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25 November 2022

Ms Kate Symons
Commissioner and Chairperson
Essential Services Commission
Level 8, 570 Bourke Street
Melbourne VIC 3000

Submitted electronically

Dear Kate,

Re: Review of Unaccounted for Gas Benchmarks 2022 - draft decision

Red Energy and Lumo Energy (Red and Lumo) thank the Essential Services Commission (the Commission) for the opportunity to respond to the 2022 review of Unaccounted for Gas (UAFG) Benchmarks. Further to our discussion with Commission staff, we provide the following response to the draft decision and the proposed amendments to the Gas Distribution System Code of Practice.

Benchmarks for the transitional period 1 January 2023 to 30 June 2023

Red and Lumo consider rolling over the current UAFG benchmarks for the six months transitional period to be a practical and effective approach to aligning benchmark periods with the timing of the Australian Energy Regulator's Victorian gas distribution access arrangement review period.

Proposed methodology for the next regulatory period 2023 - 2028

The period 2023-2028 will see some changes which may each have a significant impact on UAFG including the shift of access arrangements from calendar to financial year, the replacement of the statewide heating value with zonal heating values for tariff V customers (largely small customers), the introduction of distribution connected facilities and changes to the composition of the gas being measured with the introduction of hydrogen and other renewable gases.

The Commission's decision to effectively maintain the existing benchmarks into the 2023 - 2028 regulatory period does not appear to fully consider the detail presented. The Commission suggests that it has considered distributors' actions and strategies and stated that new technology and improved business practices can reduce UAFG levels. Distributors themselves suggest mains replacement programs will reduce leakage in low-pressure mains.

Furthermore, the data presented in Tables 4-2 and 4-3 of Zincara’s consultant report presents Ausnet and Multinet UAFG performance to be trending downward annually, to the extent that they may drop below the proposed benchmarks for the majority of the regulatory period. As such, the proposed benchmarks seemingly disregard both the observable trends and that investment in mains replacement and safety will improve UAFG performance. This suggests that the Commission is not undertaking a qualitative approach to setting the benchmarks.

We also note that no distributor has been able to provide settled data for 2020 and AGN is only able to provide data for 2018. While ‘revealed cost’ is a practical and considered approach to setting UAFG benchmarks, has the Commission explored avenues to improve the available data with more timely results? Could less than 100% settled data be considered to accurately reflect the current state of UAFG without excluding a data set due to trivial volumes of disputed data?

With the future introduction of zonal heating values for tariff V customers, the introduction of Distribution Connected Facilities and changes to the composition of the gas with the introduction of hydrogen and other renewable gases Red and Lumo look forward to the Commission reviewing future UAFG benchmarks applicable to a network section.

non-DTS benchmarks and the absence of settled data

In the interests of accurate data leading to improvements in UAFG, Red and Lumo encourage the Commission to address good industry practice with distributors. This is particularly the case as Zincara concluded “that the settlement of the non-DTS networks for AGN and Multinet were very outdated and further information on how AusNet is managing its non-DTS UAFG is also required”.¹

Red and Lumo support the Commission using a quantitative approach, as data collected will ensure that consumers are not subject to higher gas costs.

Proposed Gas Distribution System Code of Practice amendments

In the proposed Code of Practice, the amended definition of ‘year’ in the Glossary as “a calendar year or a regulatory year” leads to ambiguity as to which year applies in clauses such as 2.3 and 2.4 when aggregating data for the period.

While clause 2.4(a) includes a note guiding UAFG be calculated with ‘unaccounted for gas benchmark applicable in that DUAFG period’ the use of the pluralised term distribution UAFG period(s) in schedule 1 is ambiguous. Red and Lumo recommend clarifying the note to state that all values should be specific to any single distribution UAFG period.

¹ Zincara, *Review of Gas Distribution Businesses Unaccounted for Gas*, Sept 2022 accessed: <https://www.esc.vic.gov.au/sites/default/files/documents/Unaccounted%20for%20Gas%20Review%202022%20-%20Zincara%20consultant%20report.pdf> pg.13

The amended phrasing under Part E Guaranteed Service Level (GSL) shifts the period from calendar to regulatory period which may exclude the transitional period from consideration when GSL is next calculated (1 July 2024 would use 01 July 2023 to 30 June 2024), or alternately may require distributors to count any unplanned interruptions twice between 1 July 2022 and 31 December 2022 when calculating GSL from 01 July 2022 to 30 June 2023. Amending this will ensure that there is clarity around how GSLs are calculated and appropriately provided to consumers during the period.

About Red and Lumo

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, South Australia, Queensland and the Australian Capital Territory to over 1.2 million customers.

For further enquiries regarding this submission, please call Sean Jennings, Regulatory Manager on [REDACTED].

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Stefanie Monaco".

Stefanie Monaco
Manager - Regulatory Affairs
Red Energy Pty Ltd
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