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Mr Jeff Cefai
Director of Energy
Essential Services Commission of Victoria
Level 37 / 2 Lonsdale Street
Melbourne Victoria 3000

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

Dear Mr Cefai

Gas Distribution System Code – Review of Unaccounted for Gas Benchmarks Draft Decision

1. Introduction

EnergyAustralia (EA) appreciates the opportunity to comment on the Essential Services Commission's (ESC) Draft Decision regarding their recent Review of Unaccounted for Gas Benchmarks.

EA is one of Australia's largest energy companies, providing electricity and gas to over 2.7 million household and business customers in NSW, Victoria, Queensland, South Australia and the Australian Capital Territory. EA also owns and operates a multi-billion dollar portfolio of energy generation and storage facilities across Australia, including coal, gas and wind assets with control of over 5,600MW of generation in the National Electricity Market.

The issue of setting unaccounted for gas (UAFG) benchmarks in Victoria has long suffered from a lack of understanding about the causes of UAFG. This matter has been amplified by an inability to suitably allocate the proportion of UAFG to fugitive emissions and measurement inaccuracies. These factors are in the direct control of the gas distributors and they should therefore be held accountable to minimise UAFG. It is somewhat disappointing that once again most distributors are unable to improve industry understanding of the key drivers of UAFG and subsequently been unable to minimise its impact and deliver savings to the environment and consumers.

While EA supports the findings of the ESC in this determination it is obvious that due to a lack of information, from most parties, they had little alternative but to largely continue the status quo of the existing benchmarks for another five years until 2017.

2. Causes of UAFG – Independent Study

The UAFG study commissioned by SP AusNet appears to have revealed valuable information regarding UAFG causes identifying 17 different components. Unfortunately this report was commercial in confidence and not provided to other industry participants. Multinet and Envestra did not undertake similar studies and hence offered minimal explanations as to the causes and projections for UAFG going forward.

While other retailers offered an international study¹ for use as a benchmark for UAFG, the ESC has determined that comparisons are difficult as they need to consider evidence on a like for like basis. EA acknowledges that every distribution network has its own unique characteristics, such as varying supply pressures, pipeline composition, length of piping and supply points, and it may be unreasonable to make accurate benchmark comparisons. Therefore, in order to avoid this asymmetry of information going forward EA suggests that the ESC commission an independent detailed study of each Victorian gas distribution system to clearly determine the key drivers of UAFG and to provide greater transparency to the market.

The study should also make recommendations for the ongoing control and management of UAFG with cause and effect analysis ensuring UAFG is managed efficiently from both an environmental and commercial perspective. Victorian consumers should no longer be asked to fund undefined levels and causes of UAFG without supporting detailed analysis that justifies this cost. This study could also be used as a precursor to similar issues related to UAFG in other jurisdictions.

EA also suggests that responsibility for UAFG be transferred to the Australian Energy Regulator whereby it can be regulated in a nationally consistent manner in conjunction with Gas Access Arrangements. Nevertheless, the commissioning of an independent UAFG study for Victorian distribution systems should not be delayed any further.

3. Mains Replacement Projections

The ESC has commented that lower mains replacements have resulted in windfall gains for two gas distribution companies. These mains replacement budgets were largely justified on fugitive UAFG and would have resulted in lower UAFG in the regulatory period 2008-12. It appears untenable that the very distribution companies that failed to install these replacement gas mains also benefit financially by retaining the return on the capital allocated even though it was not spent in 2008-12. Consumers and the environment have therefore suffered the consequences of this unpalatable situation that should not be allowed to continue. EA would also be interested to understand why these two distribution companies did not complete their low pressure funded mains replacement programs, despite receiving funding to undertake them.

4. Summary

EnergyAustralia supports greater scrutiny into the causes of UAFG as it is difficult to make meaningful comment on these types of reviews without more information. This situation should not be allowed to continue and a full independent study is required if we are ever to be able to understand with confidence an acceptable efficient level of UAFG for each distribution business in Victoria. Assuming a UAFG rate of 3-4% the cost of UAFG in Victoria is approximately \$20M and therefore any improvement in reducing these system losses will have a substantial impact on cost to consumers.

Should you require further information regarding this submission please call me on 0478 401 097.

Yours sincerely

[Signed]

Randall Brown
Regulatory Manager

¹ International Gas Union's Working Committee 2009