

16 January 2015



Amber Miller  
Senior Policy Officer  
Essential Services Commission of South Australia  
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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:

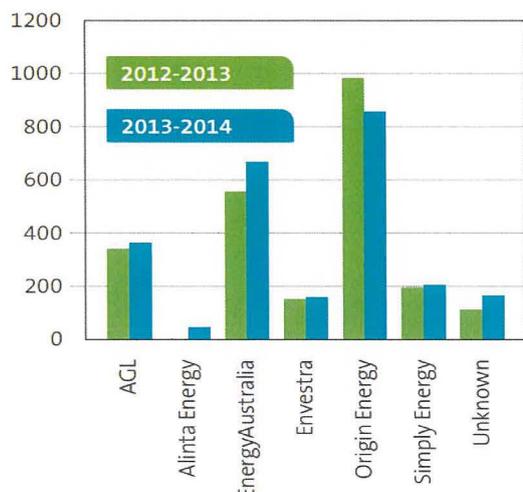
- further substantial increases in renewable generation – a high penetration of 'green' electricity reduces the environmental driver for customers to use natural gas;
- emergence of new technologies – including continual technological improvements in distributed generation, battery storage and electric 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.

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## 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).

