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Submitted via Engage Victoria; and

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Dear Sarah

### **Submission to Gas Distribution System Code of Practice review issues paper**

AusNet appreciates the opportunity to engage with the Essential Services Commission (**Commission**) and comment on the proposed changes to the Gas Distribution System Code of Practice (**GDSCoP**) and Gas Distribution Licences (**GDL**). We appreciate the engagement to date and the time the Commission has spent discussing the changes with industry.

The making of the GDSCoP is an important reform to implement the Gas Substitution Roadmap<sup>1</sup> and administrative changes, including updates to align with National Gas Rules (**NGR**) amendments and repealing the Gas Industry Guideline 17. We understand the reform does not intend to introduce any major policy changes, other than creating a regulatory environment that supports the implementation of the Gas Substitution Roadmap. In line with this understanding, we consider the revised GDSCoP should:

- create fair and balanced obligations for connecting new customers;
- establish workable arrangements to abolish connections with no long-term gas consumption; and
- reflect the anticipated shift by customers from gas to electricity networks, by reducing the burden of regulatory obligations for gas networks.

While we support the administrative change objectives in the issues paper, we recommend giving priority to the Gas Substitution Roadmap by addressing the issues listed above.

The below sections of this letter outlines in more detail our position on these matters.

#### **Fair and balanced obligations for connecting new customers**

Presently, the GDSCoP uses assumptions in the economic feasibility test in determining the connection cost re-imburement paid to property developers that connect new housing estates to the gas network. Of these assumptions, the following result in higher contributions to property developers than otherwise justified by an economic assessment:

- incremental operating and maintenance costs in the GDSCoP in reference to July 2006 dollars are lower than current costs;
- the 10 percent limit on incremental overheads does not reflect current outsourcing and logistics arrangements and is lower than current costs; and
- the period of analysis should not be prescribed.

We suggest changes to discontinue these constraints that can create inefficient cross subsidisation of new residential estates connecting gas to ensure continued efficient outcomes for both connecting and existing

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<sup>1</sup> <https://www.energy.vic.gov.au/renewable-energy/victorias-gas-substitution-roadmap>

customers. Instead, all the assumptions should align with the distributor's approved access arrangement, where they are and continue to be specified. Where assumptions are not mandated in the access arrangement, these should be left to the discretion of the distributor, thereby allowing gas policy changes to be dynamically reflected.

### **Workable arrangements to abolish connections with no long-term gas consumption**

As identified in the issues paper, the GDSCoP does not define a disconnection, nor does it describe the difference between a disconnection and an abolishment in setting out the conditions when disconnections can occur. The new GDSCoP should remedy this omission by defining both terms.

However, the more substantive issue that needs addressing is allowing a distributor to disconnect and abolish supply at premises that have not consumed gas for years. Disconnecting and abolishing long standing unused service lines is a matter of public safety – distributors should not have to ask Energy Safe Victoria (**ESV**) for a direction to disconnect or abolish a single service line.

One of the outcomes of the Gas Substitution Roadmap is likely to be an increase in service lines that will become unused, including potentially unused small sections of the shared network. To safely manage these circumstances, we recommend amendments to the GDSCoP that allows gas distributors to disconnect and/or abolish service lines that have been unused for years. Those amendments should also provide clarity on the retirement of unused mains lines. The exact period of time should be considered in reference to the learned experience of Australian gas distributors (e.g., EvoEnergy in the ACT abolishes unused connections after 1 year) and consulted upon in the draft determination. We suggest 3 years as a reasonable starting point.

### **Reflect the anticipated shift from gas to electricity with a declining burden of regulatory obligations for gas**

A key objective of the Gas Substitution Roadmap is to transition customers from natural gas to electrical appliances. Over time, this will lead to existing gas customers leaving the gas network or reducing their reliance on gas appliances. That makes gas more a fuel of choice than ever before, with fewer customers relying on gas as an essential service. In reviewing the GDSCoP compliance and reporting obligations, it is therefore imperative the civil penalty and reporting conditions for gas supply is focused and targeted, and does not mirror the quantum of electricity civil penalties. Rather, we suggest the burden of regulation for gas networks should be reduced to reflect the greater level of choice that customers have.

Similarly, the GDSCoP should take a proportionate and targeted approach to gas life support obligations and processes. Since the introduction in 2020 of gas life support provisions in Victoria and nationally, the number of customers registered as needing gas life support equipment has grown from approximately a hundred to more than 3,000 customers. This number continues to grow exponentially as dual fuel customers register with their retailer as life support customers for both fuel types (often the easiest option for both the customer and retailer even if life support equipment is not reliant on gas supply). With the growing number of registered life support customers, our risk exposure to civil penalties is therefore growing.

Maintaining compliance with gas life support civil penalty obligations for this rapidly growing number of customers who cannot demonstrate a medical need for preferential support will require increasingly more resources and investment to improve our processes to deal with higher volumes and data to ensure our actions do not breach our obligations under the GDSCoP. The additional workload includes checks for every newly registered gas life support customer, investigations into potential breaches, management time in breach reporting and resources required to respond to information requests.

In recognition of the loss of scale efficiencies in gas distribution, it is essential to balance the number of civil penalties with service and cost outcomes for the customers remaining on the gas network. To ease the burden of higher civil penalty risk of more obligations and registered life support customers on those remaining customers, we recommend new provisions in the GDSCoP that allow distributors to take pro-active steps to keep life support customer registers up to date, including requesting medical confirmation every year and stronger obligations on customers to provide the appropriate documentation. When the registered process owner (typically the retailer) does not receive the medical confirmation at the end of the medical confirmation process, the GDSCoP (and/or the Energy Retail Code) should require the supply address to be deregistered, as opposed to the current obligations that allow discretion.

Additionally, to reduce the rapid growth in gas life support register numbers, we recommend the introduction of a specific amendment in the updated GDSCoP to require any dual fuel life support registration must have specific medical advice of independent gas and electricity needs (e.g., medical requirement for gas heating and medical requirement for electricity supplied breathing apparatus).

### **Important administrative changes**

We acknowledge and support the objectives in the issues paper to align with NGR amendments, removing references to heating values, updates to the GDL and repealing the Gas Industry Guideline 17. The changes to align with the NGR and remove references to heating values support the enablement of renewable gas in distribution network. Appendix A below includes further feedback on these administrative changes.

AusNet has considerable lived experience in providing services to meet the needs of our gas and electricity customers, under the GDSCoP and the Electricity Distribution Code of Practice. We would appreciate the opportunity to work with the Commission when developing the drafting the GDSCoP draft and final determination.

If you have any further queries on this submission, please do not hesitate to contact Justin Betlehem or [REDACTED] or via email at [REDACTED]

Yours sincerely



Tom Hallam  
GM Regulation (Transmission and Gas)  
**AusNet**

# Appendix A: Response to questions raised in the issues paper

Question asked in the issues paper response	AusNet's response
<b>1. Overall, do you support the scope of our proposed review of the code?</b>	<p>We, in principle, support the scope of the proposed review. However, we consider that it is missing an assessment of whether the current gas life support obligations are suitable for gas networks and whether new civil penalty obligations are justified.</p> <p>The effect of the Gas Substitution Roadmap is existing gas customers will leave the gas network and other gas customers will reduce their reliance on gas appliances. In the coming decade, customers will need to make choices to re-invest either renewable gap compatible or electric appliances.</p>
<b>2. Are the proposed criteria in our assessment framework appropriate?</b>	No comments
<b>3. Do you consider the current connections framework for gas retail customers appropriate? Why or why not?</b>	<p>As outlined in the above submission, we support amendments to the current connection framework for gas retail customers as the current assumptions create unjustified levels of cross subsidisation to land developers. Growing gas networks at expense of existing customers is not aligned with the objectives of the Gas Substitution Roadmap.</p>
<b>4. What options should we consider when reviewing the connections framework for gas retail customers?</b>	<p>We suggest removing the following assumptions, the following result in higher contributions to property developers than otherwise justified by an economic assessment:</p> <ul style="list-style-type: none"><li>• incremental operating and maintenance costs in the GDSCoP in reference to July 2006 dollars are lower than current costs;</li><li>• the 10 percent limit on incremental overheads does not current outsourcing and logistics arrangements and lower than current costs; and</li><li>• the period of analysis should not be prescribed.</li></ul> <p>All the assumptions should align with the distributor's approved access arrangement that is approved every 5 years, where they are and continue to be specified.</p>

**5. Do you agree with the introduction of obligations to provide information to customers about changes in the type of gas supplied?**

We, in principle, agree with the introduction of obligations to provide information to customers about changes in the type of gas provided. However, the transition to renewable gas is likely to start gradually. Customers downstream of distributed connected facilities injecting renewable gas blend (producing a mix gas natural gas, and hydrogen and/or biogas) will likely have very low compositions of renewable gases at the customer's premises (less than a few percent). Notifications at this stage may be perceived negatively– at low renewable gas compositions (i.e. less than 10%) existing appliances will not be impacted and not be noticeable by customers.

Therefore, we recommend limiting obligations in the revised GDSCoP for providing information to customers for which the changes in the type of gas supplied consist of a gas blend with peak yearly gas compositions of greater than 10% renewable gas. However, we would likely advise customers at lower renewable gas compositions to demonstrate transparency and as a means of promoting renewable gas adoption. The 10% threshold should be seen as a maximum threshold.

**6. Are there other options to introducing equivalent obligations proposed for the National Energy Retail Rules that we should consider?**

As discussed in the response to question 5, we recommend limiting obligations in the revised GDSCoP for providing information to customers for which the changes in the type of gas supplied consist of a gas blend with peak yearly gas compositions of greater than 10% renewable gas. However, we would likely advise customers at lower renewable gas compositions to demonstrate transparency and as a means of promoting renewable gas adoption. The 10% threshold should be seen as a maximum threshold.

**7. Should we remove the overlap of metering obligations in the code and in Part 19 of the National Gas Rules?**

We support the removal of the overlap of metering obligations in the code and in Part 19 of the National Gas Rules.

**8. What options to the regulation of metering requirements for non-declared distribution systems should we consider?**

We suggest that a schedule of applicable non-DTS distribution system requirements is the best way to retain the necessary metering requirements in these areas.

**9. Do you consider that the current arrangements for deemed distribution contracts and customer obligations results in uncertainty for customers and industry that is burdensome or harmful?**

We agree that the current approach to deemed distribution contracts creates confusion for customers and distributors alike. Clause 11 is often misread as a list of prohibitions on customers. However, it is properly interpreted as simply a list of matters dealt with by the that a deemed distribution must not be inconsistent with. Consequently, unless a distributor has a direct contractual relationship with a customer (which is rare in the case of residential and small business customers), a distributor has no mechanism to impose obligations on customers or enforce its rights directly. In AusNet's experience, this has been particularly troublesome in cases of illegal gas use or where a customer has bypassed the meter.

<p><b>10. Should we include customer obligations and prohibitions in the code?</b></p>	<p>We support the introduction of direct obligations on customers in the GDSCoP, similarly to the approach in the EDCoP. We encourage the Commission to consult with industry and consumer representatives about the nature and scope of those obligations.</p> <p>Nevertheless, we consider the deemed distribution contract has an important place in the gas regulatory framework, and we encourage the Commission to include all necessary provisions in the GDSCoP to support the operation of section 48 of the GIA.</p>
<p><b>11. Do you have any views on the removal of Part D of Schedule 1 from the code?</b></p>	<p>We would support the removal Part D of Schedule 1 from the GDSCoP to streamline changes needed for the introduction of distributed connected facilities that supply a blend of renewal gases. AEMO's Wholesale Market Metering Procedures (Victoria) are adequate to establish the new heating value approach and manage compliance.</p>
<p><b>12. Do you have any views on the removal of Schedule 3 from the code?</b></p>	<p>We would support the removal Schedule 3 from the GDSCoP to remove this duplication with Energy Safe Victoria's regulations.</p>
<p><b>13. Are any clarifications needed in relation to disconnection and reconnection obligations?</b></p>	<p>As outlined in the above submission, we support amendments to define both disconnections/abolishments.</p> <p>Importantly, we recommend amendments to the GDSCoP that allows gas distributors to disconnect and/or abolish service lines that have been unused for years (as an initial proposal we suggest 3 years).</p>
<p><b>14. Should we specify clearer timeframes for when Guaranteed Service Levels payments must be made?</b></p>	<p>We are supportive of aligning the gas Guaranteed Service Levels (GSLs) timeframes with electricity GSLs timeframes, but we do not support amendments that require GSL payments in these timeframes a civil penalty obligation. The anticipated shift in customers from gas to electricity networks should reduce the burden of regulatory obligations for gas networks.</p>
<p><b>15. Are there any further consequential changes to the code required due to the recent amendments to the National Gas Rules relating to distribution connected facilities?</b></p>	<p>No comments at this stage</p>
<p><b>16. What factors should we account for when considering our role in the framework for setting unaccounted for gas benchmarks in Victoria?</b></p>	<p>We caution against including climate change mitigation objectives as a factor in determining UAFG benchmark targets. Fugitive emissions and other gas network losses are already included in the National Safeguard Mechanism. Making climate change mitigation a factor in the factor when the Commission sets UAFG benchmark targets would double charge gas distribution businesses for losses – costs that may result in higher costs to customers.</p>
<p><b>17. What factors should we consider when assessing whether or not to assign obligations in the code as civil penalty requirements?</b></p>	<p>In our above submission, we raised the need to reflect the anticipated shift from gas to electricity with a declining burden of regulatory obligations for gas. We believe there is no case to increase the number of civil penalty obligations.</p>

**18. Do you have any views on our proposed approach in relation to compliance and performance reporting obligations?**

In our above submission, we raise the need to reflect the anticipated shift from gas to electricity with a declining burden of regulatory obligations for gas.

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**19. Can you identify any other changes we may need to make as a consequence of remaking the Gas Distribution System Code of Practice?**

No comments at this stage

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**20. Are there any other issues we should consider as part of this review?**

We have considerable lived experience at providing services to meet the needs of our gas and electricity customers, under the GDSCoP and the Electricity Distribution Code of Practice. We understand that gas planned and unplanned interruptions are much less frequent than electricity planned and unplanned interruptions. Additionally, it is our experience that the severity of customer hardships is less for gas interruptions than for electricity interruptions.

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