

10 May 2013

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Dear Mr Cefai

Submission – Draft Decision: Review of Unaccounted for Gas Benchmarks

AEMO appreciates the opportunity to respond to the Essential Services Commission (Commission) Draft Decision on the Review of Unaccounted for Gas (UAFG) Benchmarks.

AEMO supports the Commission's draft decision for application of the UAFG benchmarks being prospectively applied. In relation to the gas distribution businesses' submissions that any amendments to the Gas Distribution System Code should be retrospective and apply from 1 January 2013, AEMO notes that it is unable to apply UAFG rates retrospectively. AEMO also reiterates that it requires a minimum of 5 business days notice to effect change to the UAFG rates within the market systems, as described in the declared metering requirement.

The Commission has proposed making a new UAFG Benchmark rate effective 1 July 2013. Historically, UAFG Benchmarks have been published and applied for a calendar year. As benchmark rates apply from a specific date, the Distributor will apportion the gas within a bi-monthly read cycle that crosses a UAFG benchmark rate change. This apportionment usually occurs on 1 January and 31 December of any given year. If the Commission wishes to set the benchmark commencing on 1 July 2013, AEMO notes that there will be an additional split in the apportionment of the gas in 2013 where an actual read does not occur on 30 June 2013 or 1 July 2013. This will add another layer of complexity to the UAFG wash-up process, and marginally increase the uncertainty associated with its measurement for the 2013 year. It also has the potential to increase the risk of dispute between the retailers and distributors during the wash-up processes.

AEMO supports the Commission's draft decision to reject the proposal to blend the UAFG rates across the two halves of the year, as it would add further complexity to the calculations for an unclear benefit. Applying a mix in UAFG rates is unlikely to produce a UAFG rate that reflects actual UAFG.

AEMO disputes the reference in the Commission's draft decision that:

"AEMO agreed with Envestra's submission that over the period 2005-08, Envestra may have been disadvantaged as a result of multiple gas sources being injected into the distribution systems".

AEMO notes that Envestra raised this issue in August 2009. In December 2009, AEMO repeated the calculations put forward by Envestra at the time. AEMO's calculation of the differences in state wide heating value measurement and zonal average heating value aligned with Envestra's calculation. AEMO's analysis also concluded that these differences are smaller than the measurement uncertainty associated with the calculation of heating value ($\pm 0.7\%$). Whilst the analysis completed by AEMO confirmed Envestra's analysis, AEMO also found that the bias illustrated in the calculations cannot be assumed to be constant as there are many variables that impact on heating value and the mix of these components can change and potentially reverse the outcome shown by Envestra's calculations.

In October 2010, the Commission considered unaccounted for gas related to heating value allocation, and concluded that the state wide average heating value would continue to be used as currently required. The heating value impact on UAFG issue raised by Envestra was subsequently withdrawn by Envestra in April 2011.

As a part of the Commission's review of the UAFG Benchmarks, AEMO recommends that Part C of the Gas Distribution System Code excludes "C2 Reconciliation Amount". The Wholesale Market Distribution UAFG Procedure made under Part 19 of the National Gas Rules currently includes the formula to calculate the reconciliation amount.

If you have any questions regarding this submission, please do not hesitate to contact Peter Alberts, Senior Manager Retail Market Strategy on 03 9609 8411.

Yours sincerely



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