ESSENTIAL SERVICES COMMISSION

GAS DISTRIBUTION SYSTEM CODE

REVIEW OF UNACCOUNTED FOR GAS BENCHMARKS

DRAFT DECISION

MARCH 2013

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1 DRAFT DECISION

1.1 Background

The Essential Services Commission (Commission) received a formal request from the Australian Energy Regulator (AER) to amend and update the Unaccounted for Gas (UAFG) benchmarks in the Gas Distribution System Code (GDSC). The benchmarks impact the three gas distribution businesses (GDBs) in Victoria—Envestra, Multinet and SP AusNet. More generally, they impact the cost of gas supply to retail businesses and, ultimately, most Victorian households and businesses.

The benchmarks in the GDSC—previously determined by the Commission for the 2008–12 period—were extended by the Victorian Government for the period 2013–17 pursuant to a Ministerial Order dated 21 December 2012. The benchmarks and further decisions made as part of this review will replace those in the Ministerial Order.

UAFG is the difference between metered gas injected at various supply points and the allocated gas at end-use customer delivery points. The setting of UAFG benchmarks forms part of a mechanism to incentivise the GDBs to improve the reliability of the Victorian gas distribution network.

The Commission released an issues paper for consultation in December 2012 and received six submissions, including from the three GDBs, AGL, Origin Energy and the Australian Energy Market Operator (AEMO).

The Commission reviewed the submissions and assessed separate benchmarks for the two Victorian UAFG customer classes that are supplied through the Principal Transmission System (PTS). Class A customers use more than 250 TJ per annum and are typically serviced by the high pressure network. Class B customers use less than 250 TJ per annum and typically use medium to low pressure networks. The Commission also reviewed proposals to combine the Victorian and Albury networks for UAFG purposes, and to reset the benchmarks for each GDBs' non-Principal Transmission System (non-PTS) networks.

The benchmarks for class A customers are not contentious. Submissions received did not focus on this customer class. The Commission notes that the actual data for class A has been stable over time, which reflects the type of infrastructure that supplies class A customers—high pressure mains that have very low leakage rates and more accurate interval meters.

Submissions largely focus on class B benchmarks.

1.2 Uncertainty about UAFG drivers

The class B benchmarks were previously set on the accepted assumption that there was a significant correlation between the GDBs' low pressure mains replacement program and UAFG levels. Leaks from gas pipes were thought to be the major component of UAFG in Victoria. The Commission considered that as the GDBs replaced their old cast iron and unprotected steel networks with welded steel and fused polyethylene distribution systems, UAFG levels would decline over time.

For the current review, the GDBs submitted actual UAFG data (provided as part of the AEMO administered reconciliation process) to suggest the relationship between low pressure mains replacement and UAFG is less clear. The GDBs submit that the other factors that cause UAFG—such as metering error, meter reading timing, new and changing injection at supply points, and a number of other causes—are more significant. In addition, the data provided by the GDBs shows UAFG levels are highly variable from year-to-year with no clear downward trend.

The Commission accepts that although mains replacement would lower UAFG levels over time, it is possible these other factors may have a more significant effect on UAFG levels, as shown by the actual results over the 2008–11 period. There appears to be a high degree of uncertainty about the extent to which the various factors contribute to UAFG levels. They seem to pull in opposite directions and affect each distribution system differently.

However, the Commission is concerned that the GDBs have not made sufficient attempts to identify and understand the causes of UAFG. The exception is SP AusNet, which commissioned a study to determine the contributors to UAFG and to help SP AusNet develop a strategy to reduce UAFG levels.

The Commission considers that all GDBs should have been concerned about exceeding the UAFG benchmarks in the 2008–12 period. The GDBs were also aware they would be required to make a submission for the next regulatory review. Accordingly, the Commission expects a prudent business would undertake a significant review of the causes of UAFG and consider a comprehensive strategy for reducing UAFG levels in the 2008–12 period, as demonstrated by SP AusNet.

The Commission expects Envestra and Multinet to provide a more detailed assessment of the causes of UAFG to support its respective UAFG benchmark proposals for the 2013–17 period. Further, Envestra and Multinet should demonstrate how they have taken significant steps to seek out efficiencies to minimise UAFG.

Envestra and Multinet have an opportunity to explain how they acted prudently in light of concerns about high levels of UAFG. The Commission will consider all further information in making its final decision. However, the broad argument presented by

Multinet and Envestra that there is significant uncertainty about the causes of UAFG does not justify considerably higher benchmarks without detailed, supporting information.

1.3 Setting forward benchmarks

The Commission does not propose to alter the Class A benchmarks from previous levels. The GDBs did not provide information to suggest a change is warranted.

For class B benchmarks, the Commission does not have sufficient information to understand why Envestra and Multinet were unable to meet previous benchmarks. For example, these GDBs failed to explain why they did not complete their funded low pressure mains replacement programs, and how these decisions impacted UAFG levels. Without this information, the Commission does not have a basis for moving away from the current class B benchmarks. Again, the information burden is on Envestra and Multinet to explain the high levels of UAFG.

In contrast, SP AusNet largely completed its mains replacement program and provided detailed information on the causes of UAFG for its specific network. Also, SP AusNet demonstrated it is in the process of developing a more comprehensive strategy to minimise UAFG levels. Finally, the gap between the 2008–12 benchmarks and SP AusNet's actual UAFG levels is significantly lower compared to Envestra and Multinet.

The Commission therefore is confident it can use SP AusNet's historical data to set the forward benchmarks for class B customers. SP AusNet proposed the most recent year's actual data as the base year for forecasts. However, the Commission considers a three-year average (2008–10) is appropriate given significant variances from year-to-year in the actual data could otherwise create distortions in the forecasts.

For the non-PTS networks, the Commission set the previous benchmarks for the first time in 2008 based on the information provided and determined a common rate for the three GDBs (at 2 per cent). The 2013–17 benchmarks for SP AusNet are now based on its historic data to reflect the GDBs' circumstances—as detailed in its submission. Multinet did not provide sufficient evidence to support its proposed increase. Envestra proposed no change. The Commission therefore considers that for Multinet and Envestra the current non-PTS benchmarks are appropriate and should be retained.

The Commission considers there is merit in Envestra's proposal to align the Envestra Victoria and Albury benchmarks as the networks are contiguous and the causes of UAFG would be similar across the two networks. In addition, the only other submission received supported the change. However, as the alignment would reduce the Albury benchmark based on the Envestra Victoria draft decision, for the purpose of this draft

decision the Commission has maintained the current Albury benchmarks pending any further information provided by Envestra.

Table 1.1 and table 1.2 set out the forward benchmarks for class A and B customers and the non-PTS networks.

Table 1.1 Updated 2013–17 UAFG class A and B benchmarks (per cent)

	Class B					Class A
	2013	2014	2015	2016	2017	2013-17
Envestra Victoria	2.6	2.6	2.6	2.6	2.6	0.3
Envestra Albury	3.0	3.0	3.0	3.0	3.0	0.1
Multinet	3.1	3.1	3.1	3.1	3.1	0.3
SP AusNet	5.4	5.4	5.4	5.4	5.4	0.3

Table 1.2 Updated 2013–17 UAFG non-PTS benchmarks (per cent)

	2013	2014	2015	2016	2017
Envestra Victoria	2.0	2.0	2.0	2.0	2.0
Multinet	2.0	2.0	2.0	2.0	2.0
SP AusNet	5.8	5.6	5.3	5.1	4.9

1.4 When will the updated UAFG benchmarks apply?

The Victorian Government amended the UAFG benchmarks in the GDSC by Ministerial Order (Order).[1] The amended benchmarks in the Order had the effect of extending the 2012 benchmarks in the GDSC to cover the 2013–17 period.

[1] Published as Special gazette, s460 on 24 December 2012.

The Commission received a formal request from the AER under section 32 of the National Gas (Victoria) Act 2008 requesting it to amend Schedule 1 of the GDSC to update UAFG benchmarks for the 'interim period' until the National Energy Retail Law (Vic) Bill is passed.[2] The Commission can reset the UAFG benchmarks in accordance with the change procedures in Schedule 4 of the GDSC. Using these procedures the Commission will review the UAFG benchmarks for the period 2013–17.

The GDBs submitted that any amendments to the GDSC should be retrospective and apply from 1 January 2013.

The Commission does not consider it appropriate to make the benchmarks retrospective as the Order sets the benchmarks until the Order is repealed. In addition, the Commission notes there are practical issues for AEMO—who use the benchmarks prospectively for wholesale market settlement purposes—in making the benchmarks retrospective. There are also administrative issues for the Commission to consider in making the benchmarks retrospective. Specifically schedule 4 of the GDSC, which provides for the Commission to amend the GDSC, states that:

> *the date specified on the amendment must not be earlier than the date on which the amendment is made without the prior agreement from Distributors and the Commission's Customer Consultative Committee.*

The Commission's draft decision is that the amended UAFG benchmarks will be effective from 1 July 2013.

The Commission has scoped an amended timetable to review the benchmarks and update the GDSC. As the amendments to the GDSC will be reflect the final decision, the Commission now intends to release the updated the GDSC Schedule 1 as part of the final decision.

Next steps

Interested parties are invited to make submissions in response to this draft decision. The deadline for submissions is 10 May 2013.

Submissions should be sent electronically to energy.submissions@esc.vic.gov.au and addressed to the attention of Jeff Cefai, Director of Energy, Essential Services Commission of Victoria.

[2] Letter from AER to the Essential Services Commission, 9 November 2012.

Queries can be directed to Jeff Cefai on (03) 9032 1320 or Anthony Bell on (03) 9290 6914.

Submissions will be made available on the Commission's website, except for any information clearly identified as commercially confidential or sensitive. Any material that is confidential should be clearly marked as such.

Once the Commission has considered the further submissions, it will publish its final decision on 14 June 2013.

2 ABOUT THE REVIEW

This review is being conducted to reset the current UAFG benchmarks that apply to the three GDBs in Victoria—Envestra, Multinet and SP AusNet. The benchmarks impact the GDBs. More generally, they impact the cost of gas supply to retail businesses and, ultimately, most Victorian households and businesses.

The UAFG reset process for Victoria is set out in the GDSC, which specifies the annual benchmark percentage of UAFG and the period the benchmarks are to apply.

The benchmarks apply to 'Class A' and 'Class B' customers on the Principal Transmission System (PTS), and non-PTS networks. Class A refers to customers with an annual consumption greater than 250 TJ per annum. Class B refers to customers with an annual consumptions less than 250 TJ per annum. The non-PTS networks are small and, therefore, the quantities and associated costs of UAFG are much smaller when compared to PTS UAFG.

The benchmarks set out in the Code were extended by the Victorian Government for the 2013–17 period. The current benchmarks are shown in table 2.1 below.

Table 2.1 Current UAFG benchmarks for 2013–17 (per cent)

	Class B	Class A
Envestra (Victoria)	2.6	0.3
Envestra (Albury)	3.0	0.1
Multinet	3.1	0.3
SP AusNet	4.9	0.3
All non-Principal Transmission System (PTS) networks	2.0	2.0

This review will assess appropriateness of the UAFG benchmarks in Table 2.1. The Commission may propose to amend and update the UAFG benchmarks in the GDSC.

2.1 What is unaccounted for gas?

UAFG refers to the difference between the measured quantity of gas entering the gas distribution system and the gas billed to customers. The causes of UAFG are discussed in section 3.1.

The UAFG benchmarks are intended to incentivise the GDBs to take steps to minimise levels of UAFG. If the level of UAFG meets the benchmarks, the GDBs do not contribute towards the cost of UAFG. However, if the volume exceeds the benchmark the GDBs are required to compensate the gas retailers for the UAFG in excess of the benchmarks. Where UAFG is below the benchmark, retailers make reconciliation payments to the relevant GDB.

Under Part 19 of the National Gas Rules 2008 the Australian Energy Market Operator (AEMO) has established procedures for reconciling UAFG.[3] Under AEMO's Procedures, reconciliation payments are made by either the retailers or the GDBs - depending on whether actual UAFG is over or under the benchmark. To prepare the reconciliation statement, AEMO relies on energy consumption data for both Class A and Class B customers.

Benchmarks for each Victorian GDB are set out in part C of Schedule 1 to the GDSC. These benchmarks are adopted by AEMO in its procedures. The GDSC currently contains UAFG benchmarks for the years 2008–12. The GDSC specifies separate benchmarks for each GDB.

2.2 Why is the Commission undertaking this review?

The AER is responsible for assessing the 2013–17 Victorian gas access arrangements but does not have power to set the UAFG benchmarks.

The Victorian Government recently extended the UAFG benchmarks in the GDSC. The 2012 benchmarks set by the Commission as part of the 2008–12 access arrangement review were extended to the 2013–17 period.

The Commission received a formal request from the AER under section 32 of the National Gas (Victoria) Act 2008 requesting it to amend Schedule 1 of the GDSC to update UAFG benchmarks for the 2013–17 period.

[3] UAFG benchmarks are also required for the purposes of rule 235(8) of the National Gas Rules. This rule requires the assignment of a UAFG benchmark in accordance with a declared metering requirement.

2.3 Assessment of submissions

In performing its functions and exercising its powers, the objective of the Commission is to promote the long term interests of Victorian consumers having regard to the price, quality, and reliability of essential services. In addition, the Commission must have regard to efficiency in the industry, incentives for long term investment, and the financial viability of the industry—among other things.[4] The Commission will conduct this review consistent with these objectives.

Submissions received by the Commission focus on UAFG benchmarks for class B customers. The analysis in this draft decision mainly addresses issues in relation to benchmarks for these customers.

2.4 Structure of this paper

The remaining sections of this draft decision include:

- Chapter 3: Key issues—this chapter presents an analysis of key issues raised by submitters.
- Chapter 4: Setting of UAFG Benchmarks—this chapter presents an analysis and findings of submitters' proposals on the setting the UAFG benchmarks.
- Chapter 5: Draft decision—this chapter provides a summary of the Commission's draft decision on 2013–17 UAFG benchmarks for the PTS and non-PTS networks.
- Chapter 6: Next Steps—this chapter presents next steps detailing the draft decision submission process and timetable to project completion including final update of the GDSC.

[4] Essential Services Commission Act 2001, section 8A.

3 KEY ISSUES

This chapter presents submitters' proposals on the key issues that underpin the setting of UAFG. The chapter provides context to these proposals and an analysis of the fundamental UAFG issues that may drive UAFG.

3.1 UAFG drivers

There are a number of factors that cause UAFG. They can pull in opposite directions and will affect each distribution system differently. Components contributing to UAFG include:

- Physical leakage—caused by transmission and mains distribution losses, service and meter losses, regulator leakage, and third party damage.
- Metering accuracy—caused by physical accuracy of meters, timing mismatch and administrative process error. Uncertainty in the measurement of volume, temperature, pressure and heating value will influence metering accuracy.
- Meter bypass and theft.

Even in the case of a new gas distribution system, there will be some amount of UAFG. Also, although new technology and improved business practices can reduce UAFG levels, continued expansion of the networks may increase the absolute level of system-wide UAFG.

The GDBs can control leakage to an extent, most notably through mains replacement. Also, the GDBs own the meters and therefore have some control over meter accuracy. However, there are elements that the GDBs do not practically control such as theft and heating value. Further, it may not always be cost effective to, for example, significantly improve meter accuracy or deter theft. It is also possible that a one-off event could contribute to UAFG levels—such as leaving a gas valve open.

The GDBs provided high-level information to suggest UAFG levels would not necessarily fall over time with increased low pressure mains replacement for class B customers (section 3.2). There is considerable uncertainty and the GDBs submit other factors have had a more significance effect on UAFG levels (section 3.3).

Although the Commission accepts the GDBs do not control some of these factors, with the exception of SP AusNet, they did not provide detailed information that demonstrates the GDBs have attempted to identify the causes of UAFG (section 3.4). The Commission cannot rely on external comparisons to supplement the lack of information from Envestra and Multinet (section 3.5).

Class A customers are serviced by high pressure mains that have stable and very low leakage rates relative to class B customers. This is reflected by the differences in the current benchmark rates as shown in table 2.1 above. For example, class B benchmarks range from 2.6 to 4.9 per cent of throughput compared to class A benchmarks of 0.3 per cent.

The GDBs' submissions mainly highlight the causes of UAFG for class B customers, as noted above. Class A benchmarks are less contentious.

3.2 UAFG and low pressure mains replacement

In its 2008 decision, the Commission considered that leakage from low pressure pipes is a significant cause of UAFG. The Commission stated the GDBs' mains renewal programs will result in UAFG for Class B customers trending downwards as leakage is reduced—all other things being equal.

Multinet accepted there was a relationship between low pressure pipe replacement and the level of UAFG and that it was reasonable to set UAFG benchmarks to reflect the replacement program. Envestra and SP AusNet were noted as making similar comments in their 2007 submissions.[5] The Commission set class B benchmarks to reflect this expectation.

3.2.1 Submissions to this review

Origin states that as the average age of the pipes continues to fall through expansion and renewal, losses should continue to fall. Origin submits this is particularly the case on the faster growing networks of SP AusNet and Envestra.[6]

AGL did not directly comment on this issue.

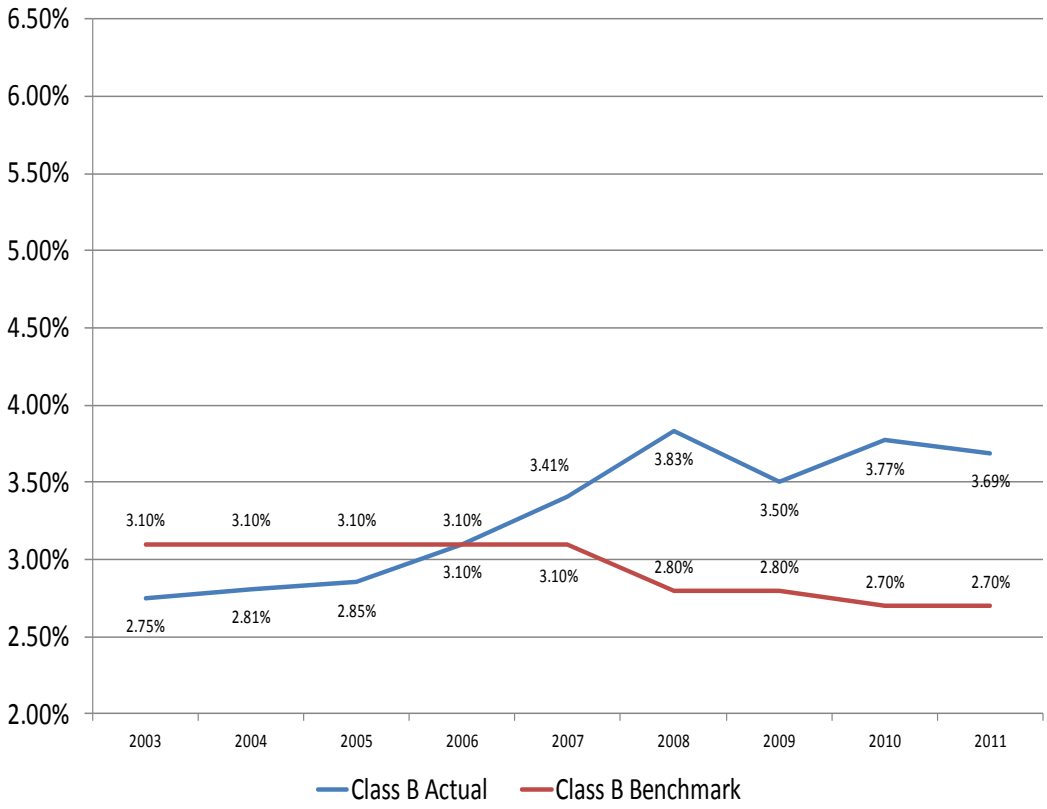
Envestra, Multinet and SP AusNet provided historic data for class B customers to show their low pressure mains replacement program has not reduced UAFG over time.

5 ESC, Gas Access Arrangement Review 2008–2012, final decision, 7 March 2008 [ESCa], p. 197.

6 Origin submission, 20 December 2012 [Origin submission], p. 2.

Envestra submits that UAFG levels increased by 1 percentage point from 2003 to 2011.[7] In particular, UAFG increased from 3.3 per cent of throughput in 2007 to 3.8 per cent in 2008. UAFG then varies between 2009 to 2011 (figure 3.1).

Figure 3.1 Envestra Class B UAFG volumes: actual and benchmark, 2003–11

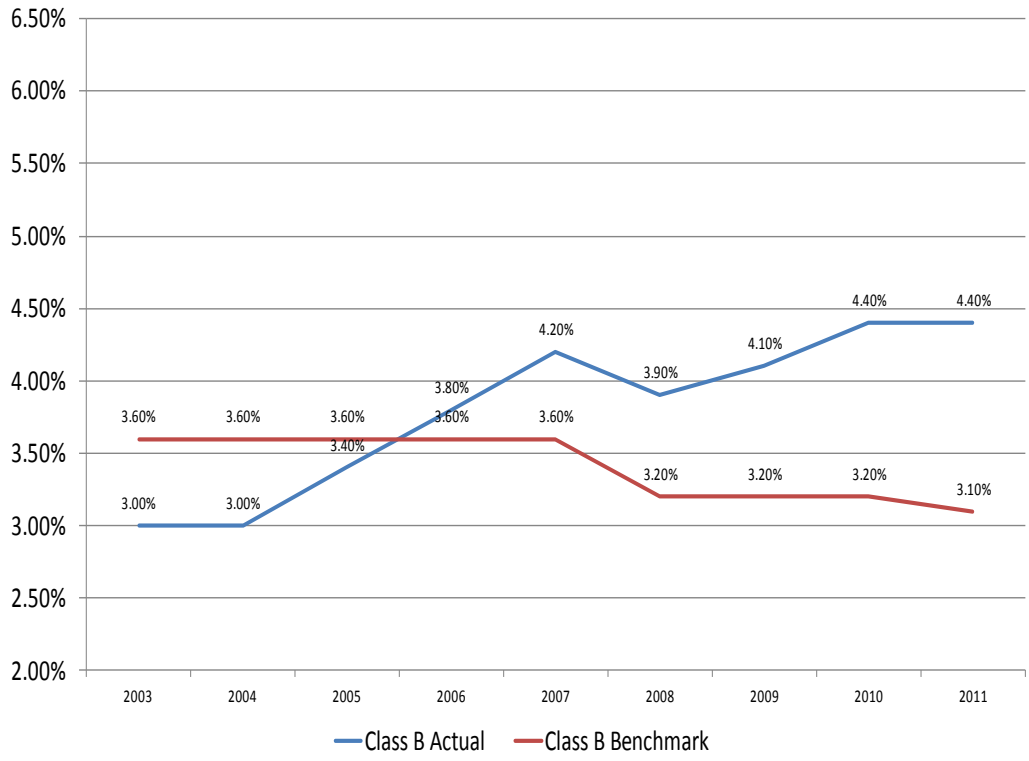


Envestra propose a class B UAFG benchmark of 3.7 per cent for the 2013–17 period.

[7] 2011 data is an estimate by Envestra.

Multinet submits that UAFG levels increased by 1.2 percentage points from 2003 to 2007. Since 2007, UAFG levels fell from 4.2 per cent of throughput to 3.9 per cent in 2008, but then increased to 4.4 per cent in 2010 (figure 3.2).[8]

Figure 3.2 Multinet Class B UAFG volumes: actual and benchmark, 2003–11

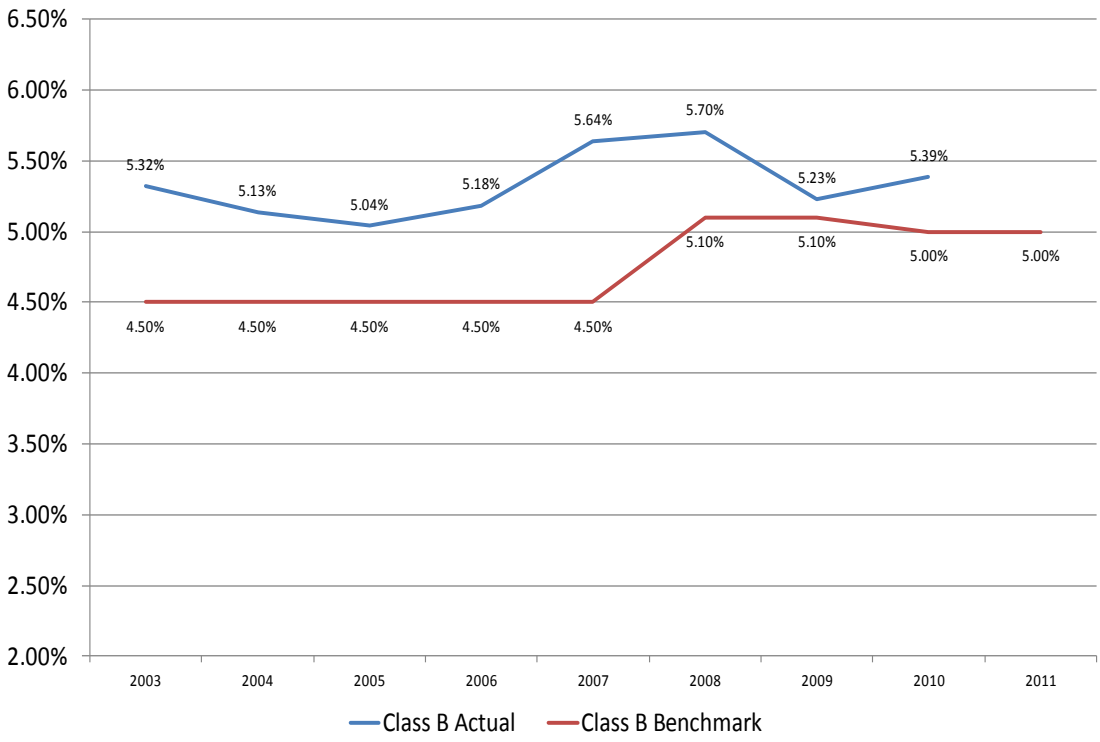


Multinet propose a class B UAFG benchmark of 4.4 per cent for the 2013−17 period.

8 2011 data is an estimate by Multinet.

SP AusNet submits UAFG levels varied especially between 2008 and 2010. In particular, UAFG levels changed from 5.7 per cent of throughput (2008) to 5.2 per cent (2009), then to 5.4 per cent (2010) (figure 3.3).[9]

Figure 3.3 SP AusNet Class B UAFG volumes: actual and benchmark, 2003–11

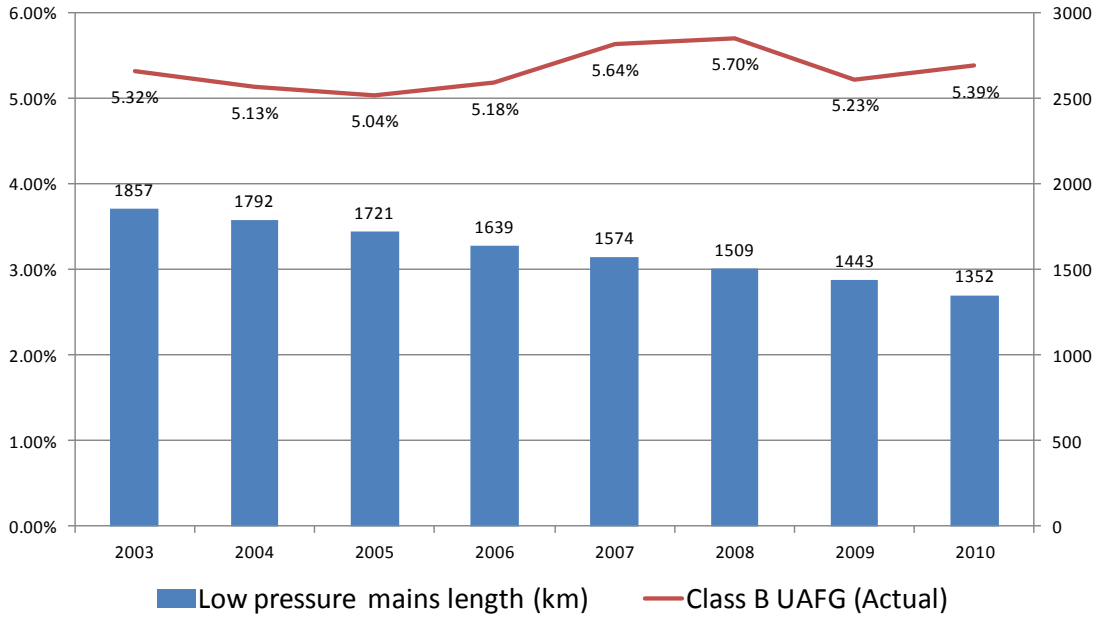


SP AusNet propose a class B UAFG benchmark of 5.4 per cent for the 2013–17 period.

[9] An estimate of 2011 data was not provided by SP AusNet. SP AusNet noted the 2011 result is not yet settled and it is still awaiting agreement from some retailers.

SP AusNet provides further data comparing UAFG levels and the length of the low pressure network (figure 3.4). Increased mains replacement reduces the length of the low pressure network. SP AusNet submits that although intuitively mains replacement should have a discernible impact on UAFG, the relationship is unclear as shown in figure 3.4.[10]

Figure 3.4 SP AusNet comparison of mains replacement and UAFG, 2003–10



Commission view

The Commission notes that UAFG levels have varied significantly from year-to-year for the three GDBs, especially over 2008–11. In addition, for Envestra and Multinet there has been a noticeable increase in absolute UAFG levels since the mid-2000's.

The high-level information provided by the GDBs suggests there is little correlation between the GDBs' mains replacement programs and overall UAFG levels. Other influences may have led to an overall increase in UAFG.

However, this information is not conclusive and the Commission considers the mains replacement program can reduce UAFG at least at the localised level. The onus is on the GDBs to provide clear evidence to demonstrate that the previously accepted relationship between low pressure mains replacement and UAFG levels no longer holds. The GDBs' argument relies heavily on the assumption that the causes of UAFG

10 SP AusNet submission, December 2012 [SP AusNet submission], p. 5 (section 1.5.1).

are uncertain. The GDBs, with the exception of SP AusNet, did not provide detailed information that demonstrates they have attempted to identify the causes of UAFG.

3.3 Uncertainty about the causes of UAFG

The GDBs submit there is a high level of uncertainty about the extent to which factors such as pipe leakage, metering accuracy, heating value impacts caused by new sources of supply, and other UAFG elements contribute to UAFG. Information provided to the Commission indicates there are approximately 17 components that contribute to UAFG which makes the task of analysing the components of UAFG considerably complex.[11]

SP AusNet provided a commercial-in-confidence report that addressed some of these issues. The report by Asset Integrity Australasia (AIA) assessed contributors to UAFG, and is used by SP AusNet to assist it to develop a strategy to reduce UAFG levels. AIA has given permission for the Commission to publish certain parts of the report.

In its report AIA found significant uncertainty in measuring the various elements of UAFG:

> *Unaccounted for Gas (UAFG) is an easy concept (inputs minus outputs), however in practice many parts make up total UAFG and some of these factors are extremely hard to measure with certainty. Indeed there is an inherent uncertainty with measuring a compressible fluid whose measurement changes with pressure and temperature conditions, composition and flow rates together with the fact that physical unmetered losses from the network are by definition lacking in data.*[12]

AIA also assessed how much each of the various factors contribute to UAFG.

AIA was unable to identify the cause of over half of UAFG levels. As stated by AIA, 'the estimation of UAFG to each category results in 54 per cent of actual UAFG not attributed to any category'.[13]

It is unclear if the same level of uncertainty exists for the Envestra and Multinet networks. The AIA report considered SP AusNet's specific circumstances.

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11 Review of Gas Distribution Businesses Unaccounted for Gas, Prepared for Essential Services Commission by Zincara P/L, [Zincara]

12 AIA, RP 031 UAFG Phase B Short Report: Review of SP AusNet strategy and data requirements for desktop UAFG review, 5 October 2011 (Confidential) [AIA report], p. 7.

13 AIA report, p. 5.

Submissions largely focussed on three of the causes of UAFG, metering accuracy, leakage and heating values, which are discussed in more detail below.

Metering accuracy

The AIA report noted that it may be particularly difficult to quantify the contribution that metering accuracy makes to UAFG.[14]

Also, Multinet submits:

> *Given the magnitude of measurement errors at both the upstream and downstream ends of the distribution system, the level of uncertainty in UAFG attributable entirely to meter calibration errors could easily exceed ±2%. Apart from calibration errors, other factors that contribute to metering uncertainty include the accuracy of gas heating value (HV) allocation and barometric and ambient temperature effects. Moreover, the factors affecting UAFG will not be constant over time, especially as gas loads and meter populations change.*[15]

While acknowledging that metering errors contribute to UAFG, the Commission understands that there is insufficient data to demonstrate there will be an increasing or decreasing trend from metering errors.[16] Therefore, the Commission considers that with little available information it is difficult to assign any specific contribution of meter accuracy to overall UAFG.

Further, it is expected that with the number of meters in the field, there would have to be a particular bias in all meters for this accuracy range to have a negative contribution to UAFG. It is expected that inherent accuracy range would most likely be small over the time considering the large number of meters.[17]

Leakage

Although it is possible that low pressure mains replacement may not have a significant impact on overall UAFG levels, leakage could still be a factor depending on the circumstances of the network. UAFG caused by continued deterioration of the distribution systems may outweigh the effects of mains replacement—at least where the old cast-iron pipes still serve significant parts of a network.[18]

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14 AIA report, pp. 5–6.

15 Multinet submission, December 2012 [Multinet submission], p. 2 (section 1.1).

16 Zincara

17 Zincara

18 Multinet specifically states a relatively high proportion of its distribution network is composed of cast-iron pipes (Multinet submission, section 1.2)

AIA found the contribution to UAFG from the low pressure network is relatively small and less than that for other parts of the network—despite much higher UAFG per km for cast iron and unprotected steel.[19]

Further, AIA states that although the replacement of low pressure mains will reduce leakage, these reductions are counterbalanced by increases in UAFG from changes in pressure and temperature, and continued deterioration of the remaining medium and low pressure mains.[20] Similarly, Multinet submits:

> *... the net leakage from Multinet's distribution network is unlikely to reduce in proportion to the length of cast-iron pipes that are replaced. In effect, any reduction in leakage from the replaced pipes is likely to be counter-balanced by increased leakage from the remaining cast iron pipes.*[21]
>
> *...*
>
> *The changing impact of metering uncertainty on UAFG means that the impacts of cast-iron replacement each year are going to be masked by the year-to-year fluctuations in the UAFG determination.*[22]

The Commission finds that from an analysis of the information provided it is not possible to quantify the gas loss in the network, nor is it possible to quantify the gas savings from a reduction in leaks resulting from the low pressure to high pressure upgrading.

Heating value

Envestra submits the 2008–12 benchmarks did not take into account the changing source of supply of gas in Victoria and, therefore, were set too low. Envestra further submits the consequential change to heating values of new supply sources had an impact of approximately 0.3 to 0.5 per cent over 2008–10. Envestra notes the impact of heating value on UAFG should have a constant effect for the 2013–17 period.[23]

Similarly, Multinet highlights the effect that the quality of gas may have on UAFG. Due to its inferior quality, Multinet claims that the gas obtained from Bass Gas Station has altered the overall heating value of the gas when compared to earlier years. Multinet's

19 AIA report, p. 5.

20 AIA report, p. 59.

21 Multinet submission, p. 2 (section 1.2).

22 Multinet submission, p. 3 (section 1.2.1).

23 Envestra submission, 21 December 2012 [Envestra submission], pp. 4–5.

analysis indicates that this has contributed up to 0.4 per cent of the increase in UAFG since 2006.[24]

AEMO agreed with Envestra's submission that over the period 2005–08, Envestra may have been disadvantaged as a result of multiple gas sources been injected into the distribution systems.[25] AEMO estimates that in 2008 there could be a difference of 0.4 per cent between the state wide heating value and the average zonal heating value. Similarly, AEMO estimated that Multinet could be disadvantaged by 0.2 per cent.[26]

SP AusNet does not submit it was impacted by the same change in gas supply that affected UAFG levels for Envestra and Multinet.

Commission view

The Commission accepts that there is a high degree of uncertainty about the causes of UAFG, especially for metering accuracy and leakage. But this finding may reflect more a lack of evidence provided by the GDBs. SP AusNet provided detailed information about its network. Nevertheless, the study SP AusNet commissioned recommends a broader understanding of UAFG is needed, and that the quality of data available in all UAFG categories can be improved.[27]

Specifically in relation to the changing supply sources, the Commission accepts the AEMO view that Envestra and Multinet may have been disadvantaged by the use of a state wide heating value. The Commission, however, is not clear how Envestra and Multinet have assessed the contribution of heating value on the increase in UAFG.

3.4 Better understanding needed

The Commission is concerned that the GDBs have not made genuine attempts to identify and understand the causes of UAFG, with the possible exception of SP AusNet. Submissions by the GDBs largely rely on high-level assertions based on the historic data. Evidence at a more detailed level as to the causes of UAFG was limited.

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24 Multinet submitted that the Bass Gas Station located near Lang Lang and operated by Origin Gas has effectively changed the overall quality of gas entering Multinet's system. Multinet claims the gas obtained from Bass Gas is of an inferior quality to gas provided by Longford, and has changed the overall heating value of the gas when compared to earlier years (Multinet submission, December 2012, p. 4 (section 1.3)).

25 Market Issue IN031/09 and AEMO's Analysis on GMI 031/09 Zonal Heating Value.

26 Market Issue IN031/09 and AEMO's Analysis on GMI 031/09 Zonal Heating Value.

27 AIA report, p. 60.

Origin submits a more in depth study of metering problems is required:

> *To the extent factors other than leaks are driving increased UAFG distributors need to improve understanding and measurement of these. In this context we note SP AusNet's findings that the other major causes of UAFG were problems associated with measurement. We note that measurement on the distribution networks is also the responsibility of the network and is governed by market standards, and as such the risk of inaccurate measurement is still best managed by the distributor and the benchmark should reflect this allocation of risk. In this context the ESC might wish to consider requiring a more in depth study of metering problems and how these are contributing UAFG. This might allow distributors to focus their efforts on reducing UAFG where the investment will have the best return.*[28]

SP AusNet is ahead of the other GDBs. It commissioned a study by AIA that assessed how much each of the various factors contributes to UAFG. AIA identify key categories that SP AusNet can effectively target to reduce UAFG costs.

The Commission expects Envestra and Multinet to provide a more detailed assessment of the causes of UAFG. Further, these GDBs should demonstrate the steps they have taken to seek out efficiencies. For instance, the Commission expects the GDBs to investigate meter accuracy issues in light of changing demands across their networks.

External comparisons could potentially reduce the Commission's reliance on 'internal information' provided by Envestra and Multinet.

3.5 Use of external comparisons

Setting benchmarks independently of the GDBs' performance through external comparisons[29] may provide stronger incentives to efficiency. External comparisons, which measure a GDB's efficiency against a reference performance, can be used to reduce the size of the reward offered to the GDBs, without necessarily reducing the strength of incentives.

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28 Origin submission, p. 2.

29 To avoid any confusion, the Commission uses the term 'benchmark' only in the context of the forward UAFG benchmarks—which could be better described as 'forecasts of efficient costs'. Reference to 'external comparisons' has the same meaning as 'external benchmarking'.

To ensure external comparisons are robust, the targeted UAFG levels must reflect realistic estimates of what efficiency gains are feasible for the GDBs. Comparisons must be on a consistent, 'like-with-like' basis. External comparisons are just one way of assessing whether the UAFG benchmarks proposed by the GDBs are efficient.

Origin submits that UAFG in the range of 2.5 to 3.5 per cent of throughput is a commonly accepted range. This view is based on its experience from 'wash up' processes and informed by norms in other Australian markets and abroad.[30]

In addition, Origin and AGL's submissions reference a 2009 report conducted by the 'International Gas Union's Working Committee 4' that estimated an industry average for UAFG based on a broad survey. The report finds 2.7 per cent of throughput could be regarded as a useful comparison. The report does not go into more detail. For example, it is unclear if the suggested benchmark should apply to high or low pressure systems.

The Commission must give strong consideration to the circumstances of the GDBs in setting UAFG benchmarks. There are a number of factors that cause UAFG, which will affect each distribution system differently. The Commission notes that the infrastructure for each GDB is different and network characteristics such as size, age and condition of networks, operating environment and geographical considerations will impact UAFG.[31]

Similarly, SP AusNet states:

> *SP AusNet supports independent UAFG benchmarks for each distributor. This is appropriate for the Victorian market as each distribution business is unique; with varying mains lengths, ages, material compositions, geographical operating conditions, customer base and natural gas fed from sources of differing heating value. All of these factors contribute to different levels of UAFG.*[32]

In support of SP AusNet's submission, AIA notes:

> *UAFG is also very dependent on the individual characteristics of the network for which it is measured, these include the asset characteristics but also include the complexity of the network (number of feeds and pressure tiers), regulatory environment and metering quality. Further operating conditions and gas quality are one driver of metering uncertainty such that even if all metering is kept consistent the UAFG will change from year to year. For these reasons it is often*

30 Origin submission, pp. 2–3.

31 Zincara.

32 SP AusNet submission, p. 7.

difficult to compare headline UAFG figures from different jurisdictions.[33]

In summary, the Commission considers that indicative external comparisons as submitted by Origin and AGL cannot be used to provide a reasonable basis for the determination of UAFG benchmarks for 2013–17. Although external comparisons may create stronger incentives, the retailers have not provided any supporting evidence to suggest the comparisons can be made on a like-with-like basis.

The Commission understands that there is a wide variance in UAFG for the various networks across all jurisdictions and it is not possible to adopt a UAFG level as an efficient level without considering local factors.[34] The IGU Working Committee has nominated 2.7 per cent as a useful benchmark but does not provide any guidance on how this may be adopted or adjusted for local conditions.

The Commission considers the use of external comparisons to set Victorian UAFG benchmarks is limited because they would not necessarily take into account the specific circumstances of the gas distribution systems in Victoria. This means the Commission must rely on internal information provided by the businesses to make an assessment of the appropriate benchmarks. The lack of information provided by Envestra and Multinet, as discussed above, is therefore particularly concerning to the Commission.

33 AIA report, p. 5.

34 Zincara.

4 SETTING OF UAFG BENCHMARK LEVELS

This chapter presents stakeholder proposals and the Commission's analysis on setting UAFG benchmark levels for 2013–17.

The chapter takes account of the Commission views from chapter 3 and specific issues, such as the under delivery by GDBs of low pressure mains replacement in 2008–12. Additionally, this chapter considers whether the Commission should apply separate benchmarks for class A and B customers, and the Envestra Victoria and Envestra Albury networks.

4.1 SP AusNet benchmarks

As discussed in section 3, SP AusNet provided detailed information to explain the causes of UAFG for its network and demonstrated it is in the process of developing a more comprehensive strategy to minimise UAFG levels. The gap between the 2008–12 benchmarks and SP AusNet's actual UAFG levels is significantly lower than Envestra and Multinet levels. Finally, SP AusNet largely completed its low pressure mains replacement program.[35]

The Commission, therefore, is confident SP AusNet's historical UAFG data provides a reasonable basis for the determination of UAFG benchmarks for 2013–17.

The Commission must consider the basis on which to calculate the starting point for the UAFG forward benchmarks. The options are a multi-year average or the most recent year.

Class B benchmarks for the 2008–12 period were based on a three-year average of actual UAFG data for each GDB (2003–06). Due to the variability of each distributor's UAFG performance from year-to-year, the Commission found that using an average of actual UAFG data over a number of years provides a more accurate starting point than using data for one year only.[36]

SP AusNet proposes that benchmarks be set to reflect the most recent observed levels (2010) to ensure, as far as practicable, the outcomes of the incentive arrangement are symmetrical in nature.[37]

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35 SP AusNet was funded for 450 km of low pressure mains replacement and delivered 415 km between 2008–12 (AER, SP AusNet 2013–17 access arrangement review, final decision, part 2:Attachments, pp. 31, 33).

36 ESCa, p. 197.

37 SP AusNet, submission, p. 4.

The Commission maintains the view that a multi-year average is likely to provide a more accurate forecast. As discussed in section 3.2 above, UAFG levels can vary significantly from year-to-year. Specifically, the Commission has used a three-year, 2008–10 average to set the UAFG starting point—consistent with the previous decision. The Commission considers this approach provides a reasonably up-to-date basis for forward benchmarks.

The Commission must also consider the trend that should be applied to the forward benchmarks. SP AusNet proposes for the class B benchmarks to be flat over 2013–17, and include no downwards adjustment for the low pressure mains replacement program.[38]

The Commission accepts SP AusNet's position. It may be appropriate to allow for a decline in UAFG to some extent to reflect increased mains replacement (as discussed in more detail below). However, the Commission does not have the information at present to accurately measure and apportion the contributing factors to UAFG. This position may change for the final decision depending on the information provided by the GDBs and further analysis by the Commission.

4.2 Envestra and Multinet benchmarks

In contrast to SP AusNet, Envestra and Multinet provided limited information about both the causes of UAFG and the steps they have taken to minimise UAFG. Their argument relies heavily on the assumption that the causes of UAFG are uncertain, although no detailed evidence was provided to support this claim for their networks. Changes in gas heating values may only explain some of the difference between the 2008–12 benchmarks, and Envestra and Multinet's actual UAFG levels.

The Commission considers Envestra and Multinet should have been concerned about exceeding the UAFG benchmarks in the 2008–12 period. Envestra and Multinet were also aware they would be required to make a submission for the next regulatory review. Accordingly, the Commission expects a prudent business would undertake a significant review of the causes of UAFG and consider a comprehensive strategy for reducing UAFG levels in the 2008–12 period, as demonstrated by SP AusNet.

The Commission expects Envestra and Multinet to provide a more detailed assessment of the causes of UAFG to support its respective UAFG benchmark proposals for the 2013–17 period. Further, Envestra and Multinet should demonstrate how they have taken significant steps to seek out efficiencies to minimise UAFG.

[38] SP AusNet, submission, p. 4.

Envestra and Multinet have an opportunity to explain how they acted prudently in light of concerns about high levels of UAFG. The Commission will consider all further information in making its final decision. However, the broad argument presented by Multinet and Envestra that there is significant uncertainty about the causes of UAFG does not justify considerably higher benchmarks without detailed, supporting information.

A separate issue is that Envestra and Multinet delivered a lower volume of mains replacement than approved by the Commission for the 2008–12 regulatory period:

- Envestra was funded for a total volume of 570 km of low pressure mains replacement but actually delivered 365 km between 2008–12.[39] Over 2008–11, Envestra was allowed $79.1 million ($2012) though it only expended $37.1 million.[40]
- Multinet was funded for a total volume of 557 km of low pressure mains replacement but actually delivered 255 km between 2008–12.[41] Over 2008–11, Multinet was allowed $86.8 million ($2012) though it only expended $21.5 million.[42]

The lower mains replacement has resulted in a windfall gain to the two GDBs. Because of how the regulatory framework operates, consumers have paid gas prices reflective of the higher volumes of replacement approved in the previous regulatory period, not the actual volumes completed. Although underspending will result in a lower capital base, and therefore lower projected return on capital and depreciation allowances for future periods, the GBDs will retain the return on and have the use of the return of capital for the increment of approved expenditure not spent in 2008-12.

Of significance to this review, it could be argued that if the GDBs undertook the level of mains replacement that they were funded for, UAFG levels would be lower than the historic data. The extent to which this could explain the gap between previous benchmarks and the two GDBs' performance in 2008–12 is unclear. It is noted that SP AusNet completed relatively more of its low pressure mains replacement program and had a lower variance.

As discussed in chapter 3, the GDBs previously accepted there is a correlation between low pressure mains replacement and UAFG levels. The Commission notes Envestra's submissions to the previous Gas Access Arrangement Review (GAAR) process, specifically that the first 40 kilometres of low pressure mains replacement each year merely compensates for the rate of network deterioration and does not

39 AER, Envestra 2013–17 access arrangement review, final decision, part 2:Attachments, pp. 41, 44.
40 AER, Envestra 2013–17 access arrangement review, draft decision, part 2:Attachments, p. 56.
41 AER, Multinet 2013–17 access arrangement review, final decision, part 2:Attachments, p. 34.
42 AER, Multinet 2013–17 access arrangement review, draft decision, part 2:Attachments, p. 37.

reduce UAFG.[43] In addition, Multinet also accepted that there was a relationship between the amount of low pressure pipe replaced and the level of UAFG.[44]

The Commission considers that the views are still valid—that is, while it is accepted the networks continue to deteriorate, there is a relationship between the mains replacement and UAFG levels. In addition, the Commission considers the replacements identified as part of the risk program instituted during the period do reduce gas leakage to some degree. Indeed, this is a purpose of these programs.

In particular the Commission considers that if the GDBs had completed their funded programs the levels of overall UAFG would have been reduced through lower leakage to some extent. In these circumstances the Commission considers that an adjustment to benchmarks based on actual data may ordinarily be required. The issue for the Commission is how to quantify this reduction and determine whether it is material.

Envestra and Multinet did not engage on this issue in their submissions to the Commission. The Commission expects Envestra and Multinet to explain why they did not complete their funded low pressure mains replacement programs and how these decisions have impacted UAFG levels.

In addition, the Commission requires Envestra and Multinet to quantify the various UAFG components to demonstrate how the components have contributed to the higher actual UAFG levels

Without the information highlighted above, the Commission does not have a basis for moving away from the current class B benchmarks. The Commission cannot be confident the historical UAFG data provides a reasonable basis for the determination of UAFG benchmarks for 2013–17. Therefore, the Commission does not propose to update the class B UAFG benchmarks for Envestra and Multinet in this draft decision.

4.3 Class A & B customers and Envestra Albury benchmarks

The Commission proposes to apply separate benchmarks for class A and B customers, and considers there is merit in aligning Envestra's Albury benchmark with its Victoria benchmark.

43 ESCa, p.192.

44 ESCa, p.197.

Class A and B customers

The Commission used separate benchmarks in its previous decision. The Commission was concerned that class A customers are serviced by high pressure mains that have very low leakage rates relative to class B customers. But in principle separate benchmarks are not meaningful—injections of gas for class A and B customers are not measured separately.

The Commission stated that a detailed examination of actual UAFG levels for various consumption categories is necessary to determine whether a transition to a single UAFG benchmark may be feasible in the future.[45]

AGL submits that it maintains support for a single benchmark rate in the future, given that distinguishing between class A and B customers tends to assign too much UAFG to class A customers. Further, AGL submits that separate benchmarks make comparisons with other companies, both in Australia and overseas, a less-than-straightforward exercise. Ultimately, AGL considers the issue can be visited at a later date and that separate benchmarks should be persevered in the meantime.[46]

The Commission has not received any further evidence to support the case for combining the class A and B benchmarks—such as whether a transition to a single UAFG benchmark is feasible. The GDBs submitted separate UAFG benchmark for 2013–17 and did not propose a combined benchmark. The Commission therefore has not changed its position since the last decision.

Alignment of Envestra Victoria and Albury networks

In the previous decision, the Commission determined different benchmarks for Envestra's Victorian and Albury networks. For the current review, Envestra proposes the alignment of benchmark rates for its Albury and Victoria networks, for both Class A and Class B customers. Envestra submits there is no physical separation of the two networks and injections of gas into each network cannot be separately identified.[47]

AGL supports the alignment of benchmark rates for both Class A and Class B north and south of the Murray for Envestra.[48]

The Commission understands that there is an underlying issue with the UAFG allocation process between Wodonga and Albury. This allocation issue appears to have led to ambiguous UAFG results for the Albury network. The Commission has

45 ESCa, p.196

46 AGL submission, 20 December 2012 [AGL submission], p. 2.

47 Envestra submission, p. 5.

48 AGL submission, p. 2.

attempted to assess the impact on customers based on the information provided by Envestra. This assessment involved a comparison of the wash up process between Envestra and the retailers to understand the impact of aligning the benchmark. This assessment was inconclusive and did not provide any quantatitve results.[49]

The Commission considers that, as the Albury and Victorian networks are contiguous and injections cannot be separated, the networks can be treated as one system. The Commission therefore considers there is merit in aligning the benchmark for the Albury network with the benchmark for the Victorian network.

However, as the alignment would reduce the Albury benchmark based on the Envestra Victoria draft decision, for the purpose of this draft decision the Commission has maintained the current Albury benchmarks pending any further information provided by Envestra.

4.4 UAFG and non-PTS networks

A non-Principal Transmission System (PTS) is a transmission pipeline in Victoria that does not form part of the declared transmission system. Envestra has non-PTS networks in Bairnsdale and Paynesville. Multinet's non-PTS networks are in the South Gippsland towns which include Korumburra, Leongatha and Wonthaggi. SP AusNet has non-PTS networks in Ararat, Stawell and Horsham.

Current benchmarks for all non-PTS networks are set at 2 per cent of throughput. The Commission has considered the GDBs' circumstances and recognises that Envestra and Multinet's non-PTS networks are relatively new compared SP AusNet's.

Envestra and Multinet submissions on non-PTS benchmarks

Multinet proposes flat benchmarks of 3 per cent for the non-PTS networks based on its most recent observed levels. Although Multinet proposes a 1 percentage point increase for its non-PTS benchmark, it did not provide any supporting analysis. Further, Multinet failed to provide any actual data relating to the non-PTS networks.

Envestra does not propose a non-PTS benchmark in its submission.

[49] Zincara

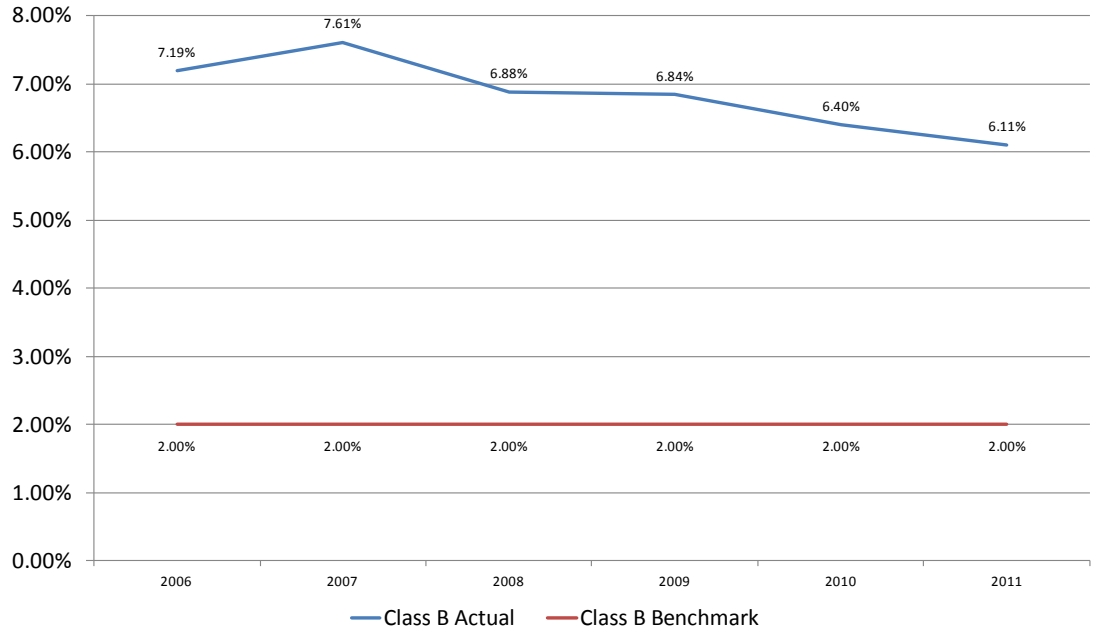
SP AusNet submission on non-PTS benchmark

SP AusNet proposes flat benchmarks for the non-PTS networks based on its most recent observed levels.

SP AusNet submits its non-PTS network cannot be compared to that of Mulinet or Envestra. SP AusNet's non-PTS network comprise the old 'town gas' networks of Ararat, Stawell and Horsham. Although sections of these towns have been more recently reticulated, significant parts of these networks are old low pressure cast iron mains, with high leakage rates. In contrast, the non-PTS networks operated by Multinet and Envestra are predominately new towns, with low leakage rates associated with modern, recently constructed polyethylene networks.[50]

SP AusNet submits that non-PTS UAFG levels have decreased by more than 1 percentage point from 2006 to 2011 (figure 4.1).

Figure 4.1 SP AusNet non-PTS UAFG volumes: actual and benchmark, 2006–11



SP AusNet provided the 2011 figure in further information sent to the Commission on 26 February 2013. The Commission understands that this number is not final.

50 SP AusNet submission, p. 3.

AGL supported SP AusNet's submission on non-PTS benchmarks. AGL staff noted in its submission that uniform benchmark rates for all non-PTS networks may have been inappropriate as it ignores the age/pipe material profile.[51]

Commission view on non-PTS benchmarks

For Multinet, in the absence of evidence provided, the Commission considers that the current benchmarks are appropriate and should be retained.

Similarly for Envestra, as they did not propose a change the current benchmarks should be retained.

For SP AusNet, the Commission accepts it must give consideration to the business' circumstances in setting UAFG benchmarks. Similar to class B customers, the Commission considers that historic UAFG levels provide a basis for the determination of UAFG benchmarks.

The Commission considers that the time series of non-PTS UAFG for SP AusNet shows a consistent reduction from 2006. Some possible explanations could be a reduction in leakage or more accurate metering at Carisbrook.[52] However, given the vagaries of calculating the components of UAFG, it is difficult to be definitive of the possible causes.

As the trend is from actual data over an extended year period it is likely that the trend could continue into the future especially if custody transfer meters are installed in Ararat, Stawell and Horsham.[53]

The Commission considers that it is appropriate to use this trend to set the starting point and the forward benchmarks. A regression analysis of historical data was used to set the SP AusNet non-PTS UAFG benchmarks for 2013–17.

SP AusNet appears to have achieved on-going efficiencies in the non-PTS—as reflected in the reduction in actual UAFG from 7.61 per cent in 2006 to 6.11 per cent in 2011. SP AusNet noted in discussions with the Commission that it has not focused a specific infrastructure improvement program to minimise non-PTS UAFG. It also noted the higher UAFG is attributable to the older age of the network and the metering used to allocate UAFG.[54] The Commission therefore considers there is further scope for significant UAFG efficiencies to be extracted over the forecast period, especially in optimising metering and replacement of older piping.

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51 AGL submission,p. 3.

52 Zincara

53 Zincara

54 Meeting with Commission and SP AusNet on 12 February 2013

5 DRAFT DECISION: 2013–17 UAFG BENCHMARKS

The Commission's draft decision regarding the class A, class B and Non-PTS UAFG benchmarks for the 2013–17 period is shown in tables 5.1 to 5.3 below.

Table 5.1 Draft decision: UAFG Class A benchmarks 2013–17 (per cent)

	2013	2014	2015	2016	2017
Envestra Victoria	0.3	0.3	0.3	0.3	0.3
Envestra Albury	0.1	0.1	0.1	0.1	0.1
Multinet	0.3	0.3	0.3	0.3	0.3
SP AusNet	0.3	0.3	0.3	0.3	0.3

Table 5.2 Draft decision: UAFG Class B benchmarks 2013–17 (per cent)

	2013	2014	2015	2016	2017
Envestra Victoria	2.6	2.6	2.6	2.6	2.6
Envestra Albury	3.0	3.0	3.0	3.0	3.0
Multinet	3.1	3.1	3.1	3.1	3.1
SP AusNet	5.4	5.4	5.4	5.4	5.4

Table 5.3 Draft decision: UAFG Non-PTS benchmarks 2013–17 (per cent)

	2013	2014	2015	2016	2017
Envestra	2.0	2.0	2.0	2.0	2.0
Multinet	2.0	2.0	2.0	2.0	2.0
SP AusNet	5.8	5.6	5.3	5.1	4.9

5.1 When will the updated UAFG benchmarks apply?

The Victorian Government amended the UAFG benchmarks in the GDSC by Ministerial Order (Order), as published in special gazette s460. The amended benchmarks in the Order have the effect of extending the 2012 benchmarks in the GDSC to cover the 2013–17 period.

The Commission received a formal request from the AER under section 32 of the National Gas (Victoria) Act 2008 requesting it to amend Schedule 1 of the Gas Distribution System Code to update UAFG benchmarks for the 'interim period' until the National Energy Retail Law (Vic) Bill is passed. The Commission can reset the UAFG benchmarks in accordance with the change procedures in Schedule 4 of the GDSC. Using these procedures the Commission will reset the UAFG benchmarks for the period 2013–17.

The GDBs submitted that any amendments to the GDSC should be retrospective and apply from 1 January 2013.

AEMO submitted that it applies UAFG benchmark rates prospectively for wholesale market settlement purposes. As the settlement process is prospective, AEMO notes that it requires a minimum of five business days' notice to effect the change within the market systems. The Commission will take this into account in setting the forward plan to update the GDSC with the amended benchmarks.

AEMO also noted that it uses the UAFG benchmarks for the GDB-Retailer reconciliation process.

The Commission has considered the GDBs' view that the benchmarks be made retrospective. It considers that the Order extends the 2012 UAFG benchmarks until the date the GDSC is amended (and the Order repealed). There is no specific timeframe for the GSDC to be amended—it could be 1 April 2013 or 1 April 2017—and up until the time of amendment the Ministerial Order is effective.

The Commission does not consider it appropriate to make the benchmarks retrospective as the Order sets the benchmarks until the Order is repealed In addition, the Commission notes there are practical issues for AEMO— which uses the benchmarks prospectively for wholesale market settlement purposes— in making the benchmarks retrospective. There are also administrative issues for the Commission to consider in making the benchmarks retrospective. Specifically schedule 4 of the GDSC states that:

the date specified on the amendment must not be earlier than the date on which the amendment is made without the prior agreement from Distributors and the Commission's Customer Consultative Committee.

The Commission's draft decision is that the amended UAFG benchmarks will be effective from 1 July 2013.

A separate option raised by some GDBs in meetings is to provide a blended 2013 UAFG benchmark effective from 1 July 2013 that accounts for the lower first half 2013 UAFG benchmark. The Commission has not accepted this proposal as it (1) does not have any data across all components of UAFG upon which to assess the accuracy of any blended UAFG benchmark, (2) is concerned about seasonal aspects in providing a blended figure, and (3) considers that any blended figure would exacerbate the uncertainty in UAFG over the full 2013 year.

The Commission has scoped an amended timetable to review the benchmarks and update the GDSC. As the amendments to the GDSC will reflect the final decision, the Commission now intends to release the amended Schedule 1, part C Unaccounted for Gas section of the GDSC as part of the final decision. The Commission will then release the full GDSC in late June to give effect to the final decision and allow AEMO to make the necessary system changes prior to the 1 July 2013 start date.

6 NEXT STEPS

Interested parties are invited to make submissions in response to this draft decision. The deadline for submissions is 10 May 2013.

Once the Commission has considered the further submissions, it will publish its final decision on 14 June 2013. The Commission will also release the amended Schedule 1 of the GDSC with the final decision to be followed by the release of full GDSC.

The Commission's forward time line is set out below.

Table 6.1 Review of UAFG benchmarks timetable

Date	Action
10 May 2013	Submissions on draft decision close
14 June 2013	Release of final decision on UAFG benchmarks
14 June 2013	Release amendments to Schedule 1, Part C Unaccounted For Gas of the GDSC
21 June 2013	Release Full GDSC to give effect to final decision on UAFG benchmarks

Submissions

Submissions should be sent electronically to energy.submissions@esc.vic.gov.au
The Commission invites written submissions on this draft decision.

Submissions are preferred in electronic format and should be provided to the Commission by 5.00 pm AEDST on Friday 10 May 2013.

By email to: energy.submissions@esc.vic.gov.au

and addressed to the attention of Jeff Cefai, Director, Essential Services Commission .

Submissions will be made available on the Commission website, except for any information clearly identified as commercially confidential or sensitive. Any material that is confidential should be clearly marked as such.

Queries can be directed to Jeff Cefai on (03) 9032 1320 or Anthony Bell on (03) 9290 6914.