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25 November 2022

Energy Reform Team
Energy Division
Essential Services Commission of Victoria
Level 8, 570 Bourke Street
Melbourne VIC 3000

Dear Energy Reform Team,

RE: Unaccounted for gas benchmarks 2023 to 2027

I write in relation to the Essential Services Commission's (Commission) Draft Decision on unaccounted for gas (UAFG) benchmarks to be implemented from 1 January 2023.

This submission is made on behalf of Australian Gas Networks (AGN) and Multinet Gas Networks (MGN), with each forming part of the Australian Gas Infrastructure Group (AGIG).

We thank the Commission for its consideration of our earlier submissions, and the consultation leading up to and following the draft decision published on 26 October 2022.

In terms of establishing UAFG benchmarks, we agree with maintaining individual benchmarks for Class A[1] and Class B[2] customers for networks supplied by the declared transmission system (DTS) and non-DTS.

We also support the Commission's proposal to carryover the methodology adopted in 2017, i.e. that being a muti-year average (3 years) of the most recent settled data to determine the DTS Class B benchmarks. We acknowledge the significant analysis undertaken in the previous review which led to this proposed methodology.

Current UAFG benchmarks, along with the reconciliation calculation are outlined in Schedule 1, Part C of the Gas Distribution System Code of Practice (Version 15) (GDSC). These benchmarks apply from 1 January 2018 to 31 December 2022.

Our submission responds to the three questions posed in the Commission's Draft Decision.

[1] Class A customers use more than 250 Terajoules per annum and are typically serviced by the high pressure and transmission networks.

[2] Class B customers use less than 250 Terajoules per annum and are typically serviced by high, medium and low-pressure networks

Transitional benchmarks and arrangement: Do stakeholders consider rolling over the current UAFG benchmarks for the six months transitional period to be appropriate? If not, what benchmarks should we consider and why? Are there any alternative approaches or framework we could consider that may work better to manage the transitional period? Are there any issues we may have missed?

The need to align the UAFG benchmark period with the Access Arrangement

AGIG does not see the need to align UAFG benchmarks (calendar year) with the revised "regulatory year" (financial years commencing 1 July 2023) as applied to the Victorian distribution network Access Arrangements (AA); administered by the Australian Energy Regulator (AER). There is no connection between the two and the Draft Decision does not identify a need to align benchmarks to the regulatory period. We do not believe there is material benefit to be gained in changing to Regulatory Years.

In Victoria, UAFG is managed via a benchmark process which is <u>independent</u> of the AA process. Under a benchmark, retailers are required to purchase sufficient gas to cover customer consumption and actual UAFG. If actual UAFG is greater than the benchmark, the gas distributor is required to compensate the retailers for UAFG above the benchmarks. Where actual UAFG is lower than the benchmark, the retailers make reconciliation payments to the relevant gas distributor.

The GDSC (clause 2.4a) requires the distributor to use reasonable endeavours to ensure that the quantity of UAFG is less than the benchmark applied. The framework itself incentivises networks, where possible, to efficiently reduce UAFG. Benchmarks are set by the Commission for a 5-year period and represent their best estimate at the time benchmarks are set, based on the information available. Although difficult, correctly applied benchmarks should result in zero reconciliation payments from retailer to distributor or vice versa. For this reason, the financial penalty or benefit from UAFG reconciliations are not allowed for in the Victorian network AA's operating expenditure benchmarks[3].

In addition, alignment of UAFG benchmarks to the AA Regulatory Years will result in industry operational changes which will need to be considered. It is expected that the costs of these changes will outweigh any potential benefits. They include:

- AEMO needing to update existing settlement processes and system changes to allow for UAFG settlements for a regulatory year period;
- Internal distribution network operational changes to UAFG reporting and performance monitoring;
- Updating and agreeing the revised wording of the GDSC, including consequential impacts on other measures which currently align to calendar year; and
- A short transitional period (6 months) which may result in a volatile UAFG outcome, as UAFG is impacted by meter measurement errors which are likely more pronounced in the winter period.

If not already done so, we recommend the Commission consults with Retailers and AEMO on the system implementation costs involved to adopt the proposed change.

It is our submission that there is no need or material benefit in seeking to align the UAFG benchmark to the regulatory period and the new benchmarks should commence from 1 January 2023. If there is any benefit (and we cannot identify one), it would be outweighed by the compliance costs and factors noted above. Commencing the new benchmarks on 1 January 2023 is the simplest and most practical approach and would mean there is no need for a transitional period.

[3] The UAFG benchmark approach is not adopted in other states (jurisdictions) where an operating expenditure allowance for total forecast UAFG is set by the AER as part of the AA process. This is currently not the case in Victoria.

The use of the most recent data available to establish benchmarks

Applied benchmarks ought to reflect the most up to date UAFG data available to the Commission at the time the benchmarks are set. For both AGN and MGN, this is settled data up to 2018[4].

Maintaining current benchmarks during the suggested six month transitional period essentially turns the 2017 UAFG outcome into 5.5 year UAFG period. The data used to set current benchmarks is now 6 years old. In reviewing our UAFG Management Plans, Zincara concluded *"…the action items in the plans would have been carried out by the gas industry and considered good industry practice".* Maintaining current benchmarks for a transition period effectively penalises both AGN and MGN although it has each demonstrated efficient UAFG management over the current period.

This is a further reason why the new benchmarks should commence on 1 January 2023 without the need for any transition period. Refer to Table 3 for calculated benchmarks to be applied from 1 January 2023.

Benchmark period

If contrary to our submission the Commission forms the view that there is some material benefit in aligning UAFG benchmarks to Regulatory Years, then we submit that the preferable way to achieve this is by setting new benchmarks starting 1 January 2023, ending 30 June 2028 (i.e. a 5.5 year benchmark period). This allows for benchmarks to reflect the most recent available UAFG reconciliation data (see below) without impacting proposed transition periods.

Updated benchmarks: Are there any other matters the commission should consider with respect to the proposed UAFG benchmarks for the gas distributors' next regulatory period based on the methodology?

We agree with the Commission's proposal to apply the methodology adopted in 2017 UAFG benchmark reset process. Given the complexity in managing and forecasting UAFG, we believe this methodology remains appropriate in setting benchmarks for the period beginning 1 January 2023.

We agree with the Commission's proposal to maintain current benchmarks for DTS Class A and Non-DTS networks, aligning to the reasons provided in the Draft Decision.

In reviewing the Commission's draft outcomes for DTS – Class B benchmarks we make the following observations.

Source data error

A review of the source data used by the Commission in calculating DTS Class B benchmarks has identified a calculation error for both MGN and AGN. This has resulted in actual DTS Class B UAFG performance being understated. We have subsequently provided an updated data sheet to the Commission on Monday 14 November.

With reference to settled data between 2016-2018, the three-year average DTS - Class B UAFG for MGN is 5.5% (5.49%) and 4.1% (4.06%) for AGN. We request the Commission's final decision reflect the corrected dataset.

For reference, a reconciliation of the calculation error and its impact on three-year averages (2016 – 2018) is outlined Table 1 (AGN) and Table 2 (MGN) below.

[4] Settlement of 2019 UAFG data is currently ongoing and not expected to be finalised in time for the final decision.

Table 1: AGN DTS Class B UAFG %

Year	2016	2017	2018	Three Year Ave. 2016-2018
Original Version	3.52%	4.42%	4.19%	4.04%
Corrected Version	3.52%	4.47%	4.19%	4.06%
Change	-	+0.05%	-	+0.02%

Table 2: MGN DTS Class B UAFG %

	2016	2017	2018	Three Year Ave. 2016-2018
Original Version	5.22%	5.84%	5.35%	5.47%
Corrected Version	5.24%	5.88%	5.34%	5.49%
Change	+0.02%	+0.03%	-0.01%	+0.02%

Proposed Benchmarks for the 2023 to 2028 period

Table 3 summarises the revised benchmarks for the coming period, calculated using the Commission's proposed methodology for each category of UAFG. It is noted that UAFG benchmarks are limited to one decimal place and have been rounded accordingly. This is consistent with rounding treatment applied by the Commission to benchmarks in the current period (2018-22). Inconsistencies in rounding of DTS Class B benchmarks within Zincara's review and subsequently the Commission draft decision have been noted and the feedback shared with the Commission.

DTS Class B benchmarks have been calculated using the average of 2016-18 settled data.

Table 3: AGN and MGN UAFG Benchmarks.

	DTS Networks		Non-DTS Networks
	Class A	Class B	Class A and B
Australian Gas Networks (Victoria)	0.3%	4.1%	2.0%
Australian Gas Networks (Albury)	0.1%	4.1%	
Multinet Gas Networks	0.3%	5.5%	2.0%

Drafting amendments: Do stakeholders have any concerns with the proposed code drafting?

AGIG does not have any concerns regarding proposed Code Drafting Amendments, subject to required consequential changes resulting from comments made previously in this submission. Most notably our comments around there being no benefit or value in aligning the UAFG benchmark to the AA Regulatory Years, and the consequential impact of GDSC drafting and changes to industry operational procedures.

We would appreciate the opportunity to discuss this submission with you further and we will be in touch to arrange a suitable time.

Please contact Rudi James if you have any queries on this submission.

Yours sincerely

Roxanne Smith

Executive General Manager Corporate and Regulation