSA once it has further progressed its consumer engagement strategy.

## Issue 2.

Should Envestra have the same/similar customer service obligations as energy retailers, SA Power Networks and SA Water (i.e. telephone and written responsiveness standards and targets)? Are any other customer service measures considered more appropriate?

Envestra does not believe it should have similar customer service obligations as energy retailers, SA Power Networks and SA Water because the method of service delivery is fundamentally different. Unlike SA Power Networks and SA Water, Envestra does not have a call centre (except for leaks and emergencies) and has limited direct contact with customers – customers' primary contact remains with their retailer. While the *National Energy Retail Law* (NERL) introduced a direct contractual relationship between Envestra and its customers, this covers only a small portion of a customer's energy interface with a distributor.

Before and after the commencement of the NERL the main points of communication are:

- Leak and emergency calls;
- Connection enquiries; and
- Customer complaints (both through retailers and direct).

Regarding leak and emergency calls, because this is a safety matter, priority is placed on the swiftness of addressing gas leaks. Consequently there has never been in the history of gas distribution (over 150 years) in SA, a systemic problem in the response times to leak and emergency calls.

On connection enquiries, these come in via electronic means and via telephone, and all connections are completed within 20 business days.

On customer service generally, in the past the Commission has used a combination of the number of complaints reported by Envestra and the number of complaints handled by the energy Ombudsman (EWOSA) as an indicator as to how well Envestra is responding to the needs of its customers.

Historically, Envestra receives a small number of complaints (considerably lower than gas retailers) including those complaints received by EWOSA, a fact also stated in EWOSA's 2012-13 Annual Report.

By way of measure, in the past 2 calendar years Envestra received only 74 Ombudsman complaints, and of those only 1 has been escalated to the 'Facilitation Stage.'

The low percentage of gas distribution complaints received by EWOSA is consistent with complaints being handled adequately by Envestra's internal complaint handling procedures, rather than being referred to EWOSA as a last resort mechanism.

In the 2012-13 EWOSA Annual Report, the EWOSA noted that it has received 2,337 gas-related cases (including both retailer and distributor cases) as opposed to 16,921 related to electricity. Given that the scheme covers approximately 835,000 electricity customers and 425,000 gas customers, one would expect more gas-related cases, but this is not the case.



Furthermore only 6% of all cases received (again both retailer and distributor cases) were in relation to “Customer Service,” the other classifications being billing, sales and marketing, general enquiries, credit management, provisions, supply quantity and land. Given these findings, Envestra believes that the low volumes indicate that Envestra is responding to the needs of its customers and that a similar customer service obligation to that of other utilities and retailers is not necessary.

As to an appropriate customer service measure, Envestra proposes that it continue to provide the Commission with the total number of complaints and category of complaints in its Annual Operation Information Report.

In summary, Envestra considers that any decision to impose new regulatory obligations should only be made in response to addressing an identified problem with customer service, particularly where additional costs will be incurred in meeting any new standard. Envestra notes that it currently provides a very high level of customer service, and that therefore there is no demonstrated need for any additional customer service standards to apply to the business.

### **Issue 3.**

Noting that the measures are currently used in Victoria, should Envestra be required to monitor and report on network reliability in South Australia using SAIDI and SAIFI? Are any other reliability measures considered more appropriate?

While Envestra does not report SAIDI and SAIFI in Victoria, we note that the Essential Services Commission of Victoria calculates these parameters from data provided by distributors. However, our experience is that these measures are not very useful indicators in the gas industry. This is because, unlike in electricity, outages are infrequent (as the assets are largely underground), and when they do occur, generally affect only a very small number of customers. For example, in South Australia consumers (on average) can expect to experience a 1-hour unplanned loss of supply about once in every 46 years. (And when outages occur, they are more likely to be as a result of third party damage, and not due to Envestra’s operations).

The current reporting in Victoria (of total “minutes of supply lost”) largely reflects that there are three distributors operating under a similar environment in that state. This provides some limited use for the information as it allows relative comparisons between the businesses. Even so, the three businesses record the relevant information in a different manner, and as such, direct comparisons are of limited use.

As noted in respect of the previous question, Envestra also considers that there should be a clearly demonstrated need/reason for collecting this information. Given the nature of our assets, the reliability performance of Envestra is high (unlike, say electricity distribution, where the majority of the assets remain above ground). Envestra therefore does not consider there is any reason to warrant the reporting of SAIDI and SAIFI in South Australia. In South Australia, a more refined/detailed regulatory reporting system is already in place whereby Envestra provides detailed reports on every major interruption to gas supply (which would be of a magnitude to impact SAIDI and SAIFI), and this provides a greater level of granularity than is possible through a parameter like SAIDI and SAIFI . Envestra believes that the information

contained in the current reports is of greater value and comprehension to consumers compared with the SAIDI and SAIFI figures which are essentially mathematical parameters with no real context.

Each year the Office of the Technical Regulator also publishes an annual Technical Report which contains summaries of Envestra's regulatory incidents, descriptions of major outages, third party damages and leakage volumes, etc. These reports are published online and publically available to consumers and again Envestra believes they are of greater value to consumers in relation to the reliability of the network rather than SAIDI and SAIFI figures.

Despite this, Envestra will monitor and report SAIDI and SAIFI if submissions to the Issues Paper put forward a strong desire for this information to be publicly reported, noting that there will be a system implementation cost in doing so.

#### **Issue 4.**

Is a revised UAFG target required for the 2016-2021 regulatory period? Are any other approaches to managing UAFG more appropriate than a UAFG target?

When a UAFG target was first set in 2010 by ESCOSA for the current regulatory period, the level of UAFG was at record levels. Since that time, and despite network growth, the level of UAFG has receded to levels not seen since 2005. This has led to the UAFG target being achieved well ahead of the end of the current regulatory period.

Consequently Envestra does not consider there to be a strong reason to maintain a UAFG target, particularly given the strong commercial and safety incentives on Envestra to minimise UAFG. Furthermore, history has demonstrated that attempts to forecast UAFG with any precision are futile, given the numerous factors involved. (Hence if any target is to be set, Envestra proposes that it continue to be set on a "best endeavours" basis).

Envestra's approach to managing UAFG is closely monitored and audited by the Office of the Technical Regulator, which includes regular reporting of UAFG levels. Envestra believes that this approach and oversight provides adequate regulatory control, particularly given the extensive powers of the Technical Regulator in this area.

#### **Issue 5.**

Should Envestra be required to investigate areas of service where GSL payments should be made to individual customers? Are there any areas of service that should be subject to a GSL payment scheme?

Envestra is aware that GSL schemes are a common part of the service standards framework in the electricity sector. This is not, however, a reason to impose similar schemes on other gas

distribution businesses. Again, Envestra is not aware of any areas of poor performance, or any need or desire more generally, warranting the additional cost of a GSL scheme.

As already noted, and unlike the electricity distribution sector, relatively few outages occur on the gas distribution network. This is because gas distribution pipes are buried underground, and as such, are far less exposed to weather events (or accidental damage). Most electricity outages occur when there are storms or heat waves, events that do not impact gas supply.

While gas outages are uncommon, when they do occur they can often go unnoticed by the customer as repairs are usually completed before the customer returns home. Importantly, such outages do not impact on key appliances like refrigeration and/or the use of air-conditioners during heat waves. These facts are likely to limit the consumers' willingness to pay for the indirect (reporting systems) and direct (GSL payments) costs required to implement a GSL scheme.

Notwithstanding the above, Part 7 of the recently introduced *National Energy Retail Law* established an 'opt in-opt out' regime for State governments, in relation to enabling customers to make small claims for compensation from distributors. The regime would have relied upon national regulations and local instruments to firstly apply the regime to the relevant jurisdiction, and then to define what a claimable incident is, in order to operate. The South Australian Government's position upon commencement of the Law was that it was not necessary to apply Part 7 in South Australia given that current arrangements (utility voluntary compensation measures and Ombudsman measures) were working effectively and if additional measures were applied, it would result in additional imposts to distributors and consumers, for little or no additional benefit to small customers. Envestra believes that there has been no material change in circumstances since that decision was made.

**Issue 6.**

Are there any other issues that should be considered as part of this review?

Refer to the attached "**Table of Comments**" for Envestra's suggested amendments to the following regulatory instruments under the administration of the Commission:

Gas Distribution Licence;  
Gas Distribution Code;  
Gas Metering Code;  
Gas Industry Guideline No. 1; and  
Energy Industry Guideline No. 4.

## TABLE OF COMMENTS

### LICENCE

#### Gas Distribution Licence - Envestra Limited (ACN 078 551 685) as last varied on 28 August 2013

<b>Common Seal</b>	Typo – “30 June 2006” should be “6 July 2006” in accordance with the Variation History or alternatively the Variation History should be amended from “6 July 2006” to “30 June 2006” - whichever is the correct date.
<b>Schedule 1 Definitions</b>	<ul style="list-style-type: none"> <li>• Insert “(SA)” at the end of the “Gas Act 1997” under “Act”</li> <li>• Remove definition of “AEMO” as there is no reference to it in the licence.</li> <li>• Amend definition of “Explicit Informed Consent” to remove reference to “the relevant retailer” in section (b) and insert “distributor.”</li> <li>• Remove definition of “Gas Distribution Code” as there is no reference to this in the licence.</li> <li>• Remove definition of “Gas Metering Code” as there is no reference to it in the licence.</li> <li>• Remove definition of “retail market procedures” as there is no reference to them in the licence.</li> <li>• Remove definition of “small customer” as there is no reference to them in the licence.</li> </ul>

### GAS CODES

#### Gas Distribution Code (GDC/06) as last varied 5 September 2013

<b>Clause 1.7.3 Reporting to the Commission</b>	<p>When amending the Gas Distribution Code for the commencement of the National Energy Retail Law in South Australia, the Commission advised in its Post-NECF Review of Regulatory Instruments Final Decision (page 14-15) that this clause was introduced to be consistent with electricity reporting and “strengthen reporting to provide comment as to performance improvement strategies on aspects that did not meet the required standards.” Envestra is not clear as to what this means however in any case submit that this sub-paragraph be removed as consistency with electricity-specific jurisdictional standards is not an appropriate reason given the fundamental differences in services provided. Furthermore the connection and supply contracts (as defined within the Code as being “the model standard (deemed contract) or negotiated contract established between a customer and the distributor in accordance with National Gas Law) now fall within the remit of the AER and any non-compliances with these contracts should be reported to the AER not the Commission.</p>
<b>Schedule 1 Definitions</b>	<ul style="list-style-type: none"> <li>• Insert “(SA)” at the end of the “Gas Act 1997” under “Act”</li> <li>• Pending the Commission’s decision on clause 1.7.3, remove the definition for “connection and supply contract.”</li> </ul>

**Gas Metering Code (GMC/04) as last varied 7 February 2013**

<p><b>Clause 2.1.1</b> <b>Obligation to install meters</b></p>	<p>Delete sub-paragraph. This clause was designed to cover gas lights, which traditionally were not metered. There are few gaslights in existence in South Australia. Those which do exist are connected to a meter, and all new connections are metered.</p>
<p><b>Clause 2.1.2</b> <b>Obligation to install interval meters</b></p>	<p>Delete sub-paragraph. Requirements covered by Retail Market Procedures and Envestra's access arrangement.</p>
<p><b>Clause 2.2.1</b> <b>Non reversion</b></p>	<p>Delete as covered by Retail Market Procedures and Envestra's access arrangement, which set out the requirements when interval meters must be installed.</p>
<p><b>Clause 2.2.2</b> <b>Non reversion</b></p>	<p>Delete sub-paragraph as superfluous. Envestra must install the correct type of meter under the appropriate circumstances, and reporting of all such circumstances does not appear to have a purpose.</p>
<p><b>Clause 4.2.1</b> <b>Meter reading for customer transfer</b></p>	<p>Delete sub-paragraph. Duplicate obligation with clause 99 of the <i>South Australian Retail Market Procedures</i>. Note clause 99 is only applicable for "move-in's." A move-in is defined as an event where a small use customer commences occupation of premises and there is an associated change of user for the delivery point which supplies gas to the premises. The Gas Metering Code does not distinguish between customer type.</p>
<p><b>Clause 4.2.2</b> <b>Meter reading for customer transfer</b></p>	<p>Delete sub-paragraph. Duplicate obligation with clause 158(1)(a) of the <i>South Australian Retail Market Procedures</i> (in relation to actual and special meter reads) and clause 157(3)(a)(ii) (for substitute meter reads). Note clause 157(3)(a)(ii) requires "prompt" notice, which is defined in clause 11(2) as "close of business on the next business day."</p>
<p><b>Clauses 4.3.</b> <b>Collection of metering data</b></p>	<p>Delete section. It is not clear to Envestra as to the purpose of this section, since collection of metering data is covered by the Retail Market Procedures (and to the extent a customer wishes any special data service, this is negotiated with relevant parties).</p>
<p><b>Clause 4.4.1(a)</b> <b>Validation and substitution of metering data</b></p>	<p>Delete sub-paragraph. Duplicate obligation with clause 153 of the <i>South Australian Retail Market Procedures</i>.</p>
<p><b>Clause 4.4.1(b)</b> <b>Validation and substitution of metering data</b></p>	<p>Delete sub-paragraph. Duplicate obligation with clause 157(1) of the <i>South Australian Retail Market Procedures</i>.</p>
<p><b>Clause 4.4.2(a)</b> <b>Validation and substitution of metering data</b></p>	<p>Delete sub-paragraph. Duplicate obligation with clause 153 of the <i>South Australian Retail Market Procedures</i>.</p>
<p><b>Clause 4.4.2(b)</b> <b>Validation and substitution of metering data</b></p>	<p>Delete sub-paragraph. Duplicate obligation with clause 157(1) of the <i>South Australian Retail Market Procedures</i>.</p>
<p><b>Clause 4.4.3</b> <b>Validation and substitution of metering data</b></p>	<p>Delete sub-paragraph. Duplicate obligation with clause 157(1) for substitution of the metering data and clauses 157(3)(a)(ii) (basic meters) and 157(3)(iii) (interval meters) for providing the substituted metering data to the retailer.</p>
<p><b>Clause 4.4.4</b> <b>Validation and substitution of metering data</b></p>	<p>Delete sub-paragraph. Duplicate obligation with clause 157(3)(a)(ii) (basic meters) and clause 157(3)(iii) (interval meters).</p>

<b>metering data</b>	
<b>Clause 4.4.5</b> <b>Validation and substitution of metering data</b>	Delete sub-paragraph. Duplicate obligation with clause 157(3)(a)(ii) (basic meters) and clause 157(3)(iii) (interval meters).
<b>Clause 4.5.1</b> <b>Estimation of metering data</b>	Delete sub-paragraph. Duplicate obligation with clauses 153 and 156(1)(a) of the South Australian Retail Market Procedures.
<b>Clause 4.6.1(a)</b> <b>Storage of metering data</b>	Delete sub-paragraph. Duplicate obligation with clause 168(1)(a) and (2) of the South Australian Retail Market Procedures (for both basic and interval meters).
<b>Clause 4.6.1(b)</b> <b>Storage of metering data</b>	Delete sub-paragraph. Duplicate obligation with clause 168(1)(b) and (2) of the South Australian Retail Market Procedures (for both basic and interval meters).
<b>Clause 4.7.1</b> <b>Access to metering data</b>	Delete sub-paragraph. Duplicate obligation with clause 167(4) of the <i>South Australian Retail Market Procedures</i> .
<b>Clause 4.7.5</b> <b>Access to metering data</b>	Delete sub-paragraph. Duplicate obligation with clauses 158(1)(a) and 158(1)(b) of the <i>South Australian Retail Market Procedures</i> .
<b>Clause 6</b> <b>Definitions</b>	Amend the definition for “actual meter reading” if clauses 4.4.1(b) and 4.4.2(b) are deleted.
<b>Schedule 1 – Validation, Substitution and Estimation – Interval Metering Installation</b>	Transfer this schedule to the South Australian Retail Market Procedures. Sub-appendix 2.2 in the procedures already refers back to this schedule hence it is Envestra’s recommendation that the information be contained under the one instrument.
<b>Schedule 2 – Validation, Substitution and Estimation – Basic Metering Installation</b>	

## GUIDELINES

### Gas Industry Guideline No. 1 (GIG 1/6) as last varied on 28 February 2014

<b>Proforma OP 3 (f)</b> <b>Technical Information</b>	The category of “ <i>number of incidents involving the attendance of a fire brigade or emergency service related to a gas leak</i> ” should be re-worded to reflect that Envestra is only to report such incidents when there is a high risk of fire or explosion as agreed with the OTR.
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### Energy Industry Guideline No. 4 (EG4) as last varied on 5 September 2013

<b>Clause 3.5.1 and Annexure A6</b> <b>Relevant Obligations: Gas</b> <b>Distribution Licence</b>	Envestra notes that there are no Type 2 obligations listed in Annexure A6, however there is a requirement in clause 3.5.1 to provide quarterly compliance reports to the Commission on Type 2 obligations. Envestra proposes that clause 3.5.1 be amended to insert the word “where applicable” after “Type 2 obligations” to address this anomaly.
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16 January 2015



Amber Miller  
Senior Policy Officer  
Essential Services Commission of South Australia  
GPO Box 2605  
Adelaide SA 5001

By email: [escosa@escosa.sa.gov.au](mailto:escosa@escosa.sa.gov.au)

Dear Amber

**Further Submission on Jurisdictional Service Standards for the 2016 to 2021 Access Arrangement Period**

Australian Gas Networks (AGN, previously Envestra)<sup>1</sup> is pleased to provide further comment on the appropriate service standards to apply to the South Australian gas distribution network for the 2016 to 2021 Access Arrangement period. This submission is to be read in conjunction with our April 2014 submission to the Essential Services Commission of South Australia (ESCOSA) into the same matter.

Since our April 2014 submission, AGN has undertaken stakeholder engagement on a range of matters related to the 2016 to 2021 Access Arrangement review process. This submission describes our stakeholder engagement process and outcomes as they relate to the following three service standard matters set out in the Issues Paper:

1. the potential introduction of a Guaranteed Service Level (GSL) scheme;
2. the need for changes to gas leak responsiveness; and
3. the need for changes to call centre responsiveness.

Please contact either Kristin Raman (8418 1117) or myself (8418 1129) if you would like to discuss the matters raised in this submission further.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Craig de Laine".

Craig de Laine  
Group Manager - Regulation

<sup>1</sup> On 27 October 2014, Australian Gas Networks was announced as the new name for Envestra. The name change was effective from 3 November 2014 and has no impact on the service offering of the Company.

## Australian Gas Networks Stakeholder Engagement Program

Our objective is to operate our networks in a safe and efficient manner that is consistent with the long term interests of consumers. To achieve this objective, we consider it important to engage with our stakeholders in order to understand the aspects of our service that are most valued.

AGN commenced its stakeholder engagement program in South Australia in July 2014. We intend to incorporate the outcomes of the engagement program into our business plans as one way of promoting the long term interests of consumers. We therefore consider that the outcomes of our engagement program will provide an important input into the development of appropriate service standards for the 2016 to 2021 Access Arrangement period.

A key component of the engagement program was testing the willingness of gas consumers to pay for certain initiatives that we are considering implementing over the 2016 to 2021 Access Arrangement period. This included testing whether consumers were willing to pay for:

1. the introduction of a GSL scheme;
2. changes to gas leak responsiveness; and
3. changes to call centre responsiveness.

AGN tested the above initiatives through a series of stakeholder workshops and through an online survey (which was held over the period when the workshops were being conducted). AGN engaged Deloitte as an independent expert to facilitate the workshops and record key insights from the engagement activities. Deloitte is expected to deliver to AGN its Stakeholder Insights report on or before 31 March 2015.

Deloitte has however provided AGN with draft stakeholder insights as they relate to the setting of service standards in South Australia. In providing these draft insights, Deloitte has advised that they believe the information gathered from survey participants, when compared to workshop participants, indicated a lower level of understanding of, for example, AGN's operations and the regulatory model that we operate under.

This reflects, among other things, the detailed discussion/explanation provided by AGN at the workshops on technical matters such as:

- the application of economic regulation to AGN (i.e. to explain why we are asking stakeholders whether they are willing to pay for certain initiatives);
- the natural gas supply chain (i.e. to explain how AGN fits into the supply chain, including what we can and can not control);
- the forecast of future retail gas prices (i.e. to provide workshops participants with an understanding on how we expect their retail gas bills to change overtime); and
- a detailed explanation of our proposed initiatives, including the options that consumers have if they are not willing to pay for that service (i.e. to ensure they have a full understanding of our proposed business initiatives).

The survey respondents were not afforded the level of detailed discussion on the above matters. This was reflected in the comments provided by survey participants. As a result, Deloitte has advised that they intend to rely more heavily on the workshops in providing stakeholder insights to AGN.

AGN held four workshops across regional and metropolitan South Australia (two in Adelaide, one each in Port Pirie and Mount Gambier) with a mix of residential and business consumers of gas (43 residential, 11 business). A workshop was also held with representatives from key consumer advocacy groups.





This submission is therefore informed by the draft Deloitte stakeholder insights on service standards. We are expecting the Deloitte's Stakeholder Insights Report, which will include all initiatives tested by AGN, to be available on our stakeholder engagement website ([www.stakeholders.agnl.com.au](http://www.stakeholders.agnl.com.au)) on or before 31 March 2015.

Further information on this program is available on the dedicated stakeholder engagement website: [www.stakeholders.agnl.com.au](http://www.stakeholders.agnl.com.au).

## **Initiative 1: Guaranteed Service Level Scheme (GSL Scheme)**

Through its engagement program, AGN tested whether consumers of gas were willing to pay for the introduction of a GSL scheme in South Australia. For illustrative purposes AGN used the GSL scheme that currently applies in Victoria, which is set out in Attachment 1 to this submission. AGN explained that a GSL scheme could be designed to:

- provide compensation to those customers who receive service below an "agreed" level (for example, where AGN do not connect a customer to the natural gas distribution network on an agreed day); and/or
- provide an incentive to AGN to improve the service it provides to customers.

### **Draft Deloitte Stakeholder Insights**

AGN asked workshop participants whether they would be willing to pay an additional \$0.50 per annum on their retail gas bill for a GSL scheme. The cost per customer estimate was based on the equivalent cost to AGN of administering the GSL scheme in Victoria. Alternatively, stakeholders could elect to not implement a GSL scheme for no change in their retail gas bill. The draft Deloitte stakeholder insights found that:

- 65% of workshop participants supported the introduction of a GSL scheme in South Australia (which included 67% of businesses and 64% of residents); but
- questions were raised as to whether the Victorian GSL scheme was properly structured and provided adequate compensation to consumers.

With regard to the last point, participants viewed the primary purpose of the GSL scheme was to provide compensation rather than an incentive for AGN to improve service. More specifically, small business participants noted that the proposed payments would not provide adequate compensation in the event of a gas supply interruption (although other participants noted that business insurance should provide compensation in this instance).

### **AGN Submission**

AGN explained in its initial submission that:

- natural gas is characterised by very high levels of supply reliability;
- there are no identified customer concerns/issues with the current service level (a point also made to AGN in a subsequent meeting with the Energy and Water Ombudsman of South Australia (EWOSA)); and
- natural gas is a fuel of choice, thereby providing a strong incentive on the business to provide high levels of service.

With regard to the last point, and particularly for smaller users, it is noteworthy that all natural gas appliances can be substituted by an electric or Liquefied Petroleum Gas (LPG) equivalent. This point was made by the Ministerial Council on Energy's (MCE) Expert Panel on Energy Access Pricing:



*Gas and electricity markets also display different characteristics in terms of the price elasticity of demand and the ability of consumers to seek substitutes. Energy services, and in particular electricity services, are generally considered to have relatively inelastic demand. This inelasticity reflects the essential nature of electricity to commercial and industrial activity and to modern domestic life. This is less so for gas which is considered to be a 'fuel of choice'; meaning that it is subject to more competition from substitutes.*

*While the cost of network services is only part of the final energy price seen by energy consumers, the energy price responsiveness of users can impose some constraints on the exercise of market power in some circumstances.*

*For gas, it could be said that there is a stronger substitution effect, particularly for locations that do not require space heating in any great extent. Electricity, in general, provides a better substitute for gas than gas does for electricity. Consumers are better able to exercise a choice on the source of their energy supply where there are competing sources of supply to a common area.<sup>2</sup>*

The two key observations made by the Expert Panel in the above extract are that:

- gas is a fuel of choice; and
- the substitutability of electricity for gas is likely to be particularly strong in "locations that do not require space heating in any great extent".

This is particularly the case in South Australia (where there is a mild climate), which has experienced ongoing reductions in customer usage of natural gas. For example, average annual residential consumption per connection has declined, on average, by 3.3% per annum over the past ten years. The rate of decline has been more pronounced in recent years, decreasing at an average annual rate of 6.9% over the past three years.

This trend decline is due to a range of factors, including continuous improvements in energy efficiency (appliance efficiency and building thermal efficiency), customer appliance preferences (electric reverse cycle air conditioning instead of gas space heating) and the significant installation of solar equipment in recent years. There are a range of other current and emerging pressures on the average consumption of residential customers, including:

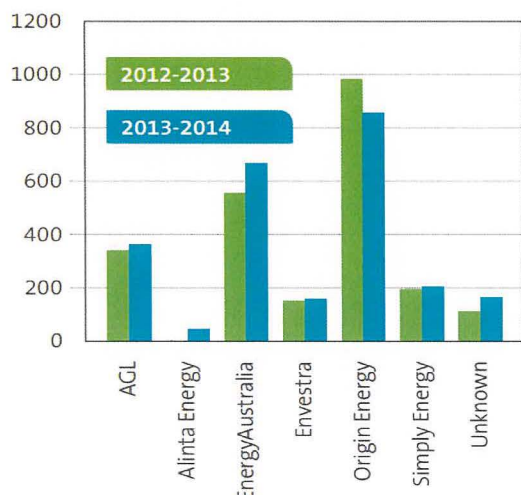
- further substantial increases in renewable generation – a high penetration of 'green' electricity reduces the environmental driver for customers to use natural gas;
- emergence of new technologies – including continual technological improvements in distributed generation, battery storage and electric vehicles (which might reduce the unit price of electricity by resulting in a step change in volumes and/or make consumers more electricity focussed in their appliance choice);
- further increases in the penetration rates of reverse-cycle air-conditioners – which reduces the up-front cost of switching from gas to electricity; and
- a move to cost reflective electricity network prices – in areas with a peak summer load, such as South Australia, electricity tariffs would increase during peak times in summer and decrease in off-peak times like winter (i.e. during periods of peak (winter) gas demand).

These competitive pressures have provided our business with a strong focus on providing high customer service and reliability levels. By way of example, Figure 1 illustrates that AGN (Envestra in the figure) is maintaining a relatively low number of cases reported to the Ombudsman over the past two years.

<sup>2</sup> MCE, Expert Panel on Energy Access Pricing: Report to the MCE, April 2006, pp 49-50.



**Figure 1: Gas cases received by the Energy and Water Ombudsman SA.**



Source: Energy and Water Ombudsman SA; 2014 Annual Report.

As noted earlier, AGN places a strong emphasis on the outcomes of its stakeholder engagement program. The draft Deloitte insights were that, overall, 65% of workshop participants would be willing to pay for a GSL scheme to be introduced in South Australia. AGN has therefore undertaken a review into the merits of introducing a GSL scheme for the 2016 to 2021 Access Arrangement period.

A key part of introducing a GSL scheme is to determine our historic performance under the measures that are included as part of the scheme. This is for a number of reasons, including to determining the significance of the proposed measures and the amount of compensation that needs to be provided to AGN to administer the GSL scheme (that is, the number of instances that AGN can be expected to make a GSL payment).

Our review found that a significant impediment to introducing a GSL scheme in the near term is the availability of the necessary data. This is because in South Australia we do not currently collect the data on the measures that underpin the Victorian GSL scheme. This reflects that the measures in the Victorian scheme are not areas of concern in South Australia, and as such, data is not routinely collected and reported.

For example, AGN collects data on the date a customer requests a connection, the agreed date for the connection and the actual date of connection. While we can measure any difference in the latter two dates, we do not record the reason for the delay as would be required by for a GSL scheme (i.e. to determine whether the connection delay was within our control). We do note however that, in the majority of cases:

- a delay in a customer connection is because the customer is not ready or we are unable to access the customer site (and thereby would not qualify for a GSL payment); and as such
- this issue has not been a source of complaint to either AGN or the EWOSA.

Likewise, our information shows that for the six months to December 2014, there have only been nine unplanned outages that have affected five or more customers. Of those nine events, six events were attributable to third-party damage to our pipeline, which again would not qualify for a GSL payment. Again, in these circumstances it is most unlikely that AGN would be required to make a GSL payment if the Victorian scheme were to be implemented in South Australia.

Our best estimate is that the payments that would have been made by AGN, should the Victorian GSL scheme applied in South Australia in the six-months to 31 December 2014, would have been minimal and below the costs of implementing and administering the scheme. As a result, we consider it unlikely that a GSL scheme would have provided any additional incentive to drive business improvement or a meaningful level of compensation to those impacted.

Importantly, for the reasons outlined above, AGN does not currently collect the necessary information to properly inform a GSL scheme. This in part reflects the age of our operating systems and their related inflexibility to provide additional information to that relied upon by AGN to manage the network. AGN is currently in the process of spending around \$20 million to update and improve our systems, which will result a significantly greater scope of data collected by the business.

In summary, it is apparent to AGN that stakeholders are supportive of the principle of having a formal scheme in place to compensate those customers impacted by service that is below an agreed standard and/or to incentivise the business to provide improved performance overtime. There are however some practical considerations that are limiting our ability to introduce a GSL scheme at this point in time (such as data availability).

We intend to continue to operate under the existing informal compensation scheme outlined in our initial submission. That is, voluntary compensation made by AGN to those customers who have been unreasonably inconvenienced or impacted by our business. We will also continue to work with stakeholders to consider how the principle of formal compensation can be best implemented in the medium-term, having regard to the additional data that will become available with the introduction of our new operating systems.

## **Initiative 2: Gas Leak Responsiveness**

Reducing the incidence of gas leakage on the distribution network is one of AGN's key operational priorities to ensure the ongoing safe supply of gas. AGN has a call centre that provides for the public reporting of leaks 24 hours a day, seven days a week. Currently, we attend to a reported gas leak within two hours of receiving the report in 95% of cases.

### **Draft Deloitte Stakeholder Insights**

During the workshops, participants were asked if they would be:

1. willing to pay up to \$1.50 per year more on their retail gas bill to increase the average two hour response rate to 98% of reported gas leaks; or
2. willing to pay up to 50 cents per year less on their projected retail gas bill to decrease the average two hour response rate to 90% of reported gas leaks; or
3. leave current response rates unchanged.

The draft Deloitte stakeholder insights indicate that around 61% of participants would support an increase in our leak responsiveness with the remaining 39% being satisfied with the current response rate. No workshop participants voted for a reduction in leak responsiveness. Workshop participants also wanted AGN to ensure that emergency situations were prioritised.

### **AGN Submission**

AGN adheres to a detailed Leak Management Plan and Procedure, which has been reviewed and approved by the Office of the Technical Regulator (and is provided to ESCOSA). Although not specifically tested as part of the stakeholder engagement program, the current system prioritises emergency leak reports. Further detail on our Leak Management Procedure is provided in Attachment 2 and summarised below:

- AGN, through its contractor the APA Group, maintains a 24 hour leak response capability for every day of the year.
- The public report leaks through a 24 hour gas leak hotline. Callers to this hotline are asked a number of questions to determine information about the location and magnitude of the leak (see Attachment 2 for further information).

- Where appropriate, operators advise callers on how to isolate the supply of gas and make the area safe.
- The classification and repair strategy is to respond quickly to the initial report, and have the risk assessed by competent personnel in order to decide whether or not an immediate repair is required.
- Whilst our approach is to respond as quickly as possible to reported leaks, the actual response time can vary depending on the location of the leak and the availability of crews. We formally track our response times with reference to a two hour response time target.
- Call centre operators are trained to identify high risk leaks and, in these circumstances, will divert the nearest crew to the incident if required. An example of this might be a report of a leak at a school or hospital, or emergency services reporting that a car has damaged above-ground infrastructure.
- All leak reports are classified as Class 1 (highest priority) until attended. On attendance, repair crews do not leave the site until relieved by another repair crew or the leak is made safe or reclassified (see Attachment 2 for further detail on the classification system).

The provision of a safe and reliable supply of natural gas is a key priority of AGN. We believe that our current approach to responding to leaks is consistent with good industry practice. We also believe this to be the view of the Office of the Technical Regulator, who is responsible for approving our Leak Management Procedure. Additionally, we note that our current procedures have effectively managed the expedient repair of reported gas leaks.

The draft Deloitte stakeholder insights demonstrated that our responsiveness to gas leaks and the prioritisation of our responsiveness is of key interest to stakeholders. We will therefore undertake to:

- improve transparency by providing information to stakeholders explaining our approach to responding to gas leaks (for example, by publishing a Fact Sheet on our leak management plan on our stakeholder engagement website);and
- consider proposing initiatives as part of our revised Access Arrangement submission to the Australian Energy Regulator to respond to reported gas leak within two hours in 98% of cases.

### Initiative 3: Call Centre Responsiveness

AGN runs a national Customer Service Centre in Queensland. The Centre comprises eight Customer Service Officers and a Supervisor. The team are responsible for answering all calls related to new connections, gas availability and general enquiries in relation to our national operations. The call centre operates from 8:00am to 5:30pm.

In 2014 new call centre software was implemented to enable better visibility and management of incoming calls. Current performance targets are set at the national level and are summarised in Table 1.

**Table 1: Customer Service Centre Key Performance Indicators.**

Key Performance Indicators	Target
Percentage of calls abandoned	5%
Average wait time	3 minutes
Maximum wait time – 5 minutes	95% of calls answered within 5 minutes



## Stakeholder Engagement Program Insights

During the workshops, participants were asked if they would be:

1. willing to pay up to \$1 per year more on their retail gas bill to increase the average five minute response rate to 95% from the hours of 7am-10pm (i.e. to increase the operating hours of the call centre); or
2. willing to pay up to \$1 per year less on their projected retail gas bill to decrease the average five minute response rate to 90% (i.e. under the current operating hours of the call centre); or
3. leave current call centre opening hours and response rates unchanged.

The draft Deloitte stakeholder insights indicate that stakeholders are generally satisfied with our current level of service in relation to response times to phone calls. The workshops found that 37% of workshop participants supported increasing the operating hours of the call centre, 15% supported decreasing the response rate within the current operating hours and 48% supported for no change to the operation of the call centre.

Other key insights included:

- business workshop participants had less experience needing this service compared to residents; and
- participants considered that a five minute wait time is relatively good compared to their experience with other organisations.

## AGN Submission

AGN considers that the draft Deloitte insights demonstrated that stakeholders are generally happy with the current levels of performance of the Customer Service Centre. Stakeholders also considered that our target of responding to 95% of telephone calls within five minutes was reasonable. We were however surprised that stakeholders did not value an increase in the operating hours of the call centre.

Given the above, we do not consider that any changes to our current procedures, including the requirement for more detailed regulatory reporting, is required.



## Attachment 1: Structure of Victorian GSL scheme

The GSL parameters in Victoria are incorporated into Part E of Victoria's Gas Distribution System Code and are summarised in Table 2.

**Table 2: Victorian GSL parameters.**

Area of Service	Threshold to incur GSL Payment*	GSL Payment Amount
Appointments**	Failure to attend appointment within agreed appointment window: <ul style="list-style-type: none"> <li>• <i>Customer</i> present – 2 hours</li> <li>• <i>Customer</i> absent – agreed date</li> </ul>	\$50 per event
Connections***	Failure to connect a <i>customer</i> within 1 day of agreed date	\$80 per day (subject to a maximum of \$240)
Repeat interruptions****	Unplanned interruptions to a <i>customer</i> in a calendar year period resulting from faults in the <i>distribution system</i> : <ul style="list-style-type: none"> <li>• Upon fifth interruption</li> <li>• Upon tenth interruption</li> </ul>	\$150 additional \$150
Lengthy interruptions*****	Gas supply interruption to a <i>customer</i> not restored: <ul style="list-style-type: none"> <li>• within 12 hours</li> <li>• within 18 hours</li> </ul>	\$150 additional \$150

Notes:

\*GSL scheme applies to tariff V customers only.

\*\*An appointment window of two hours applies if the customer is required or requests to be present. A one day appointment window applies if the customer is not required or does not request to be present. Appointments rescheduled by the distributors are counted as missed appointments. Appointments rescheduled at the request of the customer are excluded from payments.

\*\*\*Excluding if the distributor is unable to gain access to the installation site.

\*\*\*\*Excluding force majeure, faults in gas installations, transmission faults, upstream events and third party events.

\*\*\*\*\*Excluding force majeure, faults in gas installations, transmission faults, upstream events and third party events impacting large diameter mains affecting more than 50 customers. Large diameter mains are high pressure mains of nominal diameter 100 mm or greater, and medium pressure or low pressure mains of nominal diameter 150 mm or greater.



## Attachment 2: Leak Responsiveness

### Extracts from AGN's Leak Management Plan

The below extracts are taken from APA Groups' Leak Management Procedure (August 2010). The Leak Management Plan outlines the processes for managing gas leaks from the natural gas networks operated by APA Group (which includes AGN's SA network).

- A 24 hour per day, 365 days per year field response capability to respond to leak reports shall be maintained.
- All public reports shall be assessed on site within two hours of the initial public report or such other time limit as specified by State Authorities.
- The classification and repair strategy is to respond quickly to the initial report, and have the risk assessed by competent personnel in order to decide whether or not an immediate repair is required
- [Class 1 Leak Management] Repair crews shall not leave the site until relieved by another repair crew or the leak is made safe or reclassified.
- Class 2 leaks are non hazardous at the time of classification but have the potential to deteriorate, and so shall be scheduled for repair within 7 working days (maximum of 11 calendar days).

Leak Management Plans and Procedures are not public documents but are approved by the Office of the Technical Regulator and provided to ESCOSA.

### Leak Call Centre Script

When members of the public call to report a leak, our operators are trained to ask a series of questions which assist in assessing the severity and potential consequences of the situation. Examples of the scripting relied upon are provided below:

#### 1 Greeting

"Gas Emergency Service.....this is 'X'"

Obtain caller;

- Name.
- Contact telephone number.
- Address.
- Access details.
- Confirm location of meter.
- Description of escape.
- Meter turned off / controlled?

**Tip:** Obtain more than one phone number if possible (e.g. mobile)

#### 2 Standard narrative

- Is the customer able to make the installation safe by turning off the gas supply at the meter?
- How would the caller describe the smell - slight but constant, noticeable or overwhelming?
- If the meter is inside or outside in the vicinity of the driveway, advise caller to remove any ignition sources and refrain from use of electrical equipment or motor vehicle.
- Is there clear access to property and meter?

#### 3 Summarise outcome

- Estimated time of arrival for fitter (if applicable).
- Check for understanding.

#### 4 Complete after call maintenance

- Record call details in relevant system.
- Dispatch job to relevant Distribution Company or Field Resource.





## Leak Classification System

In accordance with Australian/New Zealand Standard (Gas Distribution Networks, Part 1, Network Management, Revision of), the Leak Classification categories employed by AGN/APA Group exceed the requirements of the Australian Standard.

AGN operate with four leak classifications (1,2,3 & 4), and to allow uniform reporting against the standard. Publicly reported leaks shall be classified as Class 1 or 2.

Class 1 leaks are deemed to be hazardous or have the potential to rapidly deteriorate and so shall be worked on until the leak can be eliminated or reduced to a level such that the leak can be reclassified. Where the first on site response person is not equipped to effect repair, the leak shall be referred to a field crew for repair. First response will remain on site until the repair crew or relieving responsible person arrives on site to complete repairs or to maintain a safe zone around the leak.

Class 2 leaks are non hazardous at the time of classification but have the potential to deteriorate, and so shall be scheduled for repair within 7 working days (maximum of 11 calendar days).



# AUSTRALIAN GAS NETWORKS JURISDICTIONAL SERVICE STANDARDS FOR THE 2016-2021 REGULATORY PERIOD

*Draft Decision*

March 2015



## REQUEST FOR SUBMISSIONS

The Essential Services Commission of SA (**the Commission**) invites written submissions from all members of the community on this paper. Written comments should be provided by **Friday, 10 April 2015**. It is highly desirable for an electronic copy of the submission to accompany any written submission.

It is Commission's policy to make all submissions publicly available via its website ([www.escosa.sa.gov.au](http://www.escosa.sa.gov.au)), except where a submission either wholly or partly contains confidential or commercially sensitive information provided on a confidential basis and appropriate prior notice has been given.

The Commission may also exercise its discretion not to publish any submission based on length or content (for example containing material that is defamatory, offensive or in breach of any law).

Responses to this paper should be directed to:

Australian Gas Networks Jurisdictional Service Standards for the 2016-2021  
Regulatory Period - Draft Decision

Essential Services Commission of South Australia  
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Website: [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au)

**Contact Officers:** Amber Miller, Manager Policy

The Essential Services Commission of South Australia is an independent statutory authority with functions in a range of essential services including water, sewerage, electricity, gas, rail and maritime services, and also has a general advisory function on economic matters. For more information, please visit [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au).

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## GLOSSARY OF TERMS

<b>AEMA</b>	Australian Energy Market Agreement
<b>AEMC</b>	Australian Energy Market Commission
<b>AER</b>	Australian Energy Regulator
<b>AGN</b>	Australian Gas Networks Ltd (formerly Envestra Ltd)
<b>Commission</b>	Essential Service Commission of South Australia
<b>ESC Act</b>	Essential Service Commission Act 2002
<b>ESCV</b>	Essential Services Commission of Victoria
<b>GSL</b>	Guaranteed Service Level
<b>NERL</b>	National Energy Retail Law
<b>NERR</b>	National Energy Retail Rules
<b>NGL</b>	National Gas Law
<b>NGR</b>	National Gas Rules
<b>SRMTMP</b>	Safety, Reliability, Maintenance and Technical Management Plan
<b>UAFG</b>	Unaccounted for Gas
<b>USAIDI</b>	Unplanned system average interruption duration index
<b>USAIFI</b>	Unplanned system average interruption frequency index

## EXECUTIVE SUMMARY

This review has not identified any areas of Australian Gas Networks' (AGN) service that require improvement through the introduction of service standards with performance targets.

Over the five year period 2009-10 to 2013-14, AGN has:

- ▲ answered approximately 93 per cent of the average of the 13,500 calls per annum to its Leaks and Emergencies telephone line within 30 seconds
- ▲ responded to around 94 per cent of the average of 9,500 public reports of potential gas leaks within two hours
- ▲ had a low number of major interruptions, with an average of 15 unplanned interruptions affecting the supply of gas to five or more customers, and
- ▲ achieved the June 2016 unaccounted for gas target early, despite network growth and lower than forecast levels of mains replaced.

While this review has not identified any areas of service that require improvement through service standards with performance targets, additional transparency around AGN's performance is required.

An enhanced public reporting framework will provide greater assurance to the South Australian community that AGN is managing its network appropriately. It will also provide the necessary data to monitor any material deteriorations in current service levels that may require service standards with performance targets in the future.

Submissions on the draft positions put in this paper are due by close of business Friday, 10 April 2015. Following consideration of the issues raised in the submissions, the Final Decision will be released in May 2015.

Australian Gas Networks (AGN)<sup>1</sup> is the owner of a natural gas distribution network in South Australia. Economic regulation of the gas distribution services provided by AGN is undertaken jointly by the Commission and the Australian Energy Regulator (AER).

The Australian Energy Market Agreement (AEMA)<sup>2</sup> provides for State and Territory Governments to retain responsibility for developing service reliability standards to ensure network security and reliability (**jurisdictional service standards**). The South Australian Government has delegated this function to the Commission. Two reviews have been undertaken by the Commission, the first in 2006 and the second in 2010.

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<sup>1</sup> Formerly Envestra Ltd. AGN's assets are operated and maintained by APA Asset Management under a long-term operating and management agreement.

<sup>2</sup> The AEMA provides for State and Territory Governments to retain responsibility for developing jurisdictional service standards. The Commission is responsible for developing, implementing and administering the jurisdictional service standards for AGN. Refer Annexure 2 of the Australian Energy Market Agreement 2004 (AEMA) as last amended in December 2013 at <http://www.scer.gov.au/files/2014/01/Final-Amended-AEMA-Dec-2013-signed.pdf>.

AGN is subject to five-yearly regulatory revenue determinations, undertaken by the Australian Energy Regulator. The current determination will end on 30 June 2016. It is appropriate to consider and review the jurisdictional service standards prior to the commencement of a new revenue regulation period for AGN. This will allow AGN to ensure its Access Arrangement proposal for the 2016-2021 regulatory period includes consideration of the expenditure required to deliver service levels determined by the Commission.

### *Consultation to develop this Draft Decision*

Initial feedback was sought from the South Australian community on jurisdictional service standards for AGN through an Issues Paper released in March 2014.

Following the close of the consultation period on the Issues Paper, AGN commenced a stakeholder consultation program to test its customers' willingness to pay for certain initiatives it was considering implementing over the 2016-2021 regulatory period. In order to better inform the service standard setting process, the Commission agreed to delay the preparation and release of its Draft Decision to incorporate any relevant findings from that program.<sup>3</sup> The Commission worked with AGN to ensure that the stakeholder engagement program tested service areas relevant to the Commission's current review.

### *Draft Decision*

This review has not identified any areas of service that require improvement through the introduction of service standards with performance targets. Accordingly, there appears to be no need to increase current service levels, and hence the Commission's jurisdictional service standards should not impose additional costs.

This review has focused on two particular areas of AGN's service:

- ▲ responsiveness to public reports of potential gas leaks, from the initial telephone call through to attendance at the site of the leak, and
- ▲ customers experiencing poor reliability, measured through the number of customers experiencing multiple interruptions within a year and/or long duration interruptions.

Based on AGN's satisfactory performance in these areas over the five year period 2009-10 to 2013-14, improvements to the levels of service provided by AGN are not proposed for the 2016-2021 regulatory period. This decision is supported by the customer insights drawn from AGN's consultation program, which identified, amongst other things, that the majority of participants are generally satisfied with AGN's current service levels and response times.<sup>4</sup>

Further, while AGN identified a level of customer support for the proposition that adequate compensation should be available for customers that experience loss, damage or

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<sup>3</sup> The Commission's Draft Decision was previously scheduled to be released in August 2014, with the Final Decision to follow in December 2014.

<sup>4</sup> The results of AGN's engagement program to date are set out in Deloitte's Stakeholder Insights Report, available at [http://stakeholders.agnl.com.au/\\_r169/media/system/attrib/file/53/Deloitte%20Stakeholder%20Insights%20Report.pdf](http://stakeholders.agnl.com.au/_r169/media/system/attrib/file/53/Deloitte%20Stakeholder%20Insights%20Report.pdf)

inconvenience, particular areas of service where AGN is not currently meeting customers' expectations have not been identified. Accordingly, the Commission is not proposing to introduce a Guaranteed Service Level Scheme for AGN for the 2016-2021 regulatory period. However, the Commission notes that AGN will continue to provide its own compensation scheme.

While the review has not suggested that service standards with performance targets or a Guaranteed Service Level Scheme are required, it has highlighted the need for customers to have greater transparency around the service that they pay for and receive.

Efficient gas leak identification and management practices also present an important public safety issue beyond AGN's direct customer base. Enhanced public reporting on AGN's responsiveness to potential gas leaks will provide the South Australian community with confidence that AGN will respond to concerns about potential gas leaks in a timely manner. Enhanced performance reporting will also provide the Commission with the necessary data to monitor any material deteriorations in current service levels that may require service standards with performance targets in the future.

### *Consultation to finalise the jurisdictional service standards*

The Commission invites submissions on the draft positions put in this paper, or any other issues considered relevant to the review of AGN's jurisdictional service standards for the 2016-2021 regulatory period. Submissions to the Commission are due on or before close of business **Friday, 10 April 2015**. All submissions will be placed on the Commission's website, subject to any confidential material being excluded. Following consideration of the issues raised in the submissions, a Final Decision will be made in May 2015.

AGN is also currently inviting submissions on its response to the stakeholder feedback it has gathered through its engagement program to date. Submissions on its *Insights and Implementation* report are due by close of business **Thursday, 26 March 2015**.<sup>5</sup>

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<sup>5</sup> Details on how to provide submissions to AGN are available at [http://stakeholders.agnl.com.au/r173/media/system/attrib/file/57/Insights%20and%20implementation%20report\\_FINAL.pdf](http://stakeholders.agnl.com.au/r173/media/system/attrib/file/57/Insights%20and%20implementation%20report_FINAL.pdf)



# 1. BACKGROUND

## 1.1 *Economic regulation of AGN*

Australian Gas Networks (**AGN**) is the owner of the natural gas distribution network in South Australia. Economic regulation of the gas distribution services provided by AGN is undertaken jointly by the Commission and the Australian Energy Regulator (**AER**).

### 1.1.1 *Consumer protections under the national gas legislation*

The majority of the regulatory requirements placed on AGN are contained in the national gas legislation: National Gas Law (**NGL**), National Gas Rules (**NGR**), National Energy Retail Law (**NERL**) and National Energy Retail Rules (**NERR**). The national gas legislation is reviewed by the Australian Energy Market Commission (**AEMC**) and administered by the AER.

The national gas legislation establishes consumer protections for residential and small business gas customers.<sup>6</sup> While the legislation applies in various jurisdictions, individual jurisdictions can prescribe distributor service standards in the following areas:<sup>7</sup>

- ▲ preconditions that customers must satisfy before they can be connected to AGN's network, and
- ▲ timeframes for customers to be reconnected to AGN's network following a disconnection.

#### 1.1.1.1 *Preconditions to connection*

AGN is required to connect a customer to its distribution system on fair and reasonable terms, provided various preconditions have been satisfied.<sup>8</sup> The preconditions set out in the Gas Distribution Code are contained in AGN's Standing Offer for Basic Connection Services.<sup>9</sup>

#### 1.1.1.2 *Reconnection after disconnection*

AGN is required to use its best endeavours to reconnect a disconnected customer's supply address within sufficient time for a retailer to meet its contractual obligations to the customer as set out in the NERL.<sup>10</sup> The Gas Distribution Code does not establish specific

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<sup>6</sup> The consumer protections apply only to small customers consuming less than 1 TJ of gas per annum.

<sup>7</sup> AGN's summary of the distributor service standards applicable to its South Australian network are available at <http://www.maketheconnection.com.au/r2348/media/system/attrib/file/626/Distributor%20Service%20Standards.pdf>

<sup>8</sup> Refer Gas Distribution Code, clause 2.3.

<sup>9</sup> Part 12A of the NGR sets out the requirements for AGN to develop standardised offers for basic and standard connection services. These offers are assessed and approved by the AER. Refer <http://www.maketheconnection.com.au/sa/household/contract-information/types-of-customer-connection-contracts/>

<sup>10</sup> Refer Gas Distribution Code, clause 2.4. Part 6 of the NERR sets out the requirements for disconnection of premises for small customers. Rule 122 requires re-energisation to occur in accordance with the distributor

timeframes for reconnections, however, AGN currently performs reconnections within two business days unless the customer requests a later time.<sup>11</sup>

### *1.1.2 Jurisdictional service standards established by the Commission*

The Commission has retained various powers and functions that operate alongside the main consumer protections provided under the national gas legislation. The Commission's powers and functions in relation to AGN are contained in the Gas Act 1997 (**Gas Act**).

The Gas Act requires that a person must not carry on the operation of a distribution system unless the person holds a licence authorising those operations. The Commission is the licensing authority for the purposes of the Gas Act. The Gas Act mandates certain licence terms and conditions, while providing the Commission with the discretionary power to include additional licence terms and conditions.

In addition, the Australian Energy Market Agreement (**AEMA**)<sup>12</sup> provides for State and Territory Governments to retain responsibility for developing service reliability standards to ensure network security and reliability (**jurisdictional service standards**). The South Australian Government has delegated this function to the Commission.<sup>13</sup>

The jurisdictional service standards are in addition to the distributor service standards set out above. The current jurisdictional service standards for AGN are set out in:

- ▲ the terms and conditions of its gas distribution licence
- ▲ the Gas Distribution Code, and
- ▲ the Gas Metering Code.

AGN reports on its performance against the jurisdictional service standards under Gas Industry Guideline 1.

The jurisdictional service standards applicable to AGN for the current 2011-2016 regulatory period are set out below.

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service standards, reflected in clause 13.2 of AGN's Deemed Standard Connection Contract, developed under the NERR and approved by the AER. Refer

<http://www.maketheconnection.com.au/sa/household/contract-information/types-of-customer-connection-contracts/>

<sup>11</sup> Refer <http://www.maketheconnection.com.au/sa/household/contract-information/disconnection-and-reconnection-timeframes/>

<sup>12</sup> Refer Annexure 2 of the Australian Energy Market Agreement 2004 (**AEMA**) as last amended in December 2013 at <http://www.scer.gov.au/files/2014/01/Final-Amended-AEMA-Dec-2013-signed.pdf>.

<sup>13</sup> Two such reviews have been undertaken by the Commission, the first in 2006 and the second in 2010. Refer <http://www.escosa.sa.gov.au/projects/115/gas-access-arrangement-review-associated-review-of-regulatory-instruments.aspx> and <http://www.escosa.sa.gov.au/projects/139/review-of-the-gas-regulatory-instruments-to-apply-to-vestra-for-2011-2016-regulatory-period.aspx>.

### 1.1.2.1 Good gas industry practice

AGN's gas distribution licence provides overarching guidance on the manner in which AGN is expected to conduct the operation of its gas distribution network. The licence requires AGN to "exercise that degree of skill, diligence, prudence and foresight that reasonably would be expected from a significant proportion of operators of gas distribution systems forming part of the Australian gas supply industry". This provides an external measure of whether or not AGN is conducting its operations in accordance with the required industry standard.<sup>14</sup>

### 1.1.2.2 Unaccounted for gas

The level of unaccounted for gas (**UAFG**) is the difference between the measured quantities of gas entering AGN's network and the measured quantities of gas billed to end use customers.

In response to ongoing safety concerns about the level of UAFG in AGN's network, the Commission introduced a requirement for AGN to include a UAFG Plan as part of its Safety, Reliability, Maintenance and Technical Management Plan (**SRMTMP**) for the current 2011-2016 regulatory period.<sup>15</sup> The UAFG Plan must include a Leakage Management Plan, Asset Management Plan and Mains Replacement Plan.

To monitor the effectiveness of the UAFG Plan, the Gas Distribution Code includes a UAFG target, requiring AGN to use its best endeavours to:

- ▲ achieve a level of UAFG for its distribution system of no more than 1,626 TJ by the end of 2015-16, and
- ▲ reduce the levels of unaccounted for gas in each year of the current regulatory period.<sup>16</sup>

Active monitoring and public reporting on AGN's performance against the plan is required under Gas Industry Guideline 1, with AGN required to report to the Commission on the:

- ▲ level of UAFG each month, and
- ▲ length of cast iron and unprotected steel mains replaced each month

across its gas distribution networks.

AGN is also required to prepare an annual report on its performance against the approved UAFG Plan, for public release.<sup>17</sup>

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<sup>14</sup> Refer AGN's licence, clause 5.

<sup>15</sup> For background on this issue, refer <http://www.escosa.sa.gov.au/projects/139/review-of-the-gas-regulatory-instruments-to-apply-to-envestra-for-2011-2016-regulatory-period.aspx>.

<sup>16</sup> Refer Gas Distribution Code, clause 2.1.1(e).

<sup>17</sup> Refer AGN's licence, clause 8.1(f).

### 1.1.2.3 Operating pressure

AGN is required to ensure that the pressure of gas delivered from the distribution system to each meter is within defined limits and within the meter manufacturer's designated pressure operating range.<sup>18</sup>

### 1.1.3 Access Arrangement assessment by the AER

AGN is subject to the terms of a binding Access Arrangement,<sup>19</sup> regulated by the AER under the NGL and NGR, which:

- ▲ sets out the default terms and conditions on which AGN will provide access to its distribution system, and
- ▲ controls the revenue that AGN may recover from customers.

Service standard and price regulation must work together to:

- ▲ ensure that customers receive the quality of service that they value and is cost-effective and feasible to deliver
- ▲ inform the prudent and efficient level of expenditure for the price determination/access arrangement, and
- ▲ allow monitoring of performance to ensure that the set standards and targets are delivered.

Under the NGL and NGR, the AER assesses the efficient expenditure for distribution services overall, (including consideration of the expenditure required to deliver the service levels determined by the Commission), and determines the allowed revenues and/or prices for distribution network service providers, such as AGN.

AGN is subject to five-yearly regulatory determination periods, with the current period ending on 30 June 2016. AGN is required to submit its proposed Access Arrangement for the 2016-2021 regulatory period to the AER in June 2015.

Accordingly, the Commission is now consulting on the jurisdictional service standards to apply to AGN for the next regulatory period. This will allow AGN sufficient time to ensure its Access Arrangement includes consideration of the expenditure required to meet any service standards determined by the Commission.<sup>20</sup>

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<sup>18</sup> Refer Gas Distribution Code, clause 2.1.1(b).

<sup>19</sup> AGN's Access Arrangement for the current 2011-2016 regulatory period is available on both AGN's website and the AER's website. Refer <http://www.australiangasnetworks.com.au/our-business/regulation-and-network-tariffs/access-arrangements/> and <http://www.aer.gov.au/node/9845>

<sup>20</sup> Two such reviews have been undertaken by the Commission, the first in 2006 and the second in 2010. Refer <http://www.escosa.sa.gov.au/projects/115/gas-access-arrangement-review-associated-review-of-regulatory-instruments.aspx> and <http://www.escosa.sa.gov.au/projects/139/review-of-the-gas-regulatory-instruments-to-apply-to-envestra-for-2011-2016-regulatory-period.aspx>.

## 1.2 Safety and technical regulation of AGN

The Office of the Technical Regulator (**Technical Regulator**) is responsible for safety and technical regulation of AGN.<sup>21</sup> This includes:

- ▲ monitoring and regulation of safety and technical standards in the gas supply industry
- ▲ monitoring and regulation of safety and technical standards with respect to gas installations
- ▲ providing advice in relation to safety or technical standards in the gas supply industry to the Commission at the Commission's request, and
- ▲ any other functions prescribed by regulation or assigned to the Technical Regulator by or under the Gas Act or any other Act.<sup>22</sup>

The Technical Regulator requires AGN to develop and periodically review a SRMTMP<sup>23</sup> which demonstrates how AGN and its contracted network operator, APA Group, continue to design, construct, operate and maintain the gas distribution network in a safe and efficient manner. AGN's SRMTMP is supported by a range of detailed operational policies and procedures. Technical and safety regulation focuses on AGN's internal business practices and extends to any contractors performing work on AGN's gas infrastructure.

The Technical Regulator monitors and publicly reports on AGN's compliance with its SRMTMP and any supporting operational policies and procedures against various key performance indicators.<sup>24</sup>

While AGN's SRMTMP is currently formally approved by the Commission, a process to transfer this responsibility to the Technical Regulator is underway and is expected to be finalised prior to the commencement of the 2016-2021 regulatory period.

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<sup>21</sup> The Technical Regulator is a statutory office appointed under section 7 of the Gas Act 1997. The Office of the Technical Regulator, part of the Department of State Development, assists the Technical Regulator with the administration of the functions assigned under the Gas Act 1997. Refer <http://www.sa.gov.au/directories/government/other-state-bodies/office-of-the-technical-regulator>

<sup>22</sup> Refer section 8 of the Gas Act 1997.

<sup>23</sup> Pursuant to Section 26(1)(b) of the Gas Act 1997 and Regulation 49(2) of the Gas Regulations 2012.

<sup>24</sup> Further details on the Technical Regulator's monitoring and auditing for safety and technical compliance are described in its annual reports. Refer <http://www.sa.gov.au/directories/government/other-state-bodies/office-of-the-technical-regulator>

## 2. CONSULTATION TO DEVELOP THE PROPOSED JURISDICTIONAL SERVICE STANDARDS

### 2.1 *Issues Paper*

Initial feedback was sought on jurisdictional service standards for AGN through an Issues Paper released in March 2014. In particular, comment was sought on whether:

- ▲ AGN should be required to consult its customers about service standards and the scope of any such consultation
- ▲ AGN should have similar customer service obligations as energy retailers, SA Power Networks and SA Water (i.e. telephone and written responsiveness standards and targets) or whether there were other customer service measures that would be more appropriate for AGN
- ▲ AGN should be required to monitor and report on network reliability using the System Average Interruption Duration Index (**SAIDI**) and System Average Interruption Frequency Index (**SAIFI**) used extensively in the electricity industry or whether there were any other reliability measures that would be more appropriate for AGN
- ▲ updating the current unaccounted for gas (**UAFG**) target, which is linked to AGN's mains replacement program, was the best way to manage any ongoing UAFG issues, and
- ▲ AGN had any areas of poor service that would benefit from the incentives provided through a Guaranteed Service Level (**GSL**) Scheme.

Submissions were also invited on any other issues considered relevant to the review of AGN's jurisdictional service standards for the 2016-2021 regulatory period.

Three submissions were received in response to the Issues Paper:

- ▲ AGN Ltd<sup>25</sup>
- ▲ Business SA<sup>26</sup>, and
- ▲ Office of the Technical Regulator.<sup>27</sup>

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<sup>25</sup> Australian Gas Networks (formerly Envestra) submission on the Issues Paper, April 2014, available [http://www.escosa.sa.gov.au/library/140429-EnvestraSSF\\_2016-2021\\_IssuesPaperSubmission-Envestra.pdf](http://www.escosa.sa.gov.au/library/140429-EnvestraSSF_2016-2021_IssuesPaperSubmission-Envestra.pdf)

<sup>26</sup> Business SA submission on the Issues Paper, April 2014, available [http://www.escosa.sa.gov.au/library/140429-EnvestraSSF\\_2016-2021\\_IssuesPaperSubmission-BusinessSA.pdf](http://www.escosa.sa.gov.au/library/140429-EnvestraSSF_2016-2021_IssuesPaperSubmission-BusinessSA.pdf)

<sup>27</sup> Office of the Technical Regulator, Department of State Development (formerly Department for Manufacturing, Innovation, Trade, Resources and Energy), submission on the Issues Paper, April 2014, available [http://www.escosa.sa.gov.au/library/140429-EnvestraSSF\\_2016-2021\\_IssuesPaperSubmission-OTR.pdf](http://www.escosa.sa.gov.au/library/140429-EnvestraSSF_2016-2021_IssuesPaperSubmission-OTR.pdf)

## 2.2 AGN's stakeholder engagement program

Following the close of the consultation period on the Issues Paper, AGN commenced its stakeholder consultation program to test its customers' willingness to pay for certain initiatives it was considering implementing over the 2016-2021 regulatory period.<sup>28</sup> In order to better inform the service standard setting process, the Commission agreed to delay the preparation and release of its Draft Decision<sup>29</sup> to incorporate any relevant findings from this program.

In the six months from July 2014 to January 2015, AGN has undertaken a range of engagement activities designed to understand stakeholder views.<sup>30</sup> AGN's response to the stakeholder feedback gathered through its engagement program to date is set out in its *Insights and Implementation* report.<sup>31</sup> AGN is currently inviting feedback on this report, with submissions to be considered in finalising its Access Arrangement proposal for the AER.<sup>32</sup>

While AGN's stakeholder engagement program has canvassed a broad range of issues beyond the scope of this review, the Commission has worked with AGN, including making the Consumer Advisory Committee<sup>33</sup> available to AGN for regular briefings and input, to ensure that the stakeholder engagement program tested several matters relevant to the current review. This included AGN testing whether its customers were willing to pay for:

- ▲ changes to AGN's current gas leak responsiveness
- ▲ changes to AGN's current call centre responsiveness, and
- ▲ the introduction of a GSL Scheme.

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<sup>28</sup> AGN has developed a dedicated stakeholder engagement website to allow stakeholders to provide their views and to share the results of its engagement program. Refer [www.stakeholders.agnl.com.au](http://www.stakeholders.agnl.com.au)

<sup>29</sup> The Commission's Draft Decision was previously scheduled to be released in August 2014, with the Final Decision to follow in December 2014.

<sup>30</sup> AGN engaged Deloitte to assist with the design and delivery of this program. The results of this program are set out in Deloitte's Stakeholder Insights Report, available at <http://stakeholders.agnl.com.au/r169/media/system/attrib/file/53/Deloitte%20Stakeholder%20Insights%20Report.pdf>

<sup>31</sup> Australian Gas Networks, Insights and Implementation: AGN's response to stakeholder insights, February 2015, available [http://stakeholders.agnl.com.au/r173/media/system/attrib/file/57/Insights%20and%20implementation%20report\\_FINAL.pdf](http://stakeholders.agnl.com.au/r173/media/system/attrib/file/57/Insights%20and%20implementation%20report_FINAL.pdf)

<sup>32</sup> Submissions on AGN's Insights and Implementation report are due Thursday, 26 March 2015.

<sup>33</sup> The Commission has established a Consumer Advisory Committee comprising representatives of water, sewerage, electricity and gas consumers. Membership is drawn from peak bodies representing a wide range of interests including disadvantaged consumers, rural and remote consumers, Local Government, environmental interest groups and industry and business generally. Refer <http://www.escosa.sa.gov.au/consultation/consumer-advisory-committee.aspx>

AGN provided a further submission on this review in January 2015 drawing upon the initial stakeholder insights relevant to this review.<sup>34</sup> This review has considered the stakeholder insights reported by AGN in developing this Draft Decision.

### *2.3 Consideration of submissions*

The Commission has been assisted by the submissions it has received through this review process. The issues raised by stakeholders through the consultation period have been carefully considered and, where relevant, certain arguments and submissions have been mentioned in the text, either by direct quotation or by reference to themes or arguments, to assist stakeholders to understand the proposed positions that have been reached.

However, a failure to reference an argument or submission does not mean that it has not been taken into account in reaching the proposed positions. While not all of the positions put in the submissions have been adopted, all submissions have been helpful in informing the consideration of each of the relevant issues and the competing viewpoints.

Consideration of the issues raised in the submissions is discussed in the following chapters.

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<sup>34</sup> Australian Gas Networks further submission on the Issues Paper, January 2015, available <http://www.escosa.sa.gov.au/projects/208/australian-gas-networks-jurisdictional-service-standards-for-the-2016-2021-regulatory-period.aspx>



## 3. PROPOSED FRAMEWORK

### 3.1 *Are network reliability service standards with performance targets required?*

#### **Draft Decision**

**The Commission is not proposing to introduce any service standards with performance targets for AGN for the 2016-2021 regulatory period.**

This review has not identified any non-satisfactory performance by AGN that requires improvement through the introduction of service standards with performance targets.

This review focused on two particular areas of AGN's service:

- ▲ responsiveness to public reports of potential gas leaks, from the initial telephone call through to attendance at the site of the leak, and
- ▲ customers experiencing poor reliability, measured through the number of customers experiencing multiple interruptions within a year and/or long duration interruptions.

As set out in the following chapter, AGN's current performance in the identified areas has been good. Over the five year period 2009-10 to 2013-14, AGN has:

- ▲ answered approximately 93 per cent of the average of the 13,500 calls per annum to its Leaks and Emergencies telephone line within 30 seconds, with an average response time of 11 seconds
- ▲ responded to around 94 per cent of the average of 9,500 public reports of potential gas leaks within two hours
- ▲ had a low number of "major interruptions", with an average of 15 unplanned interruptions affecting the supply of gas to five or more customers, and
- ▲ achieved the June 2016 UAFG target early, despite network growth and lower than forecast levels of mains replaced.

Accordingly, formalised service standards with performance targets are not proposed for the 2016-2021 regulatory period. Rather, enhanced performance reporting is proposed to increase the transparency around AGN's current performance to ensure that AGN maintains appropriate levels of service.

While participants in AGN's stakeholder engagement program were generally satisfied with current service levels, participants suggested it would be beneficial if AGN provided information on its current performance. AGN's further submission acknowledged the need for greater transparency around its current service levels.

The reporting proposed should have minimal cost impact, as AGN already collects (or has signalled its intention to commence collection of) the majority of the data requested by the Commission.

Details of the enhanced performance monitoring and reporting regime are set out in more detail in the remainder of this chapter.

### 3.2 Performance monitoring and reporting

#### Draft Decision

**The Commission is proposing to clarify and streamline its performance monitoring and reporting requirements to focus on AGN’s responsiveness to public reports of potential gas leaks. Reporting on technical and safety matters will be addressed by the Technical Regulator. Reporting on compliance with national gas legislation will be addressed by the AER.**

While this review has not identified any areas of service that require improvement through service standards with performance targets, additional transparency around AGN’s responsiveness to public reports of gas leaks is required.

Public reporting provides customers with a view of the level of service that is being provided for the charges paid. This can, in turn, support AGN’s future discussions with its customers about the value placed on various aspects of AGN’s service and the need for any changes to those service levels.

Public reporting also provides greater assurance to the broader South Australian community that AGN is managing potential public safety issues appropriately.

Performance monitoring and reporting is also a useful tool for the decision making processes of regulatory agencies, regulated businesses and the Government. It identifies baseline performance and provides incentives for improvement where performance outcomes are poor. It also provides the data required to develop service standards (or targets) and then assess compliance with such standards. Importantly, it also allows for good service to be identified and assist with decisions on the need (or otherwise) to intervene in the operations of a regulated entity.

The majority of the data currently collected under Gas Guideline 1 focuses on safety and technical matters. The Commission is proposing to transfer AGN’s responsibility for reporting on such matters to the Technical Regulator. If the Commission required any data or information on AGN’s management of technical or safety matters during the 2016-2021 regulatory period, it would seek such information the Technical Regulator in the first instance, rather than requiring duplicate reporting by AGN.

The Commission’s revised Gas Guideline 1 would focus on increasing transparency around AGN’s responsiveness to public reports of potential gas leaks. This would include reporting on the responsiveness of AGN’s leaks and emergencies telephone number (section 3.3) and the attendance at potential gas leaks reported by the public (section 3.4).

The requirement to report on these areas of its operations in a transparent manner will provide an incentive for AGN to ensure that it is operating efficiently and effectively, with the need for any material deteriorations in performance requiring explanation and rectification.

The revised performance indicators will also provide the Commission with the necessary data to monitor any material deteriorations in current service levels that may require service standards with performance targets in the future.

### 3.3 *Responsiveness of the leaks and emergencies telephone number*

#### **Draft Decision**

**The Commission is proposing to require AGN to report to the Commission on the utilisation and responsiveness of its faults and emergencies telephone service on a quarterly basis.**

AGN is required to have a 24 hour leaks and emergencies telephone line to allow all members of the South Australian public to report potential gas leaks for no more than the cost of a local call.<sup>35</sup>

The Commission's public reporting on the responsiveness of AGN's leaks and emergencies telephone line will provide the South Australian community with assurance that AGN is appropriately managing potential gas leaks.<sup>36</sup> Reporting on the effectiveness of AGN's enquiries and complaint handling procedures will be captured through the AER's monitoring of AGN's complaint handling performance.<sup>37</sup>

#### 3.3.1 *Stakeholder feedback*

The Issues Paper sought feedback on whether customer service standards with targets for minimum responsiveness timeframes were required.

Business SA submitted that customer service standards should not be introduced if AGN is adequately managing customer service issues. Business SA noted that, while it may not seem unreasonable to impose the same or similar customer service obligations on AGN as apply to other regulated businesses, consistency between regulated industries was a second order issue.

AGN acknowledged that the introduction of the national energy customer framework had introduced a direct contractual relationship with its end-use customers for the first time.

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<sup>35</sup> Refer National Energy Retail Rules, rule 85.

<sup>36</sup> The Commission currently reports on AGN's performance on an annual basis. Refer <http://www.escosa.sa.gov.au/gas-overview/reporting-and-compliance/annual-performance-reports.aspx>

<sup>37</sup> The regulatory relationship between AGN and its customers is primarily governed under the NERL. Prior to the commencement of the NERL in South Australia on 1 February 2013, the Commission required AGN to have complaint handling and dispute resolution procedures in place that first included escalation within AGN and then to an external, independent and free dispute resolution body; the Energy and Water Ombudsman SA. The requirement for DNSPs to have standard complaints and dispute resolution procedures now arises under Part 4 of the NERL, administered by the AER. AGN's complaint and dispute handling procedures are available at <http://www.maketheconnection.com.au/r2350/media/system/attrib/file/628/Complaints%20Procedure.pdf>

However, AGN submitted that even with the direct contractual relationship, the majority of a gas customer's contact would still be with the customer's retailer. AGN noted that its main points of communication with its customers would be:

- ▲ leak and emergency calls
- ▲ connection enquiries, and
- ▲ customer complaints, both directly received and through retailers.

AGN submitted that the low percentage of complaints received by the Energy and Water Ombudsman SA supported the view that AGN's complaint handling procedures were working appropriately.

### *3.3.2 Consideration*

Most South Australian gas customers are unlikely to have had any direct contact with AGN unless they have reported a potential gas leak or are seeking a new gas connection. Rather, the majority of gas service issues are directed to gas retailers (e.g. billing and payments). Consequently, AGN's customers may have a limited sense of any improvement or deterioration of the levels of service provided by AGN. Further, while not direct customers of AGN, the broader South Australian community can be impacted by AGN's operations (e.g. gas leaks and gas mains replacement works).

AGN's leaks and emergencies telephone number received an average of 13,500 calls per annum for the five years 2009-10 to 2013-14, and have consistently answered approximately 93 per cent of these calls within 30 seconds, with an average response time of 11 seconds. Further, AGN has established internal key performance indicators for telephone responsiveness that exceed those applicable to SA Water, SA Power Networks and South Australian energy retailers.<sup>38</sup>

### *3.3.3 Draft Decision*

Based on the current call volumes and average response times, a telephone responsiveness service standard and performance target is not proposed for the 2016-2021 regulatory period.

It is proposed that AGN be required to report to the Commission on its call centre responsiveness on a quarterly basis against the following metrics:

- ▲ total number of telephone calls received on the leaks and emergencies number
- ▲ total number (and percentage) of telephone calls to the leaks and emergencies number answered within 30 seconds, and

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<sup>38</sup> AGN's internal key performance indicators for telephone call responsiveness are 90 per cent of all inbound natural gas emergency calls answered within 10 seconds with all other calls to be answered within 20 seconds. Energy retailers, SA Power Networks and SA Water are required to use best endeavours to answer 85 per cent of calls within 30 seconds.

- ▲ average answer time (in seconds) for calls to the leaks and emergencies number.

### 3.4 Responsiveness to public reports of gas leaks

#### Draft Decision

**The Commission is proposing to enhance AGN’s current reporting requirements around public reports of potential gas leaks. AGN will be required to report to the Commission on its attendance at high priority situations and other potential gas leaks on a quarterly basis.**

Efficient gas leak identification and management practices are an important public safety issue. The importance of gas leak responsiveness goes beyond AGN’s direct customer base. It is important the South Australian community to have confidence that AGN will respond to concerns about potential gas leaks in a timely manner. It is proposed that AGN report to the Commission on its responsiveness to public reports of gas leaks on a quarterly basis. The Commission’s reporting will support public confidence that AGN is safely managing its South Australian gas networks.

#### 3.4.1 AGN’s current practice

There are various ways that potential gas leaks can be identified and reported:

- ▲ public reports from members of the general public (including but not limited to AGN’s customers) or emergency services personnel attending an incident, or
- ▲ internal identification by AGN staff during the course of their work in an area or through periodic surveys of the network.

AGN’s Leakage Management Policy and Procedures set out the formal system to manage leaks reported by the public or identified through internal leak reports, planned periodic surveys or special surveys.<sup>39</sup>

The leak classification strategy requires AGN to respond to a publicly reported leak within two hours to assess the risk in order to further classify the leak and schedule repair.<sup>40</sup>

There is a dedicated faults and emergencies telephone number for South Australian customers to report potential gas leaks. AGN’s call centre operators are trained to ask a series of questions to determine the location and magnitude of the leak. Where appropriate, AGN’s operators will advise callers on how to isolate the supply of gas and make the area safe until the area can be attended for further assessment.

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<sup>39</sup> This policy complies with the Leakage Management requirements of Australian and New Zealand Standard AS/NZS 4645.1 – Gas Distribution Networks Part 1: Network Management. Operational responsibility for monitoring AGN’s compliance with this policy rests with the Technical Regulator.

<sup>40</sup> Note: In Victoria public reported leaks classified as either ‘A Priority’ requiring urgent immediate attention for emergencies or critical loss of supply or ‘B Priority’ for all other public reports. ‘A’ priority are attended within one hour and those classified as ‘B’ priority are attended within two hours.

Where a leak report indicates a potentially high-risk situation, (e.g. a report of a leak at a school or hospital or emergency services reporting that a car crash has damaged above-ground infrastructure), AGN will divert its nearest crew to the incident.

From 2009-10 to 2013-14, AGN received an average of 9,500 public reports of potential gas leaks, 94 per cent of which were attended for further assessment within two hours. Once investigated by AGN, an average of 16 per cent of the initial reports resulted in no identification of a leak.

### *3.4.2 Stakeholder feedback*

When asked about AGN's current responsiveness performance, participants in AGN's stakeholder engagement program were generally happy and were unwilling to pay for either an increase in the percentage of leaks attended within two hours, or to accept a reduction on their bills for a decrease in the current service level.

Participants were interested in obtaining more information about AGN's triage system for prioritising responses to leak reports. While there was comfort in the majority of leak reports being attended to within two hours, there was some concern that two hours may be too long to respond to higher risk event. AGN clarified that it would generally attend the site quicker than the two hours, with staff diverted from other lower priority jobs as necessary. It was also clarified that AGN's current policy required staff to remain on site and work on the cause of the leak until the area is made safe.

### *3.4.3 Consideration*

The Technical Regulator has not identified any problems with AGN's current leakage management policies or procedures through its annual audit processes, consistently finding that AGN has demonstrated:

- ▲ effective implementation of its leakage management policies and procedures
- ▲ timely and appropriate response to publicly reported gas leaks, and
- ▲ the use of competently trained personnel to carry out all gas leak related activities.

The Commission accepts the Technical Regulator's advice and is not seeking to duplicate AGN's regulatory obligations.

Further, an increase to AGN's current gas leakage responsiveness performance is not proposed. Once made aware of the current levels of service, participants in AGN's stakeholder engagement activities were generally satisfied and were not prepared to pay for increased service levels or accept a bill reduction for longer average response times.

While AGN's current performance data do not suggest that there is an underlying issue with AGN's current leak management practices, there is benefit in communicating performance on this important public safety matter on a regular basis. As AGN is already collecting data in this area, there will be minimal additional cost for AGN to be able to internally monitor and report to the Commission on the proposed performance metrics.

### 3.4.4 Draft Decision

It is proposed that AGN report to the Commission on the following performance metrics:

- ▲ total number of potential gas leaks reported by the public
- ▲ total number of high-priority gas leaks reported by the public
- ▲ total number of other gas leaks reported by the public
- ▲ average time to repair a publicly reported leak, and
- ▲ total number of publicly reported potential gas leaks attended where no leak was found.

AGN's responsiveness performance will be defined as the time elapsed from when the initial report is received to the time taken for the first response team to arrive on site to assess the situation.<sup>41</sup>

AGN's gas leak responsiveness performance will be measured against its average historical performance, with AGN required to provide explanations for any material departures from long-term historical averages.

## 3.5 Reporting on network reliability and major interruptions

### Draft Decision

**The Commission is proposing to require AGN to continue to report on major interruptions impacting five or more customers. However, it is proposed that these data be provided to the Technical Regulator rather than the Commission.**

**The Commission will not require AGN to report on the reliability of its gas networks in South Australia using SAIDI and SAIFI.**

AGN currently reports on major interruptions; defined as any unplanned interruption affecting the supply of gas to five or more customers.<sup>42</sup>

While the Commission currently collects this data under Gas Guideline 1, as noted above, it is proposed that this function be transferred to the Technical Regulator.

### 3.5.1 Stakeholder feedback

The Issues Paper sought feedback on whether the existing reporting requirements for AGN were adequate, or whether reliability reporting would be enhanced by using the System Average Interruption Duration Index (**SAIDI**) and System Average Interruption Frequency

<sup>41</sup> This approach is consistent with that employed by AGN for its Victorian operations. For the AER's report on AGN's performance against this measure in Victoria, refer <https://www.aer.gov.au/sites/default/files/Victorian%20gas%20distribution%20businesses%20-%20comparative%20performance%20report%20-%202009-2011.pdf>

<sup>42</sup> Pursuant to Regulation 15C(1) of the Gas Regulations (1997).

Index (**SAIFI**) as currently used in the electricity industry, or if other reliability measures were considered more appropriate.

Business SA's submission supported the requirement for AGN to monitor and report on reliability using the proposed metrics. AGN's submission, however, clarified that it does not currently monitor and report on SAIDI and SAIFI in either South Australia or Victoria; the Essential Services Commission of Victoria calculates these indices itself from data provided by distributors.

AGN submitted that SAIDI and SAIFI are much better suited to the reliability characteristics of electricity networks and do not necessarily translate well for the gas industry as, unlike in electricity, gas interruptions are infrequent as the assets are largely underground and, when they do occur, they generally affect only a small number of customers. AGN noted that South Australian customers can expect, on average, to experience one hour of lost supply about once every 46 years. AGN noted that the Technical Regulator currently requires detailed reporting on every major interruption to gas supply and suggested that such reporting provides a greater level of granularity than is possible through a parameter like SAIDI and SAIFI. AGN submitted that the existing reporting metrics are likely to be of greater value to consumers.

### *3.5.2 Consideration*

AGN has consistently reported low numbers of major interruptions to its service. For the five years 2009-10 to 2013-14, AGN reported an average of 15 major interruptions a year, impacting around 1,100 customers on average.<sup>43</sup>

Due to the higher levels of underlying reliability of gas distribution networks, reporting on against SAIDI and SAIFI is less meaningful than in electricity. The current reporting requirements are more easily understandable for the general public than SAIDI and SAIFI.

Duplication of regulatory reporting requirements should be minimised and thus the Technical Regulator's annual audit processes and Technical Report provide appropriate scrutiny of the reliability and ongoing safety and maintenance of AGN's networks.

### *3.5.3 Draft Decision*

It is proposed that AGN continue to report to the Technical Regulator on major interruptions impacting five or more customers.

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<sup>43</sup> Further details on AGN's historical performance is available on the Commission's website at <http://www.escosa.sa.gov.au/gas-overview/reporting-and-compliance/annual-performance-reports.aspx>



### 3.6 Levels of unaccounted for gas

#### Draft Decision

**The Commission is not proposing to set a UAFG target for the 2016-2021 regulatory period.**

The level of unaccounted for gas (**UAFG**) is the difference between the measured quantities of gas entering AGN's distribution network and the measured quantities of gas billed to end use customers.

UAFG is primarily a safety issue: it is not a good network reliability indicator, as even high levels of UAFG are unlikely to result in interruptions to gas supply for end use customers.

However, assessing and monitoring the level of UAFG in AGN's network may be of benefit in the following areas of regulation:

- ▲ as an indicator of network health – as part of the Technical Regulator's ongoing assessment of the effectiveness of AGN's policies and procedures for managing the safety and reliability of its network, and
- ▲ in establishing a UAFG expenditure allowance – through the AER establishing an appropriate allowance for AGN to manage UAFG in a prudent and efficient manner.

While the Issues Paper sought comment on whether the existing UAFG target should be updated for the 2016-2021 regulatory period, the roles and responsibilities of the Commission and the Technical Regulator in respect of AGN's SRMTMP have been clarified since this review commenced. As noted in 1.2 above, a process to transfer this responsibility to the Technical Regulator is underway and is expected to be finalised prior to the commencement of the 2016-2021 regulatory period.

In light of that change, the ongoing management of AGN's compliance with its SRMTMP is appropriately and adequately covered by the Technical Regulator. The Technical Regulator's audit processes and Technical Report provide appropriate scrutiny and public reporting on the ongoing safety and maintenance of AGN's network. Accordingly, to avoid confusion and minimise the regulatory burden for AGN (and hence costs for consumers), this issue would be more efficiently and effectively addressed by the Technical Regulator as part of the assessment and approval process for AGN's SRMTMP.

#### 3.6.1 Draft Decision

It is proposed that the current UAFG target that directly links UAFG with mains replacement activities is not continued for the 2016-2021 regulatory period.

To give effect to this decision, the Commission is proposing to:

- ▲ amend clause 8 of AGN's gas distribution licence to reflect the transfer of the responsibilities around AGN's SRMTMP from the Commission to the Technical Regulator

- ▲ remove clause 2.1.1(e) from the Gas Distribution Code to remove the current UAFG target, and
- ▲ remove the UAFG and mains replacement reporting requirements contained in OP 4 of Gas Guideline 1.

## 4. GUARANTEED SERVICE LEVEL SCHEME

### Draft Decision

**The Commission is not proposing to introduce a GSL scheme for the 2016-2021 regulatory period. Rather, the Commission is proposing to require AGN to internally monitor and publicly report on customers experiencing poor service. This will focus on customers experiencing multiple interruptions and customers experiencing long duration interruptions.**

### 4.1 Nature of a GSL scheme

Ultimately, it may be uneconomic to ensure all customers receive average service at the performance target levels. A GSL Scheme can be designed to make payments to customers where it is too costly to provide the average service levels to an individual customer.

A GSL Scheme does not currently apply to AGN South Australian operations. In considering the need to introduce a GSL Scheme for AGN for the 2016-2021 regulatory period, the following issues have been considered:

- ▲ whether or not customers value that aspect of the service
- ▲ the GSL target is a reasonable measure of the customer's expectation
- ▲ the GSL payment is made to customers receiving a level of service below a predetermined level
- ▲ the GSL payment amount should not exceed the total annual network charges paid by that class of customers, on average
- ▲ the reason for failure to meet the GSL is within AGN's control, and
- ▲ the cost of administering the scheme cannot outweigh the benefits provided by that scheme.

A GSL Scheme is not intended to provide customers with compensation for individual loss or damage. A separate mechanism is available under the National Energy Customer Framework to introduce a formal small claims scheme for individual customers experiencing loss or damage as a result of AGN's actions.<sup>44</sup>

Rather, GSL payments are a form of "goodwill" customer service payments to recognise, but not specifically quantify, the inconvenience caused to individual customers by poor service.

Further, while GSL payments would be directed at individual customers, by their nature, the payments should also provide a financial incentive for AGN to assess the trade-off between making the GSL payments and undertaking capital and/or operational expenditure to

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<sup>44</sup> Part 7 of the National Energy Retail Law establishes a small claims compensation scheme that individual jurisdictions can elect to implement. In introducing the National Energy Customer Framework in South Australia, the South Australian Government chose not to use this mechanism on the basis that the existing arrangements were working effectively and providing adequate consumer protections. The option to exercise this power remains open to the South Australian Government if necessary in the future.

address any causes of poor performance, thereby avoiding the need to make the GSL payments.

The decision on the funding arrangements for a GSL Scheme would be considered as part of the AER's assessment of AGN's access arrangement. However, in principle, a certain level of GSL payments would need to be allowed for in AGN's costs (and recovered from all customers), as recognition of the uneconomic expenditure required to increase service levels for certain customers who may never receive the average service levels. However, for GSL payments to provide the incentives to AGN to assess the trade-off between making payments and addressing underlying performance issues, a certain level of payments should not be funded, as AGN should face a "penalty" for poor performance that is within its control to manage.

## 4.2 Stakeholder feedback

AGN's initial submission suggested that it was not aware of any areas of poor performance that were of concern to its customers that would warrant the additional cost of implementing and administering a GSL Scheme. In support of this position, AGN noted that the underlying high level of network reliability and the nature of small customer gas appliances were likely to limit customers' willingness to pay for a GSL Scheme.

Business SA's submission was consistent with this view, stating that it was not convinced that AGN's current performance necessitated the need for such a scheme.

To explore this issue further, AGN's stakeholder engagement program tested participant's willingness to pay for the introduction of a GSL Scheme in South Australia, with the Victorian scheme used as an illustrative example, at a cost of \$0.50 per customer per annum.<sup>45</sup> The Victorian GSL Scheme provides payments to customers in the following service areas:

- ▲ failure to attend agreed appointment times
- ▲ failure to connect customer within one day of the agreed date
- ▲ customers experiencing in excess of five interruptions within a calendar year, and
- ▲ customers experiencing interruptions in excess of 12 hours.

Around 65 per cent (n=35) of participants supported introducing a scheme targeted at providing compensation to customers, rather than providing incentives for AGN to improve its services. However, participants did not support introducing the Victorian scheme in South Australia, on the basis that the proposed payments would not provide adequate compensation for an interruption to their gas supply. To counter this point, some participants noted that existing individual business insurance was likely to provide adequate compensation.

In responding to the level of broad support for a GSL Scheme (focused on customer compensation), AGN undertook an internal review of its ability to implement a scheme for the 2016-2021 regulatory period. Its review found that a significant impediment to

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<sup>45</sup> AGN's cost per customer estimate was based on its costs for administering the Victorian GSL Scheme.

introducing a GSL scheme in the near term is the availability of the necessary data on the service areas subject to the Victorian GSL Scheme. AGN concluded that, based on its assessment of the data it does collect for South Australia, its best estimate is that any GSL payments would have been minimal and below the costs of implementing and administering the scheme. As such, it is unlikely that a GSL scheme would have provided any additional incentive to drive business improvement or a meaningful level of compensation to those impacted.

On the issue of compensation for individual customers more generally, AGN submitted that, in the short-term, it intends to continue to operate its existing compensation scheme for customers that have been unreasonably inconvenienced or impacted by its business. AGN will continue to work with its stakeholders to consider how the principle of formal compensation can be best implemented in the medium-term, as additional data becomes available.

### *4.3 Draft Decision*

While there was general customer support for the proposition that adequate compensation should be available for customers that experience loss, damage or inconvenience, the areas of service where AGN is not currently meeting customers' expectations have not been identified.

Adopting the Victorian scheme was not supported by participants in AGN's stakeholder engagement program, suggesting that the particular areas of service of concern may differ between the two jurisdictions. Further, due to the limited data available, it is too soon to assess the effectiveness of the incentives provided to AGN by the Victorian scheme.

In the absence of a clear need to incentivise AGN to improve particular aspects of its service valued by customers where current performance is not meeting customer expectations the Commission is not proposing to introduce a GSL Scheme for AGN for the 2016-2021 regulatory period. However, the Commission will reconsider this position if stakeholders identify areas of AGN's service that are valued by customers and that would be improved through the introduction of a GSL Scheme.

It is proposed that AGN be required to report to the Commission on:

- ▲ the number of customers experiencing multiple interruptions within a year, and
- ▲ the number of customers experiencing long duration interruptions, with a particular focus on lengthy restoration times that are within AGN's control.

AGN's performance will be assessed against its average historical performance with explanations required for any material departures from longer term average performance outcomes. The results of this assessment will be publicly reported through the Commission's Annual Performance Report.

## 5. NEXT STEPS

The Commission invites submissions on the draft positions put in this paper, or any other issues considered relevant to the review of AGN's jurisdictional service standards for the 2016-2021 regulatory period.

Submissions are due on or before close of business **Friday, 10 April 2015**. All submissions will be placed on the Commission's website, subject to any confidential material being excluded.

Following consideration of the issues raised in the submissions, the Commission will release its Final Decision in May 2015. The Commission's regulatory instruments will be amended to reflect the decisions on the final jurisdictional service standards by the end of 2015 and will apply from 1 July 2016.



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10 April 2015



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Senior Policy Officer  
Essential Services Commission of South Australia  
GPO Box 2605  
Adelaide SA 5001

By email: [escosa@escosa.sa.gov.au](mailto:escosa@escosa.sa.gov.au)

Dear Amber

**Response to Draft Decision on Jurisdictional Service Standards for the 2016 to 2021 Access Arrangement Period**

Australian Gas Networks Limited (AGN, previously Envestra)<sup>1</sup> is pleased to provide the attached submission in relation to the Essential Services Commission of South Australia's (ESCOSA) Draft Decision on AGN's Jurisdictional Service Standards for the 2016 to 2021 Access Arrangement period, released on 12 March 2015.

A key finding of our submission is that there should be a meeting between ESCOSA, the South Australian Office of the Technical Regulator (OTR) and AGN to ensure that the objective of streamlined and efficient reporting is met.

Please contact either Kristin Raman (8418 1117) or myself (8418 1129) if you would like to discuss the matters raised in this submission further.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Craig de Laine".

Craig de Laine  
Group Manager - Regulation

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<sup>1</sup> On 27 October 2014, Australian Gas Networks Limited was announced as the new name for Envestra Limited. The name change was effective from 3 November 2014 and has no impact on the service offering of the Company.



## Overview

On 7 March 2014 ESCOSA initiated a review of the jurisdictional service standards to apply to AGN's South Australian network over the 2016 to 2021 Access Arrangement period. AGN has made two submissions to ESCOSA on the Issues Paper, the first on 22 April 2014 and the second on 16 January 2015 following the delivery of the "Research Phase" of our stakeholder engagement program.<sup>2</sup>

ESCOSA released its Draft Decision on jurisdictional service standards on 12 March 2015. AGN has reviewed the Draft Decision and agrees with the key principles outlined by ESCOSA and summarised by AGN below:

- no introduction of new service standards with performance targets for the 2016 to 2021 Access Arrangement period;
- the clarification and streamlining of performance monitoring;
- increased transparency with respect to public reports of gas leaks and customer service;
- the removal of an Unaccounted for Gas (UAFG) target; and
- no introduction of a Guaranteed Service Level (GSL) scheme.

The Draft Decision recognises that AGN's current service levels are already at a high level, and as a result, it is not necessary to introduce any new performance targets for the business. Whilst no new targets have been proposed, ESCOSA is requesting that AGN increase its periodic reporting on key customer service and safety parameters.

The Draft Decision is considered to be consistent with earlier submissions by AGN and also with the values of our stakeholders. More specifically, our stakeholder engagement program found that customers:<sup>3</sup>

- want more information from AGN across various channels; and
- value initiatives that improve community safety.

AGN is already responding to these stakeholder insights by redeveloping and implementing a Vision Statement which requires the setting and public reporting on our performance across several key aspects of customer service. This includes the time taken to respond to publicly reported gas leaks, our network reliability performance and the number of complaints received from the public. AGN intends to improve or maintain these aspects of service delivery and publicly report our progress over the upcoming regulatory period. The Vision Statement is provided as Attachment 1.

Another key insight from our stakeholders was that price is a key concern. As a result, with a view to minimising the cost associated with increased reporting requirements, AGN is proposing to:

- report to ESCOSA on specified metrics annually in our existing Annual Operational Report, as opposed to quarterly as outlined in the Draft Decision;
- meet with ESCOSA and the OTR to ensure there is no duplication of reporting requirements; and
- clarify terms used in the Draft Decision to be consistent with parameters already tracked by AGN.

More detailed comment on each element of the Draft Decision follows. A summary of proposed metrics to be reported to ESCOSA over the 2016 to 2021 regulatory period is provided in Attachment 2.

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<sup>2</sup> AGN's previous submissions are available to download from the ESCOSA website: <http://www.escosa.sa.gov.au/projects/208/australian-gas-networks-jurisdictional-service-standards-for-the-2016-2021-regulatory-period.aspx#stage-list=0>

<sup>3</sup> The Deloitte Stakeholder Insights Report and the AGN Insights and Implementation Report are available to download from AGN's Stakeholder Engagement Website: <http://stakeholders.agnl.com.au/engaging-with-stakeholders/key-facts-information/facts-information/>



## AGN Response to the Draft Decision

### **Draft Decision Page 12: “The Commission is not proposing to introduce any service standards with performance targets for AGN for the 2016-2021 regulatory period”**

AGN is pleased that ESCOSA recognises our existing high service standards and supports the decision not to introduce new performance targets over the upcoming regulatory period.

### **Draft Decision Page 13: “The Commission is proposing to clarify and streamline its performance monitoring and reporting requirements to focus on AGN’s responsiveness to public reports of potential gas leaks. Reporting on technical and safety matters will be addressed by the Technical Regulator. Reporting on compliance with national gas legislation will be addressed by the AER”.**

AGN supports the streamlining of reporting requirements as it will assist the business minimise cost to customers. Consistent with this, AGN is proposing to report all metrics to ESCOSA annually as part of its Annual Operational Report as opposed to quarterly as outlined in the Draft Decision. Furthermore, AGN has identified several areas where reporting duplication could be removed. These are discussed on a case-by-case basis later in this submission.

AGN notes that the Draft Decision calls for increased reporting requirements in relation to public reports of potential gas leaks. Whilst AGN is supportive of transparently reporting on this information, we understand that leak management and reporting is considered to be a safety matter, and as such, could sit with the OTR. In order to ensure the objective of streamlined reporting is met, AGN encourages a meeting between ESCOSA, the OTR and AGN to agree on the necessary reporting requirements and appropriate reporting mechanisms, having regard for the increased reporting AGN intends to implement as part of our afore-mentioned Vision Statement (provided as Attachment 1).

### **Draft Decision Page 14: “The Commission is proposing to require AGN to report to the Commission on the utilisation and responsiveness of its faults and emergencies telephone service on a quarterly basis”.**

AGN agrees to report to ESCOSA on the following metrics:

- total number of telephone calls received on the leaks and emergencies number;
- total number (and percentage) of calls to the leaks and emergencies number answered within 30 seconds; and
- average answer time for calls to the leaks and emergencies number.

In order to streamline reporting requirements and minimise associated cost, AGN is proposing to report these metrics annually as part of our Annual Operational Report. A quarter-by-quarter breakdown could be provided in the Annual Operational Report upon request from ESCOSA. Additionally, AGN will publicly report on call handling as part of our Vision Statement (Attachment 1).

As part of the Draft Decision relating to telephone responsiveness, ESCOSA note that AGN is required to report to the Australian Energy Regulator (AER) with respect to complaint handling. More specifically, page 14 of the Draft Decision notes that:

*“Reporting on the effectiveness of AGN’s enquiries and complaint handling procedures will be captured through the AER’s monitoring of AGN’s complaint handling performance.”*



In addition to the AER requirements, AGN currently reports to ESCOSA on the number and type of complaints. This appears to be a duplication of reporting requirements, and inconsistent with ESCOSA's overarching objective of streamlining reporting requirements. As such, AGN proposes that ESCOSA remove complaint handling reporting requirements from its Gas Industry Guideline No. 1.

**Draft Decision Page 16: “The Commission is proposing to enhance AGN’s current reporting requirements around public reports of potential gas leaks. AGN will be required to report to the Commission on its attendance at high priority situations and other potential gas leaks on a quarterly basis”.**

In our Secondary Submission, AGN recognised that our customers’ wanted more information on how the business responded to gas leaks. As a result we proposed to:

*“...improve transparency by providing information to stakeholders explaining our approach to responding to gas leaks (for example, by publishing a Fact Sheet on our leak management plan on our stakeholder engagement website)”*

The ESCOSA Draft Decision expands on AGN’s submission by asking the business to increase its reporting requirements. AGN has reviewed the Draft Decision and agrees to increase transparency by reporting on:

- The total number of potential gas leaks reported by the public.
- The total number of high-priority gas leaks reported by the public.
  - AGN defines “high-priority” as leaks reported by the public that are assessed by the business to be a Class 1 leak.<sup>4</sup>
- The total number of other gas leaks reported by the public.
  - AGN defined this as being the number of leaks reported by the public, where a leak is found and where that leak is not assessed to be a Class 1 leak.
- The total number of publicly reported leaks attended where no leak was found.
  - Note, this information is already provided as part of Gas Industry Guideline No. 1, so there is no need for any additional reporting requirement.
- The percentage of gas leaks repaired within the requirements of AGN’s Leak Management Procedure (LMP).
  - ESCOSA’s Draft Decision asked AGN to report on the average time to repair a publicly reported gas leak. Whilst the provision of this data is possible, it is not something AGN currently tracks due to its limited value. For example, AGN might not repair a minor leak, but instead monitor it, particularly where mains replacement work is scheduled in the near term. Hence the timeframe is dependent upon the nature of the leak.
  - What is important is that the timeframe is in accordance with the classification/severity of the leak, as stipulated in the LMP approved by the OTR. The timeframes for leak repair outlined in the LMP have consideration for the class of the leak and what is deemed to be safe and prudent network operation. Reporting on this parameter will therefore provide a high level of assurance to the public in terms of leakage management.

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<sup>4</sup> See Attachment 3 for a definition of leak classes.



In order to streamline reporting requirements and minimise associated cost, AGN is proposing to report these metrics annually as part of our Annual Operational Report. A quarter-by-quarter breakdown could be provided in the Annual Operational Report upon request from ESCOSA. Additionally, AGN will publicly report on incident response as part of our Vision Statement (Attachment 1).

Furthermore, to ensure streamlining of reporting requirements, AGN proposes to remove similar reporting requirements from existing obligations. More specifically, this includes removing the requirement to report the number of reported gas leaks where a gas leak was found, excluding third party damage, leaks on meters, regulators and above ground infrastructure from Gas Industry Guideline No. 1.

**Draft Decision Page 18: “The Commission is proposing to require AGN to continue to report on major interruptions impacting five or more customers. However, it is proposed that these data be provided to the Technical Regulator rather than the Commission.”**

AGN is already required to provide the OTR with an interim notice of any unplanned interruption affecting more than five customers via email and follow-up with a monthly report.

Maintaining reporting on major interruptions as per Gas Industry Guideline No. 1 and transferring responsibility to the OTR, as per the Draft Decision, would be a duplication of effort and inconsistent with the overarching objective of streamlining reporting requirements.

As a result, AGN proposes that reporting on major interruptions under Gas Industry Guideline No. 1 be removed completely on the basis that it is already reported to the OTR.

**Draft Decision Page 18: “The Commission will not require AGN to report on the reliability of its gas networks in South Australia using SAIDI and SAIFI”.**

AGN supports ESCOSA’s Draft Decision. This Decision is consistent with AGN’s previous submissions.

**Draft Decision Page 20: “The Commission is not proposing to set a UAFG target for the 2016-2021 regulatory period”.**

AGN supports ESCOSA’s Draft Decision. This Decision is consistent with AGN’s previous submissions. AGN also notes that UAFG is a matter that will be considered as part of our revised AA proposal to the AER.

**Draft Decision Page 22: “The Commission is not proposing to introduce a GSL scheme for the 2016-2021 regulatory period. Rather, the Commission is proposing to require AGN to internally monitor and publicly report on customers experiencing poor service. This will focus on customers experiencing multiple interruptions and customers experiencing long duration interruptions”.**

AGN supports ESCOSA’s Draft Decision. The Draft Decision is consistent with our previous submissions in that it does not propose to implement a GSL scheme, but it expands upon AGN’s previous submission by requesting the business to increase its reporting. AGN has reviewed the Draft Decision and agrees to increase transparency by reporting on:

- The number of customers experiencing multiple interruptions within a year.
  - Defined as being the number of customers having five or more interruptions within a year where the interruption is unplanned and caused by operator actions, third party damage or asset condition.



- The number of customers experiencing long duration interruptions.
  - Defined as being the number of events within a year where a gas supply interruption is not restored within 12 hours and where the interruption is unplanned and caused by operator actions, third party damage or asset condition.

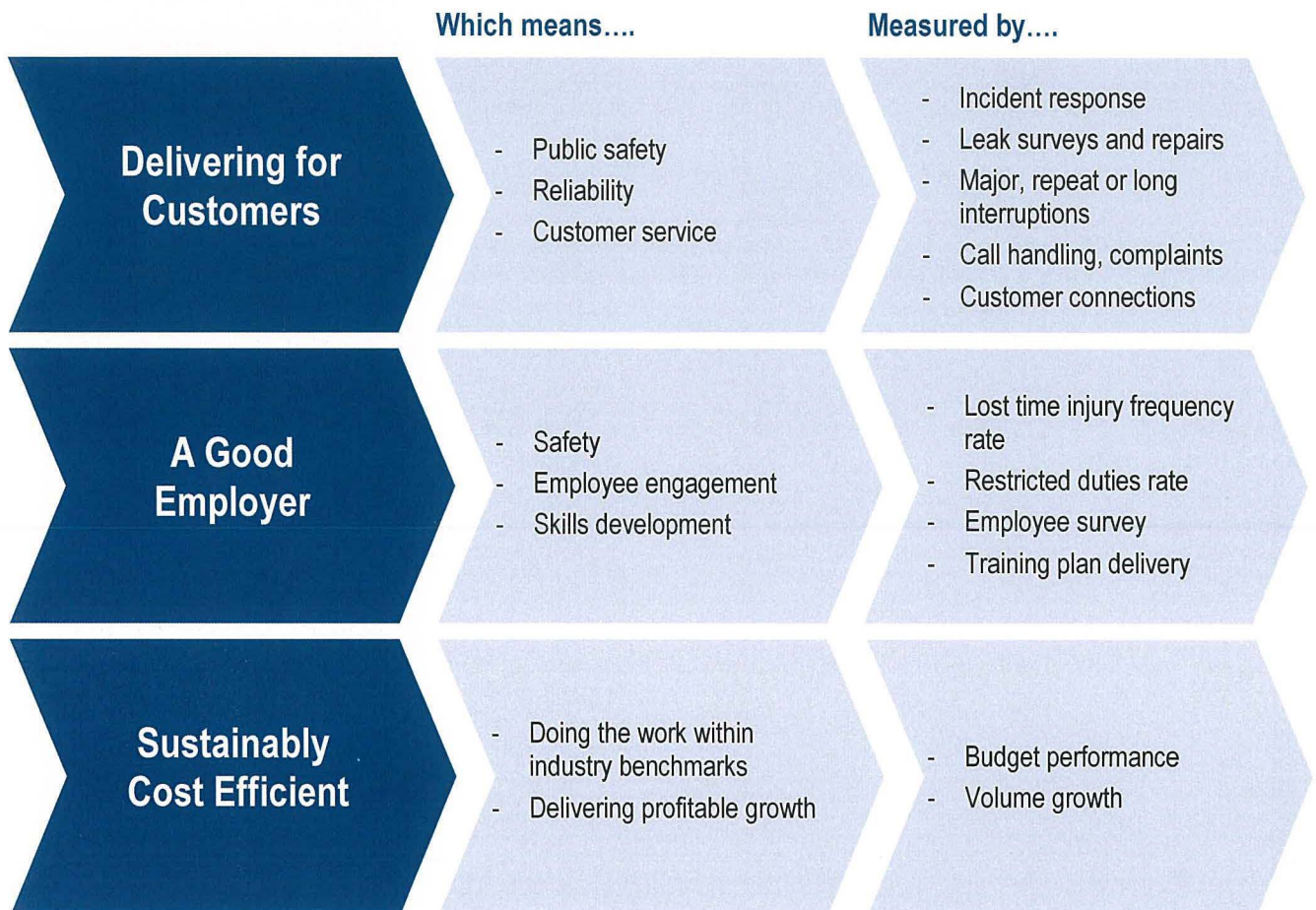
AGN proposes to report on these metrics in its Annual Operational Report and through public reporting relating to our performance against internal targets as part of our Vision Statement (Attachment 1).



## Attachment 1: AGN Vision Statement

Our vision is to be the leading gas distributor in Australia.

Figure 1: AGN Vision Statement



## Attachment 2: Summary of Proposed Data Provision

Table 1: Summary of proposed data provision

Metric	Provision	Notes
<b>The utilisation and responsiveness of the faults and telephone service</b>		
Total number of telephone calls received on the leaks and emergencies number	Annually as part of the Annual Operational Report	-
Total number of calls to the leaks and emergencies number answered within 30 seconds		-
Total percentage of calls to the leaks and emergencies number answered within 30 seconds		-
Average answer time for calls to the leaks and emergencies number		-
<b>Attendance at high-priority situations and other potential gas leaks</b>		
Total number of potential gas leaks reported by the public	Annually as part of the Annual Operational Report	Propose to remove similar requirement from Gas Industry Guideline No. 1 to avoid duplication.
Total number of high-priority gas leaks reported by the public		Where “high-priority” leaks are defined as those assessed to be a “Class 1” leak.
Total number of other gas leaks reported by the public		Defined as being number of leaks reported, where a leak was found but assessed not to be a “Class 1” leak.
The percentage of gas leaks repaired within the requirements of AGN’s LMP		-
Total number of publicly reported leaks attended where no leak was found		Already reported under Gas Industry Guideline No. 1.
<b>Service interruptions</b>		
The number of customers experiencing multiple interruptions within a year	Annually as part of the Annual Operational Report	Defined as being the number of customers having five or more interruptions within a year where the interruption is unplanned and caused by operator actions, third party damage or asset condition.
The number of customers experiencing long duration interruptions		Defined as being the number of events within a year where a gas supply interruption is not restored within 12 hours and where the interruption is unplanned and caused by operator actions, third party damage or asset condition.



### **Attachment 3: Leak Classification System**

The Australian/New Zealand Standard (Gas Distribution Networks, Part 1, Network Management, Revision of), sets out the leak classification categories. The categories employed by AGN/APA Group exceed the requirements of the Australian Standard.

AGN operate with four leak classifications (1, 2, 3 and 4). Publicly reported leaks are all classified as Class 1 or 2.

Class 1 leaks are deemed to be hazardous or have the potential to rapidly deteriorate and so shall be worked on until the leak can be eliminated or reduced to a level such that the leak can be reclassified. Where the first on site response person is not equipped to effect repair, the leak shall be referred to a field crew for repair. First response personnel will remain on site until the repair crew or relieving responsible person arrives on site to complete repairs or to maintain a safe zone around the leak.

Class 2 leaks are non hazardous at the time of classification but have the potential to deteriorate, and so shall be scheduled for repair within 7 working days (maximum of 11 calendar days). Under certain circumstances, the timeframe can be extended if the leak is inspected and/or reclassified within this time frame.





# AUSTRALIAN GAS NETWORKS JURISDICTIONAL SERVICE STANDARDS FOR THE 2016-2021 REGULATORY PERIOD

*Final Decision*

June 2015



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The Essential Services Commission of South Australia is an independent statutory authority with functions in a range of essential services including water, sewerage, electricity, gas, rail and maritime services, and also has a general advisory function on economic matters. For more information, please visit [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au).

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## GLOSSARY OF TERMS

<b>AEMA</b>	Australian Energy Market Agreement
<b>AEMC</b>	Australian Energy Market Commission
<b>AER</b>	Australian Energy Regulator
<b>AGN</b>	Australian Gas Networks Ltd (formerly Envestra Ltd)
<b>Commission</b>	Essential Service Commission of South Australia
<b>ESC Act</b>	Essential Service Commission Act 2002
<b>ESCV</b>	Essential Services Commission of Victoria
<b>EWOSA</b>	Energy and Water Ombudsman SA
<b>GSL</b>	Guaranteed Service Level
<b>NERL</b>	National Energy Retail Law
<b>NERR</b>	National Energy Retail Rules
<b>NGL</b>	National Gas Law
<b>NGR</b>	National Gas Rules
<b>SAIDI</b>	System average interruption duration index
<b>SAIFI</b>	System average interruption frequency index
<b>SRMTMP</b>	Safety, Reliability, Maintenance and Technical Management Plan
<b>UAFG</b>	Unaccounted for Gas

## EXECUTIVE SUMMARY

**The Essential Service Commission of South Australia (the Commission) has made its final decision on the jurisdictional service standards to apply to Australian Gas Networks (AGN) for the 2016-2021 regulatory period. This review has determined that AGN's current service levels are appropriate and should be maintained for the 2016-2021 regulatory period.**

**Participants in AGN's stakeholder engagement program were generally satisfied with AGN's gas distribution services and reluctant to pay for improvements to current service levels. High levels of customer satisfaction are further supported by the consistently low number of complaints received by AGN and the low proportion of complaints that required escalation to the Energy and Water Ombudsman SA.**

**While service improvements are not required, the Commission has refined its reporting framework for AGN for the 2016-2021 regulatory period to remove regulatory duplication and clarify the roles and responsibilities of the Commission, the Technical Regulator and the Australian Energy Regulator (AER).**

**AGN will be required to report to the Commission on its responsiveness to public reports of potential gas leaks and customers experiencing poor reliability outcomes. The revised reporting framework will provide the necessary data to monitor any material changes in current service levels that may require service standards with performance targets in the future.**

**A Guaranteed Service Level Scheme will not be introduced for the 2016-2021 regulatory period as the costs of such a scheme (which are borne by customers) outweigh the likely benefits at this time. The Commission will monitor the instances of multiple interruptions and long duration interruptions in the network during the period to provide an evidence base for future decisions on this matter.**

AGN<sup>1</sup> is the owner of a natural gas distribution network in South Australia. Economic regulation of the gas distribution services provided by AGN is undertaken jointly by the Commission and the AER.

The Australian Energy Market Agreement (AEMA)<sup>2</sup> provides for State and Territory Governments to retain responsibility for developing service reliability standards to ensure network security and reliability (**jurisdictional service standards**). The South Australian Government has delegated this function to the Commission.<sup>3</sup>

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<sup>1</sup> Formerly Envestra Ltd. AGN's assets are operated and maintained by APA Asset Management under a long-term operating and management agreement.

<sup>2</sup> The AEMA provides for State and Territory Governments to retain responsibility for developing jurisdictional service standards. The Commission is responsible for developing, implementing and administering the jurisdictional service standards for AGN. Refer Annexure 2 of the Australian Energy Market Agreement 2004 (AEMA) as last amended in December 2013 at <http://www.scer.gov.au/files/2014/01/Final-Amended-AEMA-Dec-2013-signed.pdf>.

<sup>3</sup> Two reviews have been undertaken by the Commission, the first in 2006 and the second in 2010.

AGN is subject to five-yearly regulatory revenue determinations, undertaken by the AER. The current determination will end on 30 June 2016. It is appropriate to consider and review the jurisdictional service standards prior to the commencement of a new revenue regulation period for AGN. This allows AGN to ensure its Access Arrangement proposal for the 2016-2021 regulatory period includes consideration of the expenditure required to deliver service levels determined by the Commission.

## *Final Decision*

The Commission has introduced new reporting requirements for AGN for the 2016-2021 regulatory period in the following areas:

- ▲ **responsiveness to public reports of potential gas leaks** - responsiveness to the initial telephone call, attendance at the site of the reported leak and repair of the leak within an appropriate timeframe for the classification/severity of the individual leak, and
- ▲ **customers experiencing poor reliability** - the number of customers experiencing multiple interruptions within a year and/or long duration interruptions.

### *Responsiveness to potential gas leaks*

Based on AGN's satisfactory leak management performance over the five year period 2009-10 to 2013-14, improvements to the levels of service provided by AGN are not proposed for the 2016-2021 regulatory period. This decision is supported by the high levels of customer satisfaction expressed in AGN's stakeholder engagement program<sup>4</sup> and the low level of complaints received by AGN.<sup>5</sup>

Accordingly, there appears to be no need to increase current service levels, and hence the Commission's jurisdictional service standards should not impose material additional costs.

While the review has not suggested that gas leak responsiveness service standards with performance targets are required, AGN has recognised that its customers want more information on how it responds to gas leaks.

Efficient gas leak identification and management practices present an important public safety issue beyond AGN's direct customer base. Refined public reporting on AGN's responsiveness to potential gas leaks will:

- ▲ provide the South Australian community with confidence that AGN is continuing to respond to concerns about potential gas leaks in a timely manner

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<sup>4</sup> Deloitte's Stakeholder Insights Report for AGN is available at <http://stakeholders.agnl.com.au/r169/media/system/attrib/file/53/Deloitte%20Stakeholder%20Insights%20Report.pdf>

<sup>5</sup> AGN received an average of 0.2 complaints per 100 customers over the period 2009-10 to 2013-14. An average of 2 per cent of those complaints required escalation to EWOSA. Further details on AGN's performance is available at <http://www.escosa.sa.gov.au/gas-overview/reporting-and-compliance/annual-performance-reports.aspx>

- ▲ allow customers to make future decisions about appropriate service/cost trade-offs with reference to current service levels, and
- ▲ provide the Commission with the necessary data to monitor any material changes in current service levels that may require service standards with performance targets in the future.

Commencing in 2016-17, the Commission will publicly report on AGN's responsiveness to potential gas leaks on a quarterly basis.

### *Monitoring customers experiencing poor reliability*

While AGN's network is highly reliable, and customers did not express a willingness to pay for improvements to current reliability levels, it is important to identify whether any customers are experiencing poor reliability, relative to AGN's average performance.

Commencing in 2016-17, the Commission will publicly report on customers experiencing multiple interruptions and/or long-duration interruptions on an annual basis.

### *Guaranteed Service Level Scheme*

While AGN identified a level of customer support for providing adequate compensation for customers that experience loss, damage or inconvenience, particular areas of service where AGN is not currently meeting customers' expectations have not been identified.

Accordingly, the Commission will not introduce a Guaranteed Service Level Scheme for AGN for the 2016-2021 regulatory period.

### *Next steps*

To give effect to the decisions set out in this Final Decision, the Commission will amend AGN's gas distribution licence, the Gas Distribution Code and Gas Industry Guideline 1 by the end of 2016.

This Final Decision will form an input into the AER's determination of AGN's gas distribution prices for South Australian customers for the 2016-2021 regulatory period. The Commission's reporting requirements under this Final Decision should not have a material cost impact for AGN.

# 1. BACKGROUND

## 1.1 Economic regulation of AGN

Australian Gas Networks (**AGN**) is the owner of the natural gas distribution network in South Australia. Economic regulation of the gas distribution services provided by AGN is undertaken jointly by the Commission and the Australian Energy Regulator (**AER**).

### 1.1.1 Consumer protections under the national gas legislation

The majority of the regulatory requirements placed on AGN are contained in the national gas legislation: National Gas Law (**NGL**), National Gas Rules (**NGR**), National Energy Retail Law (**NERL**) and National Energy Retail Rules (**NERR**). The national gas legislation is reviewed by the Australian Energy Market Commission (**AEMC**) and administered by the AER.

The national gas legislation establishes consumer protections for residential and small business gas customers.<sup>6</sup> While the legislation applies in various jurisdictions, individual jurisdictions can prescribe distributor service standards in the following areas:<sup>7</sup>

- ▲ **Preconditions to connection** - AGN is required to connect a customer to its distribution system on fair and reasonable terms, provided various preconditions have been satisfied.<sup>8</sup> The preconditions set out in the Gas Distribution Code are contained in AGN's Standing Offer for Basic Connection Services.<sup>9</sup>
- ▲ **Reconnection after disconnection** - AGN is required to use its best endeavours to reconnect a disconnected customer's supply address within sufficient time for a retailer to meet its contractual obligations to the customer, as set out in the NERL.<sup>10</sup> The Gas Distribution Code does not establish specific timeframes for reconnections; however, AGN currently performs reconnections within two business days unless the customer requests a later time.<sup>11</sup>

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<sup>6</sup> The consumer protections apply only to small customers consuming less than 1 TJ of gas per annum.

<sup>7</sup> AGN's summary of the distributor service standards applicable to its South Australian network are available at <http://www.maketheconnection.com.au/r2348/media/system/attrib/file/626/Distributor%20Service%20Standards.pdf>

<sup>8</sup> Refer Gas Distribution Code, clause 2.3.

<sup>9</sup> Part 12A of the NGR sets out the requirements for AGN to develop standardised offers for basic and standard connection services. These offers are assessed and approved by the AER. Refer <http://www.maketheconnection.com.au/sa/household/contract-information/types-of-customer-connection-contracts/>

<sup>10</sup> Refer Gas Distribution Code, clause 2.4. Part 6 of the NERR sets out the requirements for disconnection of premises for small customers. Rule 122 requires re-energisation to occur in accordance with the distributor service standards, reflected in clause 13.2 of AGN's Deemed Standard Connection Contract, developed under the NERR and approved by the AER. Refer <http://www.maketheconnection.com.au/sa/household/contract-information/types-of-customer-connection-contracts/>

<sup>11</sup> Refer <http://www.maketheconnection.com.au/sa/household/contract-information/disconnection-and-reconnection-timeframes/>



### 1.1.2 Jurisdictional service standards established by the Commission

The Commission has retained powers and functions that operate alongside the main consumer protections provided under the national gas legislation. The Commission's powers and functions in relation to AGN are contained in the Gas Act 1997 (**Gas Act**).

The Gas Act requires that a person must not carry on the operation of a distribution system unless the person holds a licence authorising those operations. The Commission is the licensing authority for the purposes of the Gas Act. The Gas Act mandates certain licence terms and conditions, while providing the Commission with the discretionary power to include additional licence terms and conditions.

In addition, the Australian Energy Market Agreement (**AEMA**)<sup>12</sup> provides for State and Territory Governments to retain responsibility for developing service reliability standards to ensure network security and reliability (**jurisdictional service standards**). The South Australian Government has delegated this function to the Commission.<sup>13</sup>

The jurisdictional service standards are in addition to the distributor service standards set out above. The jurisdictional service standards for AGN for the current 2011-2016 regulatory period relate to:

- ▲ **Good Gas Industry Practice** – AGN is required to “*exercise that degree of skill, diligence, prudence and foresight that reasonably would be expected from a significant proportion of operators of gas distribution systems forming part of the Australian gas supply industry*”. This provides an external measure of whether or not AGN is conducting its operations in accordance with the required industry standard.<sup>14</sup>
- ▲ **Safety, Reliability, Maintenance and Technical Management Plan** –AGN is required to develop and periodically review a Safety, Reliability, Maintenance and Technical Management Plan (**SRMTMP**)<sup>15</sup> which demonstrates how AGN and its contracted network operator, APA Group, continue to design, construct, operate and maintain the gas distribution network in a safe and efficient manner. The SRMTMP is approved by the Commission, following the advice of the Technical Regulator.<sup>16</sup>
- ▲ **Unaccounted for Gas Plan** - The level of unaccounted for gas (**UAFG**) is the difference between the measured quantities of gas entering AGN's distribution network and the measured quantities of gas billed to end use customers. AGN's SRMTMP must include a

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<sup>12</sup> Refer Annexure 2 of the Australian Energy Market Agreement 2004 (**AEMA**) as last amended in December 2013 at <http://www.scer.gov.au/files/2014/01/Final-Amended-AEMA-Dec-2013-signed.pdf>.

<sup>13</sup> Two such reviews have been undertaken by the Commission, the first in 2006 and the second in 2010. Refer <http://www.escosa.sa.gov.au/projects/115/gas-access-arrangement-review-associated-review-of-regulatory-instruments.aspx> and <http://www.escosa.sa.gov.au/projects/139/review-of-the-gas-regulatory-instruments-to-apply-to-envestra-for-2011-2016-regulatory-period.aspx>.

<sup>14</sup> Refer AGN's licence, clause 5.

<sup>15</sup> Pursuant to Section 26(1)(b) of the Gas Act 1997 and Regulation 49(2) of the Gas Regulations 2012.

<sup>16</sup> The Technical Regulator is a statutory office appointed under section 7 of the Gas Act 1997. The Office of the Technical Regulator, part of the Department of State Development, assists the Technical Regulator with the administration of the functions assigned under the Gas Act 1997. Refer <http://www.sa.gov.au/directories/government/other-state-bodies/office-of-the-technical-regulator>

UAFG Plan, covering leakage management, asset management and mains replacement. AGN is required to use its best endeavours to achieve a level of UAFG for its distribution system of no more than 1,626 TJ by the end of 2015-16, and reduce the levels of unaccounted for gas in each year of the current regulatory period.<sup>17</sup>

- ▲ **Operating pressure** - AGN is required to ensure that the pressure of gas delivered from the distribution system to each meter is within defined limits and within the meter manufacturer's designated pressure operating range.<sup>18</sup>
- ▲ **Gas Measurement Management Plan** – AGN is required to develop a plan summarising its procedures for maintaining the accuracy of its metering installations and metering data. The Gas Measurement Management Plan is approved by the Commission, following the advice of the Technical Regulator.<sup>19</sup>

AGN reports to the Commission on its performance under Gas Industry Guideline 1.

### *1.1.3 Access Arrangement assessment by the AER*

AGN is subject to the terms of a binding Access Arrangement,<sup>20</sup> regulated by the AER under the NGL and NGR, which:

- ▲ sets out the default terms and conditions on which AGN will provide access to its distribution system, and
- ▲ controls the revenue that AGN may recover from customers.

Service standard and price regulation must work together to:

- ▲ ensure that customers receive the quality of service that they value and is cost-effective and feasible to deliver
- ▲ inform the prudent and efficient level of expenditure for the price determination/access arrangement, and
- ▲ allow monitoring of performance to ensure that the set standards and targets are delivered.

Under the NGL and NGR, the AER assesses the efficient expenditure for distribution services overall, (including consideration of the expenditure required to deliver the service levels determined by the Commission), and determines the allowed revenues and/or prices for distribution network service providers, such as AGN.

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<sup>17</sup> Refer Gas Distribution Code, clause 2.1.1(e).

<sup>18</sup> Refer Gas Distribution Code, clause 2.1.1(b).

<sup>19</sup> Refer Gas Metering Code, clause 5.

<sup>20</sup> AGN's Access Arrangement for the current 2011-2016 regulatory period is available on both AGN's website and the AER's website. Refer <http://www.australiangasnetworks.com.au/our-business/regulation-and-network-tariffs/access-arrangements/> and <http://www.aer.gov.au/node/9845>

AGN is subject to five-yearly regulatory determination periods, with the current period ending on 30 June 2016. AGN is required to submit its proposed Access Arrangement for the 2016-2021 regulatory period to the AER in June 2015.

Accordingly, the Commission consulted on the jurisdictional service standards to apply to AGN for the next regulatory period. This Final Decision will allow AGN to include consideration of the expenditure required to meet any service standards determined by the Commission in its Access Arrangement proposal for the AER.<sup>21</sup>

## 1.2 Safety and technical regulation of AGN

The Technical Regulator is responsible for safety and technical regulation of AGN. Safety and technical regulation covers the following areas of AGN's operations:

- ▲ monitoring and regulation of safety and technical standards in the gas supply industry
- ▲ monitoring and regulation of safety and technical standards with respect to gas installations
- ▲ providing advice in relation to safety or technical standards in the gas supply industry to the Commission at the Commission's request, and
- ▲ any other functions prescribed by regulation or assigned to the Technical Regulator by or under the Gas Act or any other Act.<sup>22</sup>

As noted above, AGN is required to develop and periodically review a SRMTMP and a Gas Measurement Management Plan. Both plans are approved by the Commission on the advice of the Technical Regulator. AGN's technical and safety plans are supported by a range of detailed operational policies and procedures. Technical and safety regulation focuses on AGN's internal business practices and extends to any contractors performing work on AGN's gas infrastructure.

The Technical Regulator monitors and publicly reports on AGN's compliance with its SRMTMP, Gas Measurement Management Plan and any supporting operational policies and procedures against various key performance indicators.<sup>23</sup>

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<sup>21</sup> Two such reviews have been undertaken by the Commission, the first in 2006 and the second in 2010. Refer <http://www.escosa.sa.gov.au/projects/115/gas-access-arrangement-review-associated-review-of-regulatory-instruments.aspx> and <http://www.escosa.sa.gov.au/projects/139/review-of-the-gas-regulatory-instruments-to-apply-to-envestra-for-2011-2016-regulatory-period.aspx>.

<sup>22</sup> Refer section 8 of the Gas Act 1997.

<sup>23</sup> Further details on the Technical Regulator's monitoring and auditing for safety and technical compliance are described in its annual reports. Refer <http://www.sa.gov.au/directories/government/other-state-bodies/office-of-the-technical-regulator>

## 1.3 Consultation to develop the jurisdictional service standards for 2016-2021

### 1.3.1 Issues Paper

Initial feedback was sought on jurisdictional service standards for AGN through an Issues Paper released in March 2014. In particular, comment was sought on whether:

- ▲ AGN should be required to consult its customers about service standards and the scope of any such consultation
- ▲ AGN should have similar customer service obligations as energy retailers, SA Power Networks and SA Water (i.e. telephone and written responsiveness standards and targets) or whether there were other customer service measures that would be more appropriate for AGN
- ▲ AGN should be required to monitor and report on network reliability using the System Average Interruption Duration Index (**SAIDI**) and System Average Interruption Frequency Index (**SAIFI**) used extensively in the electricity industry or whether there were any other reliability measures that would be more appropriate for AGN
- ▲ updating the current unaccounted for gas (**UAFG**) target, which is linked to AGN's mains replacement program, was the best way to manage any ongoing UAFG issues, and
- ▲ AGN had any areas of poor service that would benefit from the incentives provided through a Guaranteed Service Level (**GSL**) Scheme.

Submissions were also invited on any other issues considered relevant to the review of AGN's jurisdictional service standards for the 2016-2021 regulatory period.

Three submissions were received in response to the Issues Paper:

- ▲ AGN Ltd<sup>24</sup>
- ▲ Business SA<sup>25</sup>, and
- ▲ Office of the Technical Regulator.<sup>26</sup>

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<sup>24</sup> Australian Gas Networks (formerly Envestra) submission on the Issues Paper, April 2014, available [http://www.escosa.sa.gov.au/library/140429-EnvestraSSF\\_2016-2021\\_IssuesPaperSubmission-Envestra.pdf](http://www.escosa.sa.gov.au/library/140429-EnvestraSSF_2016-2021_IssuesPaperSubmission-Envestra.pdf)

<sup>25</sup> Business SA submission on the Issues Paper, April 2014, available [http://www.escosa.sa.gov.au/library/140429-EnvestraSSF\\_2016-2021\\_IssuesPaperSubmission-BusinessSA.pdf](http://www.escosa.sa.gov.au/library/140429-EnvestraSSF_2016-2021_IssuesPaperSubmission-BusinessSA.pdf)

<sup>26</sup> Office of the Technical Regulator, Department of State Development (formerly Department for Manufacturing, Innovation, Trade, Resources and Energy), submission on the Issues Paper, April 2014, available [http://www.escosa.sa.gov.au/library/140429-EnvestraSSF\\_2016-2021\\_IssuesPaperSubmission-OTR.pdf](http://www.escosa.sa.gov.au/library/140429-EnvestraSSF_2016-2021_IssuesPaperSubmission-OTR.pdf)

### 1.3.2 AGN's stakeholder engagement program

Following the close of the consultation period on the Issues Paper, AGN commenced its stakeholder engagement program to test its customers' willingness to pay for certain initiatives it was considering implementing over the 2016-2021 regulatory period.<sup>27</sup> In order to better inform the service standard setting process, the Commission agreed to delay the preparation and release of its Draft Decision<sup>28</sup> to incorporate any relevant findings from this program.

In the six months from July 2014 to January 2015, AGN has undertaken a range of engagement activities designed to understand stakeholder views.<sup>29</sup> AGN's response to the stakeholder feedback gathered through its engagement program to date is set out in its *Insights and Implementation* report.<sup>30</sup>

While AGN's stakeholder engagement program has canvassed a broad range of issues beyond the scope of this review, the Commission has worked with AGN, including making the Consumer Advisory Committee<sup>31</sup> available to AGN for regular briefings and input, to ensure that the stakeholder engagement program tested several matters relevant to the current review. This included AGN testing whether its customers were willing to pay for:

- ▲ changes to AGN's current gas leak responsiveness
- ▲ changes to AGN's current call centre responsiveness, and
- ▲ the introduction of a GSL Scheme.

AGN provided a further submission on this review in January 2015 drawing upon the initial stakeholder insights relevant to this review.<sup>32</sup> This review has also considered the stakeholder insights reported by AGN.

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<sup>27</sup> AGN has developed a dedicated stakeholder engagement website to allow stakeholders to provide their views and to share the results of its engagement program. Refer [www.stakeholders.agnl.com.au](http://www.stakeholders.agnl.com.au)

<sup>28</sup> The Commission's Draft Decision was previously scheduled to be released in August 2014, with the Final Decision to follow in December 2014.

<sup>29</sup> AGN engaged Deloitte to assist with the design and delivery of this program. The results of this program are set out in Deloitte's Stakeholder Insights Report, available at <http://stakeholders.agnl.com.au/r169/media/system/attrib/file/53/Deloitte%20Stakeholder%20Insights%20Report.pdf>

<sup>30</sup> Australian Gas Networks, Insights and Implementation: AGN's response to stakeholder insights, February 2015, available [http://stakeholders.agnl.com.au/r173/media/system/attrib/file/57/Insights%20and%20implementation%20report\\_FINAL\\_.pdf](http://stakeholders.agnl.com.au/r173/media/system/attrib/file/57/Insights%20and%20implementation%20report_FINAL_.pdf)

<sup>31</sup> The Commission has established a Consumer Advisory Committee comprising representatives of water, sewerage, electricity and gas consumers. Membership is drawn from peak bodies representing a wide range of interests including disadvantaged consumers, rural and remote consumers, Local Government, environmental interest groups and industry and business generally. Refer <http://www.escosa.sa.gov.au/consultation/consumer-advisory-committee.aspx>

<sup>32</sup> Australian Gas Networks further submission on the Issues Paper, January 2015, available <http://www.escosa.sa.gov.au/projects/208/australian-gas-networks-jurisdictional-service-standards-for-the-2016-2021-regulatory-period.aspx>

In addition to the Commission's consultation on its Draft Decision, AGN also sought comment on its *Insights and Implementation* report<sup>33</sup>, which set out its response to the stakeholder feedback it has gathered through its engagement program, in March 2015. AGN's consultation during this period included holding a workshop with the Commission's Consumer Advisory Committee and AGN's CEO, Board members and other senior management staff.

### 1.3.3 Draft Decision

The Draft Decision was released in March 2015 to provide stakeholders with the opportunity to comment on the proposed reporting framework prior to finalisation. The Draft Decision was to:

- ▲ not introduce any service standards with performance targets for AGN for the 2016-2021 regulatory period
- ▲ clarify and streamline its performance monitoring and reporting requirements to focus on AGN's responsiveness to public reports of potential gas leaks, with reporting on technical and safety matters to be addressed by the Technical Regulator and reporting on compliance with national gas legislation to be addressed by the AER
- ▲ require AGN to report to the Commission on the utilisation and responsiveness of its faults and emergencies telephone service on a quarterly basis
- ▲ refine AGN's current reporting requirements around public reports of potential gas leaks, with AGN to report to the Commission on its attendance at high priority situations and other potential gas leaks on a quarterly basis
- ▲ remove the requirement for AGN to report to both the Commission and the Technical Regulator on major interruptions impacting five or more customers, with the Technical Regulator to monitor this area
- ▲ not introduce a new requirement for AGN to report on the reliability of its gas networks in South Australia using formal SAIDI and SAIFI measures
- ▲ not set a UAFG target linked to AGN's Mains Replacement Program for the 2016-2021 regulatory period, and
- ▲ not introduce a GSL scheme but instead require AGN to report to the Commission on customers experiencing poor service; defined as customers experiencing multiple interruptions and customers experiencing long duration interruptions.

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<sup>33</sup> Details on how to provide submissions to AGN are available at [http://stakeholders.agnl.com.au/r173/media/system/attrib/file/57/Insights%20and%20implementation%20report\\_FINAL.pdf](http://stakeholders.agnl.com.au/r173/media/system/attrib/file/57/Insights%20and%20implementation%20report_FINAL.pdf)

Two submissions were received in response to the Draft Decision:

- ▲ AGN Ltd<sup>34</sup>, and
- ▲ Office of the Technical Regulator.<sup>35</sup>

In developing the jurisdictional service standards for AGN for the 2016-2021 regulatory period, the Commission has considered and reviewed matters raised in the written submissions and undertaken further research as to practices and matters relevant to the setting of the jurisdictional service standards, performance monitoring and reporting and GSL schemes.

The Commission has been assisted by the submissions it has received through this review process. The issues raised by stakeholders through the consultation period have been carefully considered and, where relevant, certain arguments and submissions have been mentioned in the text, either by direct quotation or by reference to themes or arguments, to assist stakeholders to understand the proposed positions that have been reached.

However, a failure to reference an argument or submission does not mean that it has not been taken into account in reaching the final positions. While not all of the positions put in the submissions have been adopted, all submissions have been helpful in informing the consideration of each of the relevant issues and the competing viewpoints.

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<sup>34</sup> Australian Gas Networks (formerly Envestra) submission on the Draft Decision, April 2015, available <http://www.escosa.sa.gov.au/projects/208/australian-gas-networks-jurisdictional-service-standards-for-the-2016-2021-regulatory-period.aspx>

<sup>35</sup> Office of the Technical Regulator, Department of State Development (formerly Department for Manufacturing, Innovation, Trade, Resources and Energy), submission on the Draft Decision, April 2015, available <http://www.escosa.sa.gov.au/projects/208/australian-gas-networks-jurisdictional-service-standards-for-the-2016-2021-regulatory-period.aspx>

## 2. REPORTING FRAMEWORK FOR 2016-2021

### 2.1 *Are service standards with performance targets required?*

#### **Final Decision**

**The Commission will not introduce any service standards with performance targets for AGN for the 2016-2021 regulatory period.**

This review focused on two particular areas of AGN's service:

- ▲ responsiveness to public reports of potential gas leaks, from the initial telephone call through to attendance at the site of the reported leak, and
- ▲ customers experiencing poor reliability, measured through the number of customers experiencing multiple interruptions within a year and/or long duration interruptions.

AGN's current performance in the identified areas has been satisfactory. Over the five year period 2009-10 to 2013-14, AGN has:

- ▲ answered approximately 93 per cent of the average of the 13,500 calls per annum<sup>36</sup> to its Leaks and Emergencies telephone service within 30 seconds, with an average response time of 11 seconds<sup>37</sup>
- ▲ responded to around 94 per cent of the average of 9,500 public reports of potential gas leaks within two hours
- ▲ had a low number of "major interruptions", with an average of 15 unplanned interruptions affecting the supply of gas to five or more customers per annum, and
- ▲ achieved the June 2016 UAFG target early, despite network growth and lower than forecast levels of mains replaced.

AGN's distribution system is highly reliable, with customers rarely losing access to supply. AGN reported an average of 15 unplanned interruptions per annum over the period 2009-10 to 2013-14. This compares with an average of 1,900 unplanned interruptions to SA Water's water distribution network and 2,200 to its sewerage network.<sup>38</sup>

The Commission expects AGN's overall service levels to continue and thus does not consider that additional mechanisms to encourage improvements to current service levels are required.

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<sup>36</sup> This compares with around 650,000 calls to SA Power Networks and around 250,000 calls to SA Water. Note: SA Water's figures cover the six month period January 2013 to June 2013.

<sup>37</sup> AGN's internal key performance indicators for telephone call responsiveness are 90 per cent of all inbound natural gas emergency calls answered within 10 seconds with all other calls to be answered within 20 seconds. Energy retailers, SA Power Networks and SA Water are required to use best endeavours to answer 85 per cent of calls within 30 seconds.

<sup>38</sup> Note: SA Water's figures cover the six month period January 2013 to June 2013.



This is supported by the customer insights gained from AGN's stakeholder engagement program, which found that customers were generally satisfied with the current reliability of AGN's gas distribution service. Further, price was a key concern for AGN's stakeholders and there was a reluctance to pay for improvements to current service levels.

High levels of customer satisfaction are further supported by the consistently low number of complaints received by AGN and the low proportion of complaints that required escalation to the Energy and Water Ombudsman SA.<sup>39</sup>

While service improvements are not required, the Commission has refined its reporting framework for AGN for the 2016-2021 regulatory period to increase the transparency around AGN's current performance to ensure that AGN maintains appropriate levels of service. This is consistent with the findings of AGN's stakeholder engagement program, which suggested that while participants were generally satisfied with current service levels, additional information on AGN's current performance was requested. AGN's further submission acknowledged the need for greater transparency around its current service levels.

AGN will be required to report to the Commission on its responsiveness to public reports of potential gas leaks and customers experiencing poor reliability outcomes. The revised reporting framework will provide the necessary data to monitor any material changes in current service levels that may require service standards with performance targets in the future.

Details of the Commission's performance monitoring and reporting requirements for AGN for the 2016-2021 regulatory period are set out in more detail in the remainder of this report.

## 2.2 Performance monitoring and reporting

### Final Decision

**The Commission's reporting will focus on AGN's responsiveness to public reports of potential gas leaks. Reporting on technical and safety matters will be addressed by the Technical Regulator. Reporting on compliance with national gas legislation will be addressed by the AER.**

Public reporting provides customers with a view of the level of service that is being provided for the charges paid. This can, in turn, support AGN's future discussions with its customers about the value placed on various aspects of AGN's service, and the need for any changes to those service levels.

Public reporting also provides greater assurance to the broader South Australian community that AGN is managing potential public safety issues appropriately.

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<sup>39</sup> AGN received an average of 0.2 complaints per 100 customers over the period 2009-10 to 2013-14. An average of 2 per cent of those complaints required escalation to EWOSA. Further details on AGN's performance is available at <http://www.escosa.sa.gov.au/gas-overview/reporting-and-compliance/annual-performance-reports.aspx>

Performance monitoring and reporting is also a useful tool for the decision making processes of regulatory agencies, regulated businesses and the Government. It identifies baseline performance and provides incentives for improvement where performance outcomes are poor. It also provides the data required to develop service standards (or targets) and then assess compliance with such standards. Importantly, it also allows for good service to be identified and assists with decisions on the need (or otherwise) to intervene in the operations of a regulated entity.

### 2.2.1 Stakeholder feedback

In response to the Draft Decision, AGN submitted that it considered the Commission's proposed reporting framework to be consistent with its earlier submission and the findings of its stakeholder engagement program. AGN further noted that it was already responding to its stakeholders' request for more information on its performance by developing a Vision Statement that would include reporting on its performance across several key aspects of customer service.<sup>40</sup> With a view to minimising the cost associated with the increased reporting requirements proposed by the Commission, AGN suggested that:

- ▲ reporting should be on an annual basis, rather than quarterly
- ▲ further work should occur to identify any remaining duplication of the reporting requirements imposed by the Commission and the Technical Regulator, and
- ▲ minor amendments be made to the proposed reporting metrics to ensure greater consistency with parameters already tracked by AGN.

While the Technical Regulator did not specifically comment on the broader issue of taking primary responsibility for collecting the safety and technical metrics currently collected under the Commission's Gas Industry Guideline 1, it did identify an overlap with its reporting requirements on major interruptions (refer section 4.1) and raised specific issues for consideration around monitoring and reporting on AGN's UAFG levels (refer section 4.2).

### 2.2.2 Discussion

The Commission agrees that the costs associated with introducing new reporting requirements should be minimised.

AGN's suggested amendments to the reporting requirements proposed in the Draft Decision do not materially alter the areas to be monitored. Accordingly, with the exception of the proposal in relation to reporting on customers experiencing poor customer service, (discussed in Chapter 5), the Commission has accepted AGN's suggestions.

While the Commission supports AGN's commitment to improve its ongoing engagement with stakeholders through reporting against a Vision Statement, as noted above, it is important for the Commission to be able to internally monitor AGN's performance on a

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<sup>40</sup> AGN's submission, Attachment 1, available <http://www.escosa.sa.gov.au/projects/208/australian-gas-networks-jurisdictional-service-standards-for-the-2016-2021-regulatory-period.aspx>.

regular basis. As the majority of AGN's reporting requirements for the 2016-2021 regulatory period are new, more immediate feedback on these areas of AGN's business are required in the early years of the next regulatory period. The Commission will review AGN's Vision Statement once it has been published to determine if further duplication of effort can be avoided in the future.

### *2.2.3 Final Decision*

The Commission's revised Gas Guideline 1 will focus on increasing transparency around AGN's responsiveness to public reports of potential gas leaks. This includes reporting on the responsiveness of AGN's leaks and emergencies telephone service (section 3.1) and the attendance at potential gas leaks reported by the public (section 3.2).

The requirement to report on these areas of its operations in a transparent manner will provide an incentive for AGN to ensure that it is operating efficiently and effectively, with the need for any material deteriorations in performance requiring explanation and rectification.

The revised performance indicators will also provide the Commission with the necessary data to monitor any material deteriorations in current service levels that may require service standards with performance targets in the future.

If the Commission requires any data or information on AGN's management of technical or safety matters during the 2016-2021 regulatory period, it will seek such information from the Technical Regulator in the first instance, rather than requiring duplicate reporting by AGN. Similarly, complaints data will be sought from the AER and/or the Energy and Water Ombudsman SA in the first instance, if required.

## 3. RESPONSIVENESS TO POTENTIAL GAS LEAKS

### 3.1 *Responsiveness of the leaks and emergencies telephone service*

#### **Final Decision**

**AGN will be required to report to the Commission on the utilisation and responsiveness of its faults and emergencies telephone service on a quarterly basis.**

AGN is required to have a 24 hour leaks and emergencies telephone service to allow all members of the South Australian public to report potential gas leaks for no more than the cost of a local call.<sup>41</sup>

The Commission's public reporting on the responsiveness of AGN's leaks and emergencies telephone service will provide the South Australian community with assurance that AGN is appropriately managing potential gas leaks.<sup>42</sup> Reporting on the effectiveness of AGN's enquiries and complaint handling procedures will be captured through the AER's monitoring of AGN's complaint handling performance.<sup>43</sup>

#### 3.1.1 *Stakeholder feedback*

The Issues Paper sought feedback on whether customer service standards with targets for minimum responsiveness timeframes were required.

Business SA submitted that customer service standards should not be introduced if AGN is adequately managing customer service issues. Business SA noted that, while it may not seem unreasonable to impose the same or similar customer service obligations on AGN as apply to other regulated businesses, consistency between regulated industries was not sufficient justification for introducing new service standards.

AGN acknowledged that the introduction of the national energy customer framework had introduced a direct contractual relationship with its end-use customers for the first time. However, AGN submitted that, even with the direct contractual relationship, the majority of

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<sup>41</sup> Refer National Energy Retail Rules, rule 85.

<sup>42</sup> The Commission currently reports on AGN's performance on an annual basis. Refer [/http://www.escosa.sa.gov.au/gas-overview/reporting-and-compliance/annual-performance-reports.aspx](http://www.escosa.sa.gov.au/gas-overview/reporting-and-compliance/annual-performance-reports.aspx)

<sup>43</sup> The regulatory relationship between AGN and its customers is primarily governed under the NERL. Prior to the commencement of the NERL in South Australia on 1 February 2013, the Commission required AGN to have complaint handling and dispute resolution procedures in place that first included escalation within AGN and then to an external, independent and free dispute resolution body; the Energy and Water Ombudsman SA. The requirement for DNSPs to have standard complaints and dispute resolution procedures now arises under Part 4 of the NERL, administered by the AER. AGN's complaint and dispute handling procedures are available at <http://www.maketheconnection.com.au/r2350/media/system/attrib/file/628/Complaints%20Procedure.pdf>

a gas customer's contact would still be with the customer's retailer. AGN noted that its main points of communication with its customers would be:

- ▲ leak and emergency calls
- ▲ connection enquiries, and
- ▲ customer complaints, both directly received and through retailers.

AGN submitted that the low percentage of complaints received by the Energy and Water Ombudsman SA supported the view that AGN's complaint handling procedures were working appropriately.

While AGN agreed to report on the customer service reporting metrics proposed in the Draft Decision, it highlighted that the current requirement to report to the Commission on the number and type of complaints received was in addition to the AER's reporting requirements. Accordingly, AGN requested that the Commission remove its complaint reporting obligation from Gas Industry Guideline 1.

### *3.1.2 Discussion*

Most South Australian gas customers are unlikely to have had any direct contact with AGN unless they have reported a potential gas leak or are seeking a new gas connection. Rather, the majority of gas service issues are directed to gas retailers (e.g. billing and payment issues). Consequently, AGN's customers may have a limited sense of any improvement or deterioration of the levels of service provided by AGN. Further, while not direct customers of AGN, the broader South Australian community can be impacted by AGN's operations (e.g. gas leaks and gas mains replacement works).

AGN's leaks and emergencies telephone service received an average of 13,500 calls per annum for the five years 2009-10 to 2013-14. AGN has consistently answered approximately 93 per cent of these calls within 30 seconds, with an average response time of 11 seconds. AGN's current performance exceeds the telephone responsiveness targets applicable to SA Water, SA Power Networks and South Australian energy retailers.

### *3.1.3 Final Decision*

Based on the current call volumes and average response times, a telephone responsiveness service standard and performance target will not be introduced for the 2016-2021 regulatory period.

AGN will be required to report to the Commission on its call centre responsiveness on a quarterly basis against the following metrics:

- ▲ total number of telephone calls received on the leaks and emergencies number
- ▲ total number (and percentage) of telephone calls to the leaks and emergencies number answered within 30 seconds, and
- ▲ average answer time (in seconds) for calls to the leaks and emergencies number.

AGN's call centre responsiveness performance will be measured against its average historical performance, with AGN required to provide explanations for any material departures from long-term historical averages.

## 3.2 Responsiveness to public reports of gas leaks

### Final Decision

**The Commission has revised AGN's reporting requirements around public reports of potential gas leaks. AGN will report to the Commission on its attendance at high priority situations and other potential gas leaks on a quarterly basis.**

Efficient gas leak identification and management practices are an important public safety issue. The importance of gas leak responsiveness goes beyond AGN's direct customer base. It is important that the South Australian community has confidence that AGN will respond to concerns about potential gas leaks in a timely manner. It is proposed that AGN report to the Commission on its responsiveness to public reports of gas leaks on a quarterly basis. The Commission's reporting will support public confidence that AGN is continuing to safely manage its South Australian gas networks.

### 3.2.1 AGN's current practice

There are various ways that potential gas leaks can be identified and reported:

- ▲ public reports from members of the general public (including but not limited to AGN's customers) or emergency services personnel attending an incident, or
- ▲ internal identification by AGN staff during the course of their work in an area or through periodic surveys of the network.

AGN's Leakage Management Policy and Procedures set out the formal system to manage leaks reported by the public or identified through internal leak reports, planned periodic surveys or special surveys.<sup>44</sup>

The leak classification strategy requires AGN to respond to a publicly reported leak within two hours to assess the risk in order to further classify the leak and schedule repair.<sup>45</sup>

There is a dedicated faults and emergencies telephone service for South Australian customers to report potential gas leaks. AGN's call centre operators are trained to ask a series of questions to determine the location and magnitude of the leak. Where appropriate, AGN's operators will advise callers on how to isolate the supply of gas and make the area safe until the area can be attended for further assessment.

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<sup>44</sup> This policy complies with the Leakage Management requirements of Australian and New Zealand Standard AS/NZS 4645.1 – Gas Distribution Networks Part 1: Network Management. Operational responsibility for monitoring AGN's compliance with this policy rests with the Technical Regulator.

<sup>45</sup> Note: In Victoria, public reported leaks are classified as either 'A Priority' requiring urgent immediate attention for emergencies or critical loss of supply or 'B Priority' for all other public reports. 'A' priority are attended within one hour and those classified as 'B' priority are attended within two hours.

Where a leak report indicates a potentially high-risk situation, (e.g. a report of a leak at a school or hospital or emergency services reporting that a car crash has damaged above-ground infrastructure), AGN will divert its nearest crew to the incident.

From 2009-10 to 2013-14, AGN received an average of 9,500 public reports of potential gas leaks per annum, 94 per cent of which were attended for further assessment within two hours. Once investigated by AGN, an average of 16 per cent of the initial reports resulted in no identification of a leak.

### *3.2.2 Stakeholder feedback*

Participants in AGN's stakeholder engagement program were generally satisfied with AGN's current responsiveness to public reports of gas leaks and were unwilling to pay for either an increase in the percentage of leaks attended within two hours, or to accept a reduction on their bills for a decrease in the current service level.

Participants were interested in obtaining more information about how AGN prioritises its response to gas leak reports. Participants were satisfied that the majority of leak reports were attended within two hours. However, there was some concern that two hours may be too long to respond to higher risk event. AGN clarified that it would generally attend the site quicker than the two hours, with staff diverted from other lower priority jobs as necessary. It was also clarified that AGN's current policy required staff to remain on site and work on the cause of the leak until the area is made safe.

In response to the Draft Decision to require reporting on the average time taken to repair a leak, AGN submitted that the appropriate timeframe for repairing a leak is determined by the classification/severity of individual leaks. It noted that the timeframes for repair set out in its Leak Management Procedure, approved by the Technical Regulator, include consideration of the class of the leak and what is deemed to be safe and prudent network management practice.

### *3.2.3 Discussion*

The Technical Regulator has not identified any problems with AGN's current leakage management policies or procedures through its annual audit processes, consistently finding that AGN has demonstrated:

- ▲ effective implementation of its leakage management policies and procedures
- ▲ timely and appropriate response to publicly reported gas leaks, and
- ▲ the use of competently trained personnel to carry out all gas leak related activities.

The Commission accepts the Technical Regulator's advice and is not seeking to duplicate AGN's existing regulatory obligations.

Further, an increase to AGN's current gas leakage responsiveness performance is not proposed. Once made aware of the current levels of service, participants in AGN's

stakeholder engagement activities were generally satisfied, and were not prepared to pay for increased service levels, or accept a bill reduction for longer average response times.

While AGN's current performance data do not suggest that there is an underlying issue with AGN's current leak management practices, there is benefit in communicating performance on this important public safety matter on a regular basis. The Commission agrees that the important measure is whether or not AGN is repairing leaks within the timeframes set out in its approved Leakage Management Procedure. Accordingly, the Commission will require data on the percentage of leaks repaired within the approved timeframes, rather than requiring data on the average time to repair a leak. As AGN is already collecting data in this area, there will be minimal additional cost for AGN to be able to internally monitor and report to the Commission on the proposed performance metrics.

### 3.2.4 Final Decision

AGN will report to the Commission on the following performance metrics:

- ▲ total number of potential gas leaks reported by the public
- ▲ total number of high-priority gas leaks reported by the public<sup>46</sup>
- ▲ total number of other gas leaks reported by the public<sup>47</sup>
- ▲ percentage of gas leaks repaired within the timeframes specified in AGN's Leakage Management Plan, and
- ▲ total number of publicly reported potential gas leaks attended where no leak was found.

AGN's responsiveness performance will be defined as the time elapsed from when the initial report is received to the time taken for the first response team to arrive on site to assess the situation.<sup>48</sup>

AGN's gas leak responsiveness performance will be measured against its average historical performance, with AGN required to provide explanations for any material departures from long-term historical averages.

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<sup>46</sup> Defined as high priority leaks are Class 1 leaks in accordance with AGN's Leakage Management Plan.

<sup>47</sup> Defined as other leaks are all other leaks reported to AGN where a leak is found but assessed not to be a Class 1 Leak.

<sup>48</sup> This approach is consistent with that employed by AGN for its Victorian operations. For the AER's report on AGN's performance against this measure in Victoria, refer

<https://www.aer.gov.au/sites/default/files/Victorian%20gas%20distribution%20businesses%20-%20comparative%20performance%20report%20-%202009-2011.pdf>



## 4. SAFETY AND TECHNICAL REPORTING

### 4.1 Reporting on network reliability and major interruptions

#### Final Decision

**The Commission will remove the requirement for AGN to report to it on major interruptions impacting five or more customers. Rather, these data will be provided directly to the Technical Regulator and the Commission will obtain this information from the Technical Regulator, as required.**

**The Commission will not impose a requirement for AGN to report on the reliability of its gas networks in South Australia using formal SAIDI and SAIFI measures.**

AGN currently reports on major interruptions; defined as any unplanned interruption affecting the supply of gas to five or more customers.<sup>49</sup> To remove duplicate reporting obligations, the Commission will no longer require AGN to report these data under Gas Industry Guideline 1. Rather, the Commission will rely on major interruption data from the Technical Regulator, as required.

#### 4.1.1 Stakeholder feedback

The Issues Paper sought feedback on whether the existing reporting requirements for AGN were adequate, or whether reliability reporting would be enhanced by using SAIDI and SAIFI, as currently used in the electricity industry, or if other reliability measures were considered more appropriate.

Business SA's submission supported the requirement for AGN to monitor and report on reliability using the proposed metrics. AGN's submission, however, clarified that it does not currently monitor and report on SAIDI and SAIFI in either South Australia or Victoria; the Essential Services Commission of Victoria (ESCV) calculates these indices itself from data provided by distributors.

AGN further submitted that SAIDI and SAIFI are much better suited to the reliability characteristics of electricity networks and do not necessarily translate well for the gas industry as, unlike in electricity, gas interruptions are infrequent as the assets are largely underground and, when they do occur, they generally affect only a small number of customers. AGN noted that South Australian customers can expect, on average, to experience one hour of lost supply about once every 46 years. AGN noted that the Technical Regulator currently requires detailed reporting on every major interruption to gas supply and suggested that such reporting provides a greater level of granularity than is possible through a parameter like SAIDI and SAIFI. AGN submitted that the existing reporting regime is likely to be of greater value to consumers.

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<sup>49</sup> Pursuant to Regulation 15C(1) of the Gas Regulations (1997).

The submissions to the Draft Decision by both AGN and the Technical Regulator confirmed that adequate reporting on major interruptions already occurs between the two parties, and the reporting under the Commission's Gas Guideline 1 was a duplication of effort.

#### 4.1.2 Discussion

AGN has consistently reported low numbers of major interruptions to its service. For the five years 2009-10 to 2013-14, AGN reported an average of 15 major interruptions per annum, impacting around 1,100 customers on average.<sup>50</sup> The current reporting requirements are sufficient for monitoring network reliability and, due to the higher levels of underlying reliability of gas distribution networks, reporting against SAIDI and SAIFI is less meaningful than in electricity.

Further, duplication of regulatory reporting requirements should be minimised and thus the Technical Regulator's annual audit processes and Technical Report provide appropriate scrutiny of the reliability and ongoing safety and maintenance of AGN's networks.

#### 4.1.3 Final Decision

AGN will continue to report to the Technical Regulator on major interruptions impacting five or more customers. The Commission will request this information from the Technical Regulator, as required.

## 4.2 Levels of unaccounted for gas

### Final Decision

**The Commission will not set a UAFG target for the 2016-2021 regulatory period. Rather, the Commission will amend AGN's licence to clarify that AGN is required to comply with the Technical Regulator's requirements around managing UAFG.**

The level of UAFG is the difference between the measured quantities of gas entering AGN's distribution network and the measured quantities of gas billed to end use customers.

UAFG is primarily a safety issue; it is not a good network reliability indicator, as even high levels of UAFG are unlikely to result in interruptions to gas supply for end use customers. Accordingly, the Commission has clarified that monitoring UAFG is a safety matter, removed its UAFG target and clarified that AGN is required to comply with any UAFG management requirements set by the Technical Regulator.

#### 4.2.1 Stakeholder feedback

AGN submitted that there was no strong reason to maintain a UAFG target as it had managed to achieve the UAFG target well ahead of time, despite network growth. It further

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<sup>50</sup> Further details on AGN's historical performance is available on the Commission's website at <http://www.escosa.sa.gov.au/gas-overview/reporting-and-compliance/annual-performance-reports.aspx>

suggested that the Technical Regulator provided adequate regulatory oversight of its management of UAFG level.

Conversely, the Technical Regulator suggested that a UAFG target should be set for 2016-2021 as, in its opinion, UAFG provides a good indicator of the general condition and performance of the gas distribution network.

#### 4.2.2 Discussion

While the Commission currently sets a UAFG target in its Gas Distribution Code, the Technical Regulator's annual audit process provides the ongoing scrutiny of AGN's compliance with its UAFG Plan (developed as part of its SRMTMP). Further, the Technical Regulator's annual Technical Report<sup>51</sup> publicly reports on various technical, safety and reliability matters.

However, the Commission also currently collects data from AGN on its UAFG management under Gas Industry Guideline 1. This results in a duplication of regulatory reporting requirements and potentially confuses the appropriate regulatory roles for the Commission and the Technical Regulator. While it is appropriate for regulatory oversight of UAFG to occur, the regulatory expertise for monitoring and assessing the level of UAFG in AGN's network lies with the Technical Regulator.

As effective UAFG monitoring and management reaches across several aspects of AGN's network operations,<sup>52</sup> the Technical Regulator requires greater flexibility to develop an appropriate risk-based scheme than the current UAFG target allows. Accordingly, rather than the Commission setting a UAFG target, it will amend AGN's gas distribution licence to clarify that AGN is required to comply with any UAFG requirements set by the Technical Regulator. This will allow the Technical Regulator to develop an appropriate UAFG management strategy in consultation with AGN.

As this will be a licence requirement, the Commission will continue to have a compliance role where the Technical Regulator forms the view that AGN has not met its regulatory obligations.

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<sup>51</sup> Refer <http://www.sa.gov.au/directories/government/other-state-bodies/office-of-the-technical-regulator>

<sup>52</sup> AGN's analysis identified 17 different components made up the level of UAFG in its Victorian network. It was estimated that only around 9 per cent of UAFG was due to leakage from low pressure mains in its Victorian network. Further, AGN identified eight different activities that it used to manage UAFG, grouped broadly into leaks management (including but not limited to mains replacement) and metering accuracy management. Zincara concluded that the approach adopted by the three distributors in estimating the components of UAFG was reasonable. Refer Essential Services Commission of Victoria, *Review of UAFG Benchmarks: Final Decision*, June 2013, available <http://www.esc.vic.gov.au/getattachment/ea41bf1e-5772-49a9-a487-5224883f8d80/Final-Decision-Gas-Distribution-System-Code.pdf> and Zincara, *Review of gas distribution businesses unaccounted for gas*, April 2013, available <http://www.esc.vic.gov.au/getattachment/571e90eb-fd3e-4a5a-9f7b-6f7c67cc4803/Zincara-UAFG-Final-Report.pdf>

### 4.2.3 *Final Decision*

The current UAFG target that directly links UAFG with mains replacement activities will not be continued for the 2016-2021 regulatory period. To give effect to this decision, the Commission will:

- ▲ amend clause 8 of AGN's gas distribution licence to clarify that AGN is required to comply with any safety or technical requirements imposed from time to time by the Technical Regulator in relation to UAFG (including, but not limited to obligations under its SRMTMP)
- ▲ remove clause 2.1.1(e) from the Gas Distribution Code to remove the current UAFG target, and
- ▲ remove the UAFG and mains replacement reporting requirements contained in OP 4 of Gas Industry Guideline 1.

## 5. MONITORING CUSTOMERS EXPERIENCING POOR RELIABILITY

### Final Decision

**AGN will be required to report to the Commission on customers experiencing poor reliability. This will focus on customers experiencing multiple interruptions and customers experiencing long duration interruptions.**

While AGN's network is highly reliable, and customers did not express a willingness to pay for improvements to current reliability levels, it is important to identify whether any customers are experiencing poor reliability, relative to AGN's average performance. However, the Commission does not want to create an incentive for AGN to focus on improving only the worst performing segments of its network; expenditure should have reference to the value customers place on reliability improvements. Therefore, identifying the poorly performing segments of AGN's network is a necessary pre-condition to introducing an appropriately targeted GSL scheme in the future (refer Chapter 6).

### 5.1 Stakeholder feedback

In response to the Draft Decision, AGN provided its support for the proposed reporting regime rather than introducing a GSL Scheme at this time. It submitted that the reporting requirements incorporate the following definitions to capture customers experiencing poor service:

- ▲ customers experiencing multiple interruptions – the number of customers with five or more interruptions within a year where the interruption is unplanned and caused by operator actions, third party damage or asset condition, and
- ▲ customers experiencing long duration interruptions – the number of events within a year where a gas supply is not restored within 12 hours and where the interruption is unplanned and caused by operator actions, third party damage or asset condition.

AGN proposed that reporting against such measures be on an annual basis rather than quarterly.

### 5.2 Discussion

The Commission notes that AGN's proposed definitions of customers experiencing poor service are consistent with its reporting requirements in Victoria. The Victorian GSL scheme was introduced on 1 July 2003. The ESCV's main objective for the GSL scheme is to improve service and reliability levels to the worst served customers, for areas of service that customers consider to be important<sup>53</sup> As a result of a low number of GSL payments being

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<sup>53</sup> Essential Services Commission Victoria, *Gas Access Arrangement 2008-2012, Final Decision*, March 2008, available [https://uemg.com.au/media/29044/finaldtr\\_fullfinaldecision\\_gaar200812public\\_20080305.pdf](https://uemg.com.au/media/29044/finaldtr_fullfinaldecision_gaar200812public_20080305.pdf), pp. 181-184.

made by distributors, the ESCV made adjustments to the GSL scheme to apply for the 2008-2011 access arrangement period. This included:

- ▲ extending the GSL scheme from residential customers to include small business customers
- ▲ introducing an appointment window of two hours for the date agreed with the customer
- ▲ tightening the requirement for connections to occur within one business day of the agreed date rather than two business days
- ▲ reducing the multiple interruptions threshold from six interruptions to five, increasing the payment amount and introducing an additional payment for any customer experiencing 10 or more interruptions, and
- ▲ increasing the payment amount for customers experiencing an interruption of 12 hours, introducing an additional payment for customers experiencing an interruption of 18 hours or more and excluding third party events impacting large diameter mains affecting more than 50 customers.

Victorian data for the period 2009-2011, shows that AGN reported low numbers against each measure (Table 5.1).

**Table 5.1:GSL payments made to Customers experiencing multiple and long duration interruptions in AGN’s Victorian distribution network, 2009-2011**

	2009	2010	2011
Customers with 5 or more interruptions	15	108	94
Customers with 10 or more interruptions	0	2	0
Customers with interruptions of greater than 12 hours but less than 18 hours	84	180	208
Customers with interruptions of greater than 18 hours	95	n.a.	151

Source: AER, March 2013<sup>54</sup>

AGN does not currently record the same data for its South Australian network. However, AGN has expressed a preference for consistent reporting across jurisdictions to potentially minimise its costs and minimise areas of potential confusion, including within its business, when making comparisons across its different networks.

<sup>54</sup> AER, *Victorian Gas Distribution Business Comparative Performance Report 2009-2011*, March 2013, available <https://www.aer.gov.au/sites/default/files/Victorian%20gas%20distribution%20businesses%20-%20comparative%20performance%20report%20-%202009-2011.pdf>

While AGN's proposed reporting would be consistent with its reporting requirements in Victoria, adopting the Victorian scheme was not supported by participants in AGN's stakeholder engagement program (refer section 6.1). This may suggest that customers in South Australia value different aspects of AGN's service. Further, due to the limited data available, it is too soon to assess the effectiveness of the incentives provided to AGN by the Victorian scheme.

The Commission is prepared to accept AGN's proposal to report on the number of customers experiencing an interruption with a restoration time of greater than 12 hours. However, as stated earlier, AGN has advised that, in South Australia, customers can expect to experience a one-hour unplanned loss of supply about once in every 46 years. In this context, five interruptions per annum appears to be too high a benchmark to set.

### 5.3 Final Decision

To monitor customers experiencing poor reliability outcomes, AGN will be required to report to the Commission annually on:

- ▲ the number of customers experiencing multiple interruptions within a year,<sup>55</sup> and
- ▲ the number of customers experiencing long duration interruptions.<sup>56</sup>

Any reporting on poor performance needs to take into account that the cause of the interruption may be outside of AGN's control. For example, the recent interruption to AGN's customers in Port Pirie and Whyalla was due to an issue on Epic Energy's<sup>57</sup> gas transmission pipeline, which meant that AGN had to wait until the upstream gas supply was restored before it could commence restoring service to its customers.<sup>58</sup> Accordingly, AGN's reporting will need to exclude customers experiencing interruptions caused by transmission faults, upstream events, faults in customers' gas installations or other third party events.

AGN's performance will be assessed against its average historical performance, with explanations required for any material changes from longer term average performance outcomes. The results of this assessment will be publicly reported by the Commission.

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<sup>55</sup> Defined as the number of customers that have two or more interruptions within a year where the interruption is unplanned and caused by operator actions, third party damage or asset condition.

<sup>56</sup> The number of events within a year where a gas supply interruption is not restored within 12 hours and the interruption is unplanned, caused by operator actions, third party damage or asset condition.

<sup>57</sup> Epic Energy South Australia Pty Ltd is the owner and operator of the Moomba to Adelaide Pipeline System and the South East Pipeline System. Epic Energy's gas transmission pipelines provide gas transportation services for customers in the electricity generation, gas distribution (i.e. AGN) and industrial sectors. Refer <http://www.epicenergy.com.au/>

<sup>58</sup> In April 2015, there was a rupture in the Moomba to Adelaide gas transmission pipeline owned and operated by Epic Energy. As customers in Port Pirie and Whyalla are served by the same lateral pipeline that runs off the Moomba to Adelaide gas transmission pipeline, AGN's customers in Port Pirie and Whyalla experienced an interruption to their gas service lasting around five days. Refer <http://www.epicenergy.com.au/news.php?newsid=60>.

## 6. GUARANTEED SERVICE LEVEL SCHEME

### Final Decision

**The Commission will not introduce a Guaranteed Service Level Scheme for the 2016-2021 regulatory period.**

The main objective of a GSL Scheme is to improve service and reliability levels to the worst served customers, where it is cost effective for the distributor to do so. A GSL Scheme should be designed to address areas of service that customers consider to be important. Further, GSL payment amounts must be set at a level that provides an incentive for the distributor to improve performance. The GSL payments made by the distributor are a form of liquidated damages paid for not meeting any pre-determined service level, as set out in the standard contract it has with each customer.

While GSL payments are made in recognition of poor service, the payments are not intended to provide customers with compensation for individual loss or damage. A separate mechanism is available under the National Energy Customer Framework to introduce a formal small claims scheme for individual customers experiencing loss or damage as a result of AGN's actions.<sup>59</sup>

A GSL Scheme does not currently apply to AGN South Australian operations and the Commission will not introduce a GSL Scheme for the 2016-2021 regulatory period.

### 6.1 Stakeholder feedback

AGN's initial submission noted that it was not aware of any areas of poor performance that were of concern to its customers that would warrant the additional cost of implementing and administering a GSL Scheme. In support of this position, AGN noted that the underlying high level of network reliability and the nature of small customer gas appliances were likely to limit customers' willingness to pay for a GSL Scheme.

Business SA's submission was consistent with this view, stating that it was not convinced that AGN's current performance necessitated the need for such a scheme.

To explore this issue further, AGN's stakeholder engagement program tested participants willingness to pay for the introduction of a GSL Scheme in South Australia, with the Victorian scheme used as an illustrative example, at a cost of \$0.50 per customer per annum.<sup>60</sup> The Victorian GSL Scheme provides payments to customers in the following service areas:

- ▲ not attending to agreed appointment times

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<sup>59</sup> Part 7 of the National Energy Retail Law establishes a small claims compensation scheme that individual jurisdictions can elect to implement. In introducing the National Energy Customer Framework in South Australia, the South Australian Government chose not to use this mechanism on the basis that the existing arrangements were working effectively and providing adequate consumer protections. The option to exercise this power remains open to the South Australian Government if necessary in the future.

<sup>60</sup> AGN's cost per customer estimate was based on its costs for administering the Victorian GSL Scheme.



- ▲ not connecting a customer within one day of the agreed date
- ▲ customers experiencing in excess of five interruptions within a calendar year, and
- ▲ customers experiencing interruptions in excess of 12 hours.

Around 65 per cent (n=35) of participants supported introducing a scheme targeted at providing compensation to customers, rather than providing incentives for AGN to improve its services. However, participants did not support introducing the Victorian GSL scheme in South Australia, on the basis that the proposed payments would not provide adequate compensation for an interruption to their gas supply. To counter this point, some participants noted that existing individual business insurance was already likely to provide adequate compensation.

In responding to the level of broad support for some form of customer compensation scheme, AGN undertook an internal review of its ability to implement a scheme for the 2016-2021 regulatory period. Its review found that a significant impediment to introducing a scheme in the near term is the availability of the necessary data on the service areas subject to the Victorian GSL Scheme. AGN concluded that, based on its assessment of the data it does collect for South Australia, its best estimate is that any GSL payments would have been minimal and below the costs of implementing and administering the scheme. As such, it is unlikely that a GSL scheme would have provided any additional incentive to drive business improvement or a meaningful level of compensation to those impacted.

On the issue of compensation for individual customers more generally, AGN submitted that, in the short-term, it intends to continue to make goodwill payments to individual customers who have been unreasonably inconvenienced or impacted by poor service.<sup>61</sup> AGN will continue to work with its stakeholders to consider how the principle of formal compensation can be best implemented in the medium-term, as additional data becomes available.

## 6.2 Discussion

While AGN's stakeholder engagement identified a level of support for a compensation scheme for customers that experience loss, damage or inconvenience, participants did not feel that the GSL payment amounts in Victoria provided adequate compensation. Further, while participants were not in favour of adopting the Victorian GSL Scheme in South Australia, participants did not identify any areas of service where GSL payments should be made by AGN for not meeting customers' expectations.

A GSL Scheme could be designed to provide a financial incentive for AGN to improve the service provided to its worst served customers where it is cost effective to do so. While GSL payments are directed at individual customers, by their nature, the payments should also provide a financial incentive for AGN to assess the trade-off between making the GSL

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<sup>61</sup> AGN currently provides payments to individual customers who have received service which is below an acceptable level. AGN will acknowledge the situation and, as a gesture of goodwill, offer those impacted a shopping voucher or similar. The value of any such gesture is determined on a case-by-case basis, having regard to the nature of the issue and the impact to the customer. AGN made goodwill customer service payments to around 20 customers in 2014-15.

payments and undertaking capital and/or operational expenditure to address any causes of poor performance, thereby avoiding the need to make the GSL payments on an ongoing basis.

On the issue of compensation, it is important to recognise that a payment made under a GSL Scheme is not intended to be a form of insurance-like compensation. Rather, a GSL payment is a form of liquidated damages paid by AGN for not meeting an agreed service level. The GSL payments made to individual customers are a form of “goodwill” customer service payments to recognise, but not specifically quantify, the inconvenience caused to individual customers by poor service.

The decision on the funding arrangements for a GSL Scheme would be considered as part of the AER’s assessment of AGN’s access arrangement. However, in principle, a certain level of GSL payments would need to be allowed for in AGN’s costs (and recovered from all customers), as recognition of the uneconomic expenditure required to increase service levels for certain customers who may never receive the average service levels. However, for GSL payments to provide the incentives to AGN to assess the trade-off between making payments and addressing underlying performance issues, payments made in excess of the amount allowed for in the Access Arrangement should be at AGN’s cost, as AGN should face a “penalty” for poor performance that is within its control to manage. Likewise, payments below the amount allowed for in the Access Arrangement would be to AGN’s benefit and incentivise improved performance.

However, as set out in Chapter 5, AGN does not currently collect the data required to identify customers experiencing multiple interruptions within a year or long-duration interruptions. Identifying the magnitude of any potential issue is a necessary pre-condition to developing a well-targeted GSL Scheme for AGN.

### 6.3 *Final Decision*

In the absence of:

- ▲ a clear need to incentivise AGN to improve particular aspects of its service valued by customers where current performance is not meeting customer expectations, and
- ▲ data identifying customers experiencing poor service

the Commission will not introduce a GSL Scheme for AGN for the 2016-2021 regulatory period.

## 7. NEXT STEPS

The Commission will amend AGN's gas distribution licence, the Gas Distribution Code, the Gas Metering Code and Gas Industry Guideline 1 to reflect the decisions on the final jurisdictional service standards by the end of 2015. The amended framework will apply from 1 July 2016.

Further, this Final Decision will form an input into the AER's determination of AGN's gas distribution prices for South Australian customers for the 2016-2021 regulatory period. The Commission's reporting requirements under this Final Decision should not have a material cost impact for AGN.



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