

14 October 2021

Mr Sean Sullivan
Chair
Energy Senior Officials
Department of Industry, Science, Energy and Resources
GPO Box 2013
Canberra, ACT, 2601

Via email to gas@industry.gov.au

Dear Mr Sullivan

Submission on Energy Senior Officials gas pipeline draft legal consultation package

Thank you for the opportunity to provide a submission to the Energy Senior Officials draft legal consultation package to give effect to the Decision Regulation Impact Statement (RIS) on proposed changes to gas pipeline regulation.

Evoenergy owns and operates the gas distribution networks in the Australian Capital Territory (ACT) and Queanbeyan–Palerang Regional Council local government area (LGA) of New South Wales (NSW), and in the Shoalhaven City Council LGA of NSW. Together, these networks provide gas connections to approximately 162,000 gas customers.

ACT and Queanbeyan–Palerang distribution network information disclosure requirements

Evoenergy understands that, under the proposed changes, new information disclosure requirements would apply to fully regulated gas distribution networks such as Evoenergy's ACT and Queanbeyan–Palerang gas distribution network. The policy decision in the RIS stipulates the publication of basic information, historical financial and demand information, and information on prices paid by other shippers unless an exemption is obtained. According to the Decision RIS,¹ this information is to be sought for reasons that include:

... the lack of information on non-reference services can hinder the ability of shippers to negotiate effectively, impose additional search and transaction costs on shippers and make them more susceptible to *exercises of market power, particularly on transmission pipelines where non-reference services are more commonplace.*" [emphasis added]

The Evoenergy ACT and Queanbeyan–Palerang network provides only reference services, for which prices are set at an efficient level during the five-yearly access arrangement revision by the Australian Energy Regulator (AER). Evoenergy does not offer any non-reference services. The National Gas Rules (NGR) require an access arrangement to include reference services to cover all services likely to be demanded by network users. Evoenergy engages thoroughly with network users on this matter as part of the access arrangement review as specifically required.

¹ Options to improve gas pipeline regulation, Regulation Impact Statement for Decision, 2021, p.70

Relevant information of the type sought to be disclosed is currently disclosed regularly via:

- Access Arrangement proposals which are required to include Access Arrangement Information incorporating the standard pipeline information and data set out in the NGR
- Access Arrangement and Reference Service Agreement
- Annual Tariff Variation Notices and tariff schedule
- Annual and reset Regulatory Information Notice (RIN) responses for AER publication
- AER distribution performance and profitability reports.

The information provided by Evoenergy by these means includes almost all of that required by the new information disclosure obligation. It is difficult to envisage that the duplication of such information, for which network users would ultimately bear the costs, would provide any additional benefit to them.

Evoenergy proposes that, as an alternative to the single information disclosure framework, the regulations should instead require scheme pipelines to set out what information they will disclose (consistent with the Energy Ministers' policy decision) as part of each access arrangement. This would allow network owners to engage with network users to develop fit-for-purpose information reporting and disclosure arrangements. Under such an arrangement, the AER would decide what information should be published regarding the pipeline classification and user requirements.

Pipeline classification

It should also be noted that the NSW section of the Evoenergy-owned gas distribution network connecting Jemena's Eastern Gas Pipeline at the Hoskinstown custody transfer station to Evoenergy's Fyshwick trunk receiving station has a pipeline licence (Licence 29). The licence does not classify the pipeline as either a transmission or distribution pipeline.

The pipeline was built as and remains an integral part of the ACT and Queanbeyan–Palering gas network covered by the Evoenergy Access Arrangement. We request that the transitional provisions of the pipeline reform package deem this pipeline to be a distribution pipeline to avoid any unnecessary and administratively burdensome classification process.

Shoalhaven gas distribution network

Evoenergy's Shoalhaven gas distribution network is a non-scheme pipeline and distributes gas to customers in Nowra, NSW. This small network currently supplies gas to a single industrial customer, around 4,500 residential customers and a government facility.

The network has a current exemption from some information disclosures as its *average daily injection* of gas is less than 10 Terajoules (TJ)/day. Under the proposal, this threshold for exemption is to be removed and replaced with a threshold based on the *maximum daily capacity* of the pipeline under normal operating conditions being more than 10 TJ/day.

The rationale for this change was to reduce regulatory complexity and provide a consistent threshold to be employed across the NGR. However, the size of a distribution network is not determined by capacity (which varies across the network) but rather the customer numbers or throughput. This is reflected in the service and access information specified in proposed NGR r. 101B which sets out different information requirements with a focus on gas throughput for distribution networks and capacity for transmission pipelines.

It is often the case that distribution network usage is far below the nameplate capacity of a pipeline. In the case of Evoenergy's Shoalhaven network, while the nameplate capacity of the

network is higher than the 10 TJ/ day average proposed threshold, usage sat at about 5 TJ/day in 2021 and has *never* exceeded more than 10 TJ/day.

[REDACTED]

[REDACTED]

[REDACTED] The capacity of the network will remain unchanged.

It is also worthwhile to compare the scale of the Shoalhaven network, which supplied an average of 5.1, 4.6 and 5.5 TJ/day in 2019, 2020 and 2021 respectively, to that proposed to apply in the definition of small shipper, defined to be one with a contracted capacity of less than 5 TJ/day. If there were only one contract in place to supply the Shoalhaven network, the user could (or would almost) qualify as a small shipper. The regulatory treatment is inconsistent since on one hand the network is not eligible to be exempt from information disclosure requirements, but the hypothetical user on the other side of the same transaction would be treated as a small shipper.

As a result, the adoption of a capacity-based threshold to determine whether a network is eligible for an exemption is not appropriate for a distribution network – and indeed is inconsistent with the approach taken elsewhere in the NGR which recognise the differences between distribution networks and transmission pipelines.

Accordingly, we propose that the throughput-based exemption threshold² be retained for distribution networks. An alternative option would be to use customer connections as a as a measure of network size. In this case a threshold of 10,000 customer connections would be appropriate. Retaining this exemption will ensure that we can avoid incurring the costs of the additional reporting requirement estimated³ to be \$100,000 per year or \$20 per customer per year.

Further consultation required

Given the scope of the proposed changes to information disclosure requirements, Evoenergy would welcome further consultation between Energy Senior Officials and gas distribution network providers to design more targeted and fit-for-purpose implementation approaches.

Should you wish to discuss the contents of this submission, please contact Chris Bell, Economic Regulatory Manager, at chris.bell@actewagl.com.au.

Yours sincerely



Peter Billing
General Manager, Evoenergy

² Average daily injection of natural gas calculated over the preceding 24 months is less than 10 TJ/day

³ PwC estimate of the costs of the ongoing management, administrative and IT costs associated with having to comply with the reporting requirements for a network subject to the lighter form of regulation. See Appendix D of the Decision RIS.