AGL Energy Limited
ABN: 74 115 061 375

Level 22, 120 Spencer Street
Melbourne VIC 3000

Locked Bag 14120 MCMC
Melbourne VIC 8001

T: 03 8633 6000
F: 03 8633 6002
agl.com.au

A few words.

Energy in action.

27 March 2015

Mr Sebastian Roberts
General Manager
Network Opex and Coordination
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

by email: Jemena2014GAAR@aer.gov.au

Dear Mr Roberts,

Re: Jemena Gas Networks (NSW) Gas Access Arrangement 2015-20: AER Draft Decision and Revised Regulatory Proposal

AGL Energy Ltd (AGL) welcomes the opportunity to provide comments on the Australian Energy Regulator's (AER) Draft decision for the Jemena Gas Network (NSW) Access Arrangement as well as Jemena's Revised Regulatory Proposal.

AGL operates nationally across the energy supply chain and has investments in coal-fired, gas-fired, renewable and embedded electricity generation. AGL is Australia's largest private owner, operator and developer of renewable generation in Australia, and is also 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.

This is one of the first draft decisions made by the AER under the recent changes to the National Gas Rules (NGR) and National Gas Law (NGL) and AGL is encouraged by the principles and approaches used by the AER in meeting the amended NGR and NGL requirements. AGL supports the draft decision taking a holistic view rather than forensic analysis of individual components whilst ensuring that the constituent components comply with the NGR.

AGL recognises that gas in NSW is a fuel of choice, and as such Jemena does have some drivers to ensure that gas customers are not choosing alternative energy supplies due to inefficient pricing. In addition, as Jemena will be operating under new Retail Market Procedures in 2016, AGL recognises that there will be some areas under the Retail Service Agreement (RSA) that will continue until that time. However, AGL would expect that the protocols and procedures dictated by the Retail Operating Procedures would take precedence over any conflicting requirements in the RSA from that point on.

Details of where this may apply are given below. AGL also notes that as Jemena has been involved in the development of the Retail Market Procedures so the RSA should not be inconsistent.

AGL would make the following comments regarding the constituent components in the draft decisions and revised regulatory proposals.

<u>Pricing</u>

The issue of pricing is obviously very important for customers. At the retail level, AGL's strong preference is to protect customers from price shocks where possible. To that end, a relatively stable underlying network price is preferable.

Consequently, AGL is comfortable with Jemena's proposed approach to smoothing of the network price path in the final determination.

Alternate Services – Metering

Absorption of Metering Data Services into Haulage Reference Services.

AGL remains concerned with the direction of Jemena's revised proposal to bundle Meter Data Services with Haulage Services. We do not support the AER's draft decision to approve a merger of metering and haulage services into a single reference service.

We understand that Jemena considers this change will make a bill easier for customers to understand and notes the AER has accepted this point. However, we reiterate that there is no benefit to the customer because the retailer already simplifies the charges shown on a customer bill and there will be no change to the customer experience as a result of the bundling of services. Additionally, the bundling of services may require changes to systems to manage the new service charges. This will add needless cost to industry while limiting the ability for industry to adapt and innovate to new technologies which are continually advancing.

AGL's position on gas smart metering and meter contestability has strengthened as a result of the milestone developments currently being implemented in the National Electricity Market. We point out that several years ago, the idea of meter contestability and competition in the electricity market was not achievable. However the implementation of the AEMC's draft rule change on metering competition and COAG's refocused policy direction has now made this possible, which will deliver real benefits, and innovative products and services to customers.

Although we acknowledge that the provisions to facilitate contestable meter data services were removed from the NSW and ACT gas retail market procedures in 2000, this should not be seen as an immoveable barrier or suitable justification. Unfortunately, bundling gas meter data services and haulage services will only serve to provide distribution businesses with increased monopoly powers. This, in our view, is a backward regulatory step and is out of sync with the policy and regulatory changes being made to the electricity market.

Contestable metering would allow earlier innovation in the metering business for example smart gas meters and technology that enables consumers to monitor their consumption, better manage their bills and take up new retail services. Smart gas metering technology is currently being implemented internationally, for example in Italy[1] and the United Kingdom (UK).

The UK Government[2] introduced a policy requiring suppliers to install electricity and gas smart meters to all residential households and small business sites by 2020. The initial design stage of the rollout, including a cost benefit analysis, occurred over 2010-2011. Meters are currently being rolled out, and consumers are already benefitting from the technology.

AGL urges the AER to reconsider its draft decision.

Reference Service Agreement (RSA)

Terms and Conditions of RSA

In its Draft decision, the AER considers many aspects of AGL's submission (and other retailers' submissions) to be best dealt with commercially by the parties. AGL sees significant merit in commercial arrangements with networks and the opportunity to provide new and innovative services to customers. In a competitive market, retailers need to act quickly to bring out new services to customers. However, AGL has experienced difficulty in incentivising networks to prioritise the negotiation of commercial agreements and move quickly on them.

For example, AGL has been attempting to engage with Jemena on retrospective transfers. This functionality would allow customers who are not contracted immediately to a retailer

[1] In late 2014, the Italian energy regulator AEEGSI, mandated a rollout of gas smart meters to residential households in its Decree 631/13/R/Gas.

[2] Led by the UK Department for Energy and Climate Change, with assistance from the Office of Gas and Electricity Markets (Ofgem), the UK energy regulator.

to be transferred from a point in the recent past where there is an associated meter reading.

This is particularly important in gas, as gas services are rarely turned off and customers moving in often fail to have their gas service transferred to the retailer of their choice immediately. The Victorian and Queensland gas retail markets allow this functionality which can provide a more efficient customer service and a better customer experience.

However, agreements with Jemena and other NSWs networks on this subject have been difficult to move forward, and the primary reason provided being that it is not a priority. This is a common trend among networks that AGL has observed.

If the AER considers commercial agreements to be preferable over amendments to regulatory instruments such as the Access Arrangement, there needs to be a requirement to prioritise these agreements. A potential way forward would be a new clause to support this such as:

> *The Service Provider must exercise best endeavours to enter into a commercial arrangement with a User in a timely manner where the user can demonstrate that the agreement would provide benefits to the end customer and the agreement can mitigate risk to the Service Provider and be provided in a fair and equitable format to all Users.*

Further to this, AGL acknowledges that networks may be concerned about potential risk to themselves in regard to commercial arrangements which allow a retailer to carry out a service that lies within their realm of responsibility; any such risk should be appropriately mitigated through the commercial agreement. A potential way forward would be an extension of the clause above to include:

> *The user may enter into an agreement with the Service Provider to permit the User to perform disconnections and reconnections of supply or other metering services at a Delivery Point in which case the User may perform such services in accordance with the terms of that agreement. If the services performed by the User results in a benefit to customers the Service Provider should only refuse to enter into the agreement where the risk to the Service Provider cannot be mitigated by the User.*

Alternatively, if the AER does not include similar clauses to the above suggestions, AGL seeks the reinstatement of the Third Party Accreditation clause for disconnections and reconnections which occurs at Clause 15.9 (Temporary disconnection and reconnection by User) of the current RSA. AGL acknowledges that Third Party Accreditation is a specific item that should be managed by a commercial agreement but views it as also appropriate to provide for it in the RSA as it shows the AERs support of such commercial arrangements. The AER made no decision relating to AGL's submission on the removal of this clause in the proposed RSA. AGL submitted that this section should be retained because of the benefits to customers and the markets. While the removal of this section does not prevent commercial agreements between networks and retailers, its inclusion allows a clearer framework for these agreements to work within.

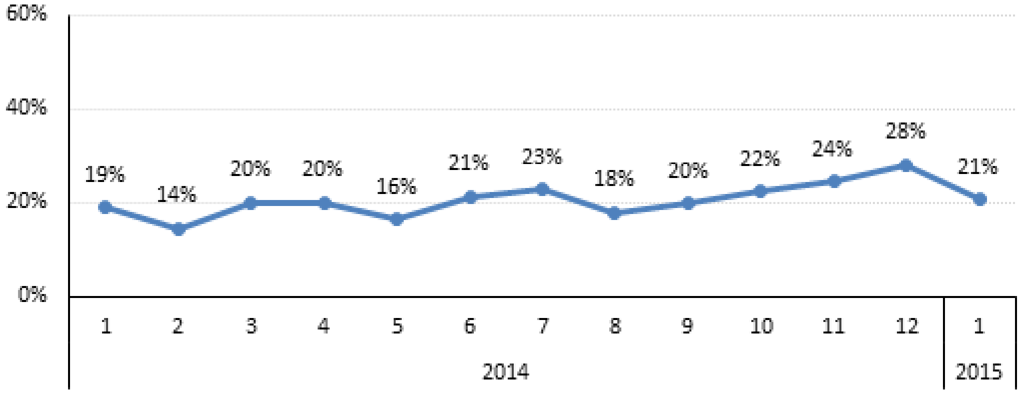
AGL also seeks the inclusion of a clause that will allow *in-situ* transfers on a special read. This may be appropriately located at 17.1 Meter reading and data.

Disconnection and Reconnection fees

The AER has made no decision regarding the splitting out of the disconnection and reconnection fee. AGL has undertaken further analysis of the benefits of splitting out the disconnection and reconnection fees. In 2014, Jemena success rate for completed disconnections was on average 21% (see Figure 1).

This means that 79% of the time that Jemena visits a site to perform a disconnection they are not successful and therefore do not have to perform a reconnection at that site. It is not appropriate for Jemena to be charging a reconnection fee 100% of the time when the disconnection success rate is low and a reconnection is not performed.

Figure 1: Jemena Gas - Disconnection Completion Rate



Furthermore, AGL has found that only 55% of AGL's Jemena Gas customers who were successfully disconnected for debt then reconnected with AGL. While this demonstrates competition is working in the market it also shows that retailers are having to absorb significant fees on behalf of activities of other retailers. When retailers are required to absorb costs they are not able to recover, it results in additional costs being spread across the industry increasing overall costs for all end use customers.

Factoring in the above considerations, and extrapolating out these figures to the market for the proposed fee, AGL estimates this issue will result in approximately $1.6 million in misplaced fees to retailers each year. It seems more appropriate to split the disconnection and reconnection fees to ensure that costs are paid by the respective retailer who is performing the service on behalf of the end use customer and the retailers are only paying for services actually performed.

If the AER decides not to separate disconnections and reconnection fees then AGL submits that a substantially lower disconnection fee for unsuccessful disconnections should be charged to acknowledge that the disconnection work was not undertaken and the reconnection aspect of the service is not required to be performed.

Other specific issues with regard to the Jemena Access Arrangement are detailed in the attached Table.

Yours sincerely

[redacted]

Elizabeth Molyneux
Head of Regulated Pricing
Corporate Affairs

Table 1: JGN Access Arrangements – Further Issues

JGN AA Statement	Comment
10 Changing receipt points **Changing receipt points requires JGN consent.** **RSA Cl 13**	JGN consent should not be based on JGN commercial grounds. The receipt point is that point where a User delivers its gas from transmission to distribution. Changes to arrangements within the gas production environment or transmission environment may require a user to change delivery points for reasons beyond its control. As long as gas can be delivered to the network section to meet the users' requirements in aggregation, JGN should not be able to withhold consent.
Attachment 10 (10.5.2) Fixed Charges	JGN present their fixed charges as per annum charges. During the recent review, AGL and other retailers sought to have these charges described as daily charges, consistent with other gas and electricity distribution businesses. In its response (para 66) JGN indicates that end customers should be able to transparently and efficiently assess distribution charges. AGL and other retailers sought to have JGN fixed charges expressed as a daily amount to make customer assessment of JGN charges simple and efficient. JGN has indicated that their existing JGN IT systems could not support daily charging but AGL notes that JGN is moving to a new IT platform and that the algorithm for daily billing exists in the proposed systems due to come on line in April 2016. AGL and other retailers have raised this in the context of having theses algorithms built into the systems JGN are presently building and proposes that daily charges could be implemented as part of the systems change and applied from July 2016.
Ancillary Charges Disconnection Charges	We again note that JGN include in their disconnection charge ($150) a reconnection service while other DBs (eg Ausnet services) charge both disconnection & reconnection ($60.98) charges. While AGL supports customers being re-connected, the bundling of charges means that in a number of instances the wrong customer or retailer is being charges for a service they are not receiving. Eg – a move out customer is paying for a move in customer's reconnection.
Ancillary Charges Decommissioning and meter removal	JGN are proposing a charge of $1050 or $2188 for this service. JGN have stated that 'The specific method of disconnection will be at the discretion of the Service Provider, to ensure the site is able to be left in a safe state.' AGL accepts the costs of these services provided the assets are removed but if JGN chooses to leave assets on site (eg service connection) then AGL would expect a substantially reduced service charge would apply – eg $150.
Special Meter Reads	JGN have stated in this service description that: 'This service must be scheduled by the User with the Service Provider with a minimum 5 Business Days advance notice period.' AGL does not support service levels of this nature being specified within the Ancillary charge description. Recent development of the NSW Retail Market Procedures which JGN participated in agreed that special meter reads would only require 2 business days' notice consistent with other gas businesses. AGL does not object to the 5 business day requirement for the 2015-2016 period prior to the new retail procedures coming into force, but does not support their inclusion from July 2016 onwards.

JGN AA Statement	Comment
Operating Expenditure IT changes to support retail market changes	As part of the NSW harmonisation project, the issue of retrospective transfers (which are often accommodate customers who take a supply of gas without contracting with a retailer) was put on hold by agreement with JGN until 2015 to enable other aspects of the project to progress. Retailers understand that JGN were unable to assess how this would work between their existing and new SAP systems (although these systems are based on the Victorian systems which do include retrospective transfers). AGL has recently become aware that JGN has not made the necessary allowance in its IT budget for further changes to their systems (in particular retrospective transfers) in the coming access arrangements.
RSA Definitions	The RSA and other JGN documents only define meters as those measuring gas. There is no accommodation for the water meters that JGN is responsible for and which are used as a proxy for gas consumption. It should also be noted that there are locations where JGN is only responsible for a water meter with no corresponding gas meter.
Other Water meters	JGN is responsible for the installation and accuracy of water meters which become a proxy for charging customers for gas usage. There are existing requirements for managing the accuracy and testing of gas meters but there are no requirements for managing the accuracy and testing of water meters. AGL believes that requirements similar to those required for gas meters be applied to the JGN water meters. AGL recently made reference to this in its submission to IPART on the NSW Gas Distribution Code.
RSA Cl 16 – Access to measuring equipment	This clause does not cater for accredited service providers acting in behalf of a user – generally to disconnect or reconnect supply.
RSA Cl 17 – Meter Reading and data	Cl 17.1(g) states that JGN will provide the meter reading data in 'such format as the Service Provider from time to time nominates after giving reasonable notice of any change in format.' Recently proposed changes to the NSW Retail Market Procedures (which JGN was party to) specifies the formats for the delivery of meter reading information. These meter data formats are specified in the retail procedures and retails have built their systems to accommodate these formats which are managed by AEMO. AGL therefore does not support any inclusion or reference to JGN making decisions regarding the delivery formats for providing information such as metering data.
AA – Ancillary Charges (j)	JGN has provided for disconnection of customers (both large and small) but has included a charge for re-connection of those customers. In the same section JGN has only offered a temporary disconnection service for large customers (at the same rate) and has also included a charge for re-connection. Retailers have previously submitted that temporary disconnection of small customers is necessary where issues such as renovation or customer debt requires a temporary cessation of service. AGL undertakes a significant amount of communication with customers prior to disconnection, through a range of channels such as mail, phone calls and where possible SMS. We always encourage customers having payment difficulties to contact us and arrange for the establishment of a payment plan and where appropriate, will also refer customers having financial difficulties onto our hardship program Staying Connected.

JGN AA Statement	Comment
	It is an unfortunate fact, that while we continue to make improvements to our communications and support, we often see low levels of engagement from customers progressing to disconnection. Disconnection is a last resort and at times, despite prior opportunities to contact us it is the prompt for some customers to contact their retailer and to access the additional support available. AGL therefore seeks to have the definitions of these services reconsidered and for temporary disconnection to be definitively specified for small customers.
RSA Cl 22 – Temporary Disconnection	Inconsistent with disconnection charges statement Disconnection charges statement (AA – Ancillary Charges (j)) specifies a charge for disconnection of small and large customers and includes a component for re-connection. Cl 22.1 excludes a 'Small Volume Customer Delivery Point' which is used for a small customer.
RSA Cl 22 – Temporary Disconnection	Cl 22.1(b) specifies that JGN will provide the service at the later of: *…the earliest reasonably practical date after receipt of notice from the User; and* *the date requested by the User…* The recent development of the NSW retail market procedures provides the windows for disconnections to be carried out. This is to ensure that retailers can meet their obligations with regards to customer notices. Temporary disconnection timeframes must align with changes in the market procedures.
RSA Cl 22 – suspension by service provider	RSA Cl 22(a)(iii) indicates that JGN may suspend service to a delivery point if a user is not a registered participant. AGL assumes this means to delivery points assigned to users who are not registered participants. AGL seeks clarification as to how this would operate, particularly in regards to events such as RoLR, where customers would as a matter of course not be associated with a registered user for a period during a RoLR event.
RSA Cl 23.2 Scheduled interruptions	The JGN RSA specifies the requirements for the provision of notice for planned interruptions. AGL believes that the RSA should refer to the relevant clause of the National Energy Retail Rules which specifies this requirement.