

27 October 2017

Anna Panarina
Essential Services Commission
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Melbourne VIC 3000

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Via email: energy.submissions@esc.vic.gov.au

Dear Anna,

Submission to ESC Draft Decision on the calculation of Unaccounted for Gas Benchmarks

AusNet Services welcomes the opportunity to make a submission in response to the Essential Services Commission's (ESC) draft decision on Unaccounted for Gas benchmarks, which will apply to AusNet Services' network during its 2018-22 Access Arrangement (AA) period.

AusNet Services supports much of the ESC's draft decision, including in relation to:

- The proposed Class A and Class B UAFG benchmarks for the Declared Transmission System (DTS); and
- Amending the date in clause 2.4(b) of the Gas Distribution System Code (GDSC) to 30 April of the year after the gas has been withdrawn, to 30 April of the following year; and

AusNet Services does not support the ESC's proposed non-DTS UAFG benchmark. The remainder of this submission focuses on this matter.

Non-DTS UAFG benchmarks

AusNet Services' non-DTS UAFG has shown a consistent upward trend since 2011, rising to 18.8% in 2015. AusNet Services is continuing to intensively investigate the cause of this upwards trend. An update on the progress of this investigation since AusNet Services' previous UAFG review submissions to the ESC in August is provided in Attachment 1. However, at this present time, the cause has yet to be established.

Under the revealed cost approach to setting benchmarks it is assumed that, given gas distributors have faced an incentive to minimise UAFG to efficient levels, historical performance can be used to set future benchmarks. However, in this instance, the ESC does not consider this to be appropriate.

AusNet Services agrees with the ESC that the current high level of non-DTS UAFG is unlikely to reflect efficient levels. Under the UAFG incentive scheme, AusNet Services faces an incentive

to reduce UAFG on its non-DTS network, and is proactively working to establish the cause of, and address the rising trend in non-DTS UAFG levels, as a matter of urgency.

While AusNet Services understands that using historical data would result in a benchmark for 2018-22 that is particularly high, it does not support the ESC's proposal to adopt the current 2017 benchmark (4.9%) that is below the lowest UAFG outcome that has ever been seen on the network, for the entire 2018-22 AA. Specifically, the 2013-17 non-DTS benchmarks set by the ESC in its 2013 UAFG review contained projected 'significant UAFG efficiencies to be extracted over the forecast period'¹. In 2013, these expected efficiencies were estimated by performing regressions on a historical data series (from 2006 to 2011). Evidently, despite continuation of the application of the UAFG scheme, these efficiencies have not been achieved.

The UAFG review that occurs every 5 years is an important opportunity to reset benchmarks for upcoming AA periods, to set appropriate UAFG benchmarks in the current context. Retaining the current non-DTS benchmark, which was set followed a period of steady decline in non-DTS UAFG and contained expected efficiency improvements, is not appropriate for the 2018-22 AA period.

As noted in its final decision on the methodology, 'the Commission considers that the forward UAFG benchmarks **should only be adjusted for an expected efficiency if the efficiency can be identified and its impact on UAFG levels can be quantified.**² AusNet Services strongly agrees with the ESC on this point, but notes that UAFG outcomes are highly uncertain and there is no strong link to expenditure programs. In the 2013 review, the ESC considered there was scope for further efficiencies from optimising metering and replacement of older pigging. However, in the current review, it is not clear that this logic has been applied. The Draft Decision does not identify the source of the efficiencies expected over the 2018-22, nor does it undertake to quantify any efficiency. AusNet Services is unaware of any evidence available to both itself or the ESC that would enable these matters to be addressed, however, would like to be provided with the opportunity to comment on any evidence that the ESC has to this effect. Unless this evidence is forthcoming, it follows that, consistent with the final decision on the methodology, the non-DTS benchmark should not contain expected efficiencies.

Indeed, continuing to apply a benchmark with in-built efficiencies based on 2006-11 performance (which have not been demonstrated) in circumstances where non-DTS UAFG has been increasing sharply, will systematically penalise AusNet Services in the 2018-22 period.

This is demonstrated in the figures below.

¹ ESC, Review of UAFG Benchmarks – Final Decision, June 2013

² ESC, Review of UAFG Benchmarks: Final Decision – Methodology, July 2017, p. 27

Figure 1 – Non-DTS Benchmark set in 2013 UAFG Review

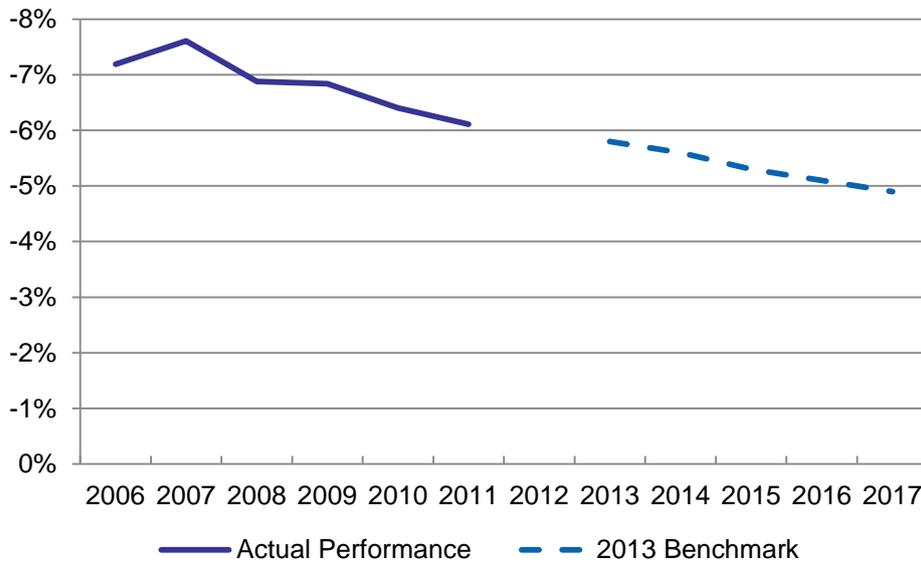
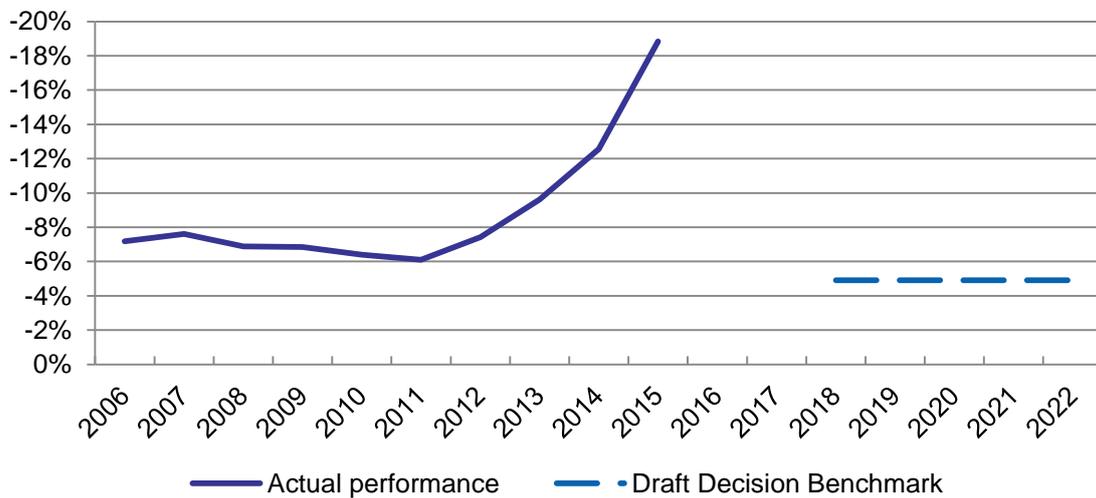


Figure 2 – Non-DTS Benchmark proposed in 2017 UAFG Review



AusNet Services has never supported including forecast efficiencies in a revealed cost benchmark as, unless improvements in UAFG are explicitly funded, this would be contrary to the principles of incentive regulation. Figure 1 highlights that, in the 2013 review, a benchmark that gradually declined to 4.9% was far more likely to reflect efficient levels of UAFG than a constant benchmark of 4.9% is in the current context.

Although the draft decision established that the revealed cost approach should not be used in these circumstances, there is no discussion as to alternative appropriate benchmarks. It is not the case that sticking with the status quo is the only option, nor is it the option that will best achieve the purpose of the UAFG scheme in the current context.

AusNet Services proposes that, should the ESC decide not to use the most recent 3 years of settled data to set the non-DTS benchmark for 2018-22, it should apply the average of historical data that it considers to be efficient. AusNet Services suggests the 2006-12 years could be used for this purpose, producing a benchmark of 6.92%. The ESC has not expressed concerns in relation to efficiency of UAFG performance in the 2006-11 years, and relied on 2006-11 data to set the benchmark in the 2013 review. In addition, UAFG in 2012 was below 2007 levels, so it is appropriate to use in the calculation of an efficient benchmark. This benchmark has the following advantages:

- It is based on 'revealed costs'; the preferred methodology of both the ESC and AusNet Services;
- It resets the benchmark to reflect the current context, while not building in recent increasing UAFG levels; and
- It is consistent with the ESC's rationale that benchmarks **should only be adjusted for an expected efficiency if the efficiency can be identified and its impact on UAFG levels can be quantified.**

The need to include additional efficiencies that were expected in 2013 has not been established. AusNet Services considers that the ESC has no evidence that would indicate efficiency improvements may be realised in the 2018-22 period that would result in UAFG falling below the lowest ever level.

As requested at the ESC's Public Forum held on 19 October, AusNet Services has resubmitted its settled historical data for both DTS and non-DTS UAFG performance (Attachment 2). In addition, we will endeavour to provide further updates to the ESC on the non-DTS investigation as it progresses.

AusNet Services would be pleased to discuss the issues raised in this submission with the ESC. Please contact me with any questions.

Sincerely,

A handwritten signature in black ink that reads "C. Eddy". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Charlotte Eddy
Manager Economic Regulation
AusNet Services

Attachment 1 – Non-DTS Investigation

AusNet Services is continuing to intensively investigate the cause of its deteriorating non-DTS UAFG levels. All activities undertaken prior to August 2017 were outlined in AusNet Services' previous submissions to this review. We do not repeat this detail here. Therefore, this section only outlines steps that have been taken since August 2017.

An internal taskforce has been established with representation across the organisation and includes engagement with service providers.

As indicated by the ESC, identifying the cause of UAFG remains uncertain with over 15 potential contributors across five broad categories, namely fugitive emissions, metering errors, heating value, data quality and theft. The taskforce has conducted ideation sessions spanning these five areas. Updates on the progress of UAFG initiatives completed or underway are presented at each meeting and an action register used to systematically track and eliminate potential contributors to the problem. While the internal taskforce is prioritising non-DTS performance levels, insights and conclusions are also driving continuous improvement of broader UAFG management on our DTS gas network.

To date, the cause of the UAFG deterioration of the non-DTS network has not been identified despite the significant attention and resources being devoted to this issue within AusNet Services.

Actions completed since August 2017

The following list identifies actions completed since August 2017 within AusNet Services:

- Site visit to Horsham to inspect selected meter locations and discuss potential sources of UAFG with key stakeholders.
- Review of Tariff V customer withdrawal data on the non-DTS network.
- Leak detection of 24 kilometres of gas mains supplying Ararat, Stawell and Horsham. (This involved a combination of leak detection on foot and via quad vehicle directly over the top of the mains).
- Review of conversion factors (which convert gas volume in m³ to energy in MJ) for non-DTS customers based on similar post code analysis in the DTS network.
- Review and refresh of previous analysis to revisit conclusions.

Actions to be completed

The following list identifies actions to be completed in the last quarter of CY2017 within AusNet Services:

- Field audits of meters at Horsham, Stawell and Ararat (through the use of strap-on meters) to confirm integrity of CTM metering.
- Further reconciliation of metering data with customer data sets.
- Improved internal monitoring of non-DTS UAFG levels.
- Further leakage detection within the non-DTS network and desktop modelling of the potential volume of gas which would arise from leaks at different pressure levels on the network.

- Further scrutiny on theft as a potential contributor to rising UAFG levels.

Review of metering standing data and potential system related anomalies related to metering data.

Attachment 2 – UAFG Historical Settled Data

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
DTS Class A	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%
DTS Class B	-5.18%	-5.64%	-5.70%	-5.23%	-5.39%	-5.06%	-4.37%	-4.24%	-4.69%	-4.77%
Non-DTS	-7.19%	-7.61%	-6.88%	-6.84%	-6.40%	-6.11%	-7.43%	-9.62%	-12.57%	-18.84%