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Department of Resources, Energy and Tourism  
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**BY EMAIL:** geoff.houen@ret.gov.au

**Draft Policy Position on the National Framework for the Connections of Retail Customers to Natural Gas Distribution Networks**

Dear Mr Houen

Multinet appreciates the opportunity to provide feedback on the SCO's Draft Policy Position on the National Framework for the Connection of Retail Customers to Natural Gas Distribution Networks (Gas Connections Frameworks). The Gas Connections workshop held on 9 September was also useful to clarify the connections framework and proposed contractual arrangements.

Multinet has contributed to and supports the ENA submission on the Gas Connection Frameworks.

In summary, Multinet makes the following key points regarding the proposed gas connections framework;

- The high level architecture needs to allow the distributors to propose the connection services contract and schedule;
- Application of the framework needs to recognise the broader legal framework;
  - for pre-conditions to a connection service;
  - for delivery of the service; and
  - for the 'reasonable levels of service' assessment by the AER.
- The NECF should be amended to recognise that the distributor has an obligation to provide an offer. The obligation to connect under the NECF arises after customer acceptance of the connection contract;
- The benefits for the customer in moving away from the existing arrangements in Victoria are questionable;
- Given the extent of this change to our business, this framework should not be implemented until the next access arrangement period commences in Victoria; and

- The Reimbursement Scheme for Previously Dedicated Assets should not be imposed, as it is an administrative burden for little value.

## **Background**

The Gas Connections Framework policy paper covers new connections and capital contribution requirements and links into the National Energy Customer Framework (NECF) to support the designated retailers terms and conditions to supply gas customers. The policy paper covers the following areas:

- The relationships between the Gas Connections Framework, the NECF and the national gas access regime;
- Connection types and approvals;
- The enquiry and application process for new and modified connections;
- Contractual arrangements for Basic and Additional Standardised connections;
- A negotiating framework for negotiated connections;
- The treatment of connection assets; and
- Dispute resolution arrangements.

## **Distributors propose connection services contract and schedule**

The gas access regime has been in operation for well over a decade. The gas access regime is a national gas code which provides for common policy and retailer arrangements nationally. The proposed move to distributor – customer connection arrangements is a significant change in process and connection arrangements from those in Victoria which have been established by industry to support efficient processing of users seeking access on behalf of customers.

In proposing the new gas connections framework it is unclear what problem has been identified and is being resolved by these new arrangements. Multinet recognise that some level of common standards are required for customer protection and consistent treatment of retailers as gas users, however the existing arrangements allow the distributor to propose the reference tariffs and connection arrangements and have these approved by the AER. There is no justification for this prescriptive approach and there is a considerable risk of regulatory error in trying to ensure a prescriptive one size fits all framework does not limit the ability to take account of different needs and circumstances.

These contracting arrangements are able to be developed by the distributor in accordance with local geography, historical information and marketing of new tariffs and services in mind. We recommend that the distributor is best placed to develop these arrangements and ensure that commercial arrangements and innovation are not stifled in a prescriptive framework that purports to cater for one size fits all.

It is unclear what the model terms and conditions will be in the NECF and to what extent the distributors will be able to define the connection services including the terms, conditions, services, timeframes and costs in the connection services contract and schedule. Multinet consider that the terms and conditions in the national framework should be light handed regulation.

## **Application of the framework needs to recognise the broader legal framework**

The SCO policy proposal is that the Gas Connections Framework will be a standalone framework which applies to all customers, as opposed to Users (retailers).

Multinet suggests that the hierarchy of legal and regulatory instruments needs to be clear in the NECF and this Gas Connections Framework. For example a meter upgrade may be required to meet certain regulatory arrangements in the National Measurement Act (NMA), the

declared wholesale gas market Rules or another instrument. If this resulted in additional costs to the customer due to an upgrade of service then this needs to be recognised in the context of providing compliant services within the framework, conditions of the connection service and in the AER's 'reasonable service' framework. Whilst there is a suggestion that the framework be a standalone connections framework, there is a raft of other legislation, rules and regulation which may impact the costs and service and hence must be recognised in the regulatory hierarchy.

### **Obligation to connect under the NECF after customer acceptance of the connection contract**

The policy paper states:

'A distributor's obligation to connect will be subject to relevant energy laws, which will include the distributor and the customer satisfying pre-conditions for:

- Safety and technical requirements in the relevant jurisdiction codes;
- Applicable service standards (usually in jurisdiction instruments);
- Procedural requirements set out in the NECF; and
- The Gas Connections Framework.<sup>1</sup>

Multinet require that either the definition of 'relevant energy laws' or the listed pre-conditions or both, recognise the need for the distributor to comply with safety acts, road management acts and national measurement acts etc which may also be relevant for the purposes of providing the connection service or providing the appropriate metering. The pre-conditions listed above are too narrow to ensure compliance with both jurisdictional and federal legal and regulatory requirements.

These other acts and underlying rules and regulations may not be adequately captured in the pre-conditions for the connections service on the distributor and /or customer. This is an essential requirement that these aspects are properly recognised in the framework as the traffic management obligations are becoming more onerous and often impose more cost than the cost of providing the gas service itself. Timeframes to obtain road opening permits or to agree on the traffic management plan requirements and costs for main roads may all lead to possible areas of dispute.

The Gas Connections Framework will define the distributor's rights and obligation in respect of connection under the NECF. Multinet considers that the distributor has an obligation to make an offer. Until the customer accepts the offer, including the costs and terms and conditions to provide a connection service in a compliant manner, then there is no obligation to provide the connection service. This is a fundamental contractual requirement of moving to a customer pays connection service and moving away from smeared connection services within haulage tariffs and must be recognised in the NECF and connections framework.

### **Benefit for the customer are questionable, transition needs to be in conjunction with the access arrangement**

In Victoria the retailers and distributors considered a number of improvement initiatives in the gas industry. A change from the retailer dealing with customers for new connections as part of the existing straight-line arrangements to the distributors dealing with customers directly was assessed and the costs and benefits determined. The industry agreed that there was no net benefit in the distributor dealing directly with customers on new connections, rather it served to increase the costs to customers.

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<sup>1</sup> The National Framework for the Connection of Retail Customers to Natural Gas Distribution Networks, MCE Standing Committee of Officials, Draft Policy Position, 2 September 2009, page 5

Essentially the paper proposes that the distributors deal directly with customers on all new connections and modifications to connections. At the September workshop it was recognised that the Victorian gas industry already had efficient business to business processes in place with retailers who provide the information to distributors. The paper suggests that the retailer, gas plumber or developer could all act on behalf of the customer or the customer could directly deal with the distributor for a new connection service.

The distributors in Victoria do not deal directly with customers and so will need to establish call centre resources to deal with gas connections and customer/developer enquiries and will also need to establish web services for customers to gain access to connection contracts and application processes. This will take time to establish and we note that the transitional arrangements are unclear.

The policy paper suggests that the need for regulatory intervention is justified based on reduced costs to customers. The policy transfers the retailer's costs of dealing with customers on connection matters to the distributors, yet it is very unclear how the cost to the customer is reduced.

Multinet strongly recommends given the extent of this change to our business, that this framework is not implemented until the next access arrangement period commences.

### **Reimbursement Scheme for Previously Dedicated Assets should not be imposed**

The gas connections framework proposes a reimbursement scheme to cater for consistent arrangements across gas and electricity. The proposal is that an initial customer who has paid for an asset which is later shared should receive a reimbursement from the second customer for their share of the extension. This reimbursement would occur at the time the second customer connects.

The policy paper contends that without this scheme the additional customers would benefit from the connection without making a contribution.

Gas and electricity are not the same, gas is a far more interconnected network than electricity which is far more radial and hub in nature. Electricity is more likely to lead to dead end mains due to the radial nature of connection. As explained in the ENA submission, the reimbursement scheme is problematic for gas and is an unnecessary administrative burden for no benefit.

The reimbursement scheme should not be applied in gas due to the problems it creates:

- The least cost technically acceptable solution may require a larger gas pipe diameter than the specific exact customer requirements. Where a larger pipe diameter is deployed and later the extension is linked to another part of the network to facilitate higher levels of flow in that part of the network, which of the existing customers should pay? There is not one or two specific customers that could be targeted as the main users of that extra volume to provide the reimbursement. The network extension in one area could be considered augmentation in another area.
- Where a large business in a small town makes a decision to transfer to gas, the provision of the gas service could result in a substantial augmentation of the gas pipeline to the business customer. The business customer weighs up the costs of changing from electricity or bottled gas onto a mains service gas and has made a commercial decision to seek a gas connection. Should the first small residential customer be required to contribute to the business customers costs, if so how much?
- It was suggested at the workshop that the reimbursement scheme may continue for 7 years. Who should get paid if the original customer who sought the dedicated assets has moved house. Does the new customer who has purchased the land/business get the reimbursement?

- Where there is a new estate the developers deal with the gas mains extensions directly with the distributors and the retailer/builders seek the connection services for customers. This would be a particularly complex and onerous reimbursement scheme. How much does each customer pay towards the mains?

Multinet do not support the introduction of the reimbursement scheme for gas. This creates an administrative burden for no value and is inconsistent with the access principles which allow open access to users as connection seekers. All customers contribute to the portion of the augmentation that is rolled into the asset base and therefore all customers have the opportunity of access. We do not consider that the industry should introduce legislation to move away from this principal because distributors are dealing directly with customers.

## **Process**

We understand that the outcomes of this consultation process will inform the SCO's input to the second exposure draft of the NECF. Whilst stakeholders will have an opportunity to provide comment on the second exposure draft, this will essentially be the last opportunity to review and comment on the gas connections framework.

This policy paper proposes some aspects of the framework, much of the detail of how it will work, what the model contract terms and conditions are etc are still being developed. We understand that the policy makers are writing the connection contracts into the NECF and our ability to provide the detailed schedule will need to align to the detail in the connection arrangements.

It is usual commercial practice for the contracting parties to propose their own contracts, terms and conditions and costs. The terms and conditions need to reflect the mutual responsibilities of the customer and distributor for the jurisdiction, they also need to recognise the appropriate outs ie when the basic connection is no longer appropriate and the additional standardised connection or the negotiation connection arrangements are more appropriate. These arrangements in the contracting framework should be for the distributor to propose and gain approval by the AER and should not be written by the policy makers. In addition this level of detail should be consistent with existing connection policies of the distributors.

Should you have any further questions in relation to the above, please don't hesitate to contact me on (03) 8540 7819.

Yours sincerely

Verity Watson  
Manager Market Regulation