



GAS DISTRIBUTION SYSTEM CODE

REVIEW OF UNACCOUNTED FOR GAS
BENCHMARKS

CALL FOR SUBMISSIONS

DECEMBER 2012



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CONTENTS

1	Call For Submissions.....	1
1.1	Background.....	1
1.2	What is Unaccounted for gas?.....	1
1.3	Current Unaccounted for gas benchmarks.....	2
1.4	Why is the Commission conducting this review?.....	3
1.5	Timetable.....	3
	Appendix 1 – Part C of Gas Distribution System Code, Version 9.0.....	5



1 CALL FOR SUBMISSIONS

1.1 Background

The Essential Services Commission (Commission) is commencing a review of the Unaccounted for Gas (UAFG) benchmarks set out in Schedule 1, Part C of the Gas Distribution System Code (Code), Version 9.0 (refer Appendix 1). The Commission is calling for submissions on the appropriate level of UAFG benchmarks.

The gas distribution businesses can control the amount of UAFG in the system to some extent. The current benchmarks are designed to incentivise the gas distribution businesses to take steps to minimise the level of UAFG. UAFG accounts for around 3–4 per cent of the total volume of gas delivered through the gas distribution networks.

In setting UAFG benchmarks the Commission's review will consider a range of issues, including the appropriate levels of the UAFG benchmarks going forward, the method of calculating benchmarks and the use of benchmarking categories.

Interested parties should make submissions by 5.00pm Thursday 20 December 2012, setting out their proposed approach to the setting of UAFG benchmarks, along with reasons supporting that approach. Submissions will be published on the Commission's website.

Gas distribution businesses and some retailers made submissions on UAFG to the Australian Energy Regulator (AER) as part of the current access arrangement review. The AER, however, did not have the power to determine UAFG benchmarks. The Commission requests that any business which made a submission to the AER on UAFG benchmarks for 2013-17 should submit that information and any other relevant or updated information to the Commission for consideration in this review process.

1.2 What is Unaccounted for gas?

UAFG refers to the difference between the measured quantity of gas entering the gas distribution system and the gas billed to customers. UAFG can arise because of metering errors, theft, inaccuracy in the conversion from quantity of gas measured to energy (reflecting discrepancies in temperature, pressure, heating value, altitude or the gas compressibility factor), and leakage.



In Victoria UAFG is managed via a benchmark process. The UAFG benchmarks are intended to incentivise the gas distribution businesses to take steps to minimise the level of UAFG.

If the level of UAFG meets the benchmarks, the gas distribution businesses do not contribute towards the cost of UAFG. However, if the volume exceeds the benchmark the gas distribution business is required to compensate the retailers for the UAFG in excess of the benchmarks. Where UAFG is below the benchmark, retailers make reconciliation payments to the relevant gas distribution business.

Under Part 19 of the National Gas Rules 2008 the Australian Energy Market Operator (AEMO) has established procedures for reconciling UAFG. Under AEMO's Procedures¹, reconciliation payments are made by either the retailers or the gas distribution businesses depending on whether actual UAFG is over or under the benchmark.

UAFG benchmarks are also required for the purposes of rule 235(8) of the National Gas Rules. This rule requires the assignment of a UAFG benchmark in accordance with a declared metering requirement. A Ministerial order dated 26 June 2009 declared part C1 of Schedule 1 of the Code as a declared metering requirement for the purposes of rule 235(8) of the NGR.²

Benchmarks for each Victorian gas distribution business are set out in part C of Schedule 1 to the Code. These benchmarks are adopted by AEMO in its procedures. The Code currently contains UAFG benchmarks for the years 2008 to 2012. The Code specifies separate benchmarks for each gas distribution business. Each benchmark is set as a percentage.

Any changes to current benchmarks are likely to affect payments between the distribution and retail businesses.

1.3 Current Unaccounted for gas benchmarks

The current UAFG benchmarks were set by the Commission in 2007 and cover the years 2008-2012. At the time the Commission was also responsible for reviewing and approving the gas distribution businesses' proposed access arrangements, a responsibility which transferred to the AER on 1 July 2008. The Commission's decision on UAFG benchmarks is set out in the Commission's decision on the businesses' proposed access arrangements for 2008–2012.

¹ Wholesale Market Distribution UAFG Procedures (Victoria).

² Victorian Government Gazette, 30 June 2009, p.53.



1.4 Why is the Commission conducting this review?

The AER is responsible for assessing the 2013–17 Victorian gas access arrangements but does not have power to set the UAFG benchmarks. The Commission received a formal request from the AER under section 32 of the National Gas (Victoria) Act 2008 requesting it to amend Schedule 1 of the Gas Distribution System Code (Code) to set new Unaccounted for Gas (UAFG) benchmarks for 2013–17.

The UAFG benchmarks in the Code do not continue beyond 2012. A ministerial order is expected to be made to extend the 2012 benchmarks until the Code is amended to specify UAFG benchmarks beyond 2012. The Commission anticipates that the Code will be amended to specify benchmarks to take effect from 1 July 2013.

1.5 Timetable

The Commission will issue, for public comment, a draft decision on the new UAFG benchmarks. The Commission will then review submissions and issue a final decision. Following release of the final decision the Commission will amend the Code to incorporate the 2013-2017 UAFG benchmarks set out in the final decision.

The Commission's time line is set out below.

Date	Action
20 December 2012	Submissions due
15 March 2013	Draft decision on UAFG benchmarks
19 April 2013	Submissions on Draft decision close
10 May 2013	Release of final decision on UAFG benchmarks
17 May 2013	Release proposed amendments to the Code
14 June 2013	Submissions on draft Code amendments close
1 July 2013	Release Code to give effect to final decision on UAFG benchmarks



Submissions

The Commission invites written submissions on the appropriate UAFG benchmarks (specified as a percentage) for the period 2013 to 2017 for the gas distribution networks of each of:

- Envestra (Victoria)
- Envestra (Albury)
- Multinet
- SP AusNet
- Non-Principal Transmission System networks.

Submissions are preferred in electronic format and should be provided to the Commission by 5.00 pm AEDST on Thursday 20 December 2012.

By email to:

energy.submissions@esc.vic.gov.au

Submissions will be made available on the Commission website, except for any information clearly identified as commercially confidential or sensitive. Any material that is confidential should be clearly marked as such.

Queries can be directed to Jeff Cefai on (03) 9651 3609 or Nigel Vise on (03) 9290 1468.



Appendix 1 – Part C of Gas Distribution System Code, Version 9.0

PART C UNACCOUNTED FOR GAS

C1 Unaccounted for gas benchmarks

Distributor	Class B benchmarks <250,000 GJ/pa					Class A benchmarks ≥ 250,000 GJ/pa
	2008	2009	2010	2011	2012	2008 - 2012
Envestra (Victoria)	0.028	0.028	0.027	0.027	0.026	0.003
Envestra (Albury)	0.030	0.030	0.030	0.030	0.030	0.001
Multinet	0.032	0.032	0.032	0.031	0.031	0.003
SP AusNet	0.051	0.051	0.050	0.050	0.049	0.003
All non-Principal Transmission System networks	0.020	0.020	0.020	0.020	0.020	0.020

C2 Reconciliation Amount

The Reconciliation Amount is:

$$(X+Y) \times (B-A)$$

Where:

X = the quantity annual price of Gas, using spot and contract prices and quantities, as determined by VENCORP for the previous calendar year expressed in \$ per gigajoule;

Y = the average transmission tariff for the previous calendar year expressed in \$ per gigajoule as calculated under the transmission provider's prevailing reference tariffs.;



A =	$D - (E/(1-G))$
Where:	
D =	the quantity of Gas withdrawn from the Transmission System by the Distributor for Retailer at the Connection Points for the previous calendar year;
E =	the quantity of Gas withdrawn by Distributor for Retailer at all Class A Supply Points for the previous calendar year.
B =	$H/(1-F)$
H =	the quantity of Gas withdrawn by Distributor for Retailer at all Class B Supply Points for the previous calendar year;
F =	the benchmark flow rate for Gas for Class B Supply points set out above.
G =	the benchmark flow rate of Gas for Class A Supply Points set out above.