

# Gas Distribution System Code of Practice review

Draft decision

15 November 2023

## Acknowledgement

We acknowledge the Traditional Owners of the lands and waterways on which we work and live.

We acknowledge all Aboriginal and Torres Strait Islander communities, and pay our respects to Elders past and present.

As the First Peoples of this land, belonging to the world's oldest living cultures, we recognise and value their knowledge, and ongoing role in shaping and enriching the story of Victoria.

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# Summary

## Modernising Victorian gas rules in the long-term interests of consumers

The Essential Services Commission is proposing a new Gas Distribution Code of Practice which will provide a fairer and clearer framework for gas network customers. The proposed new code addresses some key risks posed by the energy transition to achieve climate action targets and enables us to better monitor compliance and enforce obligations on gas distributors.

### New Gas Distribution Code of Practice

We are proposing a shorter name for the new Gas Distribution Code of Practice, omitting the term 'system' from its current name.

The key changes proposed in the new Gas Distribution Code of Practice are:

- a new connections framework which requires the full efficient costs of new connections to be funded by new customers<sup>1</sup>
- clear distinctions between disconnections and abolishments
- requiring distributors to publish or provide specific information to customers
- removing the duplication of metering obligations in the National Gas Rules
- clarifying basic customer obligations when using the gas network
- specifying obligations on Victorian gas distributors as civil penalty requirements
- updating compliance and performance reporting obligations.

### Addressing inefficient incentives for new gas connections

We propose to remove inefficient incentives for future gas connections.

Unlike electricity and water connections in Victoria, most gas connections currently do not require upfront payments. The current approach results in all gas customers contributing to the cost of new connections (paid through network tariffs), even though new connections may be unlikely to repay

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<sup>1</sup> Our draft decision proposes that full efficient costs comprise the sum of: (i) the cost of purchasing and installing the dedicated facilities to that customer; and (ii) the cost of augmentation of the shared distribution system which may be required to support the additional load resulting from the connection service.

the cost of connection over time due to the anticipated reduction in gas use as we approach net-zero emissions.

We aim to address the inefficient incentive to connect by requiring a new customer to pay upfront charges to cover the full costs of installing a new connection and of any necessary changes to the distribution system to serve that customer. This would bring regulations for new connection charges closer to customer experiences for new electricity and water connections.

These proposed changes also come at a time of structural and policy change for gas networks. Fossil gas has historically had high uptake in Victoria particularly from residential and commercial customers. However, to achieve Victoria's net-zero emissions goals, a key focus for the state government will be on transitioning residential and most commercial buildings to electric appliances and implementing energy efficiency measures. The Victorian Government declared that planning permit applications for new homes and residential subdivisions lodged after 1 January 2024 will not allow a connection to gas networks.<sup>2</sup> However, as explained further in this draft decision, substantial numbers of new connections to the gas network could still go ahead over the next few years. Incentives for electrification are also being introduced, to prompt more households and businesses to adopt all-electric systems.<sup>3</sup>

We expect that our changes will help reduce the extent of the stranded assets in the Victorian gas network at the margin. In the transition to electrification, there is a risk that new customers might switch to all-electric systems before gas distributors are able to fully recover the costs associated with those new connections to the network. This risk of stranded assets has been recognised by gas distribution companies and by the Australian Energy Regulator (AER) through the approval of accelerated depreciation proposals which total \$333 million between the three major gas distributors in Victoria for the 2023–2028 period.<sup>4</sup>

We note that recent Victorian Government regulatory and expenditure decisions and our proposed changes may reduce the forecasted revenue of gas distributors under their current access arrangements. If the reduction is material, we expect distributors would seek a negative pass through from the Australian Energy Regulator (AER) on their current access arrangements. This

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<sup>2</sup> '[Victoria's Gas Substitution Roadmap](#)', Department of Transport and Planning, accessed 26 October 2023.

<sup>3</sup> New all-electric homes are cheaper to run and reduce carbon emissions, see: '[Embracing electricity to cut your bills at home](#)' and '[Victorian new build emissions forecast](#)', Department of Energy, Environment and Climate Action, accessed 26 October 2023.

<sup>4</sup> See: AER, '[Final decision: AusNet Gas Services Gas distribution access arrangement 1 July 2023 to 30 June 2028 - Overview](#)', June 2023, p. 8; AER, '[Final decision: Multinet Gas Networks Gas distribution access arrangement 1 July 2023 to 30 June 2028 - Overview](#)', June 2023, p. 8; AER, '[Final decision: Australian Gas Networks \(Victoria & Albury\) Gas distribution access arrangement 1 July 2023 to 30 June 2028 - Overview](#)', June 2023, p. 8.

## Summary

would allow the AER to account for changes in forecasted demand and adjust distributors' approved revenue midway through their regulatory period. This will ensure that consumers benefit from any material cost or revenue reductions arising from our decision.

### Updating the code for effective compliance monitoring and enforcement

We are proposing to update obligations on gas distributors to align the code with recent regulatory developments and to allow the use of the commission's new enforcement powers.

A new code will promote more effective compliance monitoring and enforcement by the commission. This requires us to remove obligations which are duplicated in other instruments, update outdated provisions and to list provisions in the code as civil penalty requirements.

We also propose to update gas distribution licences to align them with the new Gas Distribution Code of Practice and to make consequential changes to the Energy Retail Code of Practice.

Table 1 summarises the key changes proposed in the new Gas Distribution Code of Practice compared to the current Gas Distribution System Code of Practice.

**Table 1: Summary of our draft decision**

Draft decision	Summary of the commission's proposals
<b>Operation of the distribution system</b>	No major changes. We propose to clarify timeframes for Guaranteed Service Level (GSL) payments.
<b>Connections and connection charges</b>	We propose a new framework for connection obligations and connection charges. The new framework removes the requirement for distributors to connect customers residing in the minor or infill extension area and requires new customers to pay the full upfront costs of new connections.
<b>Disconnection and reconnection</b>	We propose to differentiate between disconnections and abolishments and to set basic obligations to abolish connections when requested by a customer or a retailer.
<b>Metering provisions</b>	We propose to remove the duplication between metering provisions in the code and in Part 19 of the National Gas Rules. Provisions which have no equivalent in the National Gas Rules (related to error limits and minimum pressure) will be retained. Distribution systems not connected to the declared transmission system (non-DTS) will continue to be

	required to comply with the same metering requirements as those connected to the declared transmission system (DTS).
<b>Interruptions / curtailment</b>	No major changes. We propose minor drafting amendments to clarify these obligations.
<b>Customer complaint handling</b>	No major changes. We propose minor drafting amendments to clarify these obligations.
<b>Deemed distribution contract requirements</b>	We propose to redraft obligations which distributors can include in deemed distribution contracts as customer obligations. Concurrently, we propose to require distributors to notify customers who may be non-compliant with their obligations, specifying actions customers can take to remedy such non-compliance.
<b>Civil penalty requirements and reporting requirements</b>	To allow effective compliance monitoring and enforcement, we propose to list more obligations as civil penalty requirements and reportable breaches. Obligations for gas distributors currently contained in our Compliance and Performance Reporting Guideline will be moved into a schedule of the new code.
<b>Additional provision of information obligations</b>	<p>We propose new obligations on provision of information by gas distributors by requiring them to publish information on their websites about:</p> <ul style="list-style-type: none"> <li>• new connections and connection charges</li> <li>• disconnections, reconnections and abolishments</li> <li>• unaccounted for gas</li> <li>• customer complaint handling.</li> </ul> <p>We also propose to add an obligation on distributors to notify customers of any future changes to the type of gas provided through their networks and to publish information on their websites about changes to the type of gas provided.</p>



## Further work on longer-term reforms

While this draft decision addresses key changes which we consider need to be made in the short term, we have identified other issues related to our code which intersect with evolving government policy and gas regulatory reforms. We intend to collaborate with government, other regulators, customers and industry to advance those reforms and address these issues, including:

- Removing barriers and improving processes for customers who wish to permanently disconnect from the gas network.
- Reviewing the Victorian framework for the management of unaccounted for gas and our role in setting unaccounted for gas benchmarks.
- Reviewing technical requirements for operating gas networks to account for decreasing gas demand.

## Summary of questions for stakeholders

We welcome stakeholder views and feedback on the following questions and any other issues related to this draft decision or the draft code of practice.

**Table 2: Summary of questions for stakeholders**

Questions for stakeholders	
1.	Do you agree with the proposed introduction of upfront charges for new gas connections? Are there any implementation costs, advantages or disadvantages to the options considered that we should take into account? Please discuss.
2.	Should the proposed code be more specific about how distributors calculate the costs of a new connection, as an upfront charge to customers? If so, how?
3.	Do you agree with the proposed implementation of new connection charges to begin from 1 January 2025? Please discuss.
4.	Do you agree with the proposed definitions and processes for disconnection and abolishment? Please discuss.
5.	Do you agree with the proposed new provision of information obligations for gas distributors? Please discuss.
6.	Do you agree with our proposed amendments to remove duplication with other regulatory instruments and to streamline the code? Please discuss.
7.	Do you agree with the removal of the overlap of metering requirements between our code and the National Gas Rules? Should we retain the requirements in clause 7 on meter accreditation, certification and testing? Please discuss.

8. Do you have any feedback on our proposed compliance and performance reporting requirements? Please discuss.
9. Do you have any feedback on our proposed variations to gas distribution licences? Please discuss.
10. Can you identify any other changes to codes of practice, guidelines, licences or other instruments we may need to make as a consequence of the proposed Gas Distribution Code of Practice?
11. Are there any issues with implementing the proposed Gas Distribution Code of Practice that we should consider?
12. Do you have other comments, feedback or suggestions about our draft decision or the proposed new code?

## Indicative timeline

We consider that the amendments to the code must be made before 1 May 2024, so that the code does not conflict with changes made to the National Gas Rules which take effect on that date and with proposed changes to the Victorian Declared Wholesale Gas Market and Retail Market.<sup>5</sup>

The key dates for this review are as follows:

- Draft decision consultation: 14 November to 21 December 2023
- Final decision: expected Q1 2024
- New code to take effect: 1 May 2024 (pending stakeholder feedback).

## How to give us your feedback

Submissions should be made via [Engage Victoria](#) by **5 pm on 21 December 2023**.

Submissions will be published on the commission's website, except for any information that is commercially sensitive or confidential, in accordance with our [Submissions Policy](#). Submissions should clearly identify which information you consider to be sensitive or confidential, and the basis for your claim.

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<sup>5</sup> Those changes will allow facilities which produce, blend and inject other gases into distribution networks to participate in Victoria's gas market. See the Australian Energy Market Commission's (AEMC) [distribution connected facilities rule change](#) and the Australian Energy Market Operator's (AEMO) [Amendments to Victorian Declared Wholesale Gas Market and Retail Market -1 May 2024 release](#), accessed 26 October 2023.

We are also open to meeting with individual stakeholders to discuss specific feedback. You can provide your feedback by making general comments over email, mail or phone:

- **Email:** [energyreform@esc.vic.gov.au](mailto:energyreform@esc.vic.gov.au)
- **Mail:** Essential Services Commission, Level 8, 570 Bourke Street, Melbourne Victoria 3000
- **Phone:** +61 3 9032 6290

If English is not your first language, please contact TIS National on 131 450 and ask to talk to the Essential Services Commission on 1300 664 969.

We will continue to proactively engage with the community, industry, government departments and agencies through individual meetings as this review progresses.

# 1. Introduction

## The need to remake the Gas Distribution System Code of Practice

We must review and remake the Gas Distribution System Code to:

- allow us to use our new legislated powers for effective compliance monitoring and enforcement
- update the connections framework to keep pace with legislative and regulatory developments
- ensure the code is compatible with other regulatory changes.

### Allowing effective compliance monitoring and enforcement

Our new enforcement framework was implemented by the *Essential Services Commission (Compliance and Enforcement Powers) Amendment Act 2021* (Compliance and Enforcement Powers Act). It provides the commission with a broader range of enforcement options and investigative powers appropriate for a modern regulator. These include powers to obtain information, documents, or search warrants and the ability to examine witnesses on oath, as well as to issue penalty notices and begin civil litigation or criminal prosecution.

As a result of this new enforcement framework, our energy codes have transitioned to ‘codes of practice’. This means that they are now subordinate legislative instruments and no longer applied only as a condition of licences or exemptions. Since 2021, we have been remaking our codes of practice so that we can effectively monitor compliance and enforce the obligations in them.

The Gas Distribution System Code of Practice currently contains few provisions listed as civil penalty requirements and few reporting requirements for gas distributors.<sup>6</sup> Further, the Compliance and Enforcement Powers Act requires us to review and remake the code before the end of 2025.<sup>7</sup>

To align the code with our new enforcement framework, we are remaking the code and specifying obligations on gas distributors as civil penalty requirements. Reporting requirements currently in our Compliance and Performance Reporting Guideline are proposed to be moved into a schedule of the new Gas Distribution Code of Practice. This will consolidate obligations imposed on gas distributors in a single instrument, facilitating compliance and oversight.

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<sup>6</sup> These are limited to life-support equipment provisions and to the obligation to make Guaranteed Service Levels (GSL) payments. See clause 1.6 of the Gas Distribution System Code of Practice (version 16).

<sup>7</sup> See sections 50 and 76(3) of the *Essential Services Commission Act 2001*.

## Regulatory changes and the need for an updated connections framework

Victoria's [Gas Substitution Roadmap](#), released in July 2022, set a path for how the gas sector can help our state to achieve net zero emissions. It outlines measures to address energy efficiency, electrification and the use of hydrogen and biogas. More recently, the Victorian Government announced a [phase out of gas for new homes](#). This means that new homes requiring a planning permit will be required to be all-electric for planning permit applications lodged after 1 January 2024.

At a federal level, the Future Gas Strategy consultation paper highlighted the need to reduce domestic gas demand faster than supply to support the decarbonisation of the Australian economy and to promote Australia's energy security and affordability.<sup>8</sup>

A key development in broader energy regulation is the inclusion of an emissions reduction objective into the national energy objectives.<sup>9</sup> This has prompted regulators to begin addressing how they will apply the updated national electricity and gas objectives. The Australian Energy Market Commission (AEMC) has started several consultations on applying this emissions reduction objective.<sup>10</sup> The Australian Energy Regulator (AER) has also recently released a guidance on the amended national energy objectives and is considering how these objectives might affect its regulatory determinations on gas distribution service providers.<sup>11</sup>

These recent developments have started to address some of the challenges of regulating gas networks during the energy transition. In this context, we consider that our code must keep pace with developments in the broader energy landscape to facilitate a successful transition. One key regulatory issue to address is a current inefficient incentive for new gas connections.<sup>12</sup>

Unlike electricity and water connections in Victoria, most residential gas connections currently do not require upfront payments. This approach provides an inefficient incentive to the expansion of the gas network and no longer aligns with regulatory developments that support a transition to

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<sup>8</sup> Department of Industry, Science and Resources, [Future Gas Strategy: Consultation paper](#), 3 October 2023, p. 1.

<sup>9</sup> See Parliament of South Australia, [Amendment \(National Energy Laws\) \(Emissions Reduction Objectives\) Act 2023](#), accessed 26 October 2023.

<sup>10</sup> See '[AEMC begins consultation on applying emissions reduction in national energy objectives](#)', AEMC, accessed 26 October 2023.

<sup>11</sup> See '[AER releases guidance on amended National Energy Objectives](#)' and the '[Gas distribution network tariffs review 2023](#)', AER, accessed 26 October 2023.

<sup>12</sup> See the recent report by the Grattan Institute: Tony Wood, Alison Reeve and Esther Suckling, [Getting off gas: Why, how, and who should pay?](#), June 2023, p. 19: 'Every house added to the gas network is one which will later need to be taken off it. There is little point trying to encourage homes to upgrade to all-electric if new connections to the gas network continue to grow'.

electrification.<sup>13</sup> We propose a new connections framework which will require new customers to pay the full upfront costs of gas connections. This will marginally reduce the extent to which the cost of future stranded assets may fall on customers who have more barriers to disconnect from the gas network, such as lower-income households and renters.<sup>14</sup>

### Making the code compatible with other regulatory changes

The Australian Energy Market Commission (AEMC) has recently concluded two reviews which have implications for our code:

- the [review into extending the regulatory frameworks to hydrogen and renewable gases](#) <sup>15</sup>
- the Declared Wholesale Gas Market (DWGM) [distribution connected facilities rule change](#).<sup>16</sup>

The upcoming changes to the National Gas rules will allow facilities which produce, blend, store and inject gases (including renewable gases) into distribution systems to participate in Victoria's gas market. Changes were also made to restructure and strengthen the gas metering framework which applies to gas distributors in Victoria.

The Australian Energy Market Operator (AEMO) has also been reviewing its procedures to align them with the changes to the National Gas Rules which will take effect next year.<sup>17</sup> These procedures interact with some obligations in our code related to metering requirements and unaccounted for gas.<sup>18</sup>

To prevent conflicts between regulatory instruments and to streamline regulation, we propose changes to the code so that it aligns with changes made by the AEMC to the National Gas Rules and changes proposed by AEMO to its procedures.

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<sup>13</sup> The [Gas Substitution Roadmap](#) and other studies have consistently shown that in the short to medium term electrification coupled with energy efficiency improvements to be the lowest-cost option for decarbonising homes and built environments. See, for example: CSIRO & Climateworks Centre, [Multi-sector energy modelling 2022: Methodology and results: Final report](#), December 2022; ANZ and EEC, [Putting Energy Efficiency to Work](#), May 2023; and Australian Sustainable Built Environment Council (ASBEC), [Unlocking the pathway: Why electrification is the key to net zero buildings](#), December 2022.

<sup>14</sup> On the barriers to moving off gas faced by lower-income households, see Brotherhood of St Laurence, [Enabling electrification: addressing barriers to moving off gas faced by lower-income households](#), July 2023.

<sup>15</sup> The implementation of the rules proposed by this review has progressed with the recent introduction of the [Statutes Amendment \(National Energy Laws\) \(Other Gases\) Bill 2023](#) in the South Australian Parliament.

<sup>16</sup> AEMC, [Rule determination: National Gas Amendment \(DWGM Distribution Connected Facilities\) Rule 2022](#), 8 September 2022.

<sup>17</sup> '[Amendments to Victorian Declared Wholesale Gas Market and Retail Market -1 May 2024 release](#)', AEMO, accessed 26 October 2023.

<sup>18</sup> AEMO, [Wholesale Proposed Procedure Change \(PPC\) - Hydrogen and Distribution Connected Facilities rule changes](#), 15 September 2023, p. 17.

We are also proposing to update definitions and provisions in the code and to remove metering obligations which largely overlap with those in the National Gas Rules. This will avoid conflict between regulatory instruments and result in a more streamlined regulatory framework.

## **Stakeholder engagement to date**

In late March 2023, we released an issues paper and invited the public to answer questions covering the key areas for potential reform. The six-week consultation period closed on 4 May 2023.

We received 20 submissions to the issues paper. Submissions came from a range of stakeholders, including gas distribution companies, gas retailers, industry peak bodies, consumer protection groups and community and climate action groups, as well as individuals.

We held a public stakeholder information session in April 2023 and published a [consultation summary](#) highlighting what we heard from stakeholders. Throughout this review, we have also engaged directly with stakeholders, including with industry, community groups, other regulators and government agencies.

There is almost unanimous support from stakeholders for some level of reform to update the code, for various reasons. Most stakeholders noted the importance of updating the code to support Victoria's Gas Substitution Roadmap and to align the code with recent changes to the National Gas Rules.

We also noted broad support to update definitions and to clarify the differences between disconnections and abolishments. Several stakeholders raised the need to review the rules on new gas connections and the methodology for calculating new customer contributions. Other themes raised by stakeholders related to potentially clarifying customer obligations in the code and establishing direct relationships between customers and gas distributors. Some stakeholders also raised concerns about the need for additional reporting by gas distributors of unaccounted for gas, and in particular of gas leaks in distribution networks.

## **Incorporating stakeholder feedback**

Stakeholder feedback has been central to this draft decision and to the drafting of the proposed new Gas Distribution Code of Practice. In the subsequent chapters we summarise what we heard from stakeholders on each topic, how we considered their submissions, and the justifications for our draft decision. We seek further comment on our draft decision and on the new code to inform our final decision.

## Our assessment framework

In exercising our power to make a new code of practice, our objective is to promote the long-term interests of Victorian consumers.<sup>19</sup> For this draft decision, we have applied an assessment framework based on our legislative framework, which includes the following criteria:

Promoting the long-term interests of Victorian energy consumers	
<b>Quality, price and reliability of gas services</b>	Do the proposed code changes provide a clear allocation of roles and responsibilities in relation to the quality and reliability of the supply of gas?  Would the proposed code changes have unjustified effects on the price and affordability of gas services?
<b>Incentives for efficiency</b>	Do the proposed code changes promote efficiency in the delivery of gas distribution services?  Are the costs and benefits of proposed code changes appropriately allocated between distributors, retailers and consumers?
<b>Appropriate protections for consumers</b>	Do the proposed code changes provide appropriate and effective consumer protections?
<b>Health, safety, environmental and social factors</b>	Do the proposed code changes sufficiently consider any relevant health, safety, environmental and social legislation?
<b>Decarbonisation</b>	Do the proposed code changes support the decarbonisation of the energy market and the achievement of Victoria's climate action targets?
Regulatory and implementation considerations	
<b>Proportionality</b>	Are the proposed code changes targeted, fit for purpose and proportionate to the issues they address?
<b>Clarity</b>	Do the proposed code changes promote clarity for businesses, customers and regulators, supporting effective compliance monitoring and enforcement?

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<sup>19</sup> Section 8 of the *Essential Services Commission Act 2001*.



<b>Consistency</b>	Do the proposed code changes promote consistency in regulation between States and between the Victorian and national frameworks, as well as between electricity and gas regulation (where appropriate)?
<b>Flexibility</b>	Are the proposed code changes flexible enough to adjust to changing market conditions and to future policy developments?

Stakeholders expressed broad support for our proposed assessment framework. Community climate action groups stated that the assessment framework should refer more explicitly to the emissions reduction commitments of the Victorian Government. We have taken this into account by considering reform options which explicitly refer to [Victoria's climate action targets](#) commitment to reach net-zero emissions by 2045.

### Assessing costs and benefits

We have analysed the costs and benefits of potential reforms to help inform our draft decision. We considered different options for reform and considered the costs and benefits to consumers and industry of each option, including how costs and benefits would be allocated.

### Considering other regulatory options for reform

We considered whether any other regulatory instruments (for example, guidelines or licence conditions) would be suitable alternatives to a code of practice. To better understand the range of regulatory options and their respective costs and benefits, we also examined different approaches to the scope and content of a new code of practice.

The commission has a range of options in regulating the behaviour of gas distributors. The *Gas Industry Act 2001* and the *Essential Services Commission Act 2001* allow us to address gas distribution issues through a code of practice, which has advantages in terms of the compliance and enforcement mechanisms at our disposal. The Gas Distribution System Code of Practice is such a code.

The Gas Distribution System Code of Practice operates as part of a larger regulatory framework alongside several other state and federal regulatory instruments (the National Gas Rules, Ministerial Orders, AEMO's gas market procedures, gas distribution licences and gas distributors' access arrangements) which refer to its provisions or depend on the code for the regulation of gas distribution in Victoria.

Other instruments such as guidelines or licence conditions are unlikely to function with the current regulatory framework nor allow us to apply our new enforcement framework to obligations that gas distributors must follow. As guidelines cannot set statutory obligations, they cannot compel a duty holder to undertake an action. While licence conditions may set a compliance obligation, these

conditions would have to be established for each individual licensee. This is not as accessible or as efficient as housing obligations within a single code of practice that can regulate enforceable obligations for different types of activities related to gas distribution.

The Gas Distribution System Code of Practice, as it stands today, is set to expire on 31 December 2025.<sup>20</sup> Because of the reasons above, we consider that each of the viable regulatory options that would address the problems set out in our issues paper and in this draft decision involve the remaking of the Gas Distribution System Code of Practice as an enforceable code of practice.

### **Assessing potential reforms against current obligations (the base case)**

A key objective of our review of the Gas Distribution System Code of Practice is to remove duplication and streamline existing obligations. Many of the reforms relating to this objective arguably lead to a reduction in regulatory burden and cost.

We also specifically assessed the proposed reform of the connections framework, and additional information provision and reporting requirements. We consider that the costs and benefits were only incremental to the base case of no changes to current obligations.

### **Assessing and comparing options of proposed changes**

To help inform our draft decision, specifically for a new connections framework and additional information provision and reporting requirements, we considered and compared the costs and benefits of various options for reform in these areas.

We considered three options for introducing a new connections framework. We considered the costs and benefits of each of these options against three different scenarios. We also considered the difference in costs experienced by new and existing customers resulting from the options.

We also qualitatively considered the costs and benefits of two options for reforming information provision and reporting requirements.

## **Structure of this report**

We have structured this report into the key topics and obligations in the proposed Gas Distribution Code of Practice. Each chapter includes a discussion of the current framework and issues, stakeholder views, an analysis of options we considered, and our proposed changes in the form of draft decisions.

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<sup>20</sup> Section 76(3) of the *Essential Services Commission Act 2001*.

Chapter	Topics
<a href="#">Chapter 1</a>	Introduction
<a href="#">Chapter 2</a>	Connection obligations and connection charges
<a href="#">Chapter 3</a>	Disconnections and abolishments
<a href="#">Chapter 4</a>	Provision of information requirements
<a href="#">Chapter 5</a>	Guaranteed service levels, customer obligations, metering requirements, customer complaint handling, heating values
<a href="#">Chapter 6</a>	Life-support obligations and unaccounted for gas
<a href="#">Chapter 7</a>	Civil penalty requirements and reporting obligations
<a href="#">Chapter 8</a>	Gas distribution licences
<a href="#">Chapter 9</a>	Gas Industry Guideline No. 17 and Energy Retail Code of Practice
<b>Annex A</b>	Draft Gas Distribution Code of Practice
<b>Annex B</b>	Comparison table of GDSCOP (v 16) and GDCOP (v 1)
<b>Annex C</b>	Proposed variations to gas distribution licences
<b>Annex D</b>	Proposed template gas distribution licence
<b>Annex E</b>	Consequential amendments to the Energy Retail Code of Practice

Introduction

## **Next steps**

The following items are now open for consultation:

- our draft decision (contained in this paper)
- the proposed new Gas Distribution Code of Practice
- the proposed gas distribution licence variations.

We will consider feedback from stakeholders in our final decision, which is expected in early 2024.

## 2. A new framework for new connections and connection charges

The current code sets out a framework for new gas connections that provides inefficient incentives for customers to connect to the gas network, particularly when compared to the electricity and water sector. New gas residential customers largely receive gas connections with no upfront charges (despite electricity and water customers paying for new connections upfront).

The use of the gas network is also changing, and recent Victorian Government regulatory and expenditure decisions have set out a pathway for electrification. Our draft decision is to reform the framework for new connections by:

- removing the obligation to connect customers in the minor or infill extension area
- providing more flexibility for gas distributors to assess requests for new connections which may involve extensions or augmentation of the gas network
- requiring gas distributors to charge new customers the full costs of new connections upfront.

### **Removing the obligation to connect customers in the minor or infill extension area**

#### **Current framework and issues**

The current framework for retail gas connections in Victoria is set out in clause 3 of the Gas Distribution System Code of Practice. Under this clause, a distributor must connect a customer to the gas network when requested to do so, provided certain requirements are met.<sup>21</sup>

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<sup>21</sup> The customer must have a contract with a retailer for the purchase of gas (or with the distributor for the haulage of gas), comply with regulatory requirements, and provide a notice of installation or completion from a gas installer when requested. See clause 3.1(a) of the Gas Distribution System Code of Practice (version 16).

A distributor must also connect a customer residing within a one-kilometre radius from distribution mains on fair and reasonable terms and conditions.<sup>22</sup> This obligation was premised on the efficiency of the continuous expansion of gas networks to urban fringes.

The current regulatory arrangements for gas networks, in particular the amendments to the planning requirements and other measures part of the Gas Substitution Roadmap, no longer support this view. For this reason, in our issues paper we proposed to review this obligation on gas distributors.

### Stakeholder views

Most stakeholders agreed with the proposal to review this obligation and there was no opposition to its removal.

For example, Momentum noted that:

[...] the distributor obligation under the existing Gas Distribution System Code (the Code) to extend the reticulated network up to one kilometre upon request should be deleted as it is inconsistent with the Gas Substitution Roadmap objectives.<sup>23</sup>

Gas distributors generally requested more flexibility for assessing connection requests.<sup>24</sup>

Community and climate action groups stressed the need to review the existing framework, which they considered as inappropriate. They suggested the removal of obligations to connect new customers who reside within the minor or infill extension area. For example, Brotherhood of St Laurence stated:

Current requirements to connect new customers to the gas network on request should be removed from the Code, given their original rationale no longer applies (gas is no longer a cheap option for new homes), and given that expenditure to accommodate growth adds to the cost and risk borne by existing consumers.<sup>25</sup>

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<sup>22</sup> Clause 3.1(c) of the Gas Distribution System Code of Practice (version 16).

<sup>23</sup> Momentum, submission to the 'Gas Distribution System Code of Practice review: Issues Paper', 26 April 2023, p. 2.

<sup>24</sup> AGIG, submission to the 'Gas Distribution System Code of Practice review: Issues Paper', 4 May 2023, p. 2; AusNet, submission to the 'Gas Distribution System Code of Practice review: Issues Paper', 4 May 2023, pp. 1-2.

<sup>25</sup> Brotherhood of St Laurence, submission to the 'Gas Distribution System Code of Practice review: Issues Paper', April 2023, p. 1.

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## Analysis

Considering recent government regulatory developments and almost unanimous stakeholder views, we consider removing the obligation to connect customers in the minor or infill extension area a non-controversial decision.

The obligation may also clash with upcoming changes to the Victorian Planning Provisions which will require new homes and subdivisions to be all-electric.

We also agree that distributors should have broader grounds for assessing requests for new connections, including for rejecting requests for new connections which may not be technically feasible, inconsistent with the safe and reliable supply of gas to customers, or which may involve further extensions or augmentation of the gas network. This would provide gas distributors with greater discretion when assessing connection requests which may require the growth of current distribution systems, allowing them to better manage such risks.

Removing the obligation to connect customers in the minor or infill extension area means there will no longer be a presumption that gas networks will continue to expand indefinitely. This aligns with the long-term interests of Victorian energy consumers by supporting the decarbonisation of the energy market and Victoria's climate action targets.

## Draft decision

Our draft decision is to remove the obligation to connect customers in the minor or infill extension area.

In its place, we are proposing that gas distributors will have an obligation to connect a customer who requests a connection only if the connection would involve minimal or no extension or augmentation of the distribution system. Other conditions for new connections are proposed to be retained, such as the requirement that customers' gas equipment complies with regulatory requirements. Gas distributors will also be able to refuse a new connection if it is not technically feasible or inconsistent with the safe and reliable supply of gas to customers.

## Addressing inefficient incentives for new gas connections

### Current framework and issues

Schedule 2 of the current code provides a guidance on the charges distributors are allowed to impose for new connections.

The current framework for calculating connection charges is based on an economic feasibility test. This test assumes that if the incremental revenue expected from a new customer will typically be

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higher than the incremental cost of connecting the customer, and so the distributor cannot impose a connection charge (also known as a customer contribution). As a result, in practice most Victorian residential gas connections occur without any charge to the customer. This is not the case for new electricity and water connections in Victoria, where the customer would usually pay some of the costs for the installation of new assets upfront.

### **Regulatory changes on new gas connections in Victoria**

Recent developments are expected to affect the number of new customers connecting to gas networks. As a result of the regulatory and funding changes announced as part of the Gas Substitution Roadmap, gas distributors have forecast that fewer houses in new developments will connect to the gas network, and houses that do connect may have lower gas consumption per house. More importantly, in the course of our review, the Victorian Government announced on 28 July 2023 that planning permits lodged after 1 January 2024 for new homes and residential subdivisions will not be allowed to connect to gas networks. These changes will apply to all new homes requiring a planning permit, including new public and social housing.<sup>26</sup>

The effects of the announced ban on new gas connections are expected to take some time to materialise. Several new developments will still be able to connect to gas networks, including those that:

- have lodged an application for a planning permit prior to 1 January 2024
- do not require a planning permit
- are for commercial and industrial customers.

Other forthcoming changes are also expected to impact the number of new gas connections, including the phasing out of incentives for fossil gas residential appliances through the Victorian Energy Upgrades program and the increase of minimum energy efficiency building standards for new homes from 6 to 7 stars under changes to the National Construction Code which will take effect on 1 May 2024.<sup>27</sup>

### **Gas connections and the energy transition**

The original purpose of the current framework for connections was to facilitate new gas connections, given the state's historical use of cheap fossil gas. This purpose no longer serves the long-term interests of Victorian consumers. Gas distribution in Victoria has changed as:

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<sup>26</sup> '[Victoria's Gas Substitution Roadmap](#)', Department of Transport and Planning, accessed 26 October 2023

<sup>27</sup> '[7 star energy efficiency building standards](#)', Department of Energy, Environment and Climate Action, accessed 26 October 2023.

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- Victorian fossil gas production continues to decline.<sup>28</sup>
- Fossil gas prices have risen significantly and wholesale energy prices remain elevated and volatile.<sup>29</sup>
- The Victorian Government has committed to achieving net-zero emissions by 2045.<sup>30</sup>
- The use of fossil gas must ultimately shrink to meet net-zero targets.<sup>31</sup>
- Electrification and energy efficiency will play a dominant role in reducing residential and commercial gas use this decade.<sup>32</sup>
- Renewable gas is unlikely to have a substantial role in residential and most commercial buildings.<sup>33</sup>

## Stakeholder views

Many stakeholders suggested that the current obligations on new connections and connection charges need to be reviewed to align them with Victoria's Gas Substitution Roadmap.<sup>34</sup>

Gas distributors requested more flexibility when assessing requests for new connections. AGIG considers the current framework appropriate but stated that the code could give distributors broader grounds for assessing a connection request.<sup>35</sup> AusNet indicated that the assumptions under the current economic feasibility test (for operational expenditure, overheads, and period of

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<sup>28</sup> AEMO, [Victorian Gas Planning Report](#), March 2023, p. 5.

<sup>29</sup> Department of Energy, Environment and Climate Action, [Victoria's Renewable Gas Consultation Paper](#), September 2023, p. 36.

<sup>30</sup> [Climate action targets: Ambitious targets guiding Victoria to net-zero by 2045](#), Department of Energy, Environment and Climate Action, accessed 26 October 2023.

<sup>31</sup> A number of groups and institutions suggest that achieving net-zero targets will require a phase out of fossil gas: Grattan Institute, op. cit., p. 3; Environment Victoria, [Gas sector emissions and Victoria's new 2035 climate targets](#), March 2023, p. 18; Independent Expert Panel for the Victorian 2035 Emissions Reduction Target, [Victoria's 2035 Climate Target: Driving Growth and Prosperity](#), March 2023, p. 9; European Academies Science Advisory Council (EASAC), [The Future of Gas](#), May 2023, pp. 1-3; International Energy Agency, [World Energy Outlook 2022](#), November 2022, pp. 365-408.

<sup>32</sup> Department of Energy, Environment and Climate Action, [Gas Substitution Roadmap](#), July 2022, p. 12. On the challenges of fully decarbonising gas distribution and consumption through the use of renewable gases such as biomethane and hydrogen and the current limited investment plans of gas distributors, see: Institute for Energy Economics and Financial Analysis (IEEFA): Jay Gordon and Kevin Morrison, [Renewable gas campaigns leave Victorian gas distribution networks and consumers at risk](#), 17 August 2023.

<sup>33</sup> Department of Energy, Environment and Climate Action, [Victoria's Renewable Gas Consultation Paper](#), September 2023, p. 6.

<sup>34</sup> Momentum, op. cit., 26 April 2023, p. 2; Red and Lumo, submission to the 'Gas Distribution System Code of Practice review: Issues Paper', 4 May 2023, p. 1; Bass Coast Climate Action Network, submission to the 'Gas Distribution System Code of Practice review: Issues Paper', 1 May 2023, p. 2; Darebin Climate Action Now, submission to the 'Gas Distribution System Code of Practice review: Issues Paper', 3 May 2023, p. 2; and Lighter Footprints, submission to the 'Gas Distribution System Code of Practice review: Issues Paper', 4 May 2023, p. 1.

<sup>35</sup> AGIG, op. cit., 4 May 2023, p. 2.

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analysis) should be changed and aligned with access arrangements.<sup>36</sup> Gas Networks Victoria supported a framework that allows distributors to charge for costs incurred in relation to a connection.<sup>37</sup>

Retailers have differing views on the appropriateness of the current framework. AGL considers the framework appropriate and considers that there is no need for changes.<sup>38</sup> EnergyAustralia submits that the methodology should result in a user-pays principle, which would result in more relevant costs being presented to newly-connecting customers for their consideration, although not all costs as this might discourage connections.<sup>39</sup> Momentum states that the framework is not appropriate because it is not aligned with the Gas Substitution Roadmap and forecast decline in gas usage. It submits that new gas connections should pay the full cost of both the connection costs and any upstream augmentation that may be required to support the additional load.<sup>40</sup>

Community and climate action groups stressed that customers who choose to connect should bear the full cost of a new gas connection. Environment Victoria stated that:

New customers will enter a network with a shrinking user base and rising costs, and existing customers, who might be looking to electrify in the future, would have to bear the costs of connecting new users to the gas network. [...] In consideration of this we recommend the following: Customers that decide to connect to the gas network shall be required to bear the full cost of connecting to the network.<sup>41</sup>

Bass Coast Climate Action Network, Alan Pears, Lighter Footprints and Friends of the Earth Melbourne all suggested, in a similar vein, that:

The current framework is not appropriate. Those wishing to be connected should pay at market rates, as for electricity connections, and not be subsidised by the whole gas customer base. Free connections and being required to pay for disconnection is inherently wrong – particularly when customers have not and are not being informed of disconnection charges

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<sup>36</sup> AusNet, op. cit., pp. 1-2.

<sup>37</sup> Gas Networks Victoria, submission to the 'Gas Distribution System Code of Practice review: Issues Paper', 4 May 2023, p. 2.

<sup>38</sup> AGL, submission to the 'Gas Distribution System Code of Practice review: Issues Paper', 10 May 2023, p. 1.

<sup>39</sup> EnergyAustralia, submission to the 'Gas Distribution System Code of Practice review: Issues Paper', 4 May 2023, p. 1.

<sup>40</sup> Momentum, op. cit., 4 May 2023, p. 2.

<sup>41</sup> Environment Victoria, submission to the 'Gas Distribution System Code of Practice review: Issues Paper', 3 May 2023, p. 2.

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when they join the network. The current system of free connections effectively incentivises gas when an all-electric home is cheaper to run and has reduced emissions.<sup>42</sup>

Some stakeholders further noted that the current economic feasibility test for calculating connection charges ‘does not take into account the expected transition away from residential gas in Victoria and the associated costs of transitioning or decommissioning the network’.<sup>43</sup> Renew emphasised that fully accounting for the future costs expected by customers at the point of connection would be an important protection for households.<sup>44</sup>

The Property Council of Australia considered that continuous improvement to the connections framework is welcomed and noted that:

Gas has been very heavily promoted in Victoria over the past few decades, but it is a finite resource and cannot be produced from renewable sources. Due to the scarcity of it and the transition to other energy sources, gas is now not so sought after as it once was, particularly in dwellings.<sup>45</sup>

## Analysis

We consider that the existing framework for connection charges currently provides inefficient incentives for new gas connections in Victoria. We propose to address this by introducing upfront charges to customers for new connections.

This change will bring the framework for new gas connections closer in line with electricity and water connections in Victoria. Customers are currently charged between \$600 to \$2,400 for new electricity and water connections. However, new gas connections are largely free upfront (and paid for by all consumers over time through network tariffs). This is shown in table 3.

We note that connection charges for electricity are approved by the Australian Energy Regulator (AER) at pricing proposal reviews and connection charges for water are approved by the commission as part of water price reviews.

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<sup>42</sup> Bass Coast Climate Action Network, op. cit., 1 May 2023, pp. 2-3; Alan Pears, submission to the ‘Gas Distribution System Code of Practice review: Issues Paper’, 4 May 2023, p. 6; Lighter Footprints, op. cit., 4 May 2023, p. 4; Friends of the Earth Melbourne, submission to the ‘Gas Distribution System Code of Practice review: Issues Paper’, 4 May 2023, p. 2.

<sup>43</sup> Renew, submission to the ‘Gas Distribution System Code of Practice review: Issues Paper’, 4 May 2023, p. 1; Alan Pears, op. cit., 4 May 2023, p. 6.

<sup>44</sup> Renew, op. cit., 4 May 2023, p. 1.

<sup>45</sup> Property Council of Australia, submission to the ‘Gas Distribution System Code of Practice review: Issues Paper’, 4 May 2023, p. 3.

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**Table 3: Comparison of average connection charges for residential customers**

Current framework for gas connection charges <sup>46</sup>	Current charges for electricity connections <sup>47</sup>	Current charges for water connections <sup>48</sup>
<p><b>Zero upfront charges</b> for most residential connections.</p> <p>In 2022, connection charges were paid by a proportion of new customers, as follows:</p> <ul style="list-style-type: none"> <li>• 10% in AGN</li> <li>• 16% in Multinet</li> <li>• 40% in AusNet</li> </ul> <p>Remaining customers are charged a connection fee.<sup>49</sup></p>	<p>Charges for all basic new connections vary on average from:</p> <p><b>\$600 to \$900</b></p>	<p>Charges vary depending on the water business and region, being on average from:</p> <p><b>\$700 to \$2,400</b></p>

The introduction of upfront connection charges also aligns with recent legislative and regulatory developments: Victoria’s net-zero emissions goals, the Gas Substitution Roadmap to support the transition to electrification, and the ban on new residential homes connecting to gas networks (for new planning permits lodged after 1 January 2024).<sup>50</sup>

We also note that the current guidance on connection charges is ambiguous, as it only applies:

- to connection requests of customers residing in the minor or infill extension area
- if a customer and a distributor do not agree otherwise
- if a distributor intends to charge a customer for obtaining a connection.<sup>51</sup>

<sup>46</sup> For a new residential connection of service line and meter, where gas supply is available from the street main pipe without the need for extension, the meter location is compliant with minimum clearance requirements, and there is clear access to the property and meter location.

<sup>47</sup> For a new residential connection where the distributor is the metering coordinator, and the customer requests for service during business hours for a supply point with fuses less than 100 amps. Charges vary depending on whether the meter is single phase or three-phase direct connected (DC) meter.

<sup>48</sup> For new customer contribution (standard charge) per lot. Different charges apply depending on the location of the property (urban or rural area, greenfield or infill area, or growth or non-growth area). The charges vary widely among water businesses and the full range of charges is from zero to \$5,000.

<sup>49</sup> The median cost for all new connections (including customers receiving free connections) is \$238–711 per customer.

<sup>50</sup> ‘[Victoria’s Gas Substitution Roadmap](#)’, Department of Transport and Planning, accessed 26 October 2023.

<sup>51</sup> See clause 3.1(c) and (f)(ii) and Schedule 2 of the Gas Distribution System Code of Practice (version 16).

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For example, we noted inconsistencies between AusNet and AGIG networks when calculating customer contributions for new connections, as stated in their public submissions.<sup>52</sup>

We also considered the costs and benefits associated with several options for reforming the connections framework in Victoria. Our analysis shows that the introduction of charges for new connections will lead to net benefits compared to the current framework.

A key benefit is the reduction of carbon emissions by addressing inefficient incentives for new gas connections (leading to a reduction in new gas connections in Victoria).

Our proposed changes also reduce the extent of stranded assets in the Victorian gas network at the margin, as the cost for new connections will be covered upfront rather than over the expected life of the assets. Stranded asset risk arises where customers permanently disconnect from the network before distributors can fully recover the asset costs before the end of life of that asset.

### **Consideration of costs and benefits of proposed options**

In considering reforms to the current connections framework, we have considered three different options for introducing upfront connection charges in Victoria, as follows:

- **Option 1:** Updated economic feasibility test with a 2045 limit on the period of analysis
- **Option 2:** Requiring customer contributions to cover the costs of new connections
- **Option 3:** A hybrid approach

We compared the costs and benefits of these options, and considered stakeholder views, to assist our draft decision of a preferred option. We particularly considered the costs, benefits, advantages, and disadvantages of each option. This included factors such as the ease of implementation, the extent that stranded asset risks are addressed, and customer experience. We separately considered how each option might affect existing and new customers.

Table 4 summarises our assessment for the three options.

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<sup>52</sup> This inconsistency was also noted by Brotherhood of St Laurence in their submission, see: Brotherhood of St Laurence, op. cit., p. 4. In their submissions, while AGIG stated that the current guidance on connection charges remains, in their view, fit for purpose, AusNet suggested that the current assumptions result in higher contributions to property developers than otherwise justified by an economic assessment, creating inefficient cross subsidisation of new residential estates. See: AusNet, op. cit., pp. 1-2; and AGIG, op. cit., p. 2.

**Table 4: Analysis of proposed options for connection charges**

	<b>Option 1:</b> Updated economic feasibility test with a 2045 limit on the period of analysis	<b>Option 2:</b> Requiring customer contributions to cover the costs of new connections	<b>Option 3:</b> Hybrid approach
<b>Description of option</b>	<ul style="list-style-type: none"> <li>The guidance on connection charges in the code would be amended to align its assumptions with those in applicable access arrangements.</li> <li>It would also allow distributors to consider augmentation costs when determining a customer contribution and would remove the current limitations on the calculation of operating expenditure and overheads.</li> <li>This option would prescribe that the expected life of a new connection for the purposes of the economic feasibility test could not be longer than the target year for net-zero in Victoria (2045).</li> </ul>	<ul style="list-style-type: none"> <li>This option would require distributors to charge all customers the full costs of purchasing and installing the necessary gas infrastructure for their connections, including the costs of augmentation works required to connect new developments or individual customers.</li> <li>Connection charges would be based on the direct costs forecast to be incurred by distributors in providing a new connection. The amount of these charges would vary based on factors such as the distance from the gas network, the size of the connection and any additional infrastructure requirements.</li> </ul>	<ul style="list-style-type: none"> <li>This option is a combination of options 1 and 2. It distinguishes between commercial and industrial customers and small customers (such as residential and small businesses). This considers that small customers can more readily rely solely on electric appliances.</li> <li>Residential customers would be required to pay the full costs of new connections while the economic feasibility test would continue to apply to commercial and industrial customers.</li> <li>The economic feasibility test would be updated to align with access arrangements and would have a time limitation to the period of analysis to align with net-zero targets (2045).</li> </ul>
<b>Efficiency in incentives for new connections</b>	<ul style="list-style-type: none"> <li>This change would practically result in gradual increases of upfront charges over time.</li> <li>Full upfront connection charges would only occur after several years. This may lead to a slight reduction in new</li> </ul>	<ul style="list-style-type: none"> <li>New connection charges would be similar to electricity and water.</li> <li>This may also lead to a reduction in new connections compared to current forecasts.</li> </ul> <p>This would be incremental to the reduction in new connections as a</p>	<ul style="list-style-type: none"> <li>New connection charges would be similar to electricity and water.</li> <li>This may also lead to a reduction in new connections compared to current forecasts. We understand that industrial and large commercial customers currently pay the full costs of</li> </ul>

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	<b>Option 1:</b> Updated economic feasibility test with a 2045 limit on the period of analysis	<b>Option 2:</b> Requiring customer contributions to cover the costs of new connections	<b>Option 3:</b> Hybrid approach
	connections compared to current forecasts.	result of the Victorian government's ban.	new connections, and so the differences with option 2 may only be marginal.  This would be incremental to the reduction in new connections as a result of the Victorian government's ban.
<b>Carbon emission reduction benefits</b>	<ul style="list-style-type: none"> <li>Some level of carbon emissions reductions due to lower new connections, with increased reductions only occurring after the first few years of implementation.</li> </ul>	<ul style="list-style-type: none"> <li>Increased carbon emissions reductions compared to option 1, due to lower new connections occurring from 2025 and occurring earlier.</li> </ul>	<ul style="list-style-type: none"> <li>Similar levels of carbon emissions reductions to option 2.</li> </ul>
<b>Advantages</b>	<ul style="list-style-type: none"> <li>Ease of implementation.</li> <li>Promotes consistency with access arrangements.</li> <li>Any costs associated with augmentation to accommodate new connections could be included in the charges calculations, partially limiting potentially inefficient incentives.</li> <li>Flexibility for gas networks to propose to the AER appropriate assumptions.</li> </ul>	<ul style="list-style-type: none"> <li>Helps to avoid existing customers potentially subsidising the connection of new customers.</li> <li>Reduces the extent of future stranded costs at the margin, by bringing forward cost recovery and sharing risks with new consumers.</li> <li>Supports Victoria's net-zero emissions climate action targets.</li> </ul>	<ul style="list-style-type: none"> <li>Recognises a potential difference between residential and C&amp;I customers in their ability to rely solely on electricity.</li> <li>For C&amp;I customers, promotes consistency with the assumptions in access arrangements.</li> <li>For residential connections, helps to avoid existing customers potentially subsidising the connection of new customers.</li> <li>Supports Victoria's net-zero emissions climate action targets.</li> </ul>

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	<b>Option 1:</b> Updated economic feasibility test with a 2045 limit on the period of analysis	<b>Option 2:</b> Requiring customer contributions to cover the costs of new connections	<b>Option 3:</b> Hybrid approach
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>Existing customers will potentially continue to subsidise the connection of new customers for several years, resulting in some stranded assets risk for these new connections.</li> </ul>	<ul style="list-style-type: none"> <li>The upfront nature of the charge may deter otherwise efficient connections. It will also have the effect of reducing the customer base over which fixed charges are set.</li> <li>New customers may question why they should be required to bear a greater burden of the costs upfront than had they applied for a new connection immediately preceding the change.</li> <li>Implementing and managing capital contributions can create administrative complexity for gas networks and regulators.</li> </ul>	<ul style="list-style-type: none"> <li>Complexity of implementation may outweigh the benefits given the phase out of new residential gas connections.</li> <li>Likely to have higher stranded asset risk compared to option 2, particularly for large commercial customers.</li> <li>Implementing and managing capital contributions can create administrative complexity for gas networks and regulators.</li> </ul>
<b>Effect on existing customers</b>	<ul style="list-style-type: none"> <li>Existing customers will continue to subsidise new connections, paid through network tariffs.</li> <li>Its effects would only gradually be felt, and it would have little impact on the number of new residential connections that may go ahead until most new homes and subdivisions are captured by the planning ban.</li> </ul>	<ul style="list-style-type: none"> <li>Reductions in network tariffs, as new connections are no longer subsidised by existing customers.</li> <li>This option would fully shift the risk that the cost of new connections may not be recovered in their expected lifespan onto new customers. This would protect customers who may have more difficulties electrifying their appliances or who choose to remain on gas networks longer.</li> </ul>	<ul style="list-style-type: none"> <li>Reductions in network tariffs, as new connections are no longer subsidised by existing customers</li> <li>While it would reduce the risk of stranded assets for existing customers, it would only do so partially.</li> </ul>

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	<b>Option 1:</b> Updated economic feasibility test with a 2045 limit on the period of analysis	<b>Option 2:</b> Requiring customer contributions to cover the costs of new connections	<b>Option 3:</b> Hybrid approach
<b>Effect on new customers</b>	<ul style="list-style-type: none"> <li>Minimal negative impact for new customers.</li> <li>Tweaks to the economic feasibility test would be unlikely to have a material impact on new customer contributions in the short term.</li> </ul>	<ul style="list-style-type: none"> <li>Medium negative impact for new customers.</li> <li>New customers would be required to pay the full costs of a connection upfront. This impact is expected to be more significant for commercial customers as they are not captured by the planning ban and some may have more difficulty in finding all-electric appliances.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal negative impact for new customers.</li> <li>Its effects would be felt more strongly on residential customers who are already the object of the planning ban and whose connection costs are likely to be lower than commercial customers.</li> </ul>

## Estimated connection charges of the proposed options

New and existing customers will face different costs resulting from upfront connection charges.

Currently, the total cost of new connections is largely funded through haulage tariffs recovered from the wider customer base. This means that most residential connections do not face upfront connection charges. Some customers are charged upfront costs, although this varies between the three major Victorian gas distributors.

Commercial and industrial customers are currently generally charged upfront for new gas connections. These connection charges can vary widely due to factors such as the expected demand, distance from the gas network, the size of the connection and any additional infrastructure requirements.

The options we considered would result in higher upfront charges for new customers.

Table 5 shows a comparison of estimated new connection charges from each proposed option, and current connection charges.

**Table 5: Estimated costs per new connection funded through connection charges (current framework compared to proposed options)<sup>53</sup>**

Customer type	Estimated averages (ranges account for differences between distributors)
<b>Current framework (calculated average connection charges)</b>	
% of total residential connections charged upfront	10–40%
Average value per residential connection	\$238–711
% of total C&I connection charged upfront	13–85%
Average value per C&I connection	\$1,483–26,344

<sup>53</sup> These calculations are based on the AER's current access arrangements for each of the three major Victorian gas distributors (for the 2023–28 regulatory period). The total cost for new connections is provided in distributors' access arrangements and is based on new customer direct costs and augmentation costs, which were portioned between both residential and C&I customers. By deducting customer contributions (also provided in the access arrangements) from the total cost, we were able to estimate the amount covered by current customers. The variation in estimates accounts for differences in forecasts by distributors in the access arrangements. AusNet anticipated significantly greater customer contributions than other distributors, frequently establishing the upper limit of the range in our analysis. Conversely, Multinet and AGN typically set the lower limit. In the 2023-2028 access arrangements final decisions, the total approved forecasts for customer contributions for AGN (\$17.7m) and for Multinet (\$15.0m) are notably lower than those for AusNet (\$76.8m).

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Customer type	Estimated averages (ranges account for differences between distributors)
<b>Option 1: Updated economic feasibility test with a 2045 limit on the period of analysis</b>	
% of total residential connections charged upfront	14–43%
Average value per residential connection	\$332–759
% of total C&I connection charged upfront	17–88%
Average value per C&I connection	\$1,564–27,27 n
<b>Option 2: Requiring customer contributions to cover the costs of new connections</b>	
% of total residential connections charged upfront	100%
Average value per residential connection	\$1,778–2,378
% of total C&I connection charged upfront	100%
Average value per C&I connection	\$7,111–30,993
<b>Option 3: Hybrid approach</b>	
% of total residential connections charged upfront	100%
Average value per residential connection	\$1,778–2,378
% of total C&I connection charged upfront	17–88%
Average value per C&I connection	\$1,564–27,274

### Estimated transfer of costs between existing and new customers

Existing customers would benefit from connection costs being recovered from new customers who connect, leading to reduced average costs for all existing customers.

However, existing customers would lose the distributional benefits from additional volumes from new connections, and average costs associated with existing investments in the network would be higher. This leads to reduction in forecasted revenue for gas distributors under their current access arrangements (the amount of revenue gas distributors can receive from customers).

Gas distributors' revenue is based on forecasts of demand for the regulatory period (and accounts for a deduction in connection charges where applied). However, the current forecasts for new connections do not account for the Victorian Government's announced ban on new connections nor the changes we are proposing – that connecting customers will pay the cost of a connection through a customer contribution, which may result in a decrease in new connections.

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To ensure any material reduced costs or revenue is passed on to consumers, we expect distributors to seek a negative cost pass through from the AER on their current access arrangements. This would allow the AER to account for changes in forecasted demand and adjust distributors' approved revenue midway through their regulatory period. This could lead to a reduction in costs for all customers (through reduced network tariffs).

### **Our preferred option**

Based on our analysis and considerations, our preferred approach is Option 2: requiring customer contributions to cover the full costs of new connections.

We prefer option 2 for the following reasons:

- the anticipated upfront charges for new gas connections are similar to the current upfront charges for electricity and water connections
- it transfers the potential risks of additional stranded assets from existing customers, and from those who may have more difficulties to fully electrify, to new customers who can opt to install all-electric appliances
- it sends clear price signals to customers who may still wish to connect to the gas network
- it applies a single and coherent framework to all new connections and to all types of customers, and
- it more readily aligns with regulatory developments and with net-zero emissions targets.

### **Draft decision**

Our draft decision is to require gas distributors to charge new customers the full costs of new connections upfront.

The new rules for connection charges are proposed to apply from 1 January 2025.

Our draft decision proposes a new connections framework which will reduce ambiguity and apply a simple framework requiring customer contributions to include the full costs of new connections, including of any augmentation that may be required to support the additional load of a new development or of a new individual customer.

Our proposed new provisions on connection charges require distributors to charge customers who request a new connection the sum of:

- the cost of purchasing and installing dedicated assets to that customer
- the cost of purchasing and installing any upstream assets required to support the additional load from a new customer.

A new framework for connection obligations and connection charges

While the new framework departs from the current approach, we consider its estimated benefits to be both quantitatively and qualitatively higher than those costs.

### **Implementation of new connection charges**

The proposed new framework for connection charges is a significant departure from the current rules. We expect that developers, customers, retailers and distributors may need some time to consider its impacts in their planning. For this reason, we consider that the proposed new provisions on connection charges may commence later than the rest of the new proposed code.

An implementation of the new connection charges from 1 January 2025 would provide stakeholders more than a year from this draft decision to consider the impacts of this change in their own planning and in communications with other stakeholders. We also consider that this date would provide enough time for industry to make any necessary adjustments. We seek feedback from stakeholders on whether this proposed implementation date is appropriate, or whether it could be implemented at an earlier date.

#### **Questions for stakeholders**

1. Do you agree with the proposed introduction of upfront charges for new gas connections? Are there any implementation costs, advantages or disadvantages to the options considered that we should take into account? Please discuss.
2. Should the proposed code be more specific about how distributors calculate the costs of a new connection, as an upfront charge to customers? If so, how?
3. Do you agree with the proposed implementation of new connection charges to begin from 1 January 2025? Please discuss.

### 3. Distinguishing temporary disconnections and permanent abolishments

Currently, the code does not contain any definition or processes relating to abolishments (the permanent removal of a gas connection, as compared to a temporary disconnection), despite this being a process that some Victorian consumers are pursuing. We are proposing changes that help clarify distributors' obligations when a customer requests an abolishment.

Our draft decision is to:

- Distinguish disconnection and abolishment and define those terms in the code.
- Set a basic framework for when distributors must abolish a connection:
  - at the direction of a retailer
  - when requested by a customer
  - when directed under the *Gas Safety Act 1997*.

#### Updating the code to distinguish disconnections and abolishments

##### Current framework and issues

The current regulatory framework for disconnections did not envisage that customers would actively want to disconnect from gas networks. Legislation and regulations mainly consider disconnection in a temporary sense – either resulting from customers not paying for an energy bill, or upon a request from a customer.<sup>54</sup> This has been appropriate historically.

In recent years, some customers have been disconnecting from gas networks, often to electrify their home with electrical appliances that can be a substitute for gas appliances. As a result, gas distributors often do not know if a disconnection is temporary, or whether it is from a gas customer who has upgraded to an all-electric home and does not plan to return to the network.<sup>55</sup>

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<sup>54</sup> See sections 48DN-48DW of the *Gas Industry Act 2001*.

<sup>55</sup> Grattan Institute, *op. cit.*, p. 49.

Recent regulatory and funding changes set out in the Gas Substitution Roadmap are likely to increase the number of customers permanently disconnecting from gas networks.

These changes include:

- incentives to help households upgrade to electric appliances
- raising energy efficiency standards of homes
- promoting better understanding of the benefits of switching to efficient electric alternatives.<sup>56</sup>

An increasing number of customers permanently disconnecting from gas networks requires a review of the current regulatory framework.

Some changes have already been made, such as the recent decision by the Australian Energy Regulator (AER) to lower the upfront cost of abolishments for customers. The final decisions of Victorian gas distributors' access arrangements for the 2023–28 period:

- distinguished disconnections and abolishments as two separate ancillary reference services
- set the upfront cost customers can be charged for abolishment at \$220 and made this cost uniform across all three major gas distributors
- determined that the remaining costs of abolishments are to be recovered through distributors' forecast operating expenditure (shared between all customers through gas tariffs).

The AER recognised that this is not a long-term solution. While their decision lowered the upfront cost for individual customers who want to abolish their connections, it also noted that further work needed to determine whether other methods may be more appropriate than individual abolishments. This need would arise from the large number of disconnections that have been forecast as a result of policies to support electrification.<sup>57</sup>

In this draft decision, we propose to update the code to set out the differences between temporary disconnections and permanent abolishments. This will provide more clarity to customers and industry. It will also align the code with access arrangements for the 2023–2028 period.

It is likely that further reform is needed to facilitate customers disconnecting from gas networks safely and affordably. Overall, the current framework may not be compatible with an ongoing migration of customers off the gas network.<sup>58</sup>

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<sup>56</sup> Department of Energy, Environment and Climate Action, [Gas Substitution Roadmap](#), July 2022, p. 2.

<sup>57</sup> AER, [Final decision: AusNet Gas Services Gas distribution access arrangement 1 July 2023 to 30 June 2028 - Overview](#), June 2023, p. 7.

<sup>58</sup> ['Electrified homes are paying for the gas death spiral'](#), Renew Economy, accessed 26 October 2023.

Distinguishing temporary disconnections and permanent abolishments

## Stakeholder views

Stakeholders, representing both consumer groups and industry, strongly supported defining and differentiating disconnection and abolishment in the code:

There are distinct physical and economic differences between a ‘disconnection’ and ‘abolishment’ of gas to a premise. [...] The Code of Practice should make the distinction that exists between these terms clear for industry and consumers to help avoid confusion.<sup>59</sup>

Reliance on the single term ‘disconnections’ in the current version of the code is not sufficiently clear to differentiate between the various customer or retailer-initiated services available to prevent the withdrawal of gas from the connection point.<sup>60</sup>

On disconnections and reconnections, we agree that the framework could be amended. As is clear in our most recent Access Arrangement submissions, disconnections increasingly serve broader purposes than currently envisaged in the Code of Practice. Definitions for disconnections, reconnections and abolishments in the Code could be clarified.<sup>61</sup>

Some stakeholders noted that recently approved access arrangements contained definitions for disconnection, meter removal and service abolishment which could be adopted in the code. They also suggested that customers should have the choice to decide which cessation of supply service they require:

The definitions for disconnection, meter removal, and service abolishment adopted by the distributors in their Access arrangement proposals seem adequate. Nevertheless, the power to decide which cessation of supply service apply in a particular case must be always a prerogative of customers.<sup>62</sup>

We have heard from stakeholders that customers lack clear information on the costs and procedures for disconnections and abolishments.<sup>63</sup> As gas distributors have different costs for disconnections, and until recently for residential abolishments, as well as different processes for these services, stakeholders expressed uncertainty and concern about the lack of clear information

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<sup>59</sup> Energy Consumers Australia, submission to the ‘Gas Distribution System Code of Practice review: Issues Paper’, 5 May 2023, p. 1.

<sup>60</sup> AGL, op. cit., 10 May 2023, p. 2.

<sup>61</sup> AGIG, op. cit., 4 May 2023, p. 2.

<sup>62</sup> Environment Victoria, op. cit., p. 2.

<sup>63</sup> Energy Consumers Australia, op. cit. p. 2.

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from industry.<sup>64</sup> We note that while the costs for disconnection and abolishment services are set by the AER, our draft decision is focused on ensuring that consumers have clear information about those costs.

Other stakeholders such as Environment Victoria, Friends of the Earth Melbourne and Gas Networks Victoria supported clarifying and appropriately defining obligations and responsibilities of distributors, retailers, and consumers in relation to disconnections and abolishments including their associated costs.<sup>65</sup>

Public safety considerations regarding abolishments and disconnections were raised by different stakeholders.<sup>66</sup> AusNet suggested allowing distributors to disconnect and abolish gas connections which have not been used for years without involvement from Energy Safe Victoria.<sup>67</sup> Similarly, Energy Consumers Australia noted that unused and unmaintained gas-filled pipelines presented a safety risk.<sup>68</sup>

Bass Coast Climate Action Network recommended revising the approach to gas abolishments. They considered that current regulations are leading to unsafe situations where customers artificially disconnect by telling their gas retailer they are moving house, thus leaving potentially dangerous, unused live gas lines. They further suggested that abolishment fees could be reduced by the potential for customers 'bulk buying' abolishments where whole streets may wish to abolish connections.<sup>69</sup>

## Analysis

We consider distinguishing disconnection and abolishment in the code as a non-controversial decision. Separately defining these services acknowledges the differences between their costs, processes, safety considerations and the ability to restore gas supply to customers.

As these services are already defined in gas distributors' access arrangements, we consider these definitions should be reflected in our code. We consider this would have no additional costs for distributors or customers as it reflects existing practices. Aligning the code with the access

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<sup>64</sup> Renew, op. cit., 4 May 2023, p. 3; Darebin Climate Action Now, op. cit., p. 4; Alan Pears, op. cit., p. 6; Brotherhood of St Laurence, op. cit., 4 May 2023, p. 5.

<sup>65</sup> Environment Victoria, op. cit., pp. 2-3; Friends of the Earth Melbourne, op. cit., p. 4; Gas Networks Victoria, op. cit., pp. 4-5.

<sup>66</sup> AusNet, op. cit., p. 2; Bass Coast Climate Action Network, op. cit., p. 4.

<sup>67</sup> AusNet, op. cit., p. 2.

<sup>68</sup> Energy Consumers Australia, op. cit., pp. 1-2.

<sup>69</sup> Bass Coast Climate Action Network, op. cit., pp. 4-5.

Distinguishing temporary disconnections and permanent abolishments

arrangements will also achieve consistency with the national regulatory framework and ensure a consistent approach between gas distributors in Victoria.

As we do not set prices for disconnections and 1997 abolishments, there are limits to addressing some stakeholder concerns regarding the costs of these services. These services are also subject to gas distributors' safety obligations under the *Gas Safety Act 1997*, including their safety cases and the obligation to minimise as far as practicable the hazards and risks to the safety of the public and customers arising from gas.

### **Abolishments requested by a retailer, a customer or directed by Energy Safe Victoria**

Having these constraints in mind, we considered the situations where distributors must abolish a connection. These include where distributors are directed by a retailer or when receiving a request directly from a customer. We consider these circumstances reflect current practice.

We understand that the current arrangements often require customers to request an abolishment from their gas retailer, who then issues a service order to the relevant distributor. As a precaution, we consider that the code should clarify that where a retailer directs a distributor to abolish a customer's connection, the retailer must confirm that the customer has informed the retailer that they are the owner of the premises where the connection is to be abolished and that they have been advised of applicable charges and agreed to pay them. The same precaution would apply where a customer directly requests an abolishment from the gas distributor. While this is often not the current practice (except for a small number of large customers), we consider that the code should contemplate this possibility.

A third circumstance where we consider a distributor must abolish a connection is for safety reasons, when directed by Energy Safe Victoria under the *Gas Safety Act 1997*. While that legislation does not explicitly refer to abolishments, it provides broad powers for the safety regulator to direct a person to do anything necessary to make an unsafe gas situation safe.<sup>70</sup>

### **Considering abolishments that are self-initiated by a distributor**

We have also assessed whether distributors should have the option to abolish unused or abandoned connections following a certain timeframe and subject to notification requirements for customers. This issue was raised by AusNet, which raised concerns about its ability to abolish long standing unused service lines as a matter of public safety. AusNet also referred to the experience

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<sup>70</sup> See Part 6 of the *Gas Safety Act 1997*.

of EvoEnergy in the Australia Capital Territory (ACT) abolishing unused gas connections after one year.<sup>71</sup>

We considered the possibility of allowing distributor-initiated abolishments for connections which have been disconnected for three or more years. However, we identified three issues with this type of abolishment.

Firstly, some stakeholders raised concerns that allowing distributors to proactively initiate abolishments could create incentives for customers to leave unused gas connections in anticipation that the distributor would eventually abolish them. Secondly, other stakeholders raised concerns about ensuring consistent processes. Customers who request an abolishment must certify that they are the owner of the premises. Allowing distributors to initiate abolishments would require processes to ensure that an abolishment is not carried out without the consent of the owner of the premises (even if a tenant has had gas disconnected for some time). Thirdly, there are longer-term concerns about how distributor-initiated abolishments would be funded. The recent access arrangements included a true-up mechanism for small customer (residential) abolishment costs to adjust the cost of abolishments recovered by distributors through haulage tariffs.<sup>72</sup> As these costs are socialised and spread through the wider customer base, we consider that allowing distributors to self-initiate abolishments may deepen the equity concerns with how these costs are recovered.

We were also unable to confirm the practice in the ACT of abolishing unused gas connections after one year, which was raised by AusNet. We understand that the gas distributor in the ACT has a different approach to dealing with unused gas connections, which does not align with abolishments as we propose to define the term in our code. We consider that further engagement and analysis is needed on this matter. Given the risk of potential unintended consequences, we consider it would be premature to set the circumstances where distributor-initiated abolishments are allowed in the code.

### **Clear information for customers on disconnections and abolishments**

One of the key concerns raised by customers and stakeholders throughout this review refers to the lack of clear information about the different forms of abolishment or disconnection. Gas distributors currently provide prominent information on their websites about getting connected to gas networks,

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<sup>71</sup> AusNet, op. cit., p. 2.

<sup>72</sup> AER, [Australian Gas Networks \(Victoria & Albury\) Gas distribution access arrangement, 1 July 2023 to 30 June 2028: Final decision: Attachment 9 – Reference tariff setting](#), June 2023, p.8.

Distinguishing temporary disconnections and permanent abolishments

but customers have found it difficult to find clear information about getting disconnected or having their connections abolished.

The Department of Energy, Environment and Climate Action (DEECA) has recently published a [factsheet](#) to assist customers disconnecting from gas.<sup>73</sup> We consider that this information should be provided by gas distributors in a format that is clear and helpful for customers. This is explained in more detail in chapter 4 on new provision of information and reporting obligations.

### Draft decision

Our draft decision proposes to distinguish and define what a disconnection and an abolishment is in our code. These definitions reflect current practices and will bring the code up to date with the latest access arrangements.

We are also proposing to set basic obligations for gas distributors to abolish a connection when:

- directed by a retailer
- requested by a customer
- directed to do so under the *Gas Safety Act 1997*.

Disconnection is proposed to be defined as the *temporary* closing of a connection to prevent the withdrawal of gas through the use of locks or plugs or the removal of the meter.

Abolishment is proposed to be defined as the *permanent* removal of a connection by cutting and capping the service within the street and removal of all above ground assets (including the meter) or by removing the meter and service line to prevent the withdrawal of gas.

These definitions reflect those proposed by the major gas distributors in their access arrangements and accepted by the AER.

Our draft decision also sets a basic framework for when distributors must abolish a connection:

- at the direction in writing of a retailer
- where the customer requests the distributor to do so
- where the distributor is directed to do so under the Gas Safety Act.

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<sup>73</sup> Department of Energy, Environment and Climate Action, [Disconnecting from fossil gas](#), accessed 26 October 2023.

These obligations are subject to certain safeguards in the proposed new code. A retailer directing a distributor to abolish a connection must provide confirmation in writing that the customer has confirmed they are the owner of the relevant premises, that the customer has made a request to the retailer for their connection to be abolished and has agreed to pay any applicable charge. Similarly, where a customer requests a distributor to abolish a connection, the distributor must not abolish the connection unless the customer provides confirmation that the customer is the owner of the relevant premises and agrees to pay any applicable charge.

## **Future work**

We consider that longer-term reforms are likely needed to achieve better outcomes for customers, particularly if there are increasing numbers of customers permanently disconnecting from gas networks. This includes potential legislative and regulatory reforms to facilitate customers disconnecting from gas networks safely and affordably. These issues cannot be resolved solely through our code and would likely require collaboration between government, industry, regulators and consumers.

These issues include:

- Who should pay for decommissioning gas connections in the long term.
- How to address the issue of abandoned or unused connections in a safe and efficient manner.
- How to improve customers' experience when requesting abolishments.

We intend to collaborate with government and other regulators in finding sustainable solutions to these issues, and to further engage with stakeholders on future reforms to improve outcomes for Victorian consumers.

### **Questions for stakeholders**

4. Do you agree with the proposed definitions and processes for disconnection and abolishment? Please discuss.

## 4. Provision of information requirements

Gas distributors are currently required to publish or provide some information to customers or the commission on key obligations. Information provision requirements help promote transparency on the behaviour, performance, and actions of gas distributors.

We propose to introduce further reporting requirements on gas distributors, in line with updated expectations from consumers, legislative and regulatory changes.

Our draft decision is to require distributors to provide information on their websites on:

- unaccounted for gas
- new connections and connection charges
- disconnection, reconnection and abolishment
- customer complaint handling
- information on the type of gas supplied.

We also propose to introduce performance reporting obligations on Guaranteed Service Levels (GSL), unaccounted for gas and on the number of abolishments completed each year.

Distributors will be required to notify customers of any breaches that may affect them and when they identify non-compliance by customers.

Any future changes in the type of gas supplied through a distribution system will have to be notified to small customers prior to any changes.

### Updating provision of information requirements

#### Current framework and issues

The Gas Distribution System Code of Practice currently contains few obligations on gas distributors requiring them to provide information to customers. These include providing information, when requested by a customer, on:

- requirements for any proposed new gas installation or proposed changes to an existing gas installation
- requirements for the registration of life-support equipment
- explanations for interruptions to supply

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- complaint handling processes.

Similarly, there are few obligations currently listed in our Compliance and Performance Reporting Guideline which require gas distributors to report actual or potential breaches to the commission. These are mostly related to life-support equipment, providing documents and information to the commission and making Guaranteed Service Levels (GSL) payments. There are no performance reporting requirements for gas distributors.<sup>74</sup>

### Stakeholder views

Several stakeholders considered that Victorian households have inadequate access to consumer information. At a broader level, Energy Consumers Australia referred to their recent research report which found that consumers are disappointed by the lack of planning and information that has gone into the energy system and transition.<sup>75</sup> They suggested that this review, as one element of the broader transition of the energy system, is an opportunity for consumers to feel more confident and trust that the market is working in their long-term interest.<sup>76</sup>

Darebin Climate Action Now highlighted the information asymmetry between gas distributors and consumers:

Gas companies have the resources to apply uniform approaches to issues concerning customers. Customers by and large act on behalf of a single household. There is thus a huge information asymmetry at play. The code should be reviewed in this light.<sup>77</sup>

Submissions focused on two key issues in relation to provision of information by gas distributors.

The first issue raised by stakeholders relates to lack of clear information about disconnections and abolishments. Renew stated that:

Victorian households currently have inadequate access to consumer information on the costs of gas disconnections and abolishments. Finding information on disconnection options is difficult and can produce seemingly contradictory or inconsistent information and charges.

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<sup>74</sup> Essential Services Commission, [Compliance and Performance Reporting Guideline – version 8](#), pp. 42-45.

<sup>75</sup> Energy Consumers Australia, [Energy Consumer Sentiment Research: Findings from qualitative research conducted in October 2022](#), January 2023, p. 10.

<sup>76</sup> Energy Consumers Australia, submission to the 'Gas Distribution System Code of Practice review: Issues Paper', 5 May 2023, p. 4.

<sup>77</sup> Darebin Climate Action Now, op. cit., p. 6.

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For example, many consumers report inconsistent advice on whether full abolishment is required or simple disconnection.<sup>78</sup>

Bass Coast Climate Action Network suggested the code require distributors to provide information to customers which would assist them in abolishing connections collectively:

There should also be recognition in the abolishment fee approach that whole streets may wish to disconnect within a short (12 month) time frame. [...] This of course will be dependent on network topology. So if customers wish to reduce their abolishment fee by 'bulk buying', they'll need access to the network topology to understand which clusters of customers can be disconnected in this way. The code should require distributors to provide this information, perhaps via local Council planners.<sup>79</sup>

A second issue highlighted by stakeholders refers to information about unaccounted for gas (UAFG), and specifically about fugitive methane emissions (gas leaks). On this matter, Lighter Footprints suggested that:

We believe that there needs to be greater transparency regarding UAFG. The distribution businesses refer to reduced leakage of methane and reduced emissions while at the same time they are asking for UAFG benchmarks to remain the same. [...] We recommend that the distribution businesses should be required to produce an annual report stating: the level of UAFG for the previous year; the amount of UAFG representing leakage; the level of emissions that this represents in methane levels and CO2 equivalent; and the capital investment in pipeworks replacement in the previous year.<sup>80</sup>

## Analysis

In addition to stakeholder feedback, in reviewing the code we noted that current obligations on the provision of information for customers requesting new connections and on customer complaint handling could also benefit from enhanced provision of information obligations. Additionally, we contemplated introducing similar rules to those in the Electricity Distribution Code of Practice requiring distributors to notify customers of any breaches which may have a material adverse impact on a customer, and to notify a customer to remedy any non-compliance by the customer.

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<sup>78</sup> Renew, op. cit., p. 3.

<sup>79</sup> Bass Coast Climate Action Network, op. cit., pp. 4-5.

<sup>80</sup> Lighter Footprints, op. cit., pp. 7-8.

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For the purposes of assessing the costs and benefits of proposed changes, we grouped the potential changes and assessed options that would require reporting based on existing data and options that would require distributors to create new data for reporting. The grouping was necessary given the low magnitude of costs and benefits associated with each individual change and impact estimation challenges. We considered estimated one-off implementation costs, and on-going administrative and compliance costs for distributors, and potential benefits for reduced customer complaints and costs associated with dispute resolution.

We also assessed qualitative benefits of additional reporting requirements. Our qualitative impact assessment considered each option against three criteria:

- improved analysis and benchmarking benefit
- transparency for customers, regulators and the market more broadly
- improved safety for customers and distributors.

We concluded that options requiring reporting based on existing data would have significantly lower costs of implementation for distributors. We also concluded that options requiring the creation of new data for reporting would only provide incremental benefits under the improved analysis and benchmarking criterion. Consequently, we consider that new provision of information obligations based on already existing data would provide benefits to customers at least cost overall.

More publicly available information has the potential to empower customers when making decisions, and supporting industry, regulators and policy makers to conduct evaluations, identify best practices approaches, and consider further regulatory or policy change. Therefore, we propose that gas distributors publish key information on their websites, where they can be accessed by the wider public.

Additional information will provide transparency regarding the processes undertaken by each distributor and will allow customers to engage more meaningfully with gas distributors and to make better informed decisions. For example, the publication of the basis and assumptions for calculating connection charges will assist in customers understanding the breakdown of the cost of new connections. We also expect that new notification and provision of information requirements will lead to better understanding of customer expectations and reduce operational costs related to resolving customer complaints.

### **Draft decision**

Our draft decision is to require distributors to provide information on their websites on:

- unaccounted for gas

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- new connections and connection charges
- disconnection, reconnection and abolishment
- customer complaint handling.

We also propose to introduce performance reporting obligations on Guaranteed Service Levels (GSL), unaccounted for gas and on the number of abolishments completed each year.

Distributors will be required to notify customers of any breaches that may affect them and when they identify non-compliance by customers.

### **Provision of information on distributors' websites**

Our proposed changes will require distributors to publish on their websites information to assist customers and to provide more transparency in relation to the operation of distribution networks in Victoria. Most of the information required to be published on distributors' websites is either already reported through other regulatory processes, such as Regulatory Information Notices (RINs) or is based on existing data. We therefore consider that publishing this information in a more easily accessible and available manner will improve access to information at minor additional costs to distributors.

### **Unaccounted for gas**

Every year we receive information on unaccounted for gas from gas distributors and publish it in our annual Victorian Energy Market Reports.<sup>81</sup> This information is compared to the benchmarks we set for each distributor and type of network. We consider that access to this information could be expanded for consumers, researchers, community groups and other stakeholders if it was published and updated in distributors' websites. The proposed new provisions require a distributor to publish their most recently available data of unaccounted for gas for the previous five years on their website. This data includes the most recently available data using estimates available at the time of publication and a comparison with the applicable unaccounted for gas benchmarks for each period. We further propose to include unaccounted for gas as a performance reporting requirement, reflecting already existing processes.

### **Gas connections**

On information about connections, the proposed new provisions require a distributor to publish on its website:

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<sup>81</sup> See Essential Services Commission, [Victorian Energy Market Report 2021-22](#), 30 November 2022, p. 36.

- a description of the distributor's connection services and of how applications for new connections or connection alterations are to be made
- the connection applicant's rights and obligations
- the timeframes for connecting a new customer
- the basis and assumptions for calculating connection charges.

We consider that most gas distributors already provide information on their websites about their connection services and processes customers must follow for new connections. The new provisions will formalise these requirements and additionally require distributors to provide information on customers' rights and obligations, timeframes for connecting a new customer and on the basis and assumptions for calculating connection charges.

### **Disconnection, reconnection and abolishment**

A key aspect of the new provision of information requirements relates to the provision of information on disconnection and abolishment. Given the recent changes to the charges for abolishments (for residential and small business customers) made by the AER and their inclusion as ancillary reference services in access arrangements, we consider that improved access to information for customers is critical to improving current processes. The new proposed provisions require each distributor to publish on its website information on the different forms of cessation of supply (disconnection and abolishment) in a clear, simple, and concise manner, including a description of what each involves and the procedures and timeframes for each service.

New provisions will also require distributors to publish information on the applicable charges for residential disconnection, reconnection and abolishment. This will provide customers with more transparency as to what charges are required by a distributor and what charges, if any, are added by a retailer for these services. Given that customers' requests for such services currently go through their gas retailer, including that information on distributors' websites will also be useful for enabling retailers to provide that information to customers on request. Distributors must also clarify the circumstances under which a disconnection may happen, or an abolishment is required, and the rights of customers seeking a disconnection, reconnection or an abolishment.

### **Number of abolishments**

Distributors will further be required to publish information on the number of abolishments completed each financial year, including the number of abolishments completed in each postcode served by the distributor. This information will allow customers, government, researchers, and community groups to better understand and track how the number of abolishments in Victoria evolves over the next years. We note that data on disconnections is already collected and published through our [Victorian Energy Market Dashboard](#).

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## Customer complaint handling

Lastly, new requirements are proposed for distributors to include on their websites information about customer complaint handling and on the type of gas that may be supplied through their distribution systems. The latter requirement was proposed by the AEMC for inclusion in the NERR and is proposed to be replicated in our code. It will ensure that customers and retailers can easily find that information when required.

## New customer notification requirements

We propose to add a new clause on non-compliance by distributors and customers. This mirrors clause 15 of the Electricity Distribution Code of Practice and requires gas distributors to notify customers if a distributor becomes aware of:

- its failure to comply with an obligation which can be expected to have a material adverse effect on a customer
- a breach of the code by a customer which is not trivial in nature, including actions the customer could take to remedy the non-compliance.

These proposed requirements aim to align the non-compliance notification obligations of gas distributors with those of electricity distributors. They are also proposed concurrently with setting out basic customer obligations when using the gas network in the code, as explained in chapter 5. This new framework aims to provide better transparency and additional tools to remedy non-compliance, including non-compliance by a customer which may be affecting the use of the network by other customers.

## New performance reporting requirements

In addition to these requirements, we are proposing to add new performance reporting requirements related to unaccounted for gas, guaranteed service levels and abolishments. This aims to ensure that we receive that data directly and that we can better track and report on such data in our energy market reports. Further considerations on new reporting requirements are included in chapter 7.

## Providing customers with information about changes to the type of gas supplied

### Current framework and issues

In November 2022, the Australian Energy Market Commission (AEMC) recommended new rules requiring gas distributors to notify small customers of changes to the type of gas supplied through

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their networks.<sup>82</sup> The AEMC's recommended rules would apply to all states except for Victoria, and would be required when hydrogen or renewable gas blends were injected into the existing gas networks.

Hydrogen or renewable gas blends differs from fossil gas through:

- physical properties, including energy density (heating value), which could impact volumes of gas supplied to deliver the equivalent heating value of fossil gas
- the price of gas, as retailers may face higher costs for constituent gases compared to fossil gas which could flow onto customers
- potentially greater risks that customers will be supplied with gas that could negatively impact the use and life expectancy of their appliances.<sup>83</sup>

In making its final rules report, the AEMC suggested the need for enhancing transparency and strengthening the confidence of customers in the gas market by informing customers of the changes to the gas product they may receive.<sup>84</sup> We note that legislation has been recently introduced in the South Australian Parliament to make the necessary changes to implement the rules proposed by the AEMC for the National Energy Retail Rules (NERR).<sup>85</sup>

### Stakeholder views

Stakeholders largely favoured introducing obligations to provide information to customers regarding changes to the type of gas supplied:

We support alignment between the Code and the obligations recently recommended to the National Energy Retail Rules through the AEMC's review.<sup>86</sup>

AGL supports the proposed gas distributor obligation to provide customers with information about any potential changes in the type of gas supplied...<sup>87</sup>

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<sup>82</sup> AEMC, [Review into extending the regulatory frameworks to hydrogen and renewable gases, Final rules report](#), November 2022.

<sup>83</sup> AEMC, [Review into extending the regulatory frameworks to hydrogen and renewable gases, Consultation Paper](#), 21 October 2021, pp. 54-7; IEEFA, op. cit., pp. 9, 14-5.

<sup>84</sup> AEMC, [Review into extending the regulatory frameworks to hydrogen and renewable gases, Final rules report](#), November 2022, pp. 101-102.

<sup>85</sup> See the [Statutes Amendment \(National Energy Laws\) \(Other Gases\) Bill 2023](#).

<sup>86</sup> AGIG, op. cit., p. 3.

<sup>87</sup> AGL, op. cit., p. 1.

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EnergyAustralia believes it is warranted and reasonable for distribution networks to advise their customers regarding the gas blends that they are transporting through their networks.<sup>88</sup>

However, Momentum and Red and Lumo did not support mandatory notification. Both retailers noted that regulators such as Energy Safe Victoria (ESV) would address safety concerns before allowing the injection of new gases into distribution systems. They further noted that notifications may unnecessarily disturb customers and questioned the usefulness of informing customers of such changes.<sup>89</sup>

Some distributors supported introducing obligations regarding notification with reservations. While Gas Networks Victoria agreed with updating the code, it expressed concerns regarding solely placing these obligations on distributors and noted the need to clarify stakeholder roles and extend obligations to retailers. AusNet suggested that notifications should be limited to situations in which renewable gas compositions exceed 10% as compositions below this level would not impact existing appliances and no changes would be evident to customers.<sup>90</sup>

AGL supported providing more information to customers regarding regions affected by any changes, possible effects on gas appliances and fittings, and strategies to mitigate negative outcomes.<sup>91</sup> Energy Consumers Australia proposed including actions consumers may want to take due to changes to their gas supply and encouraged public consultation regarding notices and website material content.<sup>92</sup> Bass Coast Climate Action Group and Darebin Climate Action Now viewed the AEMC recommendations as not being strong enough.<sup>93</sup>

## Analysis

In Victoria, information provision rules are relevant for upcoming pilot projects, such as the [Hydrogen Park Murray Valley](#) project which intends to blend renewable hydrogen with fossil gas at volumes of up to 10% (or around 3% by energy) into the gas distribution networks across Albury

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<sup>88</sup> Energy Australia, op. cit., p. 2.

<sup>89</sup> Momentum, op. cit., p. 3; Red and Lumo, op. cit., p. 1.

<sup>90</sup> Gas Networks Victoria, op. cit., p. 2; AusNet, op. cit., p. 5.

<sup>91</sup> AGL, op. cit., p. 1.

<sup>92</sup> Energy Consumers Australia, op. cit., p. 3.

<sup>93</sup> Bass Coast Climate Action Network, op. cit., p. 3; Darebin Climate Action Now, op. cit., p. 3.

Provision of information requirements

(NSW) and Wodonga (Victoria), expected to start in 2025. This could be delivered to more than 40,000 residential and business connections.<sup>94</sup>

For this project under the current framework, distributors would not be required to provide information to Victorian customers affected by the project. However, distributors may have to do so for customers in New South Wales once the NERR proposed amendments are passed. Given the difference between jurisdictions, we propose introducing an obligation on distributors to provide information to customers prior to any potential changes to the type of gas they are supplied.

We consider that aligning notification obligations with those proposed for the NERR promotes consistency in regulation between states and between the Victorian and national frameworks. It would also provide an appropriate safeguard for Victorian consumers, so that they are informed of impacts that may result from changes to the type of gas supplied.

### Draft decision

Our draft decision is to require distributors to:

- notify small customers of any potential future changes to the type of gas supplied through their networks
- provide information on their website on the type of gas supplied through their networks.

We propose a notification requirement for distributors to inform a small customer prior to a change of gas type in a distribution system connected to that customer's premises. The proposed new provisions are similar to the ones proposed by the AEMC for the NERR. They set out minimum requirements for notices to be sent to customers, which must include:

- the transition date and the type of gas that may be supplied through the distribution system on and from the transition date
- whether the change of gas type is for a fixed time period or on an ongoing basis
- if the type of gas that may be supplied through the distribution is a gas blend, which gases are blended together to make the gas blend
- the potential impact of the change of gas type on the volume of gas and heating value of gas consumed by customers compared to the type of gas prior to the transition date
- the contact details of the gas distributor.

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<sup>94</sup> [‘Hydrogen Park Murray Valley \(Project reclassified as Under Construction\)’](#), CSIRO, accessed 26 October 2023. See also: [‘Hydrogen Park Murray Valley’](#), AGIG, accessed 26 October 2023.

Our draft decision also requires distributors to publish on their websites information on the type of gas that may be supplied through their networks and, if there is a change to the type of gas supplied, the transition date.

#### **Questions for stakeholders**

5. Do you agree with the proposed new provision of information obligations for gas distributors? Please discuss.



## 5. Updating the code and streamlining regulation

The code interacts with other regulatory instruments such as the National Gas Rules and the Australian Energy Market Operator's Victorian gas market procedures. There are currently overlaps between these instruments which duplicate requirements for gas distributors.

We propose to remove duplication with other instruments and to streamline the code to facilitate compliance and oversight.

Our draft decisions to streamline the code are to:

- specify timeframes for when Guaranteed Service Levels (GSL) payments must be made
- set minimum customer obligations when using gas networks in the code
- remove the overlap of metering requirements between the code and the National Gas Rules
- update provisions on customer complaint handling
- update definitions to align them with the distribution connected facilities rule change
- remove Part D of Schedule 1 (heating values)
- remove Schedule 3 (technical standards).

### Setting timeframes for Guaranteed Service Levels payments

#### Current framework and issues

Guaranteed Service Levels (GSL) are service standards applicable to gas distributors. When a distributor fails to meet these standards, it must make a payment to an affected customer. This is intended to acknowledge poor service and to provide an incentive for gas distributors to improve their service.

Guaranteed Service Levels are set out in our code and are supported by standard terms and conditions in access arrangements. The code states the levels of service and respective payment amounts. However, the code does not establish specific timeframes for when a payment must be

made.<sup>95</sup> This contrasts with the Electricity Distribution Code of Practice, which provides timeframes for payments.<sup>96</sup>

In our issues paper we noted our intention to keep the current Guaranteed Service Levels in the code but noted it could be helpful to clarify the timeframes for when a payment should be made.<sup>97</sup>

### Stakeholders views

Gas distributors had mixed views on specifying the timeframes that Guaranteed Service Levels must be paid to customers. AGIG considered there is no need for clearer timeframes and stated that at present Australian Gas Networks and Multinet Gas Networks pay monthly following the month when a GSL event occurs.<sup>98</sup> AusNet supported aligning the gas GSL timeframes with electricity GSL timeframes but did not support requiring GSL payments in these timeframes to be specified as a civil penalty requirement.<sup>99</sup>

Other stakeholders were largely supportive of specifying consistent timeframes for all gas distributors operating in Victoria for GSL payments to affected customers. AGL recommended that this should occur by the next network bill issued by distributors to retailers after the GSL event.<sup>100</sup> EnergyAustralia noted that:

Victoria's Guaranteed Service Levels exceed those outside of Vic, as they rightly should based on the prevalence and importance of gas consumption in Victoria. Confirming the timeframes will provide certainty to customers that any failure to meet adequate service will be compensated in a timely manner.<sup>101</sup>

Momentum mentioned they are comfortable with current timing arrangements and the Property Council of Australia supported specifying clearer timeframes.<sup>102</sup>

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<sup>95</sup> See clause 2.2 and Schedule 1, Part E of Gas Distribution System Code of Practice (version 16). Clause 2.2(b) states that a Guaranteed Service Level payment must be made 'as soon as practicable'.

<sup>96</sup> See clause 14.8 of the Electricity Distribution Code of Practice (version 2).

<sup>97</sup> See Essential Services Commission, [Gas Distribution System Code of Practice review: Issues Paper](#), 21 March 2023, p. 25.

<sup>98</sup> AGIG, op. cit., pp. 8-9.

<sup>99</sup> AusNet, op. cit., p. 6.

<sup>100</sup> AGL, op. cit., p. 2.

<sup>101</sup> EnergyAustralia, op. cit., p. 3.

<sup>102</sup> Momentum, op. cit., p. 5; Property Council of Australia, op. cit., p. 4.

## Analysis

As noted by EnergyAustralia, the prevalence of gas consumption in Victoria justifies the current Guaranteed Service Levels in our code as a relevant consumer protection. We consider that while the current framework is operating as intended, clarifying timeframes for when payments must be made is necessary for monitoring compliance and for enforcing these obligations.

We do not intend the new timeframes to change current practices or to add additional burdens on gas distributors. For this reason, we have consulted with gas distributors on their practices and on proposed timeframes for when payments should be made. We have considered that billing periods for gas are often longer (two months) than those for electricity (monthly), and that the timeframes for when a GSL payment should be made must be determined in relation to when a GSL event occurs or is identified.

Our conclusion is that specifying timeframes for when GSL payments must be made will provide more clarity to customers, retailers, distributors and for us to monitor compliance with those obligations.

## Draft decision

Our draft decision is to specify timeframes for when Guaranteed Service Levels payments must be made. Distributors would be required to:

- at the end of each quarter, determine whether it must make a Guaranteed Service Level payment
- where required, make a Guaranteed Service Level payment as soon as practicable and in any event within two retail billing periods following the completion of the quarter in which the customer became eligible for the payment.

The proposed timeframes for when a gas distributor must make a Guaranteed Service Level payment are similar to those in the Electricity Distribution Code of Practice for electricity distributors. However, we have considered the difference between electricity retail billing periods and gas retail billing periods by defining the latter in the new code as two calendar months or another period agreed between a distributor and a retailer.

The new timeframes for making a Guaranteed Service Level payment will allow us to better monitor compliance and will provide more certainty to customers and retailers. However, the obligation to make payments as soon as practicable remains the same so we do not expect those timeframes to change how these payments are currently determined and processed by distributors.

## Setting obligations on customers when using the gas network

### Current framework and issues

The current code contains few customer obligations.<sup>103</sup> The majority of provisions concerning basic customer obligations when using gas networks are currently stated as terms and conditions which distributors may include in deemed distribution contracts. Deemed distribution contracts are contracts which are considered to have automatically been formed between a gas distributor and retail customers. However, there are currently no deemed distribution contracts between gas distributors and customers in Victoria as distributors have to date not proposed terms and conditions for such contracts.

In contrast, electricity distributors in Victoria have deemed distribution contracts and the Electricity Distribution Code of Practice lists basic customer obligations within that code. For example, the Electricity Distribution Code of Practice determines that a customer must maintain electrical installations in a safe condition, ensure that the reliability and quality of supply to other customers are not adversely affected by the customer's actions or equipment, and permit access to the customer's electrical installation for inspection or testing.<sup>104</sup> While customers are not subject to enforcement by the commission, electricity distributors are required to notify customers if they are not complying with the code. This allows the customer to make changes to their electricity connection, so that it can operate effectively with the distribution network.<sup>105</sup>

### Stakeholder views

Gas distributors supported the introduction of customer obligations in the code, as it would provide a clear legal framework for customers. AGIG stated that:

This is desirable because these obligations are, or should be, self-evident and customers should comply with them. If the obligations are included in the Code, this will provide a clear legal framework for customers.<sup>106</sup>

AusNet also supported introducing direct obligations on customers in the code but considered that deemed distribution contracts also have an important place in the gas regulatory framework.<sup>107</sup>

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<sup>103</sup> See clause 11.1(c) of the Gas Distribution System Code of Practice (version 16).

<sup>104</sup> See clauses 7.2 and 7.3 of the Electricity Distribution Code of Practice (version 2).

<sup>105</sup> See clause 15.4 of the Electricity Distribution Code of Practice (version 2).

<sup>106</sup> AGIG, op. cit., p. 4.

<sup>107</sup> AusNet, op. cit., p. 6.

Gas Networks Victoria stated that they would welcome the inclusion of clear customer obligations in the code.<sup>108</sup>

Gas retailers had mixed views on the topic. AGL noted that:

There is an implicit expectation or understanding that consumers must not act in a way that endangers or damages the gas supply network and third parties. While we support the introduction of deemed gas distribution contracts, it should be carried out in the least costs approach for customers and there should be minimal work involved in making these customer obligations explicit.<sup>109</sup>

Momentum stated that further investigation is required before introducing any new customer obligations and prohibitions into the code.<sup>110</sup> EnergyAustralia supported including customer obligations in the code, but questioned the need to do so given there have not been any obligations to date and because gas demand is expected to decline.<sup>111</sup> Red and Lumo similarly noted that they understood the reasons for examining the potential role of customer obligations but that they remained unconvinced that there is a strong case for their inclusion at this stage.<sup>112</sup>

The Property Council of Australia supported the inclusion of customer obligations as they would provide more transparency.<sup>113</sup>

## Analysis

We consider that setting out minimum customer obligations in the code would provide more clarity and transparency for customers and distributors. These obligations are already expected and included in the current code as provisions which distributors may include in deemed distribution contracts.<sup>114</sup> As noted by some stakeholders, these provisions merely reflect current expectations that customers should not act in ways that may endanger the supply of gas or that may negatively impact the use of gas networks by other customers. We consider that it is in the long-term interests

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<sup>108</sup> Gas Networks Victoria, op. cit., p. 3.

<sup>109</sup> AGL, op. cit., p. 2.

<sup>110</sup> Momentum, op. cit., p. 4.

<sup>111</sup> EnergyAustralia, op. cit., p. 3.

<sup>112</sup> Red and Lumo, op. cit., p. 2.

<sup>113</sup> Property Council of Australia, op. cit., p. 4.

<sup>114</sup> See clause 11.1 of the Gas Distribution System Code of Practice (version 16).

of all customers that gas distributors have additional tools to remedy acts by those using gas networks inappropriately.

Setting out customer obligations in the new code would also align it with the Electricity Distribution Code of Practice, which already lists minimum obligations that customers must follow when using the electricity network. Crucially, we consider that the same framework in the Electricity Distribution Code of Practice for notifying customers who may be non-compliant should be included in the new Gas Distribution Code of Practice alongside minimum customer obligations. This means that customers would be deemed to comply with the new code unless expressly informed of non-compliance or if they otherwise became aware or could reasonably be expected to be aware of non-compliance. Gas distributors would be required to notify a customer who may be breaching the code specifying actions the customer could take to remedy the non-compliance.

A clear set of obligations for customers could reduce the likelihood of future disputes between customers and gas distributors and can help ensure that customers are using networks appropriately.

### **Draft decision**

Our draft decision is to set out minimum customer obligations when using gas networks in the code alongside a new provision on non-compliance by distributors and customers.

This new provision determines that customers are deemed to comply with the code unless they are expressly informed of any non-compliance or otherwise become aware or could reasonably be expected to be aware of such non-compliance.

Distributors will be required to notify customers who may be non-compliant specifying actions the customer could take to remedy the non-compliance.

The proposed new code contains a list of customer prohibitions and obligations which replicate the provisions which already exist in clause 11.1 of the current Gas Distribution System Code of Practice. These provisions have been adapted and redrafted as obligations customers must use best endeavours to adhere to. Alongside these provisions we have proposed new notification requirements if a distributor becomes aware of a breach by a customer that is not trivial. These notification requirements are explained above in chapter 4.

### **Proposed customer prohibitions and obligations**

The proposed customer prohibitions can be summarised as requiring customers to use best endeavours to not:

Updating the code and streamlining regulation

- allow gas supplied by a distributor to be used at other addresses, by other persons or for other purposes than those permitted or agreed by a distributor
- tamper with or bypass meters
- allow unqualified persons to perform works on gas installations
- use gas supply in a manner that may interfere with or cause damage to third parties or to the gas network.

The proposed customer obligations can be summarised as requiring customers to use best endeavours to:

- provide a distributor access to premises for the connection or disconnection of supply, inspection, testing, maintenance or repairs and collection of metering data
- maintain the gas installation in a safe condition
- protect the distributor's equipment from damage and interference
- inform a distributor as soon as possible of gas leaks or changes to the safety or quality of gas supply, or of changes affecting access to meters or the purpose of gas usage
- take reasonable precautions to minimise the risk of loss or damage to any equipment, premises or business of the customer which may result from poor quality or reliability of gas supply.

The proposed inclusion of customer obligations in the code is not intended to replace deemed distribution contracts. The new code will maintain provisions which support those contracts, and gas distributors may propose terms and conditions for these contracts for our approval should they consider it necessary.<sup>115</sup>

## Streamlining gas metering requirements in Victoria

### Current framework and issues

In our issues paper we noted that the current metering requirements in the code substantially overlap with metering requirements in the National Gas Rules.<sup>116</sup> Those rules have recently been restructured and strengthened by the AEMC.<sup>117</sup>

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<sup>115</sup> See section 48 of the *Gas Industry Act 2001*.

<sup>116</sup> See the Declared Wholesale Gas Market rules 290-316 in the National Gas Rules (NGR). There are some exceptions: clause 6.5(a) of the Gas Distribution System Code of Practice, which is a 'declared metering requirement' for the purposes of rules 298(2) and 304(1)(a) of the NGR, as modified by the Ministerial Order of 28 June 2013; and clause 7 of the Gas Distribution System Code of Practice, which is broader than the corresponding provisions in the NGR (rule 299).

<sup>117</sup> AEMC, [Rule determination: National Gas Amendment \(DWGM Distribution Connected Facilities\) Rule 2022](#), 8 September 2022, pp. 57-64.

We further noted that simply removing the duplication of metering provisions in our code could leave a gap in relation to metering requirements for gas meters in places such as East Gippsland, South Gippsland, the Grampians, Mildura, and the regional networks operated by Gas Network Victoria as those gas networks would not be subject to the updated metering requirements in the National Gas Rules. This would occur as the AEMC's determination changed the definition of 'declared distribution system' to a narrower definition than the current one, resulting in the exclusion of networks which are:

- not connected directly or indirectly to a declared transmission system
- indirectly connected to a declared transmission system but by means of a pipeline that does not form part of a declared transmission system.

### Stakeholder views

Stakeholders were broadly supportive of removing the duplication of metering requirements between the code and the National Gas Rules.

AGIG agreed with removing possible duplication unless it is required for reasons of clarity or market operation. They also stated they would operate in the same manner irrespective of whether a distribution system is a declared or non-declared distribution system.<sup>118</sup> AusNet also supported removing the overlap of metering obligations and retaining a schedule of applicable non-declared distribution system requirements.<sup>119</sup>

Gas Networks Victoria noted that if the current obligations in the code were simply removed, they would not be subject to any regulation in relation to metering requirements. They proposed that metering obligations should be retained in the code but subject to a statement that they would only be applicable to non-declared distribution networks.<sup>120</sup>

Other stakeholders also supported removing duplicated metering requirements.<sup>121</sup> AGL and EnergyAustralia suggested that overlapping metering obligations should be removed and that non-declared distribution networks should also be required to comply with the Declared Wholesale Gas Market requirements.<sup>122</sup>

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<sup>118</sup> AGIG, op. cit., p. 4.

<sup>119</sup> AusNet, op. cit., p. 5.

<sup>120</sup> Gas Networks Victoria, op. cit., pp. 2-3..

<sup>121</sup> Lighter Footprints, op. cit., p. 5; Momentum, op. cit., p. 3; Property Council of Australia, op. cit., p. 3; Red and Lumo, op. cit., p. 2.

<sup>122</sup> AGL, op. cit., p. 2; EnergyAustralia, op. cit., p. 2.



An anonymous submission suggested that the review should also focus on enabling future technologies and that the streamlining of metering requirements should not compromise flexibility and adaptability for new technologies such as smart gas meters which allow safe remote disconnection and reconnection. This submission also mentioned that the removal of references to Australian Standard 4944 would allow for a more streamlined national approach.<sup>123</sup>

## Analysis

The metering requirements in the code have not been reviewed in recent years and refer to instruments such as the 'Market Rules' and the 'Retail Rules' which have been replaced with the Declared Wholesale Gas Market (DWGM) Rules and AEMO's Retail Market Procedures (Victoria), which incorporate several different standards that AEMO is required to make under the DWGM Rules.

As a result, there is a substantial overlap and duplication between the provisions of clauses 6 to 8 of the code and Division 3, Subdivision 4 of the DWGM Rules (rules 290-316 of the National Gas Rules). However, those provisions of the DWGM Rules will only apply in relation to meters in distribution systems connected to the 'declared transmission system' (DTS).<sup>124</sup>

We consider that the overlap in the regulation of metering requirements between the National Gas Rules and the code should be removed. For those distribution systems which will not be covered by the metering requirements in the National Gas Rules, we propose to add a clause requiring that distributors operating a non-DTS distribution system comply with the same requirements as those operating a DTS distribution system. We have heard from AGIG that they operate their networks irrespective of whether a distribution system is a DTS or non-DTS distribution system and confirmed that AEMO provides metering services for basic meters and interval meters for some non-DTS distribution systems. We therefore consider it is appropriate to refer to the metering provisions in Part 19 of the National Gas Rules to cover the regulation of meters for non-DTS distribution systems.

In considering the overlap of metering requirements in the code and in the National Gas Rules, we noted two provisions in our code which have no equivalent and which we intend to retain. These provisions are:

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<sup>123</sup> Anonymous, submission to the 'Gas Distribution System Code of Practice review: Issues Paper', 4 May 2023, pp. 2-5.

<sup>124</sup> For an explanation of the various definitions of 'declared distribution system' and which distribution systems are part of the DWGM and which ones are part of the Victorian Retail Gas Market, see '[Guide to understanding the scope of the Victorian Retail Gas Market, the Declared Wholesale Gas Market and AEMO's and directions powers](#)', AEMO, accessed 26 October 2023.

- Clause 6.5(a)(i), which requires a distributor to ensure that its metering installations comply with and are calibrated to comply with the error limits set out in the code.
- Clause 6.5(a)(iii), which requires that for metering installations containing pressure regulators, a distributor must ensure that they are able to provide sufficient flow at the minimum regulator inlet pressure and that, where a fixed pressure factor is applied, they are able to control the outlet pressure to meet the distribution system pressure requirements set out in the code.

We note that clause 6.5(a)(i) must be retained as it interacts with rule 298(2) of the National Gas Rules which requires that a metering installation satisfy the uncertainty limits set out in a 'declared metering requirement'. A Ministerial Order under the *National Gas (Victoria) Act 2008* refers to clause 6.5(a) of our code as such 'declared metering requirement'.<sup>125</sup>

We also consider that clauses 7.1, 7.2 and 7.3 are broader than the corresponding provisions in rule 299 of the National Gas Rules, which applies only to metering installations at 'system points'. This rule has been recently amended as part of the restructuring and strengthening of the metering requirements in the National Gas Rules. From 1 May 2024 it will apply to 'settlement metering points'.<sup>126</sup> Moreover, clause 7.2.3 of the code addresses in considerable detail how the initial and ongoing life of each meter family is to be determined in a way that appears to have no counterpart in the National Gas Rules. However, we have heard from stakeholders that removing such differences would result in a more streamlined national approach. We therefore seek stakeholder views on whether they consider there is value in retaining current clauses 7.1, 7.2 and 7.3.

### Draft decision

Our draft decision is to:

- Remove the overlap of metering requirements between the code and the National Gas Rules.
- Require non-DTS distribution systems to comply with the same metering requirements as DTS distribution systems.
- Retain clauses 6.5(a)(i) and 6.5(a)(iii) as they are required by other provisions.
- Seek stakeholder views on whether clause 7 should be retained.

<sup>125</sup> See Victorian Government Gazette, No. S 242 Friday 28 June 20213, Ministerial Order under section 42(1) of the *National Gas (Victoria) Act 2008*.

<sup>126</sup> See '[National Gas Amendment \(DWGM distribution connected facilities\) Rule 2022 No. 3](#)', AEMC, accessed 26 October 2023.

Our proposed new code removes the overlap between regulatory instruments to provide a clearer and more streamlined framework for metering requirements.

Given the age of the metering requirements in our code and the fact that the metering requirements in the National Gas Rules have recently been reviewed, restructured and strengthened by the AEMC, we consider there is no rationale for retaining the former.

However, we propose to retain those provisions which are required by other provisions or instruments. Therefore, our draft decision retains the clauses on error limits and minimum pressure. It also seeks stakeholder views on whether clause 7, which appears broader in scope than its equivalent in the National Gas Rules, should also be retained.

For non-DTS distribution systems, our draft decision is to include a new clause which requires a distributor operating such systems to comply, to the extent practicable, with the requirements in Division 3, Subdivision 4 of Part 19 of the National Gas Rules. This would provide equivalent requirements for metering installations in DTS or in non-DTS distribution systems while removing the overlap between obligations in our code and in the National Gas Rules.

## **Customer complaint handling**

### **Current framework and issues**

Clause 10 of the code regulates customer complaint handling. It requires distributors to comply with the relevant Australian Standard and sets out provision of information requirements related to a distributor's complaint handling processes.

### **Stakeholder views**

There were no stakeholder comments regarding customer complaint handling.

### **Analysis**

We consider that there is benefit in updating this clause, drawing from the updates that were made to the equivalent clause in the Electricity Distribution Code of Practice, which was remade on 1 October 2022.

The proposed updates include amending Clause 10(a) to refer to the Australian Standard ISO 10002-2018 (Customer satisfaction – Guidelines for complaints handling in organisations). This would replace the reference to the 'Benchmark for Industry Based Customer Dispute Resolution Schemes' published by the Commonwealth Government.

The other proposed change is to replace the requirement for distributors to make information on their customer complaint handling processes ‘readily available to customers’ with a requirement to publish such information on their websites. This is also referred to in chapter 4.

### Draft decision

Our draft decision is to update clause 10 to be consistent with the current Electricity Distribution Code of Practice and to refer to the Australian Standard AS ISO 10002-2018 (Customer satisfaction – Guidelines for complaints handling in organisations).

## Aligning the code with recent changes allowing distribution connected facilities in the Victorian gas network

### Current framework and issues

On 8 September 2022, the Australian Energy Market Commission (AEMC) amended the National Gas Rules, at the request of the Victorian Minister for Energy, to allow facilities which produce, blend, store and inject gases (including renewable gases) into distribution systems to participate in Victoria’s gas market. The amendments to the National Gas Rules (NGR) will take effect on 1 May 2024.<sup>127</sup>

The Australian Energy Market Operator (AEMO) has also been reviewing its procedures to align them with the changes to the National Gas Rules which will take effect next year. These procedures interact with some obligations in our code related to metering requirements and unaccounted for gas.<sup>128</sup>

To prevent conflicts between regulatory instruments and to streamline regulation, we propose making changes to our code so that it does not conflict with the most recent version of the National Gas Rules, and the proposed changes to AEMO’s procedures.

### Stakeholder views

Gas distributors highlighted the need to make amendments to definitions in our code so that it is consistent with changes being proposed to the National Gas Law (NGL) which will extend the economic regulation of gas pipelines to other gases. AusNet supported changes to align with the

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<sup>127</sup> AEMC, [Rule determination: National Gas Amendment \(DWGM Distribution Connected Facilities\) Rule 2022](#), 8 September 2022.

<sup>128</sup> AEMO, [Wholesale Proposed Procedure Change \(PPC\) - Hydrogen and Distribution Connected Facilities rule changes](#), 15 September 2023, p. 17.

National Gas Rules as they would support the enablement of renewable gas in distribution networks.<sup>129</sup> AGIG considered that ‘without amendment, inconsistencies across the NGL framework and [the] Code of Practice could be unworkable’.<sup>130</sup>

Climate action groups and some individuals opposed the introduction of new gases such as hydrogen in distribution networks. Alan Pears stated that distribution of hydrogen to households is a very low priority and will not compete with efficient electric appliances and thermally efficient buildings supplied by renewable electricity.<sup>131</sup> Darebin Climate Action Now suggested that as there are plans to introduce new gases across networks incrementally, the code should include strong obligations on distributors, such as undertaking public consultations and notifying customers.<sup>132</sup> Bass Coast Climate Action Network considered that the commission ‘should ensure it retains a role in the injection of hydrogen and other blended gases’ and that making changes that support the introduction of hydrogen and biogases into the distribution system ‘shifts responsibility away from the ESC to national gas market authorities’.<sup>133</sup>

## Analysis

When making regulatory changes, we must consider changes that allow for consistency with the broader regulatory framework.<sup>134</sup> If the definitions in our code are not updated to align with other parts of the regulatory framework, such as the National Gas Rules, this could create conflicting obligations for distributors.

This could lead to some obligations on distributors being unworkable, particularly for unaccounted for gas and some metering requirements. For example, if distribution connected facilities start operating in the Victorian gas market, different gas types would need to be considered when calculating unaccounted for gas.

We propose changes to how some terms are defined (such as ‘distribution delivery point’, ‘receipt point’ and ‘unaccounted for gas’). A key change required is to the current definition of ‘gas’.

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<sup>129</sup> AusNet, op. cit., p. 3.

<sup>130</sup> AGIG, op. cit., p. 2.

<sup>131</sup> Alan Pears, op. cit., p. 5.

<sup>132</sup> Darebin Climate Action Now, op. cit., p. 3.

<sup>133</sup> Bass Coast Climate Action Network, op. cit., p. 5.

<sup>134</sup> Section 8A(1)(f) of the *Essential Services Commission Act 2001*.

Gas is currently defined in our code as ‘natural gas as defined in the *Gas Industry Act 2001...*’<sup>135</sup> To promote consistency and to future proof the definition from other potential changes, we propose that the definition in the code directly links with the definition in the Gas Industry Act. This would ensure the same definition is applied consistently across both instruments, and so that the definition in our code would automatically change in line with changes in Victorian legislation.

We note that aligning the definition of ‘gas’ in our code with that in the Gas Industry Act would not automatically extend it to other gases. An Order in Council would need to be made to change the definition of gas in the Gas Industry Act, to allow for renewable gases and gas blends in Victoria.<sup>136</sup> However, changes have already been made to the *National Gas (Victoria) Act 2008* to allow the Minister to declare other gases to fall under the regulation of the National Gas Law and the National Gas Rules in Victoria.<sup>137</sup>

## Draft decision

Our draft decision is to amend definitions in the code to remove inconsistencies with the distribution connected facilities rule change.

Our draft decision is to directly link the definition of ‘gas’ in the code with the definition of ‘gas’ in the Gas Industry Act, which is subject to an Order in Council. The proposed change in definition is as follows:

*gas* – has the same meaning as in the [Gas Industry] Act.

Our proposed changes will avoid potential conflicts with other regulatory instruments, while also avoiding extending the code’s applicability to other gases before the Victorian Government makes a decision to do so.

## Heating values

### Current framework and issues

Heating value is a measure of the energy density of a gas. Consumer gas meters only measure the volume of gas passed through them, but gas consumption is billed on the energy used. The

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<sup>135</sup> Clause 13.1 of the Gas Distribution System Code of Practice (version 16).

<sup>136</sup> An [Order in Council](#) under section 8 of the Gas Industry Act currently declares that a gaseous fuel other than natural gas is not to be gas for the purposes of Parts 3 and 4 of that Act.

<sup>137</sup> Section 9B of the *National Gas (Victoria) Act 2008*.

volume of gas is adjusted with a pressure factor and multiplied by the heating value to obtain energy used.

The code currently determines the application of a single daily statewide heating value to all non-daily metered (small and residential) customers.<sup>138</sup>

However, in November 2021 the Victorian Minister for Energy requested AEMO to implement zonal heating values for all small and residential customers. This would allow for more precise measurements of the energy consumed by these customers. The current reference to a daily statewide heating value in our code could potentially conflict with the implementation of zonal heating values.

### Stakeholder views

Stakeholders were strongly supportive of removing the reference to heating values in our code.<sup>139</sup>

Only Momentum raised a concern and opposed such removal, submitting that the prospect of renewable gases being introduced in distribution systems means that the code should have an increased role in regulating various zonal heating values rather than AEMO's procedures.<sup>140</sup>

### Analysis

Despite concerns about a potential role for our code in regulating heating values, we consider that this matter has been and should continue to be governed by AEMO in their procedures, which are required under the National Gas Rules.<sup>141</sup> Introducing new obligations in our code related to heating values would create an overlap and potential conflict between our code and the National Gas Rules. Moreover, it could pose a barrier to, rather than facilitate, a move to zonal heating values which is expected to provide Victorian consumers with more accurate measurements (with effects on billing and on the calculation of unaccounted for gas).

We also note that Part D of Schedule 1 was included in the code only as 'interim provisions' on 1 October 1999. We consider there is no need to retain such provisions in the new code.

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<sup>138</sup> Schedule 1, Part D of the Gas Distribution System Code of Practice (version 16).

<sup>139</sup> AGL, op. cit., p. 2; AusNet, op. cit., p. 6; Bass Coast Climate Action Network, op. cit., p. 4; EnergyAustralia, op. cit., p. 3; Friends of the Earth Melbourne, op. cit., p. 3; Gas Networks Victoria, op. cit., p. 3; Lighter Footprints, op. cit., p. 6.

<sup>140</sup> Momentum, op. cit., p. 4.

<sup>141</sup> Rule 303(6) of the National Gas Rules.

## Draft decision

Our draft decision is to remove provisions on heating values (Part D of Schedule 1) in our proposed Gas Distribution Code of Practice.

## Technical standards

### Current framework and issues

We noted in our issues paper that while Schedule 3 of the code contains several Australian Standards relevant to gas distribution systems, these standards are often not referred to in any substantive obligations in the code. Moreover, other instruments such as the National Gas Rules and the *Gas Safety Act 1997* also regulate technical standards applicable to gas distribution networks. We asked for stakeholders' views on whether Schedule 3 should be removed from the code.<sup>142</sup>

### Stakeholder views

Stakeholders supported removing Schedule 3 from the code.<sup>143</sup>

Bass Coast Climate Action Networks suggested that rather than having Schedule 3 for technical standards, it could be used to include references to standards related to the quantification, monitoring, reporting and verification of greenhouse gas emissions.<sup>144</sup>

### Analysis

We consider the removal of Schedule 3 as non-controversial, because the technical standards it refers to are not connected to substantial obligations in our code and are otherwise required by energy safety regulations.

## Draft decision

Our draft decision is to remove Schedule 3 of the current code in our draft proposed Gas Distribution Code of Practice.

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<sup>142</sup> Essential Services Commission, [Gas Distribution System Code of Practice review: Issues Paper](#), 21 March 2023, pp. 23-24.

<sup>143</sup> AGL, op. cit., p. 2; AusNet, op. cit., p. 6; Gas Networks Victoria, op. cit., p. 3; Momentum, op. cit., p. 5.

<sup>144</sup> Bass Coast Climate Action Network, op. cit., p. 4.



### Questions for stakeholders

6. Do you agree with our proposed amendments to remove duplication with other regulatory instruments and to streamline the code? Please discuss.

7. Do you agree with the removal of the overlap of metering requirements between our code and the National Gas Rules? Should we retain the requirements in clause 7 on meter accreditation, certification and testing? Please discuss.

## 6. Other matters

Stakeholders have suggested reforming the frameworks for life-support equipment and for managing unaccounted for gas.

We recognise the relevance of these issues, but we consider that further work is needed so that reforms related to life-support obligations and unaccounted for gas are successful.

Our draft decisions are to:

- make no amendments to life-support obligations
- require distributors to publish on their websites the most recently available data on unaccounted for gas for the previous five years.

We intend to collaborate with government and stakeholders on future potential reforms to life-support obligations and to the framework for managing unaccounted for gas.

### Life-support obligations

#### Current framework

The code sets out obligations that distributors must follow to ensure customers who require life-support equipment are protected. These provisions are set out in clause 4A of the code. These provisions are specified as civil penalty requirements for the purpose of the *Essential Services Commission Act 2001*.

#### Stakeholder views

AusNet submitted that, with the reduction in customers expected to remain in the gas network, the code should have a proportionate approach to gas life-support obligations and a reduced burden of regulatory obligations for gas.<sup>145</sup>

AusNet cited the growing number of registered life-support customers since the introduction of life-support provisions in 2020, leading to additional workload, checks and an increased risk exposure to civil penalties:

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<sup>145</sup> AusNet, op. cit., p. 2.

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).<sup>146</sup>

AusNet recommended new provisions in the code which would:

- allow distributors to take pro-active steps to keep life-support customer registers up to date, including requesting medical confirmation every year
- place stronger obligations on customers to provide appropriate documentation
- require the registered process owner (typically the retailer) to deregister the supply address if it has not received medical confirmation at the of the medical confirmation process
- require dual fuel life-support registrations to have specific medical advice of independent gas and electricity needs.<sup>147</sup>

AGL also discussed life-support obligations and recommended that obligations to provide customers with a medical confirmation form and other associated responsibilities should fall on the retailer. They noted that retailers are the most appropriate party to engage directly with customers about life-support needs and recommended changes to other codes to facilitate their suggested changes.<sup>148</sup>

## Analysis

Although we did not propose to review life-support obligations in our issues paper, AusNet and AGL raised this issue as a matter that deserves our attention.

Life-support customer obligations were initially designed to establish a protective framework, prioritising customer safety by preventing inadvertent de-registrations that could pose serious risks. While this objective has been largely successful, it may have occasionally led to delays in de-registering customers who no longer require life-support protection. AusNet specifically highlights this concern for gas-dependent life-support customers in its submission, echoing similar issues raised in the recent Electricity Distribution Network Resilience Review. Recommendation 5.1 of the

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<sup>146</sup> AusNet, op. cit., p. 2.

<sup>147</sup> AusNet, op. cit., pp. 2-3.

<sup>148</sup> AGL, op. cit., p. 3.

Other matters

final report of that review stated that life-support registers should be reviewed by the commission with support from relevant government departments.<sup>149</sup>

We note that there are currently no regulatory barriers in our code stopping gas distributors from proactively contacting customers in their life-support registers and deregistering them if they no longer require life-support equipment.<sup>150</sup> However, we recognise that there can be improvements to the framework, as suggested by AusNet, AGL and by the Electricity Distribution Network Resilience Review expert panel, to ensure that life-support registers are kept up to date and that registration and deregistration processes are improved.

Given that the framework protecting life-support customers is similar across our codes of practice, and that obligations on retailers are also contained in the *Gas Industry Act 2001* and in the *Electricity Industry Act 2000*, we consider that a review of these obligations will need to be addressed collectively across these instruments. Therefore, we consider it is not suitable to examine the obligations in the code under review independently of a more comprehensive review of life-support obligations. We intend to collaborate with government to review these obligations to improve life-support registers, noting government's support for the recommendation to review life support registers and de-registration processes.<sup>151</sup>

### Draft decision

Our draft decision is to not make any amendments to life-support equipment provisions.

We intend to review the framework on life-support obligations in all our codes of practice and in legislation, in collaboration with government, as a separate project.

## Unaccounted for gas benchmarks

### Current framework and issues

Unaccounted for gas (UAFG) is the difference between the measured quantity of gas entering the gas distribution system and the gas delivered to customers. This difference is the result of a variety of factors, including fugitive emissions (system leakage), metering errors, variations in the heating value of gas, data quality and theft. Retailers are required to purchase sufficient gas to cover

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<sup>149</sup> Department of Energy, Environment and Climate Action, [Electricity Distribution Network Resilience Review: Final recommendations report](#), May 2022, pp. 47-48.

<sup>150</sup> See clause 4A.11 of the Gas Distribution System Code of Practice (version 16).

<sup>151</sup> Department of Energy, Environment and Climate Action, *Victorian Government Response to the Expert Panel's Electricity Distribution Network Resilience Review*, November 2023, p. 13.

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customer consumption and unaccounted for gas. An annual reconciliation process settles financial obligations between gas distributors and retailers based on whether actual unaccounted for gas is over or under the benchmarks set by the commission.

We set new benchmarks applicable to the 2023–28 period in December 2022.<sup>152</sup> In our issues paper, we noted our intent to consider the appropriateness of our role in setting these benchmarks for future periods.<sup>153</sup>

### Stakeholder views

Stakeholders had mixed views and raised a wide range of issues related to unaccounted for gas.

Distributors considered that the current processes for managing unaccounted for gas are well established and that there is no sufficient evidence to change the approach to setting unaccounted for gas benchmarks. AGIG mentioned that:

The benchmark approach to managing UAFG is unique to Victoria and integrated in Market Procedures. The process for setting benchmarks by the ESC is mature, with distributors required to demonstrate their effective and efficient management of UAFG to as low as practicable.<sup>154</sup>

AusNet cautioned against including climate change mitigation objectives as a factor in determining unaccounted for gas benchmarks as they are already included in the national Safeguard Mechanism, thereby double charging gas distribution businesses:

Making climate change mitigation a 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.<sup>155</sup>

AGL referred to the upcoming proposed move to zonal heating values and suggested that it will need to be considered when evaluating unaccounted for gas in the next period. AGL also mentioned that the potential injection of hydrogen and other renewable gases will mean that the

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<sup>152</sup> Essential Services Commission, [Review of Unaccounted for Gas Benchmarks: Final Decision](#), 19 December 2022.

<sup>153</sup> Essential Services Commission, [Gas Distribution System Code of Practice review: Issues Paper](#), 21 March 2023, p. 27.

<sup>154</sup> AGIG, op. cit., p. 9.

<sup>155</sup> [‘The Safeguard Mechanism’](#), Clean Energy Regulator, accessed 26 October 2023.

Other matters

commission should no longer rely on historical data from gas distributors to calculate unaccounted for gas.<sup>156</sup>

EnergyAustralia considered that most unaccounted for gas comes from meter reading and recording inaccuracies and not from degraded pipes, so it would not normally be something that requires capital investment but rather greater oversight and quality assurance. It also considered that Victorian gas customers should receive benefits from lower unaccounted for gas – given the replacement of cast iron and porous gas pipelines conducted by some distribution networks.<sup>157</sup>

Momentum on the other hand stated that lowering benchmarks would likely result in additional capital investment by gas networks to comply and consequential increased gas prices for consumers. It added that this would not be efficient in the context of the Gas Substitution Roadmap and the uncertain future life of gas distribution networks.<sup>158</sup>

Climate action community groups and individuals suggested that unaccounted for gas should be looked at in the context of its effects on climate change and in relation to Victoria's emission reduction targets.

Lighter Footprints thought that gas distributors would have the capability to reduce fugitive emissions and should be required to take action. It further noted that it believes the investments allowed by the AER for the replacement of pipelines means that fugitive emissions should decrease in the coming years and that this should result in lower benchmarks.<sup>159</sup>

Friends of the Earth Melbourne raised concerns related to the climate change impact of methane emissions and highlighted that unaccounted for gas measurements are one of the few ways fugitive emissions are measured:

UAFG is the one area of fugitive gas emissions which is measured with any clarity. Methane is a highly concentrated greenhouse gas with over 80 times the climate impact over the pivotal next 20 years for potential climate change mitigation as carbon dioxide. [...] It can no longer be considered a purely economic matter to recognise the shortfall between gas entering the system and that which is metered upon delivery to customers.<sup>160</sup>

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<sup>156</sup> AGL, op. cit., p. 3.

<sup>157</sup> EnergyAustralia, op. cit., pp. 3-4.

<sup>158</sup> Momentum, op. cit., p. 5.

<sup>159</sup> Lighter Footprints, op. cit., p. 2.

<sup>160</sup> Friends of the Earth Melbourne, op. cit., p. 5.

Other matters

Friends of the Earth Melbourne recommended that leakages must be penalised and that customers should be offered randomised methane leakage testing behind the meter so that we can better understand leakage at the point of end use.<sup>161</sup>

Lighter Footprints recommended that we introduce an incentive to reduce leakage by allowing benchmarks to be reduced on an annual basis at the next review, as well as a range of transparency measures:

We recommend that the distribution businesses should be required to produce an annual report stating: the level of UAFG for the previous year; the amount of UAFG representing leakage; the level of emissions that this represents in methane levels and CO2 equivalent; and the capital investment in pipeworks replacement in the previous year.<sup>162</sup>

Alan Pears stated that all unaccounted for gas leakage should be charged to network operators at a specified carbon price using the 20 year Global Warming Potential value for methane.<sup>163</sup> Bass Coast Climate Action Network also noted that the effects of methane on climate change should be measured over 20 years as in that period it has an effect that is over 80 times higher than CO2:

Fugitive leaks account for 40% or more of UAFG. If the quantity of fugitive leaks is multiplied by their warming effect over 20 years, we hazard a guess that emissions from CH4 leaks are approaching all the CO2 emissions from gas use by domestic and industrial consumers in Victoria.<sup>164</sup>

Bass Coast Climate Action Network and Darebin Climate Action Now both echoed a call for tightening unaccounted for gas benchmarks, for setting separate mandatory targets for fugitive emissions and independent reviews of the actual levels of fugitive emissions.<sup>165</sup>

## Analysis

We have considered the wide range of stakeholder views on unaccounted for gas benchmarks and acknowledge their concerns over the future regulation of unaccounted for gas. Stakeholders have

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<sup>161</sup> Ibid.

<sup>162</sup> Lighter Footprints, op. cit., pp. 7-8.

<sup>163</sup> Alan Pears, op. cit., p. 6.

<sup>164</sup> Bass Coast Climate Action Network, op. cit., p. 6.

<sup>165</sup> Ibid; Darebin Climate Action Now, op. cit., p. 5.

Other matters

drawn our attention to changes that gas networks are expected to experience over the coming years that may have consequences for unaccounted for gas measurements:

- The potential injection of hydrogen or other gases in distribution networks through distribution connected facilities.
- The move from a single state-wide heating value for small customers to zonal heating values.
- Gas distributors' investments in replacing old pipelines and in new gas infrastructure.
- Potential changes and improvements related to metering, data accuracy and measurement of fugitive emissions.

Some of these changes are more uncertain than others. For example, we know that the move to zonal heating values is expected to provide Victorian gas customers with more accurate measurements of the energy they consume and may potentially result in a slight reduction of unaccounted for gas. In contrast, the potential introduction and blending of hydrogen in distribution networks at a larger scale is more uncertain.<sup>166</sup> The relationship between mains leaks and unaccounted for gas is also not entirely clear. The AER has noted that while they 'did not observe a systematic relationship between mains leaks and UAFG', they observed 'some evidence that a relationship may exist in specific circumstances'.<sup>167</sup>

In considering our role in addressing these potential changes we also considered the historical reasons for why we set unaccounted for gas benchmarks. Unlike in other states, where unaccounted for gas is supplied by gas distributors and incentives to manage it are considered through their access arrangements via an operating expenditure allowance, Victoria has a unique and complex process. This involves the commission setting unaccounted for gas benchmarks as an input to the financial reconciliation process between distributors and retailers, which is largely administered by calculations made by the Australian Energy Market Operator (AEMO).

This process dates from when the commission was still responsible for the economic regulation of gas distribution services. After the economic regulation of gas distribution services was transferred to the AER (over a decade ago), government had initiated legislative reforms that were intended to provide the AER with the power to set UAFG benchmarks. However, these reforms were never passed as they were part of the reforms that would have included Victoria in the National Energy Customer Framework (NECF). As a result, we have kept the function of setting unaccounted for

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<sup>166</sup> See Department of Climate Change, Energy, the Environment and Water (DCCEEW), [State of Hydrogen 2022](#), p. 24: 'there has been limited progress in terms of projects reaching a Final Investment Decision since last year. There is also some uncertainty regarding some large-scale projects that have spent a further year in development, driving a downgrade of this metric compared to the last State of Hydrogen report'.

<sup>167</sup> AER, [Gas Network Performance Report](#), December 2022, p. 60.

Other matters



gas benchmarks despite no longer having other economic regulatory functions in relation to gas distribution services.

The current framework relies on separate institutions and industry bodies to operate:

- Retailers are required to purchase sufficient gas to cover customer consumption and unaccounted for gas.
- The commission sets unaccounted for gas benchmarks for each five-year period.
- AEMO establishes processes, calculates and determines reconciliation amounts for market participants.
- Distributors and retailers settle unaccounted for gas amounts and reconciliation payments.

The current framework also relies on an intricate connection between various regulatory instruments including:

- Rules 235(8) and 317 of the National Gas Rules
- Clause 2.4 of the Gas Distribution System Code of Practice
- Ministerial Orders under section 42(1) of the *National Gas (Victoria) Act 2008*<sup>168</sup>
- AEMO's Wholesale Market Distribution UAFG Procedures (Victoria).

Our consultation has also revealed various stakeholders' views on the desired outcome that unaccounted for gas benchmarks were designed to achieve. Our code requires distributors to use reasonable endeavours to ensure that actual unaccounted for gas is less than the applicable benchmarks for each period. The benchmarks are effectively an economic incentive, using a financial reconciliation process between distributors and retailers.

Given this original purpose, it is unclear whether they are the best tool to address other concerns such as fugitive methane emissions and climate change impacts. We note that other existing frameworks address greenhouse gas emissions, such as the Australian government's [Safeguard Mechanism](#), which is a policy framework aimed at ensuring that businesses, including gas distributors, do not exceed predetermined emissions baselines. Gas distributors are assigned baselines and they are required to monitor and report their emissions data to the government. If their emissions exceed the baselines, gas distributors can offset the excess emissions by purchasing Australian Carbon Credit Units (ACCUs) or other eligible offsets. This mechanism encourages gas distributors to implement emission reduction strategies and improve operational practices to stay within their baselines. However, the costs incurred by gas distributors to comply

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<sup>168</sup> See the latest [Ministerial Order](#) setting unaccounted for gas benchmarks for 2023–28 in the Victoria Government Gazette No. S 732 Wednesday 28 December 2022.

Other matters

with the Safeguard Mechanism are added to the costs which are then recovered from customers through haulage tariffs.<sup>169</sup>

As the existing framework for addressing unaccounted for gas is complex, we consider that modifying our code alone cannot adequately address certain concerns raised by stakeholders. However, we consider that some changes to provision of information obligations to provide more transparency could be made through our code as part of this review.

As explained in chapter 4, we propose to introduce an obligation for gas distributors to publish on their websites the most recently available data of unaccounted for gas for the previous five years, together with a comparison with the applicable unaccounted for gas benchmarks for each period. We already receive such information from gas distributors and publish it in our annual Victorian Energy Market Reports.<sup>170</sup> However, there is no obligation in the code for distributors to provide it and we consider that access to this information could be expanded for consumers, researchers, community groups and other stakeholders if it was published and updated in distributors' websites.

### Draft decision

Our draft decision is to require distributors to publish on their websites the most recently available data of unaccounted for gas for the previous five years and to include unaccounted for gas as a performance reporting requirement.

We do not intend to set new unaccounted for gas benchmarks when the current ones expire in 2028. We will collaborate with government, industry and other regulators to make necessary changes for a more streamlined and efficient framework for managing unaccounted for gas beyond that date.

Our draft decision proposes to include transparency measures related to unaccounted for gas in the form of new provision of information and reporting requirements. These proposed new obligations are explained in more detail in chapter 4.

We have recently set benchmarks which will apply until 2028.<sup>171</sup> We do not intend to set benchmarks beyond that date. Instead, in the coming years we intend to collaborate with

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<sup>169</sup> The 2023-28 access arrangements for Victorian gas distributors approved by the AER allowed the recovery of distributors' costs of complying with the Safeguard Mechanism by amending the tariff variation mechanism for haulage services. See, for example, AER, [Australian Gas Networks \(Victoria & Albury\) Gas distribution access arrangement, 1 July 2023 to 30 June 2028: Final decision - Overview](#), June 2023, pp. 33-34.

<sup>170</sup> See Essential Services Commission, [Victorian Energy Market Report 2021-22](#), 30 November 2022, p. 36.

<sup>171</sup> See [Unaccounted for gas benchmarks review 2022](#).

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government, industry and other stakeholders to make necessary changes for a more streamlined framework for managing unaccounted for gas beyond that date. We consider that further dialogue and further investigation is needed to account for the expected changes to gas distribution services and their potential impacts on unaccounted for gas, as well as to assess who is best placed to have oversight and what potential mechanisms are more adequate to regulate and provide incentives to lower the quantity of unaccounted for gas.

## 7. Enforcement, compliance and reporting obligations

The current code contains few obligations specified as civil penalty requirements or as reportable breaches.

To support our ability to monitor compliance and enforce obligations in the code, our draft decisions are to:

- specify the majority of obligations on gas distributors as civil penalty requirements
- review and move gas distributors' compliance and performance reporting obligations into a schedule of the proposed new code.

### Civil penalty requirements

#### Current framework and issues

Current civil penalty requirements in the code include only the obligation to make guaranteed service level payments and life-support equipment protections.<sup>172</sup>

Key obligations of the code, such as those related to the operation of distribution systems, connections, interruptions and disconnections are not currently specified as civil penalty requirements.

The current civil penalty requirements do not align with those in the Electricity Distribution Code of Practice or the Energy Retail Code of Practice. In those codes, the majority of provisions which impose obligations on regulated businesses are considered civil penalty requirements.

#### Stakeholder views

Distributors were generally against expanding the number of obligations specified as civil penalty requirements. AusNet noted that electrification will reduce the number of customers on the gas network and their reliance on gas appliances and that the burden of regulatory obligations should

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<sup>172</sup> Clause 1.6 of the Gas Distribution System Code of Practice (version 16).

reflect these changes.<sup>173</sup> AGIG and Gas Networks Victoria provided considerations for classifying obligations as civil penalty requirements such as potential harm to customers or safety impacts.<sup>174</sup>

Community climate action groups supported expanding the number of obligations specified as civil penalty requirements in the code. Darebin Climate Action Now encouraged strong penalties on obligations related to operation of distribution systems, metering, connections and disconnections to prevent unanticipated actions by distributors due to a declining customer base, government policies favouring electrification and growing customers exiting the gas network.<sup>175</sup> Friends of the Earth Melbourne supported civil and criminal penalties for breaches and for reporting failures to disincentivise breaches.<sup>176</sup>

## Analysis

We understand stakeholders' views that considerations of potential customer harms and impacts, operational requirements and changes to the customer base may be relevant when determining civil penalty requirements. However, we consider that these factors are more relevant for determining the amounts for civil penalties rather than whether the obligations should be specified as civil penalty requirements.<sup>177</sup> In our view, the commission's enforcement functions are better supported by having a greater range of tools available at our disposal, as provided for in the *Essential Services Commission (Compliance and Enforcement Powers) Amendment Act 2021*.

The current civil penalty requirements do not align with those in the Electricity Distribution Code of Practice or the Energy Retail Code of Practice. In those codes, the majority of provisions which impose obligations on regulated businesses are considered civil penalty requirements unless they:

- impose obligations on customers
- are merely signposting obligations in other instruments
- are non-operative provisions, which only inform the meaning or give instructions related to obligations contained in other provisions.<sup>178</sup>

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<sup>173</sup> AusNet, op. cit., p. 5.

<sup>174</sup> AGIG, op. cit., pp. 9-10; Gas Networks Victoria, op. cit., p. 4.

<sup>175</sup> Darebin Climate Action Now, op. cit., p. 5; see also Bass Coast Climate Action Network, op. cit., p. 6.

<sup>176</sup> Friends of the Earth Melbourne, op. cit., pp. 5-6.

<sup>177</sup> We note that the default amounts for civil penalties and penalty notices may be replaced by other amounts in regulations (made by government).

<sup>178</sup> See Essential Services Commission, [Making the Electricity Distribution Code of Practice: Final Decision](#), 11 August 2022, pp. 10-11.

We consider that this approach is suitable for determining which provisions should be civil penalty requirements and propose to apply it to the new code.

### Draft decision

Our draft decision is to specify the majority of obligations on gas distributors as civil penalty requirements.

Our proposed approach will increase the number of obligations specified as civil penalty requirements. This will provide us with a wider range of enforcement tools to oversee the obligations in the code. It is consistent with the approach taken when we remade the Energy Retail Code of Practice and the Electricity Distribution Code of Practice and with the rationale that the commission should be able to effectively enforce obligations in its codes of practice.<sup>179</sup>

## Reporting obligations

### Current framework and issues

Our compliance and enforcement functions include monitoring and reporting on compliance by gas distributors with their obligations under the code. Currently, distributors' reporting obligations relating to breaches are specified in our Compliance and Performance Reporting Guideline and are imposed on gas distributors under licence conditions.<sup>180</sup>

Few obligations are currently listed as distributor compliance reporting obligations. These are generally related to:

- life-support equipment
- providing information or documents to the commission
- guaranteed service levels payments.

In our issues paper, we proposed to move distributors' reporting obligations into a schedule of the new code to consolidate them in a single instrument.<sup>181</sup>

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<sup>179</sup> Ibid.

<sup>180</sup> Essential Services Commission, [Compliance and Performance Reporting Guideline – version 8](#), pp. 42-45.

<sup>181</sup> Essential Services Commission, [Gas Distribution System Code of Practice review: Issues Paper](#), 21 March 2023, p. 29.

## Stakeholder views

Darebin Climate Action Network, Gas Networks Victoria and AGIG supported including compliance and performance reporting obligations as a Schedule to the code.<sup>182</sup> Gas Networks Victoria noted that reporting obligations should be proportionate to their consequences whereas AGIG specified that these requirements should not be duplicated or unnecessarily increase compliance costs.<sup>183</sup> AusNet noted that reporting requirements should reflect the anticipated shift from gas to electricity with a declining burden of regulatory obligations for gas.<sup>184</sup>

## Analysis

We consider that moving distributors' reporting obligations into a schedule of the code would streamline regulation and align with recent amendments to electricity distributors' reporting obligations.<sup>185</sup> In assessing which obligations should be reportable and whether they should be classified as type 1 or type 2 breaches, we consider that the approach in the Compliance and Performance Reporting Guideline is appropriate.<sup>186</sup>

Additionally, we consider that performance reporting obligations could be introduced in the new code. There are currently no performance reporting obligations for gas distributors in the Compliance and Performance Reporting Guideline. However, we receive information from gas distributors on unaccounted for gas annually. Formalising performance reporting obligations for gas distributors in the new code would improve our access to relevant data which may inform future reforms or compliance activities. We propose to include annual reporting requirements on gas distributors' performance related to:

- unaccounted for gas
- guaranteed service levels
- abolishments.

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<sup>182</sup> Darebin Climate Action Now, op. cit., p. 5; Gas Networks Victoria, op. cit., p. 4; AGIG, op. cit., p. 10.

<sup>183</sup> Gas Networks Victoria, op. cit., p. 4; AGIG, op. cit., p. 10.

<sup>184</sup> AusNet, op. cit., p. 5.

<sup>185</sup> Essential Services Commission, [Distributor reporting obligations – Electricity Distribution Code of Practice update: Final decision](#), 22 December 2022, p. 4.

<sup>186</sup> Essential Services Commission, [Compliance and Performance Reporting Guideline – version 8](#), p. 42.

## Draft decision

Our draft decision is to move gas distributors' compliance and performance reporting obligations into a schedule of the proposed new code.

We propose to introduce annual performance reporting obligations related to unaccounted for gas, guaranteed service levels and abolishments.

We have classified reportable obligations using the same approach as our Compliance and Performance Reporting Guideline into type 1 obligations, type 2 obligations and material adverse breaches. These classifications address differences between customer impacts and how impacts of non-compliance increase over time. These breaches classifications also have different reporting requirements.

### Type 1 reporting obligations

For gas distributors, type 1 reporting obligations are those where non-compliance may have or could potentially have a critical impact on customers and the impact of that non-compliance potentially increases over time if it is not rectified quickly. Distributors must report potential or actual type 1 breaches within two business days of detecting the issue to provide us with immediate visibility of the matter, including any remediation actions. Where an incomplete type 1 report is submitted because the matter is still under investigation, the gas distributor must submit an updated report within 20 business days of its initial report.

### Type 2 reporting obligations

Type 2 reporting obligations are those where non-compliance may have or could potentially have a significant or moderate impact on customers and the impact of that non-compliance potentially increases over time. Distributors must report potential or actual type 2 breaches within 30 calendar days of detection. These are maximum reporting timeframes.

When determining which obligations were reportable as type 2 obligations, we considered risks of customer detriment, operational risk, the ease of verifying compliance and whether distributors would be required to create a reporting framework for minimal customer benefit. These align with stakeholder recommendations relating to customer harm and impacts and operational considerations.

### Breaches that may give rise to a material adverse impact

Distributors must report potential breaches of any other regulatory obligations, including licence conditions, that may give rise to a material adverse impact on consumers or the Victorian energy market as soon as practicable. The reporting obligation arises when a distributor has reasonable



grounds to believe that a potential breach may have occurred and may have a material adverse impact on consumers or the market. The distributor should not wait until confirmation of either the breach or the materiality of harm before reporting the matter.

### **Annual report**

Gas distributors must submit an annual summary of all type 1 and 2 breaches and any other breaches identified during the period. These annual reports must be signed by the CEO or managing director of the distributor. Distributors will need to submit a nil compliance report in instances where the distributor has no breaches to report for a relevant annual reporting period.

### **Gas distributors' performance indicators**

Our proposed new performance indicators require distributors to report annually, following the end of each financial year, on guaranteed service levels data, unaccounted for gas data, and abolishments data.

#### **Questions for stakeholders**

8. Do you have any feedback on our proposed compliance and performance reporting requirements? Please discuss.

## 8. Updating gas distribution licences

We propose to update gas distribution licences to remove outdated conditions and to update provisions, so they are aligned with our new enforcement framework and the proposed Gas Distribution Code of Practice.

### Streamlining gas distribution licences

Since the Essential Services Commission Act was amended on 1 December 2021, which saw the removal of enforcement orders and replacement of that tool with several other enforcement mechanisms, we have been updating licences issued by the commission. Energy retail and electricity distribution licences have already been updated.

We propose to apply the same principles used for other licence reviews in our approach to reviewing gas distribution licences. Our approach aims to:

- remove conditions which have been superseded by developments in the regulatory framework
- remove conditions that relate to matters common to all distributors and which may be addressed in the new code
- update outdated terms, definitions and references to other regulatory instruments
- review remaining conditions so that they are enforceable and aligned with the new code.

We note that licences may be varied by agreement between the commission and the licensee, or by a notice issued by the commission.<sup>187</sup>

We have drafted proposed variations to standard licence conditions common to all gas distributors and set them out in further detail in the following annexes:

**Annex C:** Proposed variations to gas distribution licences

**Annex D:** Proposed template gas distribution licence

We do not intend to address licence conditions which are specific to individual gas distributors in this review. We propose to retain these specific licence conditions unless we consider they have become redundant or that they may need to be updated.

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<sup>187</sup> Section 38(1) of the *Gas Industry Act 2001*.

## **Next steps**

We seek feedback from gas distributors on the proposed licence variations set out in Annexes C and D.

We will consult each gas distributor individually on their proposed new licence and we will seek gas distributors' consent to vary licences by agreement before our final decision.

### **Questions for stakeholders**

9. Do you have any feedback on our proposed variations to gas distribution licences? Please discuss.

## 9. Changes to other instruments

We propose to repeal Gas Industry Guideline No. 17 and to make consequential amendments to the Energy Retail Code of Practice.

### Gas Industry Guideline No. 17

[Gas Industry Guideline No. 17](#): Regulatory Accounting Information Requirements specifies the commission's requirements for the collection and recording of business data by gas distributors.

This Guideline has not been updated since 2008, when the responsibility for economic regulation of Victorian gas distributors was transferred from the commission to the AER. It remained in force during a transitional period until the first access arrangements approved by the AER for Victorian gas distributors.<sup>188</sup>

The AER now collects comprehensive regulatory accounting information from Victorian gas distributors. This is done annually by regulatory information notices (RINs), as part of the AER's performance monitoring functions. Gas distributors are also required to maintain separate accounts as required by the ring-fencing provisions of the National Gas Law.<sup>189</sup>

We consider that the Guideline is now effectively redundant and propose that it be repealed.

### Energy Retail Code of Practice

The Energy Retail Code of Practice contains a few references to the Gas Distribution System Code of Practice, particularly in provisions concerning life-support equipment. Remaking the code will require consequential amendments to the Energy Retail Code of Practice to align it with new clause numbering.

We set out proposed amendments to the Energy Retail Code of Practice in **Annex E** to reflect changes to clause numbering that arise from the making of the proposed Gas Distribution Code of Practice.

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<sup>188</sup> See section 37 of the *National Gas (Victoria) Act 2008*.

<sup>189</sup> See section 141 of the National Gas Law.

### **Questions for stakeholders**

10. Can you identify any other changes to codes of practice, guidelines, licences or other instruments we may need to make as a consequence of the proposed Gas Distribution Code of Practice?

11. Are there any issues with implementing the proposed Gas Distribution Code of Practice that we should consider?

12. Do you have other comments, feedback or suggestions about our draft decision or the proposed new code?