



Economic Regulation Authority

Reference service proposal decision

Proposed reference services for the Mid-West and
South-West Gas Distribution Systems submitted by
ATCO Gas Australia

14 November 2022

Economic Regulation Authority

Level 4, Albert Facey House

469 Wellington Street, Perth WA 6000

Telephone 08 6557 7900

Email info@erawa.com.au

Website www.erawa.com.au

This document can also be made available in alternative formats on request.

National Relay Service TTY: 13 36 77

© 2022 Economic Regulation Authority. All rights reserved. This material may be reproduced in whole or in part provided the source is acknowledged.

Contents

Decision	1
Reasons for decision	4
Decision making framework	4
Regulatory framework	4
Pipeline access arrangement	4
Submission and content of a reference service proposal	5
ATCO's reference service proposal	6
Proposed reference services.....	6
Stakeholder engagement feedback.....	8
Consideration of reference service factors.....	9
ERA's reference service proposal decision.....	10
Proposal requirements	11
Public consultation.....	12
Reference service factors.....	12
Other considerations	18
Decision.....	19
List of appendices	
Appendix 1 List of Tables.....	20
Appendix 2 Abbreviations.....	21
Appendix 3 Submissions received.....	22

Decision

The Economic Regulation Authority has decided to approve the reference services set out in ATCO's reference service proposal. Reasons for the ERA's decision to approve the proposal are set out in the remainder of this document.

ATCO Gas Australia Pty Ltd (ATCO) submitted a reference service proposal to the ERA on 1 September 2022 as required by the *National Gas Rules* (NGR).¹ The proposal sets out the pipeline services that ATCO can provide via the Mid-West and South-West Gas Distribution Systems (MWSWGDS), which it operates, and which of these services will be specified as a reference service under the access arrangement.

ATCO's gas distribution systems service Geraldton, Bunbury, Busselton, Harvey, Pinjarra, Brunswick Junction, Capel and the Perth greater metropolitan area (including Mandurah). As a regulated gas network, it is required to have an approved access arrangement. The access arrangement sets out the terms, conditions and prices under which third party users can access reference services that are provided (or to be provided) via the MWSWGDS.²

The ERA must undertake a consultation process prior to assessing ATCO's proposal and making a reference service proposal decision before 1 March 2023.³

On 15 September 2022, the ERA published ATCO's reference service proposal and invited submissions from interested parties over a 15-business day consultation period.⁴ The ERA received two submissions, which were broadly supportive of ATCO's reference service proposal (see Appendix 3).

The reference services that are approved by the ERA's decision (as set out in Table 1) will form part of ATCO's access arrangement proposal for the next access arrangement period, which is due to commence on 1 January 2025.⁵

ATCO must submit its access arrangement proposal to the ERA for assessment by 1 September 2023, which is the review submission date for the access arrangement.⁶ The proposal will set out ATCO's proposed terms, conditions and prices for the approved reference services, along with proposed revisions to other access arrangement provisions.

¹ NGR, rule 47A(3).

² A "reference service" is a pipeline service that has a reference tariff and other terms and conditions set (approved) by the regulator under the access arrangement framework, with the "reference tariff" being the price that the pipeline operator can charge its customers. The reference service and reference tariff may form the basis for arbitration in the event of an access dispute.

³ NGR, rules 47A(6) and 47A(9).

⁴ The submission period closed Monday, 10 October 2022.

⁵ Rules 48(1)(c) and (c1) of the NGR allow ATCO to specify different reference services in its access arrangement proposal if there has been a material change in circumstances since the ERA's reference service proposal decision.

⁶ NGR, rule 47A(3)(a).

Table 1: ERA's approved reference services for the Mid-West and South-West Gas Distribution Systems access arrangement

Reference service	Description of service
Haulage reference services	
A1	Major industrial customers using > 35 TJ of gas per year, at high or medium pressures.
A2	Large customers using between 10 and 35 TJ of gas per year, at high or medium pressures.
B1	Medium sized customers using < 10 TJ of gas per year, at high or medium pressures.
B2	Small-use customers with a standard meter with capacity from 12 m ³ /h to less than 18 m ³ /h, typically commercial or large residential, supplied at medium or low pressures.
B3	Small-use customers with a standard meter capacity less than 12 m ³ /h, typically residential or small business customers, supplied at medium or low pressures.
Ancillary reference services	
Applying a meter lock	Attaching a lock to the valve that comprises part of the standard delivery facilities to prevent gas from being received at the delivery point. This service is available at delivery points receiving the B2 or B3 haulage service.
Remove regulator	Physically disconnecting a delivery point to prevent gas from being delivered to the delivery point. This service is available at delivery points receiving the B2 or B3 haulage service.
Removing a meter lock	Removing the lock that was applied to a valve comprising part of the standard delivery facilities to prevent gas from being received at the delivery point. This service is available at delivery points receiving the B2 or B3 haulage service.
Re-install regulator	Reconnecting a delivery point to allow gas to be delivered to the delivery point. This service is available at delivery points receiving the B2 or B3 haulage service.
Deregistering a delivery point	A delivery point is permanently deregistered by: <ul style="list-style-type: none"> i) removing the delivery point (as per the Retail Market Procedures), ii) removing the delivery point from the Delivery Point Register, and iii) for delivery points receiving the B2 or B3 haulage service, removing the meter (where ATCO considers necessary). For delivery points receiving the A1, A2 or B1 haulage service, removal of the meter set is a separate service. ⁷

⁷ This separate service is the "remove meter set and make safe" service, which is specified as a non-reference service.

Reference service	Description of service
Cut and cap service pipe at the main	Following the successful deregistration and meter removal, this service is for the capping of the service pipe at the main to make safe under standard site conditions. This service is available only at delivery points that previously received the B2 or B3 haulage service and have also sought the “deregistering a delivery point” service.
Special read	Request to perform a special read on a basic meter. This service is available at delivery points receiving the B1, B2 or B3 haulage service.

Reasons for decision

Decision making framework

Regulatory framework

1. The National Gas Law (NGL) and NGR, as enacted by the *National Gas (South Australia) Act 2008*, establish the legislative framework for the independent regulation of certain gas pipelines in Australia. The *National Gas Access (WA) Act 2009* implements the NGL and NGR in Western Australia.⁸
2. The legislative framework for the regulation of gas pipelines includes a central objective, being the national gas objective, which is:

... to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.⁹
3. Under the legislative framework, the ERA is responsible for regulating third party access to gas pipelines in Western Australia. Currently, the MWSWGDS is one of three regulated pipelines that require the ERA to approve an access arrangement for under the legislative framework.¹⁰
4. An access arrangement provides details of the terms and conditions, including prices, upon which a service provider may be required to provide access, to a third party, to pipeline services provided by means of the pipeline to transport and receive gas. The service provider is responsible for developing and proposing a relevant access arrangement for the pipeline. The ERA (as the regulator) is responsible for assessing the proposed access arrangement against the legislative requirements set out in the NGL and NGR and approving a compliant access arrangement. Once approved, the access arrangement may serve as a benchmark for negotiating access to pipeline services that are offered by means of the regulated pipeline.

Pipeline access arrangement

5. Once an initial access arrangement is proposed and approved for a regulated pipeline, the access arrangement remains in effect, with scheduled revisions, until coverage of the pipeline is revoked.¹¹ The MWSWGDS access arrangement was initially approved in July 2000. The last scheduled revisions to it were approved by the ERA in November 2019 for the fifth access arrangement period (1 January 2020 to 31 December 2024).
6. ATCO is required to submit proposed revisions for the next (sixth) access arrangement period by 1 September 2023. Prior to submitting its access arrangement proposal, the NGR requires ATCO to submit a reference service proposal to the ERA for a determination. The ERA's reference service proposal decision approves the reference

⁸ The NGL as implemented in Western Australia is set out as a note in the *National Gas Access (WA) Act 2009*. This note does not form part of the Act but shows the text that applies as the *National Gas Access (Western Australia) Law*. In this decision, references to the "NGL" are references to the Western Australian National Gas Access Law text, unless otherwise specified.

⁹ NGL, section 23.

¹⁰ The other pipelines which require an approved access arrangement in Western Australia are the Dampier to Bunbury Natural Gas Pipeline and the Goldfields Gas Pipeline.

¹¹ NGR, rule 49(1).

services that ATCO can include in its access arrangement proposal, and for which ATCO must propose the terms, conditions and prices for access to these services.

Submission and content of a reference service proposal

7. ATCO was required to submit its reference service proposal to the ERA by 1 September 2022, being no later than 12 months prior to the review submission date for the MWSWGDS access arrangement.¹² The ERA was then required to publish ATCO's proposal for public comment before making its reference service proposal decision before 1 March 2023 (which is six months prior to the date when ATCO is required to submit its proposed revisions to the access arrangement).¹³
8. The purpose of a reference service proposal is to identify the services that can be provided by the pipeline and determine which of these services should be specified as a reference service under the access arrangement. A "reference service" is a pipeline service that has a reference tariff and other terms and conditions set (approved) by the ERA under the access arrangement framework, with the "reference tariff" being the price that ATCO can charge its customers as the pipeline operator.
9. A reference service proposal must:¹⁴
 - Identify the pipeline to which the proposal relates and include a reference to a website where a description of the pipeline can be reviewed.
 - Set out all the pipeline services that the service provider can reasonably provide by means of the pipeline, and provide a description of those services with consideration given to the different characteristics of each service, such as:
 - The service type (for example, is the service a forward haul, backhaul, connection, or park and loan service).
 - The priority of the service relative to other pipeline services of the same type.
 - The receipt and delivery points.
 - Set out a list of pipeline services that the service provider can reasonably provide and identify at least one of those services as a proposed reference service. In identifying the proposed reference service(s), consideration must be given to the "reference service factors" and any supporting information required by the ERA.
 - Where the service provider has engaged with pipeline users and/or other interested parties in developing the proposal, describe the feedback received from those users/parties about what pipeline services should be specified as a reference service.

¹² NGR, rule 47A(3).

The review submission date for the MWSWGDS access arrangement is 1 September 2023. This is the date that ATCO must submit an access arrangement proposal. This proposal sets out ATCO's proposed revisions to the access arrangement for the next (sixth) access arrangement period, which will commence on 1 January 2025.

¹³ NGR, rules 47A(6) and 47A(9).

¹⁴ NGR, rule 47A.

10. The reference service factors are set out in the NGR and are reproduced below.¹⁵

The reference service factors are:

- (a) actual and forecast demand for the pipeline service and the number of prospective users of the service;
- (b) the extent to which the pipeline service is substitutable with another pipeline service to be specified as a reference service;
- (c) the feasibility of allocating costs to the pipeline service;
- (d) the usefulness of specifying the pipeline service as a reference service in supporting access negotiations and dispute resolution for other pipeline services, such that:
 - (i) reference services serve as a point of reference from which pipeline services that are not reference services can be assessed by a user or prospective user for the purpose of negotiating access to those other pipeline services;
 - (ii) a reference tariff serves as a benchmark for the price of pipeline services that are not reference services; and
 - (iii) reference service terms and conditions serve as a benchmark for the terms and conditions of pipeline services that are not reference services;
- (e) the likely regulatory cost for all parties (including the [ERA], users, prospective users and the service provider) in specifying the pipeline service as a reference service.

ATCO's reference service proposal

11. ATCO submitted its reference service proposal to the ERA on 1 September 2022. The proposal identified the MWSWGDS as the relevant pipeline, which ATCO described as follows:

ATCO Gas Australia (ATCO) owns and operates the largest gas infrastructure network in Western Australia; the Mid-West and South-West Gas Distribution Systems (MWSWGDS). Our core business is owning, operating, and maintaining gas distribution networks and providing a safe, reliable, affordable and sustainable gas delivery service to residential, commercial, and industrial customers.

Our network supplies approximately 785,000 customers through a network of pipes that are over 14,500 kilometres in length, supported by an ATCO workforce of over 400 personnel and an additional contracted workforce.

Our networks are located in Geraldton, Bunbury, Busselton, Harvey, Pinjarra, Brunswick Junction, Capel, and the Perth greater metropolitan area. More than 80% of the Perth metropolitan area is serviced by our underground network of pipelines. Further information on our gas network can be found at www.atco.com.¹⁶

Proposed reference services

12. ATCO identified 32 pipeline services that it can reasonably provide via its gas network. Of these services, ATCO proposed 12 services to be specified as reference services in the access arrangement for the next (sixth) access arrangement period. These

¹⁵ NGR, rule 47A(15).

¹⁶ ATCO, *Reference Service Proposal*, 1 September 2022, p. 1.

reference services are set out in Appendix A1 of ATCO's proposal and are summarised in Table 2.

Table 2: ATCO's proposed reference services

Reference service	Description of service
Haulage reference services	
A1	Major industrial customers using > 35 TJ of gas per year, at high or medium pressures.
A2	Large customers using between 10 and 35 TJ of gas per year, at high or medium pressures.
B1	Medium sized customers using < 10 TJ of gas per year, at high or medium pressures.
B2	Small-use customers with a standard meter with capacity from 12 m ³ /h to less than 18 m ³ /h, typically commercial or large residential, supplied at medium or low pressures.
B3	Small-use customers with a standard meter capacity less than 12 m ³ /h, typically residential or small business customers, supplied at medium or low pressures.
Ancillary reference services	
Applying a meter lock	Attaching a lock to the valve that comprises part of the standard delivery facilities to prevent gas from being received at the delivery point. This service is available at delivery points receiving the B2 or B3 haulage service.
Remove regulator	Physically disconnecting a delivery point to prevent gas from being delivered to the delivery point. This service is available at delivery points receiving the B2 or B3 haulage service.
Removing a meter lock	Removing the lock that was applied to a valve comprising part of the standard delivery facilities to prevent gas from being received at the delivery point. This service is available at delivery points receiving the B2 or B3 haulage service.
Re-install regulator	Reconnecting a delivery point to allow gas to be delivered to the delivery point. This service is available at delivery points receiving the B2 or B3 haulage service.
Deregistering a delivery point	A delivery point is permanently deregistered by: <ul style="list-style-type: none"> i) removing the delivery point (as per the Retail Market Procedures), ii) removing the delivery point from the Delivery Point Register, and iii) for delivery points receiving the B2 or B3 haulage service, removing the meter (where ATCO considers necessary).

Reference service	Description of service
	For delivery points receiving the A1, A2 or B1 haulage service, removal of the meter set is a separate service. ¹⁷
Cut and cap service pipe at the main	Following the successful deregistration and meter removal, this service is for the capping of the service pipe at the main to make safe under standard site conditions. This service is available only at delivery points that previously received the B2 or B3 haulage service and have also sought the “Deregistering a delivery point” service.
Special read	Request to perform a special read on a basic meter. This service is available at delivery points receiving the B1, B2 or B3 haulage service.

Source: ATCO, *Reference Service Proposal*, 1 September 2022, Appendix A1.

13. ATCO categorised its proposed reference services as either “haulage reference services” or “ancillary reference services”, which it explained as follows:

Haulage Reference Services: For the transportation of gas to residential, commercial, and industrial customers. Haulage reference services are used by all users of the MWSWGDS, and all gas delivered through our network is delivered under these services. These services cover the full range of activities involved in receiving, transporting, and delivering gas to our customers.

Ancillary Reference Services: Services that are commonly used by retailers in conjunction with providing a haulage service.¹⁸

14. ATCO submitted that the proposed haulage reference services for the next access arrangement period were a continuation of the haulage reference services available during the current access arrangement period. The proposed ancillary reference services remained largely unchanged, with the addition of one service – the “cut and cap service pipe at the main” disconnection service. ATCO submitted that this service was currently offered as a non-reference (demolition) service but would be offered as an ancillary reference (disconnection) service in the next access arrangement period based on its consideration of stakeholder feedback and the reference service factors.
15. All other pipeline services provided by the MWSWGDS that are not haulage or ancillary reference services would continue to be offered as non-reference services, which ATCO submitted were typically negotiated on a case-by-case basis directly with customers. ATCO listed the 20 non-reference services in Appendix A2 of its proposal, which comprised: disconnection and reconnection services for retailer credit control, meter reading and other meter services, alter delivery services, and any other services that ATCO agrees to provide.¹⁹

Stakeholder engagement feedback

16. In developing its reference service proposal, ATCO undertook a five-phased approach that involved:

¹⁷ ATCO stated this separate service to be the “remove meter set and make safe” service, which is proposed as a non-reference other meter service.

¹⁸ ATCO, *Reference Service Proposal*, 1 September 2022, p. IV.

¹⁹ ATCO, *Reference Service Proposal*, 1 September 2022, Appendix A2.

- Initial engagement with stakeholders (Phase 1)
 - Consideration of stakeholder feedback (Phase 2)
 - Drafting of a draft reference service proposal for consultation (Phase 3)
 - Re-engagement with stakeholders (Phase 4)
 - Submission of a final reference service proposal to the ERA (Phase 5).
17. A summary of the activities undertaken by ATCO during each of the five-phases is provided in section 2 of ATCO's proposal.²⁰
18. ATCO submitted that it treated all feedback received throughout its engagement activities as valuable. However, anything falling outside the scope of the reference service proposal process was directed to a relevant team to address separately, whereas all feedback within the scope of the reference service proposal process was addressed as part of ATCO's five-phased approach.²¹ ATCO provided a summary of the relevant feedback and its responses to this feedback in its proposal.²² The topics that were addressed included:
- Zero consumption meters
 - Meter read frequency
 - Meter self-reads
 - Disconnection method in street
 - Trailer Air Coupling (TAC) isolation devices
 - Seasonal tariffs
 - 'Cut and cap service pipe at main' disconnection service (previously a 'demolition' service)
 - Services that fully offset the carbon emissions
 - Enabling the distribution of cleaner fuels (for example, hydrogen and renewable natural gas)
 - The demand for consumption data to be available immediately for end users.

Consideration of reference service factors

19. In determining which of its pipeline services to specify as a reference service, ATCO needed to consider the reference service factors.²³ ATCO submitted that it undertook an assessment of each pipeline service against the reference service factors and only those services that met most of the reference service factors were specified as a reference service. ATCO's assessment outcomes were detailed in Appendices A1 and A2 of its proposal.
20. ATCO submitted that all current haulage reference services would remain as reference services for the next access arrangement period based on a consideration of the reference service factors:

²⁰ ATCO, *Reference Service Proposal*, 1 September 2022, pp. 6-12.

²¹ ATCO, *Reference Service Proposal*, 1 September 2022, p. 8.

²² ATCO, *Reference Service Proposal*, 1 September 2022, Table 2.3, pp. 9-12.

²³ The reference service factors are set out at paragraph 10 of this decision.

- Haulage services have the highest demand and generate most of ATCO's revenue.
 - Haulage services are not substitutable with any other service.
 - Costs can be reasonably allocated to haulage services.
 - While considered to be irrelevant, haulage services provide a basis for negotiation.
 - Regulatory costs are minimised by retaining existing haulage services as reference services.²⁴
21. All current ancillary reference services would remain as ancillary reference services for the next access arrangement period, with the addition of one new disconnection service – the “cut and cap service pipe at main” service. ATCO assessed the cut and cap service (which is currently offered as a non-reference demolition service) as a service sought by a significant portion of the market and that cannot be substituted with any other reference service.²⁵ All other current ancillary reference services would remain as ancillary reference services based on ATCO's consideration of the reference service factors:
- Current ancillary reference services are those with the highest demand volumes and generate the majority of ATCO's ancillary service revenue.
 - While some current ancillary reference services can be substituted with other services, these service substitutes have higher costs and lower demand volumes.
 - Costs can be reasonably allocated to the current ancillary reference services.
 - The current ancillary reference services are standard market services that have little demand for service variations, hence the usefulness of these services in supporting negotiations and resolutions is largely irrelevant.
 - Regulatory costs are minimised by retaining the existing ancillary reference services.
22. ATCO submitted that all other pipeline services not specified as either a haulage or ancillary reference service would be offered as a non-reference service in the next access arrangement period. These services did not meet several of the reference service factors, primarily due to their low or variable service demand, high cost variability and substitutability with other reference services.²⁶

ERA's reference service proposal decision

23. In making its reference service proposal decision, the ERA:
- Assessed ATCO's reference service proposal to ensure compliance with the requirements of the NGR.
 - Considered the matters that it is required to consider, including:²⁷
 - Submissions made in response to the ERA's invitation for submissions on ATCO's reference service proposal.

²⁴ ATCO, *Reference Service Proposal*, 1 September 2022, p. 16.

²⁵ ATCO, *Reference Service Proposal*, 1 September 2022, p. 17.

²⁶ ATCO, *Reference Service Proposal*, 1 September 2022, pp. 17-18.

²⁷ NGR, rule 47A(13).

- Feedback ATCO received from pipeline users during the development of its reference service proposal.
- The reference service factors.²⁸
- Any other matter considered relevant.

Proposal requirements

24. The NGR set out the requirements for ATCO's reference service proposal. If the ERA considers ATCO's proposal does not comply with the rule requirements it may notify the service provider to resubmit the reference service proposal prior to assessing and deciding whether to approve (or not approve) the proposal.²⁹
25. The ERA undertook a preliminary compliance check of ATCO's reference service proposal before publishing it for public comment. Table 3 sets out the results of this compliance check, and the proposal was found to be compliant with the requirements of the NGR.

Table 3: Preliminary compliance check of ATCO's reference service proposal against the requirements set out in the National Gas Rules

NGR requirement	Compliance status
Submission of proposal	
For a full regulation pipeline where an existing access arrangement applies, proposal submitted no later than 12 months prior to the review submission date for the access arrangement (NGR 47A(3)(a)).	Compliant
Content of proposal	
Proposal identifies the pipeline to which it relates, including a reference to a website where a description of the pipeline can be reviewed (NGR 47A(1)(a)).	Compliant
Proposal sets out all the pipeline services that the service provider can reasonably provide by means of the pipeline, including a description of each of the services (NGR 47A(1)(b)).	Compliant
Proposal identifies, from the list of pipeline services that the service provider can reasonably provide, at least one service to be specified as a reference service (NGR 47A(1)(c)).	Compliant
Where the service provider has engaged with pipeline users in developing its proposal, proposal describes any feedback from those users about which pipeline services should be specified as a reference service (NGR 47A(1)(d)).	Compliant

²⁸ The reference service factors are set out at paragraph 10 of this decision.

²⁹ NGR, rule 47A(4).

Public consultation

26. The ERA must consider the consultation undertaken by ATCO in developing its reference service proposal and any submissions received in response to the ERA's consultation process.³⁰

ATCO's consultation

27. ATCO's consultation process included various engagement activities involving Western Australian gas retailers and end consumer representative groups. These stakeholders provided feedback during the engagement activities to assist ATCO to prepare a draft reference service proposal. Stakeholders were asked to comment on the draft proposal prior to ATCO finalising the proposal for submission to the ERA.
28. ATCO detailed its stakeholder engagement in its proposal and summarised the feedback provided by stakeholders and ATCO's response to this feedback. The ERA notes that ATCO assessed some feedback as matters outside the scope of the reference service proposal and that ATCO's response to this was to direct the matter to a relevant team to progress and/or for the matter to be considered as part of the access arrangement proposal process.³¹
29. The ERA considers that ATCO undertook a comprehensive stakeholder engagement process that provided stakeholders with multiple opportunities to provide feedback on what pipeline services should be specified as a reference service for the next access arrangement period. ATCO took this stakeholder feedback into account when finalising its reference service proposal for submission to the ERA.

ERA's consultation

30. The ERA published ATCO's reference service proposal on 15 September 2022 and invited interested parties to make submissions on it by 10 October 2022.³² The ERA received two submissions (see Appendix 3).
- Alinta Energy (Alinta) confirmed ATCO's consultation process and was supportive of the proposed haulage and ancillary reference services, including the additional "cut and cap service pipe at the main" ancillary reference service.
 - While AGL Energy Limited (AGL) was broadly supportive of ATCO's reference service proposal, including ATCO's consultation process, it raised additional considerations concerning the disconnection process, hydrogen blending and transparency of prices for non-reference services.
31. The additional matters raised by AGL are not matters that are directly relevant to the ERA's consideration of the reference service factors and are therefore considered as part of the ERA's other considerations (at paragraph 56).

Reference service factors

32. In assessing ATCO's reference service proposal, the ERA considered ATCO's assessment of pipeline services against the reference service factors. The ERA notes

³⁰ NGR, rules 47A(13)(b) and (c).

³¹ The access arrangement proposal process follows the reference service proposal process.

³² ERA, *Notice – Reference service proposal for the Mid-West and South-West Gas Distribution Systems: Invitation for public submissions*, 15 September 2022 ([online](#)) (accessed October 2022).

that ATCO's proposed reference services are those services that ATCO has assessed as meeting several of the reference service factors. Services assessed by ATCO as not meeting the reference service factors are proposed to be offered as non-reference services.

33. The ERA's consideration of the reference service factors is set out at paragraphs 34 to 51 below. In considering the reference service factors, the ERA has sought to determine the circumstances in which each factor would be reasonably satisfied. The ERA considers that a pipeline service that can reasonably satisfy most of the reference service factors should be, on balance, specified and offered as a reference service unless there are valid reasons for the service to be offered as a non-reference service.

Factor A: Actual and forecast demand for the service and number of prospective users of the service

34. Factor A requires consideration of actual and forecast demand for the pipeline service and the number of prospective users of the service. The ERA considers that a service with high actual and forecast demand and a high number of prospective users would reasonably satisfy this factor.
35. ATCO assessed each of its pipeline services against Factor A by considering whether the service was sought by a significant part of the market. Each of the services proposed to be specified as a reference service were assessed as being sought by a significant part of the market. Likewise, each of the services proposed to be specified as a non-reference service were assessed as not being sought by a significant part of the market. In summary:
- Proposed haulage reference services
 - ATCO assessed all its haulage services to have the highest service demand and consequently these services generate most of ATCO's total service revenue.
 - Proposed ancillary reference services
 - ATCO assessed its current ancillary reference services to have the highest service demand and consequently these services generate the majority of ATCO's ancillary service revenue (when considering all the ancillary services available).
 - ATCO proposed to add one new ancillary reference service – the “cut and cap service pipe at main” disconnection service. ATCO submitted that its decision to change the specification of the current non-reference “demolition” service to the proposed cut and cap reference service was based on this service being sought by a significant part of the market and stakeholder feedback.
 - Proposed non-reference services
 - ATCO assessed all remaining services, not specified as haulage or ancillary reference services, as services with low or variable demand or lower demand than the substitute reference service.
36. The ERA agrees with ATCO's assessment of its pipeline services against Factor A. Services that are identified as having high demand and/or high user numbers, relative to other services, could reasonably be assessed as being sought by a significant part of the market. Offering such services as reference services, with an associated reference tariff, supports the long term interests of gas consumers by ensuring the

terms, conditions and prices for services that are highly sought by users are proposed and approved using the regulatory framework for gas.

Factor B: *Extent to which the service is substitutable with another service to be specified as a reference service*

37. Factor B requires consideration as to whether the pipeline service is substitutable with another pipeline service that is to be specified as a reference service. Given that Factor B is explicitly focused on the substitutability of a service with another service that *is to be specified as a reference service*, specific consideration needs to be given to the service substitute and whether it will be (or is already) specified as a reference service.
38. The ERA considers that for a service to be substitutable, the service substitute should aim to deliver the same service outcome to the user (customer) as the original service. Where a service does not have a service substitute, it would be appropriate to consider specifying the non-substitutable service as a reference service itself after consideration is given to the other reference service factors.
39. ATCO assessed each of its pipeline services against Factor B by considering whether the service could be substituted with another service. ATCO considered that:
 - All its haulage services could not be substituted with another service.³³
 - Some of its ancillary services could be substituted with other services, but the service substitutes were higher cost services with lower volumes.³⁴
40. The ERA agrees with ATCO's assessment of its pipeline services against Factor B. ATCO's haulage services cannot be substituted with any other service. While some ancillary services are substitutable, the ERA considers that the specification of these service substitutes as reference services would not support the long term interests of gas consumers because the service substitutes are services that are generally lower in demand and/or have high variable service costs that make it difficult to efficiently allocate and recover those costs. The specification of such service substitutes as reference services would also likely result in higher regulatory costs given the need to approve the terms, conditions and tariff for reference services using the regulatory framework for gas.

Factor C: *Feasibility of allocating costs to the service*

41. Factor C requires consideration of the feasibility of allocating costs to the service. The ERA considers that it is only feasible to allocate costs to a service if the direct and shared costs of providing the service can be determined.
42. ATCO assessed each of its pipeline services against Factor C by considering whether the costs of providing the service could be reasonably allocated to the service. ATCO assessed that the costs of providing each of its services could be reasonably allocated to the relevant service. Although costs for all services can be allocated, ATCO submitted that many of the ancillary services that are proposed as non-reference services have high variable costs because these services aim to address specific

³³ ATCO, *Reference Service Proposal*, 1 September 2022, p. 16, Table 4.1.

³⁴ ATCO, *Reference Service Proposal*, 1 September 2022, p. 17, Table 4.2.

customer requirements.³⁵ Such variable costs mean that a standard charging method may allocate costs unfairly.

43. The ERA agrees with ATCO's assessment of its pipeline services against Factor C. The main purpose of assessing the feasibility of allocating costs to a service is to assist in the development of an appropriate tariff (pricing) structure to allocate and recover those costs. It is in the long term interests of gas consumers to appropriately allocate and recover the costs of providing services to and from the users (customers) of those services. While it may be feasible to allocate costs, services that provide for individual customer requirements are likely to have high variable costs and require more complex tariff structures to allocate and recover those costs to and from the customers who use the service (as opposed to services that do not provide for individual customer requirements and have set, non-variable, costs). Complex tariff structures would likely result in higher regulatory costs, and if the benefits did not outweigh this complexity, then it would not be in the long term interest of gas customers either.

Factor D: Usefulness of specifying service as a reference service to support access negotiations and dispute resolution

44. Factor D requires consideration of the usefulness of specifying a service as a reference service in supporting access negotiations and dispute resolution for other services, such that:
- Reference services serve as a reference point from which pipeline services that are not reference services can be assessed by a user (or prospective user) for the purpose of negotiating access to those other services.³⁶
 - A reference tariff (which a reference service must have) serves as a benchmark for the price of services that are not reference services.³⁷
 - Reference service terms and conditions (which a reference service must have) serve as a benchmark for the terms and conditions of services that are not reference services.³⁸
45. The ERA considers that for a service to be most useful in supporting access negotiations and dispute resolution for other services, the service to be specified as a reference service would be an established service with a clearly defined service outcome, tariff structure and terms and conditions. Such features would enhance the ability of the parties involved in negotiations or resolutions to reach agreement by having a clear reference point and/or benchmark to work from.
46. ATCO assessed each of its pipeline services against Factor D by considering whether the service would be useful in providing a basis for negotiations and dispute resolution. In general, ATCO considered this factor to be largely irrelevant because it did not receive requests for haulage services other than those haulage reference services already specified in the access arrangement, nor did it receive requests for variations to the ancillary services already specified as ancillary reference services. In any case, ATCO considered that each of the current haulage and ancillary reference services

³⁵ For example, the cost of providing "alter meter position and/or gas service pipe" services will vary for each customer because the actual service work depends on the specific circumstances of the customer and the distance the meter is moved.

³⁶ NGR, rule 47(A)(15)(i).

³⁷ NGR, rule 47(A)(15)(ii).

³⁸ NGR, rule 47(A)(15)(iii).

could be useful in supporting access negotiations. For all other services, ATCO assessed Factor D as being “not applicable”.

47. The ERA notes ATCO’s assessment of its pipeline services against Factor D. The ERA considers that access to service terms and conditions, including price, is beneficial regardless of its specification as a reference or non-reference service because this basic service information is critical to inform the decision of a user (or prospective user) to seek access to the service or raise a dispute concerning the service. As suggested by ATCO, the usefulness of specifying a service as a reference service will, however, be most relevant in circumstances where customers seek to make variations to an existing service to meet their service needs or seek access to a new service not already provided. For this reason, the ERA considers that it is in the long term interests of gas consumers to have established services that have high actual or forecast demand specified as reference services. It is these high demand services that will provide the most benefit to customers seeking to evaluate and negotiate access to other services that are not reference services or resolve an access dispute.

Factor E: Likely regulatory cost for all parties in specifying service as a reference service

48. Factor E requires consideration of the likely regulatory costs involved for all parties (including users and prospective users, the ERA and ATCO) in specifying a pipeline service as a reference service. The ERA considers that the overall benefits in specifying a service as a reference service should be greater than the regulatory costs involved, and that such regulatory costs may include, for example:
- Administrative and legal costs incurred by ATCO to develop the required tariff and terms and conditions for each relevant reference service.
 - Operational costs incurred by the ERA to assess and approve the required tariff and terms and conditions for each relevant reference service.
 - The costs incurred by users and prospective users to review and implement the tariff and terms and conditions for each relevant reference service.
49. ATCO assessed each of its pipeline services against Factor E by considering whether the likely regulatory costs in specifying the service as a reference service were low. While ATCO considered that all its services had low regulatory costs, it submitted that regulatory costs would be minimised by retaining the existing haulage and ancillary reference services as reference services in the next access arrangement period.
50. The ERA agrees with ATCO’s assessment of its pipeline services against Factor E. Maintaining the existing reference services in the next access arrangement period is in the long term interests of gas consumers as this approach will minimise regulatory costs by having an existing reference point to work from when proposing, considering and approving revised (new) terms, conditions and tariffs for each reference service.
51. The ERA notes that ATCO’s proposed new “cut and cap service pipe at the main” disconnection reference service is the existing “demolition” non-reference service in the access arrangement for the current access arrangement period. In reclassifying the service as a reference service in the next access arrangement period, ATCO expects to maintain its current disconnection process by requiring the cut and cap service to be sought in conjunction with the “deregistering a delivery point” service, which is already specified as a disconnection reference service. ATCO submitted that this procedure would minimise the regulatory cost in specifying the cut and cap service as a new reference service. The ERA agrees with ATCO’s assessment, and further notes that

the cut and cap service has reasonably high demand and is not substitutable with any other service, which in the ERA's view would justify the regulatory cost of specifying the service as a reference service in any case.

'On balance' consideration of factors

52. The ERA considers that pipeline services that: are high in demand (or are increasing in demand); can have costs allocated; are useful in supporting access negotiations and dispute resolutions; and/or have minimal regulatory costs are services that, on balance, should be specified as reference services. Services that cannot be substituted with another service should also be specified as reference services, given their unique service characteristics, unless there is a specific reason not to after considering the other reference service factors. In all cases, the benefits of specifying a pipeline service as a reference service should outweigh the costs of doing so.
53. The services proposed by ATCO to be specified as reference services for the next access arrangement period satisfy more than one of the reference service factors. The ERA's assessment is that, on balance, each of the pipeline services that ATCO can reasonably provide supports ATCO's proposed reference services for the next access arrangement period.
 - ATCO's proposed haulage reference services are the services that are used to transport and deliver gas via ATCO's network. Each of the haulage services satisfy more than one reference service factor and are not substitutable with any other service.
 - ATCO's proposed ancillary reference services are the services with the highest demand and generate most of ATCO's ancillary reference service revenue. The services also satisfy more than one reference service factor. While some proposed ancillary reference services are substitutable with other services, the service substitutes are services that have low or unpredictable demand and variable costs and are therefore better suited to remain as non-reference services.
54. ATCO proposes to offer all other services, not specified as reference services, as non-reference services for the next access arrangement period. The ERA agrees, having assessed these services against the reference service factors, with the specification of these services as non-reference services. In most cases, these services are low in demand (or have unpredictable demand) and have high variable service costs because they are tailored to meet the service requirements of individual customers. Some of the services are also substitutable with a service that is already, or will be, specified as a reference service.
55. The ERA notes that the specification of pipeline services as either reference or non-reference services can change in subsequent access arrangement periods when ATCO is required to propose schedule revisions to the MWSWGDS access arrangement.

Other considerations

56. In its submission to the ERA, AGL commented on matters related to the disconnection process, hydrogen blending and non-reference service tariffs.³⁹ The ERA's consideration of these matters is set out below.

Disconnection process

57. AGL considered that ATCO's proposed disconnection process, which will incorporate the new "cut and cap service pipe at main" reference service, may be incomplete and could result in associated costs being recovered from the retailer instead of the customer.⁴⁰ AGL considered that when a customer directly requests a disconnection from ATCO, ATCO should invoice the customer for all fees, including external fees and not subsequently pass on any fees to the retailer. Similarly, where the disconnection is requested by the retailer (on behalf of a customer), ATCO should incorporate all relevant fees so that these fees can be passed onto the customer.
58. The ERA notes the disconnection process set out in Appendix A3 of ATCO's reference service proposal and that ATCO has proposed to retain this process for residential, small business, industrial and commercial customers in the next access arrangement period by requiring the 'cut and cap' disconnection service to be sought in conjunction with the existing "deregistering a delivery point" disconnection service, both of which are to be specified as ancillary reference services. As these are reference services, ATCO must set out the terms and conditions, including prices, for the services in its access arrangement proposal. The ERA expects that the invoicing process will be set out as part of these terms and conditions, and that all relevant fees and charges will be considered when determining the relevant tariff structure for these services. The ERA further expects that ATCO will continue to consult with retailers about these (and other) reference services while developing its access arrangement proposal for submission to the ERA. AGL and other retailers should therefore have opportunities to work with ATCO to review the disconnection process and address any operational problems that are identified.

Hydrogen blending

59. AGL noted ATCO's position on hydrogen blending and submitted that ATCO's proposed investigations and trials provided an excellent opportunity to better understand the issues that may arise from blending processes. AGL further noted ATCO's plans to replace a large quantity of residential gas meters over the next access arrangement period. AGL considered that these planned meter replacements provided a good opportunity to install and trial 'smart' gas meters and would be most beneficial in the areas that formed part of ATCO's hydrogen blending trial.⁴¹
60. The ERA considers that the decision to replace existing pipeline assets (such as gas meters) with assets that support and/or enable hydrogen blending and renewable gases would need to be carefully considered and justified under the existing framework for gas regulation. While developing national and state government policies to meet environmental (decarbonisation) targets are likely to affect the regulation of gas at some

³⁹ AGL Energy Limited, *Submission on reference service proposal for the Mid-West and South-West Gas Distribution Systems*, 10 October 2022.

⁴⁰ AGL cited a recent example where it received an invoice from ATCO for an 'AEMO MORN abolishment fee' after a customer directly requested and paid for a disconnection service.

⁴¹ ATCO stated in its reference service proposal that its hydrogen blending trial will include Glen Iris, Treeby and Calleya Estates within the City of Cockburn.

ATCO, *Reference Service Proposal*, 1 September 2022, p. 3.

point, the assessment of ATCO's access arrangement for the MWSWGDS must use the framework in place at the time of the assessment.

61. The ERA notes ATCO's decision to not include a new hydrogen blending service in the access arrangement at this time. As indicated by ATCO, relevant national and jurisdictional policies and frameworks still need to be developed for hydrogen and renewable gases.⁴²

Non-reference service tariffs

62. AGL noted that ATCO's proposed non-reference services did not provide any indication of whether the charging structure for each service would be a 'fixed fee' or 'quoted service' and that this type of information was provided by other service providers for their respective networks.⁴³ AGL submitted that charging information was an important aspect for retailer planning because retailers needed to build in additional systems and processes around quoted works versus fixed fee services. AGL further considered that some non-reference services with unpredictable demand could still be fixed fee services if the work was standard (for example, removing a meter lock after hours or a special meter read appointment). In instances where the work required is highly variable, then the service should be a quoted service.
63. The ERA considers that the availability of terms, conditions and prices for ATCO's non-reference services would be beneficial for all users (including prospective users) of ATCO's gas network. However, under the framework for gas regulation, the ERA cannot require ATCO to make this information available for non-reference services. ATCO is only required to publish, as part of the approved access arrangement for its network, the terms, conditions and prices for services that are specified as reference services. While this is the case, the ERA encourages AGL and other retailers to discuss their operational needs with ATCO. The ERA considers such information would benefit the long term interests of gas consumers by facilitating the transparency of information to assist consumer choices about the gas services that are used (or will be used).

Decision

64. The ERA has decided to approve the reference services proposed in ATCO's reference service proposal for the reasons set out above (paragraphs 23 to 63). The approved reference services will form part of ATCO's access arrangement proposal for the next access arrangement period, which is due to commence on 1 January 2025.⁴⁴ ATCO must submit its access arrangement proposal to the ERA for a decision by 1 September 2023.⁴⁵ The proposal will set out ATCO's proposed terms, conditions and prices for the approved reference services, along with proposed revisions to other access arrangement provisions.

⁴² Australian Government, 'Extending the national gas regulatory framework to hydrogen blends and renewable gases' ([online](#)) (accessed October 2022).

⁴³ The ERA notes that recent reference service proposals for the AusNet Gas Services, AGN Victorian and Albury Gas Distribution Networks and Multinet Gas Network indicated whether an ancillary service would be charged as a fixed fee or would require a quotation. These reference service proposals are available from the Australian Energy Regulator's [website](#) (accessed October 2022).

⁴⁴ Rules 48(1)(c) and (c1) of the NGR allow ATCO to specify different reference services in its access arrangement proposal if there has been a material change in circumstances since the ERA's reference service proposal decision.

⁴⁵ 1 September 2023 is the review submission date for the access arrangement.

Appendix 1 List of Tables

Table 1:	ERA's approved reference services for the Mid-West and South-West Gas Distribution Systems access arrangement	2
Table 2:	ATCO's proposed reference services.....	7
Table 3:	Preliminary compliance check of ATCO's reference service proposal against the requirements set out in the National Gas Rules	11

Appendix 2 Abbreviations

AGL	AGL Energy Limited
Alinta	Alinta Energy
ATCO	ATCO Gas Australia Pty Ltd
ERA	Economic Regulation Authority
MWSWGDS	Mid-West and South-West Gas Distribution Systems
NGL	National Gas Law
NGR	National Gas Rules
TAC Device	Trailer Air Coupling Device

Appendix 3 Submissions received

The following interested parties provided submissions in response to the ERA's invitation for submissions on ATCO's reference service proposal. The submissions received are published on the ERA's website.⁴⁶

- Alinta Energy
- AGL Energy Limited

⁴⁶ ERA, 'Access Arrangement for Period commencing 2025' ([online](#)) (accessed October 2022).