

# AUSTRALIAN GAS NETWORKS JURISDICTIONAL SERVICE STANDARDS FOR THE 2016-2021 REGULATORY PERIOD

*Draft Decision*

March 2015



## REQUEST FOR SUBMISSIONS

The Essential Services Commission of SA (**the Commission**) invites written submissions from all members of the community on this paper. Written comments should be provided by **Friday, 10 April 2015**. It is highly desirable for an electronic copy of the submission to accompany any written submission.

It is Commission's policy to make all submissions publicly available via its website ([www.escosa.sa.gov.au](http://www.escosa.sa.gov.au)), except where a submission either wholly or partly contains confidential or commercially sensitive information provided on a confidential basis and appropriate prior notice has been given.

The Commission may also exercise its discretion not to publish any submission based on length or content (for example containing material that is defamatory, offensive or in breach of any law).

Responses to this paper should be directed to:

Australian Gas Networks Jurisdictional Service Standards for the 2016-2021  
Regulatory Period - Draft Decision

Essential Services Commission of South Australia  
GPO Box 2605  
Adelaide SA 5001

Telephone: (08) 8463 4444  
Freecall: 1800 633 592 (SA and mobiles only)  
E-mail: [escosa@escosa.sa.gov.au](mailto:escosa@escosa.sa.gov.au)  
Website: [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au)

**Contact Officers:** Amber Miller, Manager Policy

The Essential Services Commission of South Australia is an independent statutory authority with functions in a range of essential services including water, sewerage, electricity, gas, rail and maritime services, and also has a general advisory function on economic matters. For more information, please visit [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au).

# TABLE OF CONTENTS

- Glossary of Terms \_\_\_\_\_ ii
- Executive Summary \_\_\_\_\_ 1
- 1. Background \_\_\_\_\_ 4
  - 1.1 Economic regulation of AGN \_\_\_\_\_ 4
  - 1.2 Safety and technical regulation of AGN \_\_\_\_\_ 8
- 2. Consultation to develop the proposed jurisdictional service standards \_\_\_\_\_ 9
  - 2.1 Issues Paper \_\_\_\_\_ 9
  - 2.2 AGN’s stakeholder engagement program \_\_\_\_\_ 10
  - 2.3 Consideration of submissions \_\_\_\_\_ 11
- 3. Proposed Framework \_\_\_\_\_ 12
  - 3.1 Are network reliability service standards with performance targets required? \_\_\_\_\_ 12
  - 3.2 Performance monitoring and reporting \_\_\_\_\_ 13
  - 3.3 Responsiveness of the leaks and emergencies telephone number \_\_\_\_\_ 14
  - 3.4 Responsiveness to public reports of gas leaks \_\_\_\_\_ 16
  - 3.5 Reporting on network reliability and major interruptions \_\_\_\_\_ 18
  - 3.6 Levels of unaccounted for gas \_\_\_\_\_ 20
- 4. Guaranteed Service Level Scheme \_\_\_\_\_ 22
  - 4.1 Nature of a GSL scheme \_\_\_\_\_ 22
  - 4.2 Stakeholder feedback \_\_\_\_\_ 23
  - 4.3 Draft Decision \_\_\_\_\_ 24
- 5. Next Steps \_\_\_\_\_ 25

## GLOSSARY OF TERMS

<b>AEMA</b>	Australian Energy Market Agreement
<b>AEMC</b>	Australian Energy Market Commission
<b>AER</b>	Australian Energy Regulator
<b>AGN</b>	Australian Gas Networks Ltd (formerly Envestra Ltd)
<b>Commission</b>	Essential Service Commission of South Australia
<b>ESC Act</b>	Essential Service Commission Act 2002
<b>ESCV</b>	Essential Services Commission of Victoria
<b>GSL</b>	Guaranteed Service Level
<b>NERL</b>	National Energy Retail Law
<b>NERR</b>	National Energy Retail Rules
<b>NGL</b>	National Gas Law
<b>NGR</b>	National Gas Rules
<b>SRMTMP</b>	Safety, Reliability, Maintenance and Technical Management Plan
<b>UAFG</b>	Unaccounted for Gas
<b>USAIDI</b>	Unplanned system average interruption duration index
<b>USAIFI</b>	Unplanned system average interruption frequency index

## EXECUTIVE SUMMARY

This review has not identified any areas of Australian Gas Networks' (AGN) service that require improvement through the introduction of service standards with performance targets.

Over the five year period 2009-10 to 2013-14, AGN has:

- ▲ answered approximately 93 per cent of the average of the 13,500 calls per annum to its Leaks and Emergencies telephone line within 30 seconds
- ▲ responded to around 94 per cent of the average of 9,500 public reports of potential gas leaks within two hours
- ▲ had a low number of major interruptions, with an average of 15 unplanned interruptions affecting the supply of gas to five or more customers, and
- ▲ achieved the June 2016 unaccounted for gas target early, despite network growth and lower than forecast levels of mains replaced.

While this review has not identified any areas of service that require improvement through service standards with performance targets, additional transparency around AGN's performance is required.

An enhanced public reporting framework will provide greater assurance to the South Australian community that AGN is managing its network appropriately. It will also provide the necessary data to monitor any material deteriorations in current service levels that may require service standards with performance targets in the future.

Submissions on the draft positions put in this paper are due by close of business Friday, 10 April 2015. Following consideration of the issues raised in the submissions, the Final Decision will be released in May 2015.

Australian Gas Networks (AGN)<sup>1</sup> is the owner of a natural gas distribution network in South Australia. Economic regulation of the gas distribution services provided by AGN is undertaken jointly by the Commission and the Australian Energy Regulator (AER).

The Australian Energy Market Agreement (AEMA)<sup>2</sup> provides for State and Territory Governments to retain responsibility for developing service reliability standards to ensure network security and reliability (**jurisdictional service standards**). The South Australian Government has delegated this function to the Commission. Two reviews have been undertaken by the Commission, the first in 2006 and the second in 2010.

---

<sup>1</sup> Formerly Envestra Ltd. AGN's assets are operated and maintained by APA Asset Management under a long-term operating and management agreement.

<sup>2</sup> The AEMA provides for State and Territory Governments to retain responsibility for developing jurisdictional service standards. The Commission is responsible for developing, implementing and administering the jurisdictional service standards for AGN. Refer Annexure 2 of the Australian Energy Market Agreement 2004 (AEMA) as last amended in December 2013 at <http://www.scer.gov.au/files/2014/01/Final-Amended-AEMA-Dec-2013-signed.pdf>.

AGN is subject to five-yearly regulatory revenue determinations, undertaken by the Australian Energy Regulator. The current determination will end on 30 June 2016. It is appropriate to consider and review the jurisdictional service standards prior to the commencement of a new revenue regulation period for AGN. This will allow AGN to ensure its Access Arrangement proposal for the 2016-2021 regulatory period includes consideration of the expenditure required to deliver service levels determined by the Commission.

### *Consultation to develop this Draft Decision*

Initial feedback was sought from the South Australian community on jurisdictional service standards for AGN through an Issues Paper released in March 2014.

Following the close of the consultation period on the Issues Paper, AGN commenced a stakeholder consultation program to test its customers' willingness to pay for certain initiatives it was considering implementing over the 2016-2021 regulatory period. In order to better inform the service standard setting process, the Commission agreed to delay the preparation and release of its Draft Decision to incorporate any relevant findings from that program.<sup>3</sup> The Commission worked with AGN to ensure that the stakeholder engagement program tested service areas relevant to the Commission's current review.

### *Draft Decision*

This review has not identified any areas of service that require improvement through the introduction of service standards with performance targets. Accordingly, there appears to be no need to increase current service levels, and hence the Commission's jurisdictional service standards should not impose additional costs.

This review has focused on two particular areas of AGN's service:

- ▲ responsiveness to public reports of potential gas leaks, from the initial telephone call through to attendance at the site of the leak, and
- ▲ customers experiencing poor reliability, measured through the number of customers experiencing multiple interruptions within a year and/or long duration interruptions.

Based on AGN's satisfactory performance in these areas over the five year period 2009-10 to 2013-14, improvements to the levels of service provided by AGN are not proposed for the 2016-2021 regulatory period. This decision is supported by the customer insights drawn from AGN's consultation program, which identified, amongst other things, that the majority of participants are generally satisfied with AGN's current service levels and response times.<sup>4</sup>

Further, while AGN identified a level of customer support for the proposition that adequate compensation should be available for customers that experience loss, damage or

---

<sup>3</sup> The Commission's Draft Decision was previously scheduled to be released in August 2014, with the Final Decision to follow in December 2014.

<sup>4</sup> The results of AGN's engagement program to date are set out in Deloitte's Stakeholder Insights Report, available at [http://stakeholders.agnl.com.au/\\_r169/media/system/attrib/file/53/Deloitte%20Stakeholder%20Insights%20Report.pdf](http://stakeholders.agnl.com.au/_r169/media/system/attrib/file/53/Deloitte%20Stakeholder%20Insights%20Report.pdf)

inconvenience, particular areas of service where AGN is not currently meeting customers' expectations have not been identified. Accordingly, the Commission is not proposing to introduce a Guaranteed Service Level Scheme for AGN for the 2016-2021 regulatory period. However, the Commission notes that AGN will continue to provide its own compensation scheme.

While the review has not suggested that service standards with performance targets or a Guaranteed Service Level Scheme are required, it has highlighted the need for customers to have greater transparency around the service that they pay for and receive.

Efficient gas leak identification and management practices also present an important public safety issue beyond AGN's direct customer base. Enhanced public reporting on AGN's responsiveness to potential gas leaks will provide the South Australian community with confidence that AGN will respond to concerns about potential gas leaks in a timely manner. Enhanced performance reporting will also provide the Commission with the necessary data to monitor any material deteriorations in current service levels that may require service standards with performance targets in the future.

### *Consultation to finalise the jurisdictional service standards*

The Commission invites submissions on the draft positions put in this paper, or any other issues considered relevant to the review of AGN's jurisdictional service standards for the 2016-2021 regulatory period. Submissions to the Commission are due on or before close of business **Friday, 10 April 2015**. All submissions will be placed on the Commission's website, subject to any confidential material being excluded. Following consideration of the issues raised in the submissions, a Final Decision will be made in May 2015.

AGN is also currently inviting submissions on its response to the stakeholder feedback it has gathered through its engagement program to date. Submissions on its *Insights and Implementation* report are due by close of business **Thursday, 26 March 2015**.<sup>5</sup>

---

<sup>5</sup> Details on how to provide submissions to AGN are available at [http://stakeholders.agnl.com.au/r173/media/system/attrib/file/57/Insights%20and%20implementation%20report\\_FINAL.pdf](http://stakeholders.agnl.com.au/r173/media/system/attrib/file/57/Insights%20and%20implementation%20report_FINAL.pdf)

# 1. BACKGROUND

## 1.1 Economic regulation of AGN

Australian Gas Networks (**AGN**) is the owner of the natural gas distribution network in South Australia. Economic regulation of the gas distribution services provided by AGN is undertaken jointly by the Commission and the Australian Energy Regulator (**AER**).

### 1.1.1 Consumer protections under the national gas legislation

The majority of the regulatory requirements placed on AGN are contained in the national gas legislation: National Gas Law (**NGL**), National Gas Rules (**NGR**), National Energy Retail Law (**NERL**) and National Energy Retail Rules (**NERR**). The national gas legislation is reviewed by the Australian Energy Market Commission (**AEMC**) and administered by the AER.

The national gas legislation establishes consumer protections for residential and small business gas customers.<sup>6</sup> While the legislation applies in various jurisdictions, individual jurisdictions can prescribe distributor service standards in the following areas:<sup>7</sup>

- ▲ preconditions that customers must satisfy before they can be connected to AGN's network, and
- ▲ timeframes for customers to be reconnected to AGN's network following a disconnection.

#### 1.1.1.1 Preconditions to connection

AGN is required to connect a customer to its distribution system on fair and reasonable terms, provided various preconditions have been satisfied.<sup>8</sup> The preconditions set out in the Gas Distribution Code are contained in AGN's Standing Offer for Basic Connection Services.<sup>9</sup>

#### 1.1.1.2 Reconnection after disconnection

AGN is required to use its best endeavours to reconnect a disconnected customer's supply address within sufficient time for a retailer to meet its contractual obligations to the customer as set out in the NERL.<sup>10</sup> The Gas Distribution Code does not establish specific

---

<sup>6</sup> The consumer protections apply only to small customers consuming less than 1 TJ of gas per annum.

<sup>7</sup> AGN's summary of the distributor service standards applicable to its South Australian network are available at <http://www.maketheconnection.com.au/r2348/media/system/attrib/file/626/Distributor%20Service%20Standards.pdf>

<sup>8</sup> Refer Gas Distribution Code, clause 2.3.

<sup>9</sup> Part 12A of the NGR sets out the requirements for AGN to develop standardised offers for basic and standard connection services. These offers are assessed and approved by the AER. Refer <http://www.maketheconnection.com.au/sa/household/contract-information/types-of-customer-connection-contracts/>

<sup>10</sup> Refer Gas Distribution Code, clause 2.4. Part 6 of the NERR sets out the requirements for disconnection of premises for small customers. Rule 122 requires re-energisation to occur in accordance with the distributor

timeframes for reconnections, however, AGN currently performs reconnections within two business days unless the customer requests a later time.<sup>11</sup>

### *1.1.2 Jurisdictional service standards established by the Commission*

The Commission has retained various powers and functions that operate alongside the main consumer protections provided under the national gas legislation. The Commission's powers and functions in relation to AGN are contained in the Gas Act 1997 (**Gas Act**).

The Gas Act requires that a person must not carry on the operation of a distribution system unless the person holds a licence authorising those operations. The Commission is the licensing authority for the purposes of the Gas Act. The Gas Act mandates certain licence terms and conditions, while providing the Commission with the discretionary power to include additional licence terms and conditions.

In addition, the Australian Energy Market Agreement (**AEMA**)<sup>12</sup> provides for State and Territory Governments to retain responsibility for developing service reliability standards to ensure network security and reliability (**jurisdictional service standards**). The South Australian Government has delegated this function to the Commission.<sup>13</sup>

The jurisdictional service standards are in addition to the distributor service standards set out above. The current jurisdictional service standards for AGN are set out in:

- ▲ the terms and conditions of its gas distribution licence
- ▲ the Gas Distribution Code, and
- ▲ the Gas Metering Code.

AGN reports on its performance against the jurisdictional service standards under Gas Industry Guideline 1.

The jurisdictional service standards applicable to AGN for the current 2011-2016 regulatory period are set out below.

---

service standards, reflected in clause 13.2 of AGN's Deemed Standard Connection Contract, developed under the NERR and approved by the AER. Refer

<http://www.maketheconnection.com.au/sa/household/contract-information/types-of-customer-connection-contracts/>

<sup>11</sup> Refer <http://www.maketheconnection.com.au/sa/household/contract-information/disconnection-and-reconnection-timeframes/>

<sup>12</sup> Refer Annexure 2 of the Australian Energy Market Agreement 2004 (**AEMA**) as last amended in December 2013 at <http://www.scer.gov.au/files/2014/01/Final-Amended-AEMA-Dec-2013-signed.pdf>.

<sup>13</sup> Two such reviews have been undertaken by the Commission, the first in 2006 and the second in 2010. Refer <http://www.escosa.sa.gov.au/projects/115/gas-access-arrangement-review-associated-review-of-regulatory-instruments.aspx> and <http://www.escosa.sa.gov.au/projects/139/review-of-the-gas-regulatory-instruments-to-apply-to-vestra-for-2011-2016-regulatory-period.aspx>.

### 1.1.2.1 Good gas industry practice

AGN's gas distribution licence provides overarching guidance on the manner in which AGN is expected to conduct the operation of its gas distribution network. The licence requires AGN to "exercise that degree of skill, diligence, prudence and foresight that reasonably would be expected from a significant proportion of operators of gas distribution systems forming part of the Australian gas supply industry". This provides an external measure of whether or not AGN is conducting its operations in accordance with the required industry standard.<sup>14</sup>

### 1.1.2.2 Unaccounted for gas

The level of unaccounted for gas (**UAFG**) is the difference between the measured quantities of gas entering AGN's network and the measured quantities of gas billed to end use customers.

In response to ongoing safety concerns about the level of UAFG in AGN's network, the Commission introduced a requirement for AGN to include a UAFG Plan as part of its Safety, Reliability, Maintenance and Technical Management Plan (**SRMTMP**) for the current 2011-2016 regulatory period.<sup>15</sup> The UAFG Plan must include a Leakage Management Plan, Asset Management Plan and Mains Replacement Plan.

To monitor the effectiveness of the UAFG Plan, the Gas Distribution Code includes a UAFG target, requiring AGN to use its best endeavours to:

- ▲ achieve a level of UAFG for its distribution system of no more than 1,626 TJ by the end of 2015-16, and
- ▲ reduce the levels of unaccounted for gas in each year of the current regulatory period.<sup>16</sup>

Active monitoring and public reporting on AGN's performance against the plan is required under Gas Industry Guideline 1, with AGN required to report to the Commission on the:

- ▲ level of UAFG each month, and
- ▲ length of cast iron and unprotected steel mains replaced each month

across its gas distribution networks.

AGN is also required to prepare an annual report on its performance against the approved UAFG Plan, for public release.<sup>17</sup>

---

<sup>14</sup> Refer AGN's licence, clause 5.

<sup>15</sup> For background on this issue, refer <http://www.escosa.sa.gov.au/projects/139/review-of-the-gas-regulatory-instruments-to-apply-to-envestra-for-2011-2016-regulatory-period.aspx>.

<sup>16</sup> Refer Gas Distribution Code, clause 2.1.1(e).

<sup>17</sup> Refer AGN's licence, clause 8.1(f).

### 1.1.2.3 Operating pressure

AGN is required to ensure that the pressure of gas delivered from the distribution system to each meter is within defined limits and within the meter manufacturer's designated pressure operating range.<sup>18</sup>

### 1.1.3 Access Arrangement assessment by the AER

AGN is subject to the terms of a binding Access Arrangement,<sup>19</sup> regulated by the AER under the NGL and NGR, which:

- ▲ sets out the default terms and conditions on which AGN will provide access to its distribution system, and
- ▲ controls the revenue that AGN may recover from customers.

Service standard and price regulation must work together to:

- ▲ ensure that customers receive the quality of service that they value and is cost-effective and feasible to deliver
- ▲ inform the prudent and efficient level of expenditure for the price determination/access arrangement, and
- ▲ allow monitoring of performance to ensure that the set standards and targets are delivered.

Under the NGL and NGR, the AER assesses the efficient expenditure for distribution services overall, (including consideration of the expenditure required to deliver the service levels determined by the Commission), and determines the allowed revenues and/or prices for distribution network service providers, such as AGN.

AGN is subject to five-yearly regulatory determination periods, with the current period ending on 30 June 2016. AGN is required to submit its proposed Access Arrangement for the 2016-2021 regulatory period to the AER in June 2015.

Accordingly, the Commission is now consulting on the jurisdictional service standards to apply to AGN for the next regulatory period. This will allow AGN sufficient time to ensure its Access Arrangement includes consideration of the expenditure required to meet any service standards determined by the Commission.<sup>20</sup>

---

<sup>18</sup> Refer Gas Distribution Code, clause 2.1.1(b).

<sup>19</sup> AGN's Access Arrangement for the current 2011-2016 regulatory period is available on both AGN's website and the AER's website. Refer <http://www.australiangasnetworks.com.au/our-business/regulation-and-network-tariffs/access-arrangements/> and <http://www.aer.gov.au/node/9845>

<sup>20</sup> Two such reviews have been undertaken by the Commission, the first in 2006 and the second in 2010. Refer <http://www.escosa.sa.gov.au/projects/115/gas-access-arrangement-review-associated-review-of-regulatory-instruments.aspx> and <http://www.escosa.sa.gov.au/projects/139/review-of-the-gas-regulatory-instruments-to-apply-to-envestra-for-2011-2016-regulatory-period.aspx>.

## 1.2 Safety and technical regulation of AGN

The Office of the Technical Regulator (**Technical Regulator**) is responsible for safety and technical regulation of AGN.<sup>21</sup> This includes:

- ▲ monitoring and regulation of safety and technical standards in the gas supply industry
- ▲ monitoring and regulation of safety and technical standards with respect to gas installations
- ▲ providing advice in relation to safety or technical standards in the gas supply industry to the Commission at the Commission's request, and
- ▲ any other functions prescribed by regulation or assigned to the Technical Regulator by or under the Gas Act or any other Act.<sup>22</sup>

The Technical Regulator requires AGN to develop and periodically review a SRMTMP<sup>23</sup> which demonstrates how AGN and its contracted network operator, APA Group, continue to design, construct, operate and maintain the gas distribution network in a safe and efficient manner. AGN's SRMTMP is supported by a range of detailed operational policies and procedures. Technical and safety regulation focuses on AGN's internal business practices and extends to any contractors performing work on AGN's gas infrastructure.

The Technical Regulator monitors and publicly reports on AGN's compliance with its SRMTMP and any supporting operational policies and procedures against various key performance indicators.<sup>24</sup>

While AGN's SRMTMP is currently formally approved by the Commission, a process to transfer this responsibility to the Technical Regulator is underway and is expected to be finalised prior to the commencement of the 2016-2021 regulatory period.

---

<sup>21</sup> The Technical Regulator is a statutory office appointed under section 7 of the Gas Act 1997. The Office of the Technical Regulator, part of the Department of State Development, assists the Technical Regulator with the administration of the functions assigned under the Gas Act 1997. Refer <http://www.sa.gov.au/directories/government/other-state-bodies/office-of-the-technical-regulator>

<sup>22</sup> Refer section 8 of the Gas Act 1997.

<sup>23</sup> Pursuant to Section 26(1)(b) of the Gas Act 1997 and Regulation 49(2) of the Gas Regulations 2012.

<sup>24</sup> Further details on the Technical Regulator's monitoring and auditing for safety and technical compliance are described in its annual reports. Refer <http://www.sa.gov.au/directories/government/other-state-bodies/office-of-the-technical-regulator>

## 2. CONSULTATION TO DEVELOP THE PROPOSED JURISDICTIONAL SERVICE STANDARDS

### 2.1 *Issues Paper*

Initial feedback was sought on jurisdictional service standards for AGN through an Issues Paper released in March 2014. In particular, comment was sought on whether:

- ▲ AGN should be required to consult its customers about service standards and the scope of any such consultation
- ▲ AGN should have similar customer service obligations as energy retailers, SA Power Networks and SA Water (i.e. telephone and written responsiveness standards and targets) or whether there were other customer service measures that would be more appropriate for AGN
- ▲ AGN should be required to monitor and report on network reliability using the System Average Interruption Duration Index (**SAIDI**) and System Average Interruption Frequency Index (**SAIFI**) used extensively in the electricity industry or whether there were any other reliability measures that would be more appropriate for AGN
- ▲ updating the current unaccounted for gas (**UAFG**) target, which is linked to AGN's mains replacement program, was the best way to manage any ongoing UAFG issues, and
- ▲ AGN had any areas of poor service that would benefit from the incentives provided through a Guaranteed Service Level (**GSL**) Scheme.

Submissions were also invited on any other issues considered relevant to the review of AGN's jurisdictional service standards for the 2016-2021 regulatory period.

Three submissions were received in response to the Issues Paper:

- ▲ AGN Ltd<sup>25</sup>
- ▲ Business SA<sup>26</sup>, and
- ▲ Office of the Technical Regulator.<sup>27</sup>

---

<sup>25</sup> Australian Gas Networks (formerly Envestra) submission on the Issues Paper, April 2014, available [http://www.escosa.sa.gov.au/library/140429-EnvestraSSF\\_2016-2021\\_IssuesPaperSubmission-Envestra.pdf](http://www.escosa.sa.gov.au/library/140429-EnvestraSSF_2016-2021_IssuesPaperSubmission-Envestra.pdf)

<sup>26</sup> Business SA submission on the Issues Paper, April 2014, available [http://www.escosa.sa.gov.au/library/140429-EnvestraSSF\\_2016-2021\\_IssuesPaperSubmission-BusinessSA.pdf](http://www.escosa.sa.gov.au/library/140429-EnvestraSSF_2016-2021_IssuesPaperSubmission-BusinessSA.pdf)

<sup>27</sup> Office of the Technical Regulator, Department of State Development (formerly Department for Manufacturing, Innovation, Trade, Resources and Energy), submission on the Issues Paper, April 2014, available [http://www.escosa.sa.gov.au/library/140429-EnvestraSSF\\_2016-2021\\_IssuesPaperSubmission-OTR.pdf](http://www.escosa.sa.gov.au/library/140429-EnvestraSSF_2016-2021_IssuesPaperSubmission-OTR.pdf)

## 2.2 AGN's stakeholder engagement program

Following the close of the consultation period on the Issues Paper, AGN commenced its stakeholder consultation program to test its customers' willingness to pay for certain initiatives it was considering implementing over the 2016-2021 regulatory period.<sup>28</sup> In order to better inform the service standard setting process, the Commission agreed to delay the preparation and release of its Draft Decision<sup>29</sup> to incorporate any relevant findings from this program.

In the six months from July 2014 to January 2015, AGN has undertaken a range of engagement activities designed to understand stakeholder views.<sup>30</sup> AGN's response to the stakeholder feedback gathered through its engagement program to date is set out in its *Insights and Implementation* report.<sup>31</sup> AGN is currently inviting feedback on this report, with submissions to be considered in finalising its Access Arrangement proposal for the AER.<sup>32</sup>

While AGN's stakeholder engagement program has canvassed a broad range of issues beyond the scope of this review, the Commission has worked with AGN, including making the Consumer Advisory Committee<sup>33</sup> available to AGN for regular briefings and input, to ensure that the stakeholder engagement program tested several matters relevant to the current review. This included AGN testing whether its customers were willing to pay for:

- ▲ changes to AGN's current gas leak responsiveness
- ▲ changes to AGN's current call centre responsiveness, and
- ▲ the introduction of a GSL Scheme.

---

<sup>28</sup> AGN has developed a dedicated stakeholder engagement website to allow stakeholders to provide their views and to share the results of its engagement program. Refer [www.stakeholders.agnl.com.au](http://www.stakeholders.agnl.com.au)

<sup>29</sup> The Commission's Draft Decision was previously scheduled to be released in August 2014, with the Final Decision to follow in December 2014.

<sup>30</sup> AGN engaged Deloitte to assist with the design and delivery of this program. The results of this program are set out in Deloitte's Stakeholder Insights Report, available at <http://stakeholders.agnl.com.au/r169/media/system/attrib/file/53/Deloitte%20Stakeholder%20Insights%20Report.pdf>

<sup>31</sup> Australian Gas Networks, Insights and Implementation: AGN's response to stakeholder insights, February 2015, available [http://stakeholders.agnl.com.au/r173/media/system/attrib/file/57/Insights%20and%20implementation%20report\\_FINAL.pdf](http://stakeholders.agnl.com.au/r173/media/system/attrib/file/57/Insights%20and%20implementation%20report_FINAL.pdf)

<sup>32</sup> Submissions on AGN's Insights and Implementation report are due Thursday, 26 March 2015.

<sup>33</sup> The Commission has established a Consumer Advisory Committee comprising representatives of water, sewerage, electricity and gas consumers. Membership is drawn from peak bodies representing a wide range of interests including disadvantaged consumers, rural and remote consumers, Local Government, environmental interest groups and industry and business generally. Refer <http://www.escosa.sa.gov.au/consultation/consumer-advisory-committee.aspx>

AGN provided a further submission on this review in January 2015 drawing upon the initial stakeholder insights relevant to this review.<sup>34</sup> This review has considered the stakeholder insights reported by AGN in developing this Draft Decision.

### *2.3 Consideration of submissions*

The Commission has been assisted by the submissions it has received through this review process. The issues raised by stakeholders through the consultation period have been carefully considered and, where relevant, certain arguments and submissions have been mentioned in the text, either by direct quotation or by reference to themes or arguments, to assist stakeholders to understand the proposed positions that have been reached.

However, a failure to reference an argument or submission does not mean that it has not been taken into account in reaching the proposed positions. While not all of the positions put in the submissions have been adopted, all submissions have been helpful in informing the consideration of each of the relevant issues and the competing viewpoints.

Consideration of the issues raised in the submissions is discussed in the following chapters.

---

<sup>34</sup> Australian Gas Networks further submission on the Issues Paper, January 2015, available <http://www.escosa.sa.gov.au/projects/208/australian-gas-networks-jurisdictional-service-standards-for-the-2016-2021-regulatory-period.aspx>

## 3. PROPOSED FRAMEWORK

### 3.1 *Are network reliability service standards with performance targets required?*

#### **Draft Decision**

**The Commission is not proposing to introduce any service standards with performance targets for AGN for the 2016-2021 regulatory period.**

This review has not identified any non-satisfactory performance by AGN that requires improvement through the introduction of service standards with performance targets.

This review focused on two particular areas of AGN's service:

- ▲ responsiveness to public reports of potential gas leaks, from the initial telephone call through to attendance at the site of the leak, and
- ▲ customers experiencing poor reliability, measured through the number of customers experiencing multiple interruptions within a year and/or long duration interruptions.

As set out in the following chapter, AGN's current performance in the identified areas has been good. Over the five year period 2009-10 to 2013-14, AGN has:

- ▲ answered approximately 93 per cent of the average of the 13,500 calls per annum to its Leaks and Emergencies telephone line within 30 seconds, with an average response time of 11 seconds
- ▲ responded to around 94 per cent of the average of 9,500 public reports of potential gas leaks within two hours
- ▲ had a low number of "major interruptions", with an average of 15 unplanned interruptions affecting the supply of gas to five or more customers, and
- ▲ achieved the June 2016 UAFG target early, despite network growth and lower than forecast levels of mains replaced.

Accordingly, formalised service standards with performance targets are not proposed for the 2016-2021 regulatory period. Rather, enhanced performance reporting is proposed to increase the transparency around AGN's current performance to ensure that AGN maintains appropriate levels of service.

While participants in AGN's stakeholder engagement program were generally satisfied with current service levels, participants suggested it would be beneficial if AGN provided information on its current performance. AGN's further submission acknowledged the need for greater transparency around its current service levels.

The reporting proposed should have minimal cost impact, as AGN already collects (or has signalled its intention to commence collection of) the majority of the data requested by the Commission.

Details of the enhanced performance monitoring and reporting regime are set out in more detail in the remainder of this chapter.

### 3.2 Performance monitoring and reporting

#### Draft Decision

**The Commission is proposing to clarify and streamline its performance monitoring and reporting requirements to focus on AGN’s responsiveness to public reports of potential gas leaks. Reporting on technical and safety matters will be addressed by the Technical Regulator. Reporting on compliance with national gas legislation will be addressed by the AER.**

While this review has not identified any areas of service that require improvement through service standards with performance targets, additional transparency around AGN’s responsiveness to public reports of gas leaks is required.

Public reporting provides customers with a view of the level of service that is being provided for the charges paid. This can, in turn, support AGN’s future discussions with its customers about the value placed on various aspects of AGN’s service and the need for any changes to those service levels.

Public reporting also provides greater assurance to the broader South Australian community that AGN is managing potential public safety issues appropriately.

Performance monitoring and reporting is also a useful tool for the decision making processes of regulatory agencies, regulated businesses and the Government. It identifies baseline performance and provides incentives for improvement where performance outcomes are poor. It also provides the data required to develop service standards (or targets) and then assess compliance with such standards. Importantly, it also allows for good service to be identified and assist with decisions on the need (or otherwise) to intervene in the operations of a regulated entity.

The majority of the data currently collected under Gas Guideline 1 focuses on safety and technical matters. The Commission is proposing to transfer AGN’s responsibility for reporting on such matters to the Technical Regulator. If the Commission required any data or information on AGN’s management of technical or safety matters during the 2016-2021 regulatory period, it would seek such information the Technical Regulator in the first instance, rather than requiring duplicate reporting by AGN.

The Commission’s revised Gas Guideline 1 would focus on increasing transparency around AGN’s responsiveness to public reports of potential gas leaks. This would include reporting on the responsiveness of AGN’s leaks and emergencies telephone number (section 3.3) and the attendance at potential gas leaks reported by the public (section 3.4).

The requirement to report on these areas of its operations in a transparent manner will provide an incentive for AGN to ensure that it is operating efficiently and effectively, with the need for any material deteriorations in performance requiring explanation and rectification.

The revised performance indicators will also provide the Commission with the necessary data to monitor any material deteriorations in current service levels that may require service standards with performance targets in the future.

### 3.3 *Responsiveness of the leaks and emergencies telephone number*

#### **Draft Decision**

**The Commission is proposing to require AGN to report to the Commission on the utilisation and responsiveness of its faults and emergencies telephone service on a quarterly basis.**

AGN is required to have a 24 hour leaks and emergencies telephone line to allow all members of the South Australian public to report potential gas leaks for no more than the cost of a local call.<sup>35</sup>

The Commission's public reporting on the responsiveness of AGN's leaks and emergencies telephone line will provide the South Australian community with assurance that AGN is appropriately managing potential gas leaks.<sup>36</sup> Reporting on the effectiveness of AGN's enquiries and complaint handling procedures will be captured through the AER's monitoring of AGN's complaint handling performance.<sup>37</sup>

#### 3.3.1 *Stakeholder feedback*

The Issues Paper sought feedback on whether customer service standards with targets for minimum responsiveness timeframes were required.

Business SA submitted that customer service standards should not be introduced if AGN is adequately managing customer service issues. Business SA noted that, while it may not seem unreasonable to impose the same or similar customer service obligations on AGN as apply to other regulated businesses, consistency between regulated industries was a second order issue.

AGN acknowledged that the introduction of the national energy customer framework had introduced a direct contractual relationship with its end-use customers for the first time.

---

<sup>35</sup> Refer National Energy Retail Rules, rule 85.

<sup>36</sup> The Commission currently reports on AGN's performance on an annual basis. Refer <http://www.escosa.sa.gov.au/gas-overview/reporting-and-compliance/annual-performance-reports.aspx>

<sup>37</sup> The regulatory relationship between AGN and its customers is primarily governed under the NERL. Prior to the commencement of the NERL in South Australia on 1 February 2013, the Commission required AGN to have complaint handling and dispute resolution procedures in place that first included escalation within AGN and then to an external, independent and free dispute resolution body; the Energy and Water Ombudsman SA. The requirement for DNSPs to have standard complaints and dispute resolution procedures now arises under Part 4 of the NERL, administered by the AER. AGN's complaint and dispute handling procedures are available at <http://www.maketheconnection.com.au/r2350/media/system/attrib/file/628/Complaints%20Procedure.pdf>

However, AGN submitted that even with the direct contractual relationship, the majority of a gas customer's contact would still be with the customer's retailer. AGN noted that its main points of communication with its customers would be:

- ▲ leak and emergency calls
- ▲ connection enquiries, and
- ▲ customer complaints, both directly received and through retailers.

AGN submitted that the low percentage of complaints received by the Energy and Water Ombudsman SA supported the view that AGN's complaint handling procedures were working appropriately.

### *3.3.2 Consideration*

Most South Australian gas customers are unlikely to have had any direct contact with AGN unless they have reported a potential gas leak or are seeking a new gas connection. Rather, the majority of gas service issues are directed to gas retailers (e.g. billing and payments). Consequently, AGN's customers may have a limited sense of any improvement or deterioration of the levels of service provided by AGN. Further, while not direct customers of AGN, the broader South Australian community can be impacted by AGN's operations (e.g. gas leaks and gas mains replacement works).

AGN's leaks and emergencies telephone number received an average of 13,500 calls per annum for the five years 2009-10 to 2013-14, and have consistently answered approximately 93 per cent of these calls within 30 seconds, with an average response time of 11 seconds. Further, AGN has established internal key performance indicators for telephone responsiveness that exceed those applicable to SA Water, SA Power Networks and South Australian energy retailers.<sup>38</sup>

### *3.3.3 Draft Decision*

Based on the current call volumes and average response times, a telephone responsiveness service standard and performance target is not proposed for the 2016-2021 regulatory period.

It is proposed that AGN be required to report to the Commission on its call centre responsiveness on a quarterly basis against the following metrics:

- ▲ total number of telephone calls received on the leaks and emergencies number
- ▲ total number (and percentage) of telephone calls to the leaks and emergencies number answered within 30 seconds, and

---

<sup>38</sup> AGN's internal key performance indicators for telephone call responsiveness are 90 per cent of all inbound natural gas emergency calls answered within 10 seconds with all other calls to be answered within 20 seconds. Energy retailers, SA Power Networks and SA Water are required to use best endeavours to answer 85 per cent of calls within 30 seconds.

- ▲ average answer time (in seconds) for calls to the leaks and emergencies number.

### 3.4 Responsiveness to public reports of gas leaks

#### Draft Decision

**The Commission is proposing to enhance AGN’s current reporting requirements around public reports of potential gas leaks. AGN will be required to report to the Commission on its attendance at high priority situations and other potential gas leaks on a quarterly basis.**

Efficient gas leak identification and management practices are an important public safety issue. The importance of gas leak responsiveness goes beyond AGN’s direct customer base. It is important the South Australian community to have confidence that AGN will respond to concerns about potential gas leaks in a timely manner. It is proposed that AGN report to the Commission on its responsiveness to public reports of gas leaks on a quarterly basis. The Commission’s reporting will support public confidence that AGN is safely managing its South Australian gas networks.

#### 3.4.1 AGN’s current practice

There are various ways that potential gas leaks can be identified and reported:

- ▲ public reports from members of the general public (including but not limited to AGN’s customers) or emergency services personnel attending an incident, or
- ▲ internal identification by AGN staff during the course of their work in an area or through periodic surveys of the network.

AGN’s Leakage Management Policy and Procedures set out the formal system to manage leaks reported by the public or identified through internal leak reports, planned periodic surveys or special surveys.<sup>39</sup>

The leak classification strategy requires AGN to respond to a publicly reported leak within two hours to assess the risk in order to further classify the leak and schedule repair.<sup>40</sup>

There is a dedicated faults and emergencies telephone number for South Australian customers to report potential gas leaks. AGN’s call centre operators are trained to ask a series of questions to determine the location and magnitude of the leak. Where appropriate, AGN’s operators will advise callers on how to isolate the supply of gas and make the area safe until the area can be attended for further assessment.

---

<sup>39</sup> This policy complies with the Leakage Management requirements of Australian and New Zealand Standard AS/NZS 4645.1 – Gas Distribution Networks Part 1: Network Management. Operational responsibility for monitoring AGN’s compliance with this policy rests with the Technical Regulator.

<sup>40</sup> Note: In Victoria public reported leaks classified as either ‘A Priority’ requiring urgent immediate attention for emergencies or critical loss of supply or ‘B Priority’ for all other public reports. ‘A’ priority are attended within one hour and those classified as ‘B’ priority are attended within two hours.

Where a leak report indicates a potentially high-risk situation, (e.g. a report of a leak at a school or hospital or emergency services reporting that a car crash has damaged above-ground infrastructure), AGN will divert its nearest crew to the incident.

From 2009-10 to 2013-14, AGN received an average of 9,500 public reports of potential gas leaks, 94 per cent of which were attended for further assessment within two hours. Once investigated by AGN, an average of 16 per cent of the initial reports resulted in no identification of a leak.

### *3.4.2 Stakeholder feedback*

When asked about AGN's current responsiveness performance, participants in AGN's stakeholder engagement program were generally happy and were unwilling to pay for either an increase in the percentage of leaks attended within two hours, or to accept a reduction on their bills for a decrease in the current service level.

Participants were interested in obtaining more information about AGN's triage system for prioritising responses to leak reports. While there was comfort in the majority of leak reports being attended to within two hours, there was some concern that two hours may be too long to respond to higher risk event. AGN clarified that it would generally attend the site quicker than the two hours, with staff diverted from other lower priority jobs as necessary. It was also clarified that AGN's current policy required staff to remain on site and work on the cause of the leak until the area is made safe.

### *3.4.3 Consideration*

The Technical Regulator has not identified any problems with AGN's current leakage management policies or procedures through its annual audit processes, consistently finding that AGN has demonstrated:

- ▲ effective implementation of its leakage management policies and procedures
- ▲ timely and appropriate response to publicly reported gas leaks, and
- ▲ the use of competently trained personnel to carry out all gas leak related activities.

The Commission accepts the Technical Regulator's advice and is not seeking to duplicate AGN's regulatory obligations.

Further, an increase to AGN's current gas leakage responsiveness performance is not proposed. Once made aware of the current levels of service, participants in AGN's stakeholder engagement activities were generally satisfied and were not prepared to pay for increased service levels or accept a bill reduction for longer average response times.

While AGN's current performance data do not suggest that there is an underlying issue with AGN's current leak management practices, there is benefit in communicating performance on this important public safety matter on a regular basis. As AGN is already collecting data in this area, there will be minimal additional cost for AGN to be able to internally monitor and report to the Commission on the proposed performance metrics.

### 3.4.4 Draft Decision

It is proposed that AGN report to the Commission on the following performance metrics:

- ▲ total number of potential gas leaks reported by the public
- ▲ total number of high-priority gas leaks reported by the public
- ▲ total number of other gas leaks reported by the public
- ▲ average time to repair a publicly reported leak, and
- ▲ total number of publicly reported potential gas leaks attended where no leak was found.

AGN's responsiveness performance will be defined as the time elapsed from when the initial report is received to the time taken for the first response team to arrive on site to assess the situation.<sup>41</sup>

AGN's gas leak responsiveness performance will be measured against its average historical performance, with AGN required to provide explanations for any material departures from long-term historical averages.

## 3.5 Reporting on network reliability and major interruptions

### Draft Decision

**The Commission is proposing to require AGN to continue to report on major interruptions impacting five or more customers. However, it is proposed that these data be provided to the Technical Regulator rather than the Commission.**

**The Commission will not require AGN to report on the reliability of its gas networks in South Australia using SAIDI and SAIFI.**

AGN currently reports on major interruptions; defined as any unplanned interruption affecting the supply of gas to five or more customers.<sup>42</sup>

While the Commission currently collects this data under Gas Guideline 1, as noted above, it is proposed that this function be transferred to the Technical Regulator.

### 3.5.1 Stakeholder feedback

The Issues Paper sought feedback on whether the existing reporting requirements for AGN were adequate, or whether reliability reporting would be enhanced by using the System Average Interruption Duration Index (**SAIDI**) and System Average Interruption Frequency

<sup>41</sup> This approach is consistent with that employed by AGN for its Victorian operations. For the AER's report on AGN's performance against this measure in Victoria, refer <https://www.aer.gov.au/sites/default/files/Victorian%20gas%20distribution%20businesses%20-%20comparative%20performance%20report%20-%202009-2011.pdf>

<sup>42</sup> Pursuant to Regulation 15C(1) of the Gas Regulations (1997).

Index (**SAIFI**) as currently used in the electricity industry, or if other reliability measures were considered more appropriate.

Business SA's submission supported the requirement for AGN to monitor and report on reliability using the proposed metrics. AGN's submission, however, clarified that it does not currently monitor and report on SAIDI and SAIFI in either South Australia or Victoria; the Essential Services Commission of Victoria calculates these indices itself from data provided by distributors.

AGN submitted that SAIDI and SAIFI are much better suited to the reliability characteristics of electricity networks and do not necessarily translate well for the gas industry as, unlike in electricity, gas interruptions are infrequent as the assets are largely underground and, when they do occur, they generally affect only a small number of customers. AGN noted that South Australian customers can expect, on average, to experience one hour of lost supply about once every 46 years. AGN noted that the Technical Regulator currently requires detailed reporting on every major interruption to gas supply and suggested that such reporting provides a greater level of granularity than is possible through a parameter like SAIDI and SAIFI. AGN submitted that the existing reporting metrics are likely to be of greater value to consumers.

### *3.5.2 Consideration*

AGN has consistently reported low numbers of major interruptions to its service. For the five years 2009-10 to 2013-14, AGN reported an average of 15 major interruptions a year, impacting around 1,100 customers on average.<sup>43</sup>

Due to the higher levels of underlying reliability of gas distribution networks, reporting on against SAIDI and SAIFI is less meaningful than in electricity. The current reporting requirements are more easily understandable for the general public than SAIDI and SAIFI.

Duplication of regulatory reporting requirements should be minimised and thus the Technical Regulator's annual audit processes and Technical Report provide appropriate scrutiny of the reliability and ongoing safety and maintenance of AGN's networks.

### *3.5.3 Draft Decision*

It is proposed that AGN continue to report to the Technical Regulator on major interruptions impacting five or more customers.

---

<sup>43</sup> Further details on AGN's historical performance is available on the Commission's website at <http://www.escosa.sa.gov.au/gas-overview/reporting-and-compliance/annual-performance-reports.aspx>

### 3.6 Levels of unaccounted for gas

#### Draft Decision

**The Commission is not proposing to set a UAFG target for the 2016-2021 regulatory period.**

The level of unaccounted for gas (**UAFG**) is the difference between the measured quantities of gas entering AGN's distribution network and the measured quantities of gas billed to end use customers.

UAFG is primarily a safety issue: it is not a good network reliability indicator, as even high levels of UAFG are unlikely to result in interruptions to gas supply for end use customers.

However, assessing and monitoring the level of UAFG in AGN's network may be of benefit in the following areas of regulation:

- ▲ as an indicator of network health – as part of the Technical Regulator's ongoing assessment of the effectiveness of AGN's policies and procedures for managing the safety and reliability of its network, and
- ▲ in establishing a UAFG expenditure allowance – through the AER establishing an appropriate allowance for AGN to manage UAFG in a prudent and efficient manner.

While the Issues Paper sought comment on whether the existing UAFG target should be updated for the 2016-2021 regulatory period, the roles and responsibilities of the Commission and the Technical Regulator in respect of AGN's SRMTMP have been clarified since this review commenced. As noted in 1.2 above, a process to transfer this responsibility to the Technical Regulator is underway and is expected to be finalised prior to the commencement of the 2016-2021 regulatory period.

In light of that change, the ongoing management of AGN's compliance with its SRMTMP is appropriately and adequately covered by the Technical Regulator. The Technical Regulator's audit processes and Technical Report provide appropriate scrutiny and public reporting on the ongoing safety and maintenance of AGN's network. Accordingly, to avoid confusion and minimise the regulatory burden for AGN (and hence costs for consumers), this issue would be more efficiently and effectively addressed by the Technical Regulator as part of the assessment and approval process for AGN's SRMTMP.

#### 3.6.1 Draft Decision

It is proposed that the current UAFG target that directly links UAFG with mains replacement activities is not continued for the 2016-2021 regulatory period.

To give effect to this decision, the Commission is proposing to:

- ▲ amend clause 8 of AGN's gas distribution licence to reflect the transfer of the responsibilities around AGN's SRMTMP from the Commission to the Technical Regulator

- ▲ remove clause 2.1.1(e) from the Gas Distribution Code to remove the current UAFG target, and
- ▲ remove the UAFG and mains replacement reporting requirements contained in OP 4 of Gas Guideline 1.

## 4. GUARANTEED SERVICE LEVEL SCHEME

### Draft Decision

**The Commission is not proposing to introduce a GSL scheme for the 2016-2021 regulatory period. Rather, the Commission is proposing to require AGN to internally monitor and publicly report on customers experiencing poor service. This will focus on customers experiencing multiple interruptions and customers experiencing long duration interruptions.**

### 4.1 Nature of a GSL scheme

Ultimately, it may be uneconomic to ensure all customers receive average service at the performance target levels. A GSL Scheme can be designed to make payments to customers where it is too costly to provide the average service levels to an individual customer.

A GSL Scheme does not currently apply to AGN South Australian operations. In considering the need to introduce a GSL Scheme for AGN for the 2016-2021 regulatory period, the following issues have been considered:

- ▲ whether or not customers value that aspect of the service
- ▲ the GSL target is a reasonable measure of the customer's expectation
- ▲ the GSL payment is made to customers receiving a level of service below a predetermined level
- ▲ the GSL payment amount should not exceed the total annual network charges paid by that class of customers, on average
- ▲ the reason for failure to meet the GSL is within AGN's control, and
- ▲ the cost of administering the scheme cannot outweigh the benefits provided by that scheme.

A GSL Scheme is not intended to provide customers with compensation for individual loss or damage. A separate mechanism is available under the National Energy Customer Framework to introduce a formal small claims scheme for individual customers experiencing loss or damage as a result of AGN's actions.<sup>44</sup>

Rather, GSL payments are a form of "goodwill" customer service payments to recognise, but not specifically quantify, the inconvenience caused to individual customers by poor service.

Further, while GSL payments would be directed at individual customers, by their nature, the payments should also provide a financial incentive for AGN to assess the trade-off between making the GSL payments and undertaking capital and/or operational expenditure to

---

<sup>44</sup> Part 7 of the National Energy Retail Law establishes a small claims compensation scheme that individual jurisdictions can elect to implement. In introducing the National Energy Customer Framework in South Australia, the South Australian Government chose not to use this mechanism on the basis that the existing arrangements were working effectively and providing adequate consumer protections. The option to exercise this power remains open to the South Australian Government if necessary in the future.

address any causes of poor performance, thereby avoiding the need to make the GSL payments.

The decision on the funding arrangements for a GSL Scheme would be considered as part of the AER's assessment of AGN's access arrangement. However, in principle, a certain level of GSL payments would need to be allowed for in AGN's costs (and recovered from all customers), as recognition of the uneconomic expenditure required to increase service levels for certain customers who may never receive the average service levels. However, for GSL payments to provide the incentives to AGN to assess the trade-off between making payments and addressing underlying performance issues, a certain level of payments should not be funded, as AGN should face a "penalty" for poor performance that is within its control to manage.

## 4.2 Stakeholder feedback

AGN's initial submission suggested that it was not aware of any areas of poor performance that were of concern to its customers that would warrant the additional cost of implementing and administering a GSL Scheme. In support of this position, AGN noted that the underlying high level of network reliability and the nature of small customer gas appliances were likely to limit customers' willingness to pay for a GSL Scheme.

Business SA's submission was consistent with this view, stating that it was not convinced that AGN's current performance necessitated the need for such a scheme.

To explore this issue further, AGN's stakeholder engagement program tested participant's willingness to pay for the introduction of a GSL Scheme in South Australia, with the Victorian scheme used as an illustrative example, at a cost of \$0.50 per customer per annum.<sup>45</sup> The Victorian GSL Scheme provides payments to customers in the following service areas:

- ▲ failure to attend agreed appointment times
- ▲ failure to connect customer within one day of the agreed date
- ▲ customers experiencing in excess of five interruptions within a calendar year, and
- ▲ customers experiencing interruptions in excess of 12 hours.

Around 65 per cent (n=35) of participants supported introducing a scheme targeted at providing compensation to customers, rather than providing incentives for AGN to improve its services. However, participants did not support introducing the Victorian scheme in South Australia, on the basis that the proposed payments would not provide adequate compensation for an interruption to their gas supply. To counter this point, some participants noted that existing individual business insurance was likely to provide adequate compensation.

In responding to the level of broad support for a GSL Scheme (focused on customer compensation), AGN undertook an internal review of its ability to implement a scheme for the 2016-2021 regulatory period. Its review found that a significant impediment to

---

<sup>45</sup> AGN's cost per customer estimate was based on its costs for administering the Victorian GSL Scheme.

introducing a GSL scheme in the near term is the availability of the necessary data on the service areas subject to the Victorian GSL Scheme. AGN concluded that, based on its assessment of the data it does collect for South Australia, its best estimate is that any GSL payments would have been minimal and below the costs of implementing and administering the scheme. As such, it is unlikely that a GSL scheme would have provided any additional incentive to drive business improvement or a meaningful level of compensation to those impacted.

On the issue of compensation for individual customers more generally, AGN submitted that, in the short-term, it intends to continue to operate its existing compensation scheme for customers that have been unreasonably inconvenienced or impacted by its business. AGN will continue to work with its stakeholders to consider how the principle of formal compensation can be best implemented in the medium-term, as additional data becomes available.

### 4.3 *Draft Decision*

While there was general customer support for the proposition that adequate compensation should be available for customers that experience loss, damage or inconvenience, the areas of service where AGN is not currently meeting customers' expectations have not been identified.

Adopting the Victorian scheme was not supported by participants in AGN's stakeholder engagement program, suggesting that the particular areas of service of concern may differ between the two jurisdictions. Further, due to the limited data available, it is too soon to assess the effectiveness of the incentives provided to AGN by the Victorian scheme.

In the absence of a clear need to incentivise AGN to improve particular aspects of its service valued by customers where current performance is not meeting customer expectations the Commission is not proposing to introduce a GSL Scheme for AGN for the 2016-2021 regulatory period. However, the Commission will reconsider this position if stakeholders identify areas of AGN's service that are valued by customers and that would be improved through the introduction of a GSL Scheme.

It is proposed that AGN be required to report to the Commission on:

- ▲ the number of customers experiencing multiple interruptions within a year, and
- ▲ the number of customers experiencing long duration interruptions, with a particular focus on lengthy restoration times that are within AGN's control.

AGN's performance will be assessed against its average historical performance with explanations required for any material departures from longer term average performance outcomes. The results of this assessment will be publicly reported through the Commission's Annual Performance Report.

## 5. NEXT STEPS

The Commission invites submissions on the draft positions put in this paper, or any other issues considered relevant to the review of AGN's jurisdictional service standards for the 2016-2021 regulatory period.

Submissions are due on or before close of business **Friday, 10 April 2015**. All submissions will be placed on the Commission's website, subject to any confidential material being excluded.

Following consideration of the issues raised in the submissions, the Commission will release its Final Decision in May 2015. The Commission's regulatory instruments will be amended to reflect the decisions on the final jurisdictional service standards by the end of 2015 and will apply from 1 July 2016.



The Essential Services Commission of South Australia

Level 1, 151 Pirie Street Adelaide SA 5000

GPO Box 2605 Adelaide SA 5001

T 08 8463 4444

E [escosa@escosa.sa.gov.au](mailto:escosa@escosa.sa.gov.au) | W [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au)

