



In reply please quote Doc: A606778
ESA: 2006/19945/01
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2 April 2015

Ms Amber Miller
Manager Policy
Essential Services Commission of South Australia
GPO Box 2605
ADELAIDE SA 5001

Dear Ms Miller

**RE: AUSTRALIAN GAS NETWORKS JURISDICTIONAL SERVICE STANDARDS
FOR THE 2016-2021 REGULATORY PERIOD – DRAFT DECISION**

I refer to the Essential Services Commission of South Australia ('Commission') Draft Decision titled '*Australian Gas Networks jurisdictional service standards for the 2016-2021 regulatory period*', dated March 2015.

In its Draft Decision, the Commission stated (Para 3.6 *Levels of unaccounted for gas*, pp 20-21) that it is not proposing to set an unaccounted for gas (UAFG) target for the Australian Gas Networks (AGN) 2016-2021 regulatory period and that, to give effect to this decision, it will amend clause 8 of AGN's gas distribution licence, remove clause 2.1.1(e) from the Gas Distribution Code and remove AGN's reporting requirement in relation to mains replacement in Gas Guideline 1. The Draft Decision notes the early achievement of the June 2016 UAFG target, and states that "This review has not identified any non-satisfactory performance by AGN that requires improvement through the introduction of service standards with performance targets."

It also notes that a process to transfer responsibility for Safety, Reliability, Maintenance and Technical Management Plans (SRMTMPs) from the Commission to the Technical Regulator is underway, and suggests that the UAFG issue "would be more efficiently and effectively addressed by the Technical Regulator as part of the assessment and approval process for AGN's SRMTMP."

The current 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 1,626TJ by the end of the 2011-2016 regulatory period; and
- reduce the levels of UAFG in each year of the current regulatory period.

I note that the Commission did not discuss the arguments presented in my submission to its Issues Paper in the Draft Decision. In my submission, I recommended that the Commission, as the licensing authority, should set some form of UAFG target for the 2016-2021 regulatory period in the Gas Distribution Code. I also outlined detailed rationales supporting this recommendation.

My recommendation aimed to provide benefits for the South Australian public and the SA Government by ensuring the reliability of the AGN gas distribution networks.

It is pleasing to note the early achievement of UAFG targets, but I would nevertheless prefer the Commission to set some form of target for UAFG for the 2016-21 regulatory period in the Gas Distribution Code. The rationales to support this are:

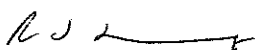
- Reports relating to a UAFG target would be a useful indicator of the general conditions, reliability and performance of the gas network.
- The majority of UAFG is associated with leaking of the aged cast iron and unprotected steel gas mains and the UAFG level is still relatively high in South Australia. If the AGN mains replacement programs, which will continue during 2016-2021 were combined with some form of target for UAFG a further UAFG reduction would be expected.
- Consistency in regulation with other Australian jurisdictions, including Victoria, Tasmania, Western Australia Queensland and New South Wales, where the equivalents to the Commission have established annual UAFG benchmarks/targets for their gas distribution networks.
- I do not consider that continuing with a UAFG target will increase any regulatory burden for AGN (and hence costs for consumers) for the 2016-2021 regulatory period as any prudent operator of the gas distribution networks would be expected to have some form of UAFG target (e.g. annual reduction of UAFG levels) to monitor the effectiveness of its mains replacement program and the reliability and integrity of its networks.

With respect to the possible transfer of responsibility for UAFG from the Commission to the Technical Regulator, I am advised that under the current legislation, and even if amendments to transfer responsibility for SRMTMPs from the Commission to the Technical Regulator were passed, the Technical Regulator would still not have powers to impose numerical UAFG targets on a gas entity in a SRMTMP.

As an additional comment: The Draft Decision (at Para 3.5 *Reporting on network reliability and major interruptions*) also proposes that data on major interruptions be provided to the Technical Regulator rather than to the Commission. Please note that under regulation 50 of the *Gas Regulations 2012* such interruptions must already be notified to the Technical Regulator.

If you wish to discuss any aspect of this letter, please do not hesitate to contact myself on 08 8226 5519 or Mr Andrew Szacinski, Manager, Gas Systems Regulation on 08 8226 5707.

Yours sincerely



ROB FAUNT
TECHNICAL REGULATOR