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Submitted via webform: https://engage.vic.gov.au/unaccounted-for-gas-benchmarks-review-2022

Unaccounted for Gas Benchmarks Review – Draft Determination

AGL Energy (AGL) welcomes the opportunity provide feedback to Essential Services Commission's (the Commission) Unaccounted for Gas (UAFG) Benchmarks 2022 Review Draft Determination, dated 26 October 2022.

AGL supports the proposed changes put forward in the UAFG Benchmarks Draft Determination, including minor drafting amendments to the Gas Distribution System Code of Practice (GDSCoP), the extension of the current benchmarks until 30 June 2023 (transitional arrangements) and the new UAFG benchmarks proposed for the 1 July 2023 to 30 June 2028 period.

The Draft Decision raises that the introduction of hydrogen into Victoria's natural gas distribution systems within the next 12-18 months will gradually alter the gas mixture and heating values over time, which we believe will have flow on implications for measuring the wholesale volumes of gas and billing for end use customers.

In our submission to the 'Extending the national gas regulatory framework to hydrogen blends and renewable gases' Consultation, we noted that "…The difference between hydrogen and natural gas is such that it takes [for example] approximately 3.3 cubic meters of hydrogen to match the energy of one cubic meter of natural gas, so a 10% hydrogen blend would equate to a 25% increase in gas volume for the same energy… In the absence of any adjustments, hydrogen blends will provide less energy for consumers at the same volume, leading to an increase in costs for participants that purchase gas on a volumetric basis (i.e., most customers)"[1]. While the extent to which this will impact UAFG and require amendments to subsequent benchmarking calculations is yet to be seen, the Commission should proactively consider the types of data it will need and mechanisms it can use to analyse and address this matter in the future.

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[1] AGL Energy, Submission to the 'Extending the national gas regulatory framework to hydrogen blends and renewable gases' Review, 26 November 2021, p2.

Another change to the Victorian gas market as part of the introduction of Distribution Connected Facilities is the move from a State-Wide Average Heating Value (HV) to a Zonal Heating Value which is expected to provide more granularity to be applied to Tariff V customers. AGL expects that the introduction of Zonal HV will impact UAFG to some degree, and this will also need to be considered when evaluating UAFG in the next period.

It is important that the Commission determine how it will assess the impact that the injection of hydrogen and Zonal HV will have on the UAFG benchmarks at the onset. Such issues can become much more complex to unwind and resolve once the gas mix changes and this may have a considerable and adverse impact on consumer bills and industry cost allocations. In the context of the evolving gas landscape, the Commission should start to consider the data that it will require from gas distributors and Distribution Connected Facilities as well as how and when the Commission will procure this information to be enable it to assess the UAFG impact. This will be particularly relevant if the Commission can no longer rely on nine years of historical data from Gas Distribution Businesses to calculate UAFG as the introduction of gas blends into the mix could substantively change the actual performance of the UAFG and the associated benchmarking requirements.

We believe that it is appropriate and necessary for the Commission to undertake an early analysis of the data types that it will require for UAFG benchmark calculations as Distribution Connected Facilities begin to be established and the process to bring heating values into a zonal model comes into effect.

In the past, AGL has experienced substantial delays with the existing process resulting in AGL receiving 10 years' worth of UAFG settlements data which took significant time, effort, and resources to reconcile and resolve. To address inefficiencies in the current UAFG reconciliation process, AGL recommends that the Commission introduce a new obligation under Clause 2.4 – *Unaccounted for gas* of the GDSCoP that requires Gas Distribution Businesses to periodically communicate with Gas Transmission Businesses for the purposes of reconciling the gas received at transfer points into non-DTS networks. Changes to other instruments will also be needed to allow the Gas Transmission Businesses to provide that data to the Distribution Businesses.

The Commission may also wish to consider imposing a limitation of three years for DNSPs to invoice UAFG from the time that any participant lodges a request for the UAFG review. Factors such as data loss and variances in the value of gas over time mean that extensive delays before commencing the reconciliation process are overly burdensome for the retailer to settle and resolve. AGL would prefer a more timely reconciliation process which is in line with the wholesale costs of commodity.

If you would like to discuss any aspect of AGL's submission, please contact Valeriya Kalpakidis at [redacted].

Yours sincerely,

Con Hristodoulidis

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AGL Energy