



4 February 2016

Mr Warwick Anderson
General Manager - Network Finance and Reporting
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

by email: AGN2015GAAR@aer.gov.au

Dear Mr Anderson,

Re: AER Draft Decision on the Australian Gas Networks (South Australia) - Access Arrangement 2016-21

AGL Energy Ltd (AGL) welcomes this opportunity to comment on the Australian Energy Regulator's (AER) Draft Decision for the Access Arrangement of the Australian Gas Network (AGN) in South Australia and also on AGN's revised proposal for its gas distribution network.

AGL operates nationally across the energy supply chain and has investments in coal-fired, gas-fired, renewable and embedded electricity generation. AGL is a significant retailer of energy with more than 3 million electricity and gas customers. As one of the largest energy retailers in Australia, AGL is well placed to comment on issues in the industry.

AGL is supportive of the principles used by the AER in its recent decisions and believes that the AER has maintained its approach in its Draft Decision for the AGN Proposal.

AGL note that the AER accepted many elements of AGN's initial proposal in its Draft Decision and also acknowledges that in its revised proposal, AGN has accepted a large number of the AER's changes. In AGL's opinion, this is consistent with the constructive and balanced approach that AGN has shown to date.

However, the AGN revised proposal does maintain its:

- Large capital expenditure on a main replacement program; and
- A higher rate of return allowance.

AGL makes the following comments regarding these cost components in the AER Draft Decision and treatment by AGN in its Revised Proposal and would also highlight two remaining issues with the proposed terms and conditions.

Rate of Return

AGL believes that several of the estimates used in calculating a rate of return from the AER guideline, for example the debt margin and equity beta, are quite generous given current economic conditions and the lack of risk inherent in the regulated framework.

In spite of this, AGL supports the AER's use of its Rate of Return Guideline as an equitable balance between the interests of the distributions networks and energy consumers.

As such, AGL does not support adjustment of the rate of return for financial/ cash flow reasons.

Main Replacement Capital Expenditure

AGN's revised proposal continues to propose material increases in capital expenditure over the next period due to its replacement program for its cast iron, unprotected steel and high density polyethylene mains.

This was halved in the Draft Decision but AGN is providing additional evidence to justify its inclusion in its revised plan, and at a lower cost.

AGL is not in a position to assess the mains replacement proposal as it stands but supports a balanced regulatory decision that allows for prudent mains replacement for the distribution networks which mitigates safety risk but also keeps the long-term costs for South Australian gas consumers down.

Terms and conditions: Recovery of charges.

Although gas retail services are regulated under the National Energy Consumer Framework (NECF), the provision of network services to retailers and end-use customers is dependent on the terms and conditions provided by the Access Arrangement. It is therefore important for the service quality of the distribution network business to be aligned with the NECF.

AGL supports the AER's Draft Decision to remove references to "whether or not there is any shared Customer in respect of that User DP" (clause 3.3) or "whether or not the Shared Customer pays those Distribution Services Charges, or any other amount, to the Network User" (sub-clause 20.2).

AGN's revised proposal inserts new sub-clauses 20.2(a)-(c), in particular s20(a), that the Network User is liable for any component of the Distribution Service Charges which accrues when there is no Shared Customer in respect of a User DP. AGL disagrees with this as they are inconsistent with the National Gas Rules (NGR).

Rule 503 of the NGR requires that a retailer pay to a distributor the distribution service charges payable in respect of each shared customer. There is no obligation to pay distribution service charges to the distributor where there is no shared customer.

Network charges are defined in the National Energy Retail Law 2011 (NERL) as charges that a distributor is entitled to charge for customer connection services, for gas, under the distributor's access arrangement under Part 12 Access Disputes and Part 12A Gas Connection for Retail Customers of the NGR. Part 12 and Part 12A do not contemplate that these charges should be paid by the retailer when there is no customer.

AGN's position and proposed amendment is therefore inconsistent with the NGR and the NERL. AGL also disagrees with AGN's submission that rule 508 only applies when there is a shared customer. A more sensible interpretation would be that if there is no shared customer then the Distributor is not allowed to recover charges from the retailer due to there being no customer and no ability for the retailer to recover those charges on behalf of the distributor.

AGL submits that the AER should reject the proposed additions to clause 20.2

Terms and conditions: Access to Premises

AGL supports the AER Draft Decision to require AGN to remove sub-clause 35.5 from the terms of conditions.

AGL maintains its original submission that AGN should have no liability when it is unable to gain access to a meter and agrees with the AER's reasoning that there is a direct relationship between AGN and shared customer and AGN cannot remove all responsibility where it is unable to gain access to a shared customer's site. It is AGN's asset and it is inappropriate that a retailer who is not allowed to access a meter to carry out services should bear all the risk for AGN's inability to perform its duties under the terms and conditions. The clause should be deleted in accordance with the Draft Decision.

Further, the regulatory framework provides for circumstances where the distributor will be unable to perform services due to inability to gain access and provides for this information to be communicated to retailers without the distributor being liable when it would be unreasonable for them to be. The inclusion of this clause removes the risk from the party that has the greatest ability to manage it.

Should you have any questions in relation to this submission, please contact me on (03) 8633 6207.

Yours sincerely



Elizabeth Molyneux
Manager Structured Pricing