

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

Final Decision

June 2015



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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.

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GLOSSARY OF TERMS

AEMA	Australian Energy Market Agreement
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
AGN	Australian Gas Networks Ltd (formerly Envestra Ltd)
Commission	Essential Service Commission of South Australia
ESC Act	Essential Service Commission Act 2002
ESCV	Essential Services Commission of Victoria
EWOSA	Energy and Water Ombudsman SA
GSL	Guaranteed Service Level
NERL	National Energy Retail Law
NERR	National Energy Retail Rules
NGL	National Gas Law
NGR	National Gas Rules
SAIDI	System average interruption duration index
SAIFI	System average interruption frequency index
SRMTMP	Safety, Reliability, Maintenance and Technical Management Plan
UAFG	Unaccounted for Gas

EXECUTIVE SUMMARY

The Essential Service Commission of South Australia (the Commission) has made its final decision on the jurisdictional service standards to apply to Australian Gas Networks (AGN) for the 2016-2021 regulatory period. This review has determined that AGN's current service levels are appropriate and should be maintained for the 2016-2021 regulatory period.

Participants in AGN's stakeholder engagement program were generally satisfied with AGN's gas distribution services and reluctant to pay for improvements to current service levels. High levels of customer satisfaction are further supported by the consistently low number of complaints received by AGN and the low proportion of complaints that required escalation to the Energy and Water Ombudsman SA.

While service improvements are not required, the Commission has refined its reporting framework for AGN for the 2016-2021 regulatory period to remove regulatory duplication and clarify the roles and responsibilities of the Commission, the Technical Regulator and the Australian Energy Regulator (AER).

AGN will be required to report to the Commission on its responsiveness to public reports of potential gas leaks and customers experiencing poor reliability outcomes. The revised reporting framework will provide the necessary data to monitor any material changes in current service levels that may require service standards with performance targets in the future.

A Guaranteed Service Level Scheme will not be introduced for the 2016-2021 regulatory period as the costs of such a scheme (which are borne by customers) outweigh the likely benefits at this time. The Commission will monitor the instances of multiple interruptions and long duration interruptions in the network during the period to provide an evidence base for future decisions on this matter.

AGN¹ 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 AER.

The Australian Energy Market Agreement (AEMA)² 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.³

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

² 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>.

³ Two reviews have been undertaken by the Commission, the first in 2006 and the second in 2010.

AGN is subject to five-yearly regulatory revenue determinations, undertaken by the AER. 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 allows 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.

Final Decision

The Commission has introduced new reporting requirements for AGN for the 2016-2021 regulatory period in the following areas:

- ▲ **responsiveness to public reports of potential gas leaks** - responsiveness to the initial telephone call, attendance at the site of the reported leak and repair of the leak within an appropriate timeframe for the classification/severity of the individual leak, and
- ▲ **customers experiencing poor reliability** - the number of customers experiencing multiple interruptions within a year and/or long duration interruptions.

Responsiveness to potential gas leaks

Based on AGN's satisfactory leak management performance 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 high levels of customer satisfaction expressed in AGN's stakeholder engagement program⁴ and the low level of complaints received by AGN.⁵

Accordingly, there appears to be no need to increase current service levels, and hence the Commission's jurisdictional service standards should not impose material additional costs.

While the review has not suggested that gas leak responsiveness service standards with performance targets are required, AGN has recognised that its customers want more information on how it responds to gas leaks.

Efficient gas leak identification and management practices present an important public safety issue beyond AGN's direct customer base. Refined public reporting on AGN's responsiveness to potential gas leaks will:

- ▲ provide the South Australian community with confidence that AGN is continuing to respond to concerns about potential gas leaks in a timely manner

⁴ Deloitte's Stakeholder Insights Report for AGN is available at <http://stakeholders.agnl.com.au/r169/media/system/attrib/file/53/Deloitte%20Stakeholder%20Insights%20Report.pdf>

⁵ AGN received an average of 0.2 complaints per 100 customers over the period 2009-10 to 2013-14. An average of 2 per cent of those complaints required escalation to EWOSA. Further details on AGN's performance is available at <http://www.escosa.sa.gov.au/gas-overview/reporting-and-compliance/annual-performance-reports.aspx>

- ▲ allow customers to make future decisions about appropriate service/cost trade-offs with reference to current service levels, and
- ▲ provide the Commission with the necessary data to monitor any material changes in current service levels that may require service standards with performance targets in the future.

Commencing in 2016-17, the Commission will publicly report on AGN's responsiveness to potential gas leaks on a quarterly basis.

Monitoring customers experiencing poor reliability

While AGN's network is highly reliable, and customers did not express a willingness to pay for improvements to current reliability levels, it is important to identify whether any customers are experiencing poor reliability, relative to AGN's average performance.

Commencing in 2016-17, the Commission will publicly report on customers experiencing multiple interruptions and/or long-duration interruptions on an annual basis.

Guaranteed Service Level Scheme

While AGN identified a level of customer support for providing adequate compensation for customers that experience loss, damage or inconvenience, particular areas of service where AGN is not currently meeting customers' expectations have not been identified.

Accordingly, the Commission will not introduce a Guaranteed Service Level Scheme for AGN for the 2016-2021 regulatory period.

Next steps

To give effect to the decisions set out in this Final Decision, the Commission will amend AGN's gas distribution licence, the Gas Distribution Code and Gas Industry Guideline 1 by the end of 2016.

This Final Decision will form an input into the AER's determination of AGN's gas distribution prices for South Australian customers for the 2016-2021 regulatory period. The Commission's reporting requirements under this Final Decision should not have a material cost impact for AGN.

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.⁶ While the legislation applies in various jurisdictions, individual jurisdictions can prescribe distributor service standards in the following areas:⁷

- ▲ **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.⁸ The preconditions set out in the Gas Distribution Code are contained in AGN's Standing Offer for Basic Connection Services.⁹
- ▲ **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.¹⁰ The Gas Distribution Code does not establish specific timeframes for reconnections; however, AGN currently performs reconnections within two business days unless the customer requests a later time.¹¹

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

⁷ 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>

⁸ Refer Gas Distribution Code, clause 2.3.

⁹ 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/>

¹⁰ 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 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/>

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

1.1.2 Jurisdictional service standards established by the Commission

The Commission has retained 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**)¹² 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.¹³

The jurisdictional service standards are in addition to the distributor service standards set out above. The jurisdictional service standards for AGN for the current 2011-2016 regulatory period relate to:

- ▲ **Good Gas Industry Practice** – AGN is required 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.¹⁴
- ▲ **Safety, Reliability, Maintenance and Technical Management Plan** –AGN is required to develop and periodically review a Safety, Reliability, Maintenance and Technical Management Plan (**SRMTMP**)¹⁵ 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. The SRMTMP is approved by the Commission, following the advice of the Technical Regulator.¹⁶
- ▲ **Unaccounted for Gas Plan** - 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. AGN's SRMTMP must include a

¹² 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>.

¹³ 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>.

¹⁴ Refer AGN's licence, clause 5.

¹⁵ Pursuant to Section 26(1)(b) of the Gas Act 1997 and Regulation 49(2) of the Gas Regulations 2012.

¹⁶ 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>

UAFG Plan, covering leakage management, asset management and mains replacement. AGN is required 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.¹⁷

- ▲ **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.¹⁸
- ▲ **Gas Measurement Management Plan** – AGN is required to develop a plan summarising its procedures for maintaining the accuracy of its metering installations and metering data. The Gas Measurement Management Plan is approved by the Commission, following the advice of the Technical Regulator.¹⁹

AGN reports to the Commission on its performance under Gas Industry Guideline 1.

1.1.3 Access Arrangement assessment by the AER

AGN is subject to the terms of a binding Access Arrangement,²⁰ 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.

¹⁷ Refer Gas Distribution Code, clause 2.1.1(e).

¹⁸ Refer Gas Distribution Code, clause 2.1.1(b).

¹⁹ Refer Gas Metering Code, clause 5.

²⁰ 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>

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 consulted on the jurisdictional service standards to apply to AGN for the next regulatory period. This Final Decision will allow AGN to include consideration of the expenditure required to meet any service standards determined by the Commission in its Access Arrangement proposal for the AER.²¹

1.2 Safety and technical regulation of AGN

The Technical Regulator is responsible for safety and technical regulation of AGN. Safety and technical regulation covers the following areas of AGN's operations:

- ▲ 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.²²

As noted above, AGN is required to develop and periodically review a SRMTMP and a Gas Measurement Management Plan. Both plans are approved by the Commission on the advice of the Technical Regulator. AGN's technical and safety plans are 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, Gas Measurement Management Plan and any supporting operational policies and procedures against various key performance indicators.²³

²¹ 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>.

²² Refer section 8 of the Gas Act 1997.

²³ 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>

1.3 Consultation to develop the jurisdictional service standards for 2016-2021

1.3.1 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 Ltd²⁴
- ▲ Business SA²⁵, and
- ▲ Office of the Technical Regulator.²⁶

²⁴ 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

²⁵ Business SA submission on the Issues Paper, April 2014, available http://www.escosa.sa.gov.au/library/140429-EnvestraSSF_2016-2021_IssuesPaperSubmission-BusinessSA.pdf

²⁶ 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

1.3.2 AGN's stakeholder engagement program

Following the close of the consultation period on the Issues Paper, AGN commenced its stakeholder engagement program to test its customers' willingness to pay for certain initiatives it was considering implementing over the 2016-2021 regulatory period.²⁷ In order to better inform the service standard setting process, the Commission agreed to delay the preparation and release of its Draft Decision²⁸ 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.²⁹ AGN's response to the stakeholder feedback gathered through its engagement program to date is set out in its *Insights and Implementation* report.³⁰

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 Committee³¹ 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.

AGN provided a further submission on this review in January 2015 drawing upon the initial stakeholder insights relevant to this review.³² This review has also considered the stakeholder insights reported by AGN.

²⁷ 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

²⁸ The Commission's Draft Decision was previously scheduled to be released in August 2014, with the Final Decision to follow in December 2014.

²⁹ 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>

³⁰ 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

³¹ 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>

³² 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>

In addition to the Commission's consultation on its Draft Decision, AGN also sought comment on its *Insights and Implementation* report³³, which set out its response to the stakeholder feedback it has gathered through its engagement program, in March 2015. AGN's consultation during this period included holding a workshop with the Commission's Consumer Advisory Committee and AGN's CEO, Board members and other senior management staff.

1.3.3 Draft Decision

The Draft Decision was released in March 2015 to provide stakeholders with the opportunity to comment on the proposed reporting framework prior to finalisation. The Draft Decision was to:

- ▲ not introduce any service standards with performance targets for AGN for the 2016-2021 regulatory period
- ▲ clarify and streamline its performance monitoring and reporting requirements to focus on AGN's responsiveness to public reports of potential gas leaks, with reporting on technical and safety matters to be addressed by the Technical Regulator and reporting on compliance with national gas legislation to be addressed by the AER
- ▲ require AGN to report to the Commission on the utilisation and responsiveness of its faults and emergencies telephone service on a quarterly basis
- ▲ refine AGN's current reporting requirements around public reports of potential gas leaks, with AGN to report to the Commission on its attendance at high priority situations and other potential gas leaks on a quarterly basis
- ▲ remove the requirement for AGN to report to both the Commission and the Technical Regulator on major interruptions impacting five or more customers, with the Technical Regulator to monitor this area
- ▲ not introduce a new requirement for AGN to report on the reliability of its gas networks in South Australia using formal SAIDI and SAIFI measures
- ▲ not set a UAFG target linked to AGN's Mains Replacement Program for the 2016-2021 regulatory period, and
- ▲ not introduce a GSL scheme but instead require AGN to report to the Commission on customers experiencing poor service; defined as customers experiencing multiple interruptions and customers experiencing long duration interruptions.

³³ 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

Two submissions were received in response to the Draft Decision:

- ▲ AGN Ltd³⁴, and
- ▲ Office of the Technical Regulator.³⁵

In developing the jurisdictional service standards for AGN for the 2016-2021 regulatory period, the Commission has considered and reviewed matters raised in the written submissions and undertaken further research as to practices and matters relevant to the setting of the jurisdictional service standards, performance monitoring and reporting and GSL schemes.

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 final 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.

³⁴ Australian Gas Networks (formerly Envestra) submission on the Draft Decision, April 2015, available <http://www.escosa.sa.gov.au/projects/208/australian-gas-networks-jurisdictional-service-standards-for-the-2016-2021-regulatory-period.aspx>

³⁵ Office of the Technical Regulator, Department of State Development (formerly Department for Manufacturing, Innovation, Trade, Resources and Energy), submission on the Draft Decision, April 2015, available <http://www.escosa.sa.gov.au/projects/208/australian-gas-networks-jurisdictional-service-standards-for-the-2016-2021-regulatory-period.aspx>

2. REPORTING FRAMEWORK FOR 2016-2021

2.1 *Are service standards with performance targets required?*

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The Commission will not introduce any service standards with performance targets for AGN for the 2016-2021 regulatory period.

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 reported leak, and
- ▲ customers experiencing poor reliability, measured through the number of customers experiencing multiple interruptions within a year and/or long duration interruptions.

AGN's current performance in the identified areas has been satisfactory. 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 annum³⁶ to its Leaks and Emergencies telephone service within 30 seconds, with an average response time of 11 seconds³⁷
- ▲ 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 per annum, and
- ▲ achieved the June 2016 UAFG target early, despite network growth and lower than forecast levels of mains replaced.

AGN's distribution system is highly reliable, with customers rarely losing access to supply. AGN reported an average of 15 unplanned interruptions per annum over the period 2009-10 to 2013-14. This compares with an average of 1,900 unplanned interruptions to SA Water's water distribution network and 2,200 to its sewerage network.³⁸

The Commission expects AGN's overall service levels to continue and thus does not consider that additional mechanisms to encourage improvements to current service levels are required.

³⁶ This compares with around 650,000 calls to SA Power Networks and around 250,000 calls to SA Water. Note: SA Water's figures cover the six month period January 2013 to June 2013.

³⁷ 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.

³⁸ Note: SA Water's figures cover the six month period January 2013 to June 2013.

This is supported by the customer insights gained from AGN's stakeholder engagement program, which found that customers were generally satisfied with the current reliability of AGN's gas distribution service. Further, price was a key concern for AGN's stakeholders and there was a reluctance to pay for improvements to current service levels.

High levels of customer satisfaction are further supported by the consistently low number of complaints received by AGN and the low proportion of complaints that required escalation to the Energy and Water Ombudsman SA.³⁹

While service improvements are not required, the Commission has refined its reporting framework for AGN for the 2016-2021 regulatory period to increase the transparency around AGN's current performance to ensure that AGN maintains appropriate levels of service. This is consistent with the findings of AGN's stakeholder engagement program, which suggested that while participants were generally satisfied with current service levels, additional information on AGN's current performance was requested. AGN's further submission acknowledged the need for greater transparency around its current service levels.

AGN will be required to report to the Commission on its responsiveness to public reports of potential gas leaks and customers experiencing poor reliability outcomes. The revised reporting framework will provide the necessary data to monitor any material changes in current service levels that may require service standards with performance targets in the future.

Details of the Commission's performance monitoring and reporting requirements for AGN for the 2016-2021 regulatory period are set out in more detail in the remainder of this report.

2.2 Performance monitoring and reporting

Final Decision

The Commission's reporting will 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.

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.

³⁹ AGN received an average of 0.2 complaints per 100 customers over the period 2009-10 to 2013-14. An average of 2 per cent of those complaints required escalation to EWOSA. Further details on AGN's performance is available at <http://www.escosa.sa.gov.au/gas-overview/reporting-and-compliance/annual-performance-reports.aspx>

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 assists with decisions on the need (or otherwise) to intervene in the operations of a regulated entity.

2.2.1 Stakeholder feedback

In response to the Draft Decision, AGN submitted that it considered the Commission's proposed reporting framework to be consistent with its earlier submission and the findings of its stakeholder engagement program. AGN further noted that it was already responding to its stakeholders' request for more information on its performance by developing a Vision Statement that would include reporting on its performance across several key aspects of customer service.⁴⁰ With a view to minimising the cost associated with the increased reporting requirements proposed by the Commission, AGN suggested that:

- ▲ reporting should be on an annual basis, rather than quarterly
- ▲ further work should occur to identify any remaining duplication of the reporting requirements imposed by the Commission and the Technical Regulator, and
- ▲ minor amendments be made to the proposed reporting metrics to ensure greater consistency with parameters already tracked by AGN.

While the Technical Regulator did not specifically comment on the broader issue of taking primary responsibility for collecting the safety and technical metrics currently collected under the Commission's Gas Industry Guideline 1, it did identify an overlap with its reporting requirements on major interruptions (refer section 4.1) and raised specific issues for consideration around monitoring and reporting on AGN's UAFG levels (refer section 4.2).

2.2.2 Discussion

The Commission agrees that the costs associated with introducing new reporting requirements should be minimised.

AGN's suggested amendments to the reporting requirements proposed in the Draft Decision do not materially alter the areas to be monitored. Accordingly, with the exception of the proposal in relation to reporting on customers experiencing poor customer service, (discussed in Chapter 5), the Commission has accepted AGN's suggestions.

While the Commission supports AGN's commitment to improve its ongoing engagement with stakeholders through reporting against a Vision Statement, as noted above, it is important for the Commission to be able to internally monitor AGN's performance on a

⁴⁰ AGN's submission, Attachment 1, available <http://www.escosa.sa.gov.au/projects/208/australian-gas-networks-jurisdictional-service-standards-for-the-2016-2021-regulatory-period.aspx>.

regular basis. As the majority of AGN's reporting requirements for the 2016-2021 regulatory period are new, more immediate feedback on these areas of AGN's business are required in the early years of the next regulatory period. The Commission will review AGN's Vision Statement once it has been published to determine if further duplication of effort can be avoided in the future.

2.2.3 Final Decision

The Commission's revised Gas Guideline 1 will focus on increasing transparency around AGN's responsiveness to public reports of potential gas leaks. This includes reporting on the responsiveness of AGN's leaks and emergencies telephone service (section 3.1) and the attendance at potential gas leaks reported by the public (section 3.2).

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.

If the Commission requires any data or information on AGN's management of technical or safety matters during the 2016-2021 regulatory period, it will seek such information from the Technical Regulator in the first instance, rather than requiring duplicate reporting by AGN. Similarly, complaints data will be sought from the AER and/or the Energy and Water Ombudsman SA in the first instance, if required.

3. RESPONSIVENESS TO POTENTIAL GAS LEAKS

3.1 *Responsiveness of the leaks and emergencies telephone service*

Final Decision

AGN will be required 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 service to allow all members of the South Australian public to report potential gas leaks for no more than the cost of a local call.⁴¹

The Commission's public reporting on the responsiveness of AGN's leaks and emergencies telephone service will provide the South Australian community with assurance that AGN is appropriately managing potential gas leaks.⁴² 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.⁴³

3.1.1 *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 not sufficient justification for introducing new service standards.

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. However, AGN submitted that, even with the direct contractual relationship, the majority of

⁴¹ Refer National Energy Retail Rules, rule 85.

⁴² 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](http://www.escosa.sa.gov.au/gas-overview/reporting-and-compliance/annual-performance-reports.aspx)

⁴³ 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>

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.

While AGN agreed to report on the customer service reporting metrics proposed in the Draft Decision, it highlighted that the current requirement to report to the Commission on the number and type of complaints received was in addition to the AER's reporting requirements. Accordingly, AGN requested that the Commission remove its complaint reporting obligation from Gas Industry Guideline 1.

3.1.2 Discussion

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 payment issues). 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 service received an average of 13,500 calls per annum for the five years 2009-10 to 2013-14. AGN has consistently answered approximately 93 per cent of these calls within 30 seconds, with an average response time of 11 seconds. AGN's current performance exceeds the telephone responsiveness targets applicable to SA Water, SA Power Networks and South Australian energy retailers.

3.1.3 Final Decision

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

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

AGN's call centre 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.

3.2 Responsiveness to public reports of gas leaks

Final Decision

The Commission has revised AGN's reporting requirements around public reports of potential gas leaks. AGN will 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 that the South Australian community has 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 continuing to safely manage its South Australian gas networks.

3.2.1 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.⁴⁴

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.⁴⁵

There is a dedicated faults and emergencies telephone service 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.

⁴⁴ 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.

⁴⁵ Note: In Victoria, public reported leaks are 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 per annum, 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.

3.2.2 Stakeholder feedback

Participants in AGN's stakeholder engagement program were generally satisfied with AGN's current responsiveness to public reports of gas leaks 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 how AGN prioritises its response to gas leak reports. Participants were satisfied that the majority of leak reports were attended within two hours. However, 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.

In response to the Draft Decision to require reporting on the average time taken to repair a leak, AGN submitted that the appropriate timeframe for repairing a leak is determined by the classification/severity of individual leaks. It noted that the timeframes for repair set out in its Leak Management Procedure, approved by the Technical Regulator, include consideration of the class of the leak and what is deemed to be safe and prudent network management practice.

3.2.3 Discussion

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 existing 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. The Commission agrees that the important measure is whether or not AGN is repairing leaks within the timeframes set out in its approved Leakage Management Procedure. Accordingly, the Commission will require data on the percentage of leaks repaired within the approved timeframes, rather than requiring data on the average time to repair a leak. 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.

3.2.4 Final Decision

AGN will 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 public⁴⁶
- ▲ total number of other gas leaks reported by the public⁴⁷
- ▲ percentage of gas leaks repaired within the timeframes specified in AGN's Leakage Management Plan, 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.⁴⁸

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.

⁴⁶ Defined as high priority leaks are Class 1 leaks in accordance with AGN's Leakage Management Plan.

⁴⁷ Defined as other leaks are all other leaks reported to AGN where a leak is found but assessed not to be a Class 1 Leak.

⁴⁸ 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>

4. SAFETY AND TECHNICAL REPORTING

4.1 Reporting on network reliability and major interruptions

Final Decision

The Commission will remove the requirement for AGN to report to it on major interruptions impacting five or more customers. Rather, these data will be provided directly to the Technical Regulator and the Commission will obtain this information from the Technical Regulator, as required.

The Commission will not impose a requirement for AGN to report on the reliability of its gas networks in South Australia using formal SAIDI and SAIFI measures.

AGN currently reports on major interruptions; defined as any unplanned interruption affecting the supply of gas to five or more customers.⁴⁹ To remove duplicate reporting obligations, the Commission will no longer require AGN to report these data under Gas Industry Guideline 1. Rather, the Commission will rely on major interruption data from the Technical Regulator, as required.

4.1.1 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 SAIDI and 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 (ESCV) calculates these indices itself from data provided by distributors.

AGN further 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 regime is likely to be of greater value to consumers.

⁴⁹ Pursuant to Regulation 15C(1) of the Gas Regulations (1997).

The submissions to the Draft Decision by both AGN and the Technical Regulator confirmed that adequate reporting on major interruptions already occurs between the two parties, and the reporting under the Commission's Gas Guideline 1 was a duplication of effort.

4.1.2 Discussion

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 per annum, impacting around 1,100 customers on average.⁵⁰ The current reporting requirements are sufficient for monitoring network reliability and, due to the higher levels of underlying reliability of gas distribution networks, reporting against SAIDI and SAIFI is less meaningful than in electricity.

Further, 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.

4.1.3 Final Decision

AGN will continue to report to the Technical Regulator on major interruptions impacting five or more customers. The Commission will request this information from the Technical Regulator, as required.

4.2 Levels of unaccounted for gas

Final Decision

The Commission will not set a UAFG target for the 2016-2021 regulatory period. Rather, the Commission will amend AGN's licence to clarify that AGN is required to comply with the Technical Regulator's requirements around managing UAFG.

The level of 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. Accordingly, the Commission has clarified that monitoring UAFG is a safety matter, removed its UAFG target and clarified that AGN is required to comply with any UAFG management requirements set by the Technical Regulator.

4.2.1 Stakeholder feedback

AGN submitted that there was no strong reason to maintain a UAFG target as it had managed to achieve the UAFG target well ahead of time, despite network growth. It further

⁵⁰ 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>

suggested that the Technical Regulator provided adequate regulatory oversight of its management of UAFG level.

Conversely, the Technical Regulator suggested that a UAFG target should be set for 2016-2021 as, in its opinion, UAFG provides a good indicator of the general condition and performance of the gas distribution network.

4.2.2 Discussion

While the Commission currently sets a UAFG target in its Gas Distribution Code, the Technical Regulator's annual audit process provides the ongoing scrutiny of AGN's compliance with its UAFG Plan (developed as part of its SRMTMP). Further, the Technical Regulator's annual Technical Report⁵¹ publicly reports on various technical, safety and reliability matters.

However, the Commission also currently collects data from AGN on its UAFG management under Gas Industry Guideline 1. This results in a duplication of regulatory reporting requirements and potentially confuses the appropriate regulatory roles for the Commission and the Technical Regulator. While it is appropriate for regulatory oversight of UAFG to occur, the regulatory expertise for monitoring and assessing the level of UAFG in AGN's network lies with the Technical Regulator.

As effective UAFG monitoring and management reaches across several aspects of AGN's network operations,⁵² the Technical Regulator requires greater flexibility to develop an appropriate risk-based scheme than the current UAFG target allows. Accordingly, rather than the Commission setting a UAFG target, it will amend AGN's gas distribution licence to clarify that AGN is required to comply with any UAFG requirements set by the Technical Regulator. This will allow the Technical Regulator to develop an appropriate UAFG management strategy in consultation with AGN.

As this will be a licence requirement, the Commission will continue to have a compliance role where the Technical Regulator forms the view that AGN has not met its regulatory obligations.

⁵¹ Refer <http://www.sa.gov.au/directories/government/other-state-bodies/office-of-the-technical-regulator>

⁵² AGN's analysis identified 17 different components made up the level of UAFG in its Victorian network. It was estimated that only around 9 per cent of UAFG was due to leakage from low pressure mains in its Victorian network. Further, AGN identified eight different activities that it used to manage UAFG, grouped broadly into leaks management (including but not limited to mains replacement) and metering accuracy management. Zincara concluded that the approach adopted by the three distributors in estimating the components of UAFG was reasonable. Refer Essential Services Commission of Victoria, *Review of UAFG Benchmarks: Final Decision*, June 2013, available <http://www.esc.vic.gov.au/getattachment/ea41bf1e-5772-49a9-a487-5224883f8d80/Final-Decision-Gas-Distribution-System-Code.pdf> and Zincara, *Review of gas distribution businesses unaccounted for gas*, April 2013, available <http://www.esc.vic.gov.au/getattachment/571e90eb-fd3e-4a5a-9f7b-6f7c67cc4803/Zincara-UAFG-Final-Report.pdf>

4.2.3 *Final Decision*

The current UAFG target that directly links UAFG with mains replacement activities will not be continued for the 2016-2021 regulatory period. To give effect to this decision, the Commission will:

- ▲ amend clause 8 of AGN's gas distribution licence to clarify that AGN is required to comply with any safety or technical requirements imposed from time to time by the Technical Regulator in relation to UAFG (including, but not limited to obligations under its SRMTMP)
- ▲ 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 Industry Guideline 1.

5. MONITORING CUSTOMERS EXPERIENCING POOR RELIABILITY

Final Decision

AGN will be required to report to the Commission on customers experiencing poor reliability. This will focus on customers experiencing multiple interruptions and customers experiencing long duration interruptions.

While AGN's network is highly reliable, and customers did not express a willingness to pay for improvements to current reliability levels, it is important to identify whether any customers are experiencing poor reliability, relative to AGN's average performance. However, the Commission does not want to create an incentive for AGN to focus on improving only the worst performing segments of its network; expenditure should have reference to the value customers place on reliability improvements. Therefore, identifying the poorly performing segments of AGN's network is a necessary pre-condition to introducing an appropriately targeted GSL scheme in the future (refer Chapter 6).

5.1 Stakeholder feedback

In response to the Draft Decision, AGN provided its support for the proposed reporting regime rather than introducing a GSL Scheme at this time. It submitted that the reporting requirements incorporate the following definitions to capture customers experiencing poor service:

- ▲ customers experiencing multiple interruptions – the number of customers with five or more interruptions within a year where the interruption is unplanned and caused by operator actions, third party damage or asset condition, and
- ▲ customers experiencing long duration interruptions – the number of events within a year where a gas supply is not restored within 12 hours and where the interruption is unplanned and caused by operator actions, third party damage or asset condition.

AGN proposed that reporting against such measures be on an annual basis rather than quarterly.

5.2 Discussion

The Commission notes that AGN's proposed definitions of customers experiencing poor service are consistent with its reporting requirements in Victoria. The Victorian GSL scheme was introduced on 1 July 2003. The ESCV's main objective for the GSL scheme is to improve service and reliability levels to the worst served customers, for areas of service that customers consider to be important⁵³ As a result of a low number of GSL payments being

⁵³ Essential Services Commission Victoria, *Gas Access Arrangement 2008-2012, Final Decision*, March 2008, available https://uemg.com.au/media/29044/finaldtr_fullfinaldecision_gaar200812public_20080305.pdf, pp. 181-184.

made by distributors, the ESCV made adjustments to the GSL scheme to apply for the 2008-2011 access arrangement period. This included:

- ▲ extending the GSL scheme from residential customers to include small business customers
- ▲ introducing an appointment window of two hours for the date agreed with the customer
- ▲ tightening the requirement for connections to occur within one business day of the agreed date rather than two business days
- ▲ reducing the multiple interruptions threshold from six interruptions to five, increasing the payment amount and introducing an additional payment for any customer experiencing 10 or more interruptions, and
- ▲ increasing the payment amount for customers experiencing an interruption of 12 hours, introducing an additional payment for customers experiencing an interruption of 18 hours or more and excluding third party events impacting large diameter mains affecting more than 50 customers.

Victorian data for the period 2009-2011, shows that AGN reported low numbers against each measure (Table 5.1).

Table 5.1:GSL payments made to Customers experiencing multiple and long duration interruptions in AGN’s Victorian distribution network, 2009-2011

	2009	2010	2011
Customers with 5 or more interruptions	15	108	94
Customers with 10 or more interruptions	0	2	0
Customers with interruptions of greater than 12 hours but less than 18 hours	84	180	208
Customers with interruptions of greater than 18 hours	95	n.a.	151

Source: AER, March 2013⁵⁴

AGN does not currently record the same data for its South Australian network. However, AGN has expressed a preference for consistent reporting across jurisdictions to potentially minimise its costs and minimise areas of potential confusion, including within its business, when making comparisons across its different networks.

⁵⁴ AER, *Victorian Gas Distribution Business Comparative Performance Report 2009-2011*, March 2013, available <https://www.aer.gov.au/sites/default/files/Victorian%20gas%20distribution%20businesses%20-%20comparative%20performance%20report%20-%202009-2011.pdf>

While AGN's proposed reporting would be consistent with its reporting requirements in Victoria, adopting the Victorian scheme was not supported by participants in AGN's stakeholder engagement program (refer section 6.1). This may suggest that customers in South Australia value different aspects of AGN's service. 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.

The Commission is prepared to accept AGN's proposal to report on the number of customers experiencing an interruption with a restoration time of greater than 12 hours. However, as stated earlier, AGN has advised that, in South Australia, customers can expect to experience a one-hour unplanned loss of supply about once in every 46 years. In this context, five interruptions per annum appears to be too high a benchmark to set.

5.3 Final Decision

To monitor customers experiencing poor reliability outcomes, AGN will be required to report to the Commission annually on:

- ▲ the number of customers experiencing multiple interruptions within a year,⁵⁵ and
- ▲ the number of customers experiencing long duration interruptions.⁵⁶

Any reporting on poor performance needs to take into account that the cause of the interruption may be outside of AGN's control. For example, the recent interruption to AGN's customers in Port Pirie and Whyalla was due to an issue on Epic Energy's⁵⁷ gas transmission pipeline, which meant that AGN had to wait until the upstream gas supply was restored before it could commence restoring service to its customers.⁵⁸ Accordingly, AGN's reporting will need to exclude customers experiencing interruptions caused by transmission faults, upstream events, faults in customers' gas installations or other third party events.

AGN's performance will be assessed against its average historical performance, with explanations required for any material changes from longer term average performance outcomes. The results of this assessment will be publicly reported by the Commission.

⁵⁵ Defined as the number of customers that have two or more interruptions within a year where the interruption is unplanned and caused by operator actions, third party damage or asset condition.

⁵⁶ The number of events within a year where a gas supply interruption is not restored within 12 hours and the interruption is unplanned, caused by operator actions, third party damage or asset condition.

⁵⁷ Epic Energy South Australia Pty Ltd is the owner and operator of the Moomba to Adelaide Pipeline System and the South East Pipeline System. Epic Energy's gas transmission pipelines provide gas transportation services for customers in the electricity generation, gas distribution (i.e. AGN) and industrial sectors. Refer <http://www.epicenergy.com.au/>

⁵⁸ In April 2015, there was a rupture in the Moomba to Adelaide gas transmission pipeline owned and operated by Epic Energy. As customers in Port Pirie and Whyalla are served by the same lateral pipeline that runs off the Moomba to Adelaide gas transmission pipeline, AGN's customers in Port Pirie and Whyalla experienced an interruption to their gas service lasting around five days. Refer <http://www.epicenergy.com.au/news.php?newsid=60>.

6. GUARANTEED SERVICE LEVEL SCHEME

Final Decision

The Commission will not introduce a Guaranteed Service Level Scheme for the 2016-2021 regulatory period.

The main objective of a GSL Scheme is to improve service and reliability levels to the worst served customers, where it is cost effective for the distributor to do so. A GSL Scheme should be designed to address areas of service that customers consider to be important. Further, GSL payment amounts must be set at a level that provides an incentive for the distributor to improve performance. The GSL payments made by the distributor are a form of liquidated damages paid for not meeting any pre-determined service level, as set out in the standard contract it has with each customer.

While GSL payments are made in recognition of poor service, the payments are 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.⁵⁹

A GSL Scheme does not currently apply to AGN South Australian operations and the Commission will not introduce a GSL Scheme for the 2016-2021 regulatory period.

6.1 Stakeholder feedback

AGN's initial submission noted 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 participants 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.⁶⁰ The Victorian GSL Scheme provides payments to customers in the following service areas:

- ▲ not attending to agreed appointment times

⁵⁹ 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.

⁶⁰ AGN's cost per customer estimate was based on its costs for administering the Victorian GSL Scheme.

- ▲ not connecting a 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 GSL 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 already likely to provide adequate compensation.

In responding to the level of broad support for some form of customer compensation scheme, 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 introducing a 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 make goodwill payments to individual customers who have been unreasonably inconvenienced or impacted by poor service.⁶¹ 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.

6.2 Discussion

While AGN's stakeholder engagement identified a level of support for a compensation scheme for customers that experience loss, damage or inconvenience, participants did not feel that the GSL payment amounts in Victoria provided adequate compensation. Further, while participants were not in favour of adopting the Victorian GSL Scheme in South Australia, participants did not identify any areas of service where GSL payments should be made by AGN for not meeting customers' expectations.

A GSL Scheme could be designed to provide a financial incentive for AGN to improve the service provided to its worst served customers where it is cost effective to do so. While GSL payments are 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

⁶¹ AGN currently provides payments to individual customers who have received service which is below an acceptable level. AGN will acknowledge the situation and, as a gesture of goodwill, offer those impacted a shopping voucher or similar. The value of any such gesture is determined on a case-by-case basis, having regard to the nature of the issue and the impact to the customer. AGN made goodwill customer service payments to around 20 customers in 2014-15.

payments and undertaking capital and/or operational expenditure to address any causes of poor performance, thereby avoiding the need to make the GSL payments on an ongoing basis.

On the issue of compensation, it is important to recognise that a payment made under a GSL Scheme is not intended to be a form of insurance-like compensation. Rather, a GSL payment is a form of liquidated damages paid by AGN for not meeting an agreed service level. The GSL payments made to individual customers are a form of “goodwill” customer service payments to recognise, but not specifically quantify, the inconvenience caused to individual customers by poor service.

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, payments made in excess of the amount allowed for in the Access Arrangement should be at AGN’s cost, as AGN should face a “penalty” for poor performance that is within its control to manage. Likewise, payments below the amount allowed for in the Access Arrangement would be to AGN’s benefit and incentivise improved performance.

However, as set out in Chapter 5, AGN does not currently collect the data required to identify customers experiencing multiple interruptions within a year or long-duration interruptions. Identifying the magnitude of any potential issue is a necessary pre-condition to developing a well-targeted GSL Scheme for AGN.

6.3 *Final Decision*

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, and
- ▲ data identifying customers experiencing poor service

the Commission will not introduce a GSL Scheme for AGN for the 2016-2021 regulatory period.

7. NEXT STEPS

The Commission will amend AGN's gas distribution licence, the Gas Distribution Code, the Gas Metering Code and Gas Industry Guideline 1 to reflect the decisions on the final jurisdictional service standards by the end of 2015. The amended framework will apply from 1 July 2016.

Further, this Final Decision will form an input into the AER's determination of AGN's gas distribution prices for South Australian customers for the 2016-2021 regulatory period. The Commission's reporting requirements under this Final Decision should not have a material cost impact for AGN.



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