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Mr Sebastian Roberts
General Manager, Transmission and Gas
Australian Energy Regulator
Via email AERInquiry@aer.gov.au

Dear Sebastian

Draft light regulation financial reporting guideline and reporting template

Australian Gas Infrastructure Group (AGIG) welcomes the opportunity to make this submission on the *Draft Financial Reporting Guideline for Light Regulation Pipeline Services* (the 'Draft Guideline'). When finalised, the *Financial Reporting Guideline for Light Regulation Pipeline Services* (the 'Final Guideline') should provide an opportunity to improve transparency for light regulation pipelines relative to full regulation pipelines.

Overall, we agree with the proposal for service providers to report asset values using a Regulated Asset Base (RAB) previously established by a regulator, as well as application of the methodology for rolling forward the RAB consistent with the roll forward model (RFM) applied by the AER to covered pipelines under full regulation.

In our view, the same methodologies should apply to all covered pipelines, which is consistent with the AER's arbitration role for light regulation pipelines. We consider a consistent approach across all covered pipelines will deliver certainty for both service providers and our customers.

However, we have concerns for the potential of other valuation methods to be used in an arbitration process, which would:

- result in different methodologies being applied to covered pipelines based on the form of regulation that applies (which may result in a preference for a form of regulation that is not based on economic grounds);
- change the risk profile of the business; and
- undermine the negotiation process by potentially relying on different information in an arbitration to that relied upon in a negotiation (with the latter being the information provided under the Final Guideline).

After introducing AGIG, we will address these issues in more detail as well as some other technical issues with the Draft Guideline.

About AGIG

AGIG is one of the largest gas infrastructure businesses in Australia. We serve over 2 million customers across every mainland state and the Northern Territory through 34,000km of distribution networks, more than 3,500km of transmission pipelines and 42 petajoules of storage capacity. AGIG owns a gas distribution network in Queensland servicing over 100,000 customers north of the Brisbane river, including the CBD. The form of regulation applicable to this network shifted from full regulation to light regulation in 2015.

Asset valuation

We agree with the proposal in the Draft Guideline for light regulation pipelines with a previously established RAB to use this in reporting asset values. The Draft Guideline correctly recognises that the AGN Gas Distribution Network in Queensland (excluding the Wide Bay Distribution Network which is a non-scheme pipeline)[1] will be able to report using an established RAB.

We also support the use of this RAB for access disputes, as the RAB reflects detailed analysis undertaken of an appropriate (and efficient) asset value. Importantly, light regulation pipelines are covered, so similar approaches and methodologies should be used for full and light regulation pipelines wherever practical. This is particularly relevant in the event of a pipeline moving from light to full regulation, including following the outcome of an arbitration (or alternatively due to the preference of the service provider or customer).

Any change to the approach adopted for determining the RAB would also represent a retrospective change, thereby changing the risk profile of the business. The Draft Guideline should be more explicit about the importance of an established RAB. Having an established RAB provides service providers and customers with long-term confidence in the regulatory regime as envisioned by the National Gas Objectives and in the revenue and pricing principles.

Also, potentially relying on information in an arbitration that is different to that used in a negotiation (being the information provided under the Final Guideline), would undermine the effectiveness of the negotiation process. Again, this serves to deliver uncertainty for both service providers and our customers.

Section 4.3 of the Draft Guideline therefore introduces unnecessary uncertainty; potentially increasing risks for service providers about the value of investments already made and the regulatory treatment already approved. It would be more appropriate that this section of the Draft Guideline refer to the specific requirements for Access Determinations in NGL and NGR.

Other issues

In addition to our concerns about asset values there are a number of more specific or technical issues in the Draft Guideline which we believe should be addressed:

- Section 4.3: We understand covered pipelines are subject to the Access Dispute provision in Chapter 6 of NGL. Therefore to align with the NGL, and to avoid any confusion with the provisions of Part 23 of the *National Gas Rules* (NGR), references in section 4.2 should refer to Access Disputes and the Dispute Resolution Body (as opposed to arbitration and arbitrator as in the Draft Guideline).
- Section 3: The Depreciation Criteria n NGR89 refer to the economic life of an asset, whereas the Draft Guideline sometimes refers to the useful life of assets. As covered pipelines, these references should be consistent with the depreciation criteria in NGR and use economic life.
- Weighted Average Price: distribution tariffs applicable to AGIG's light regulation Queensland network, representing the actual prices charged, are currently published on our website. Also, the structure of distribution tariffs is different to that applied by transmission pipelines and therefore the distribution tariffs do not match the template provided in 'Weighted Average Price' tab of the

[1] The Draft Guideline at footnote 7 incorrectly refers to the Envestra Gas Distribution Network (Queensland). This should refer to the AGN Gas Distribution Network (Queensland), excluding the Wide Bay Distribution Network, which is subject to light regulation. This change has been notified to the AEMC for updating the Scheme Pipeline Register.

draft light regulation template. We therefore propose that, in the instances where a weighted average price is required, specifically in the case of distribution networks, that the applicable tariff schedule be provided rather than the weighted average price template.

Once again, I thank you for the opportunity to provide a submission on the Draft Guideline. Should you have any queries about the information provided in this letter please contact Peter Bucki, Head of Regulation (peter.bucki@agig.com.au, 08 8418 1112).

Yours sincerely,

Craig de Laine
General Manager People and Strategy