

# Revised Final Plan Attachment 14.3

## Response to Draft Decision: Network Pricing

August 2017

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# 1. Response to Draft Decision on Network Pricing

## 1.1 Introduction

This attachment sets out Australian Gas Networks Limited's (AGN's) response to the Australian Energy Regulator's (AER's) Draft Decision on our proposed prices to apply over the next (2018 to 2022) Access Arrangement (AA) period.

The AER approved many aspects of our Final Plan, including the continuation of the Weighted Average Price Cap form of revenue control and the ability to introduce new tariffs during the next AA period. The AER modified aspects of our Final Plan such as the annual haulage reference tariff variation formula, the annual ancillary reference tariff variation formula and the rebalancing control formula, which modifications we have accepted. The AER removed our existing National Energy Customer Framework (NECF) Pass Through Event, which removal we have also accepted.

## 1.2 Stakeholder Engagement

In preparing this Revised Final Plan we have continued to engage with stakeholders, including our Reference Groups and through the submissions to the AER on our Final Plan.

With respect to the latter, there were two stakeholder submissions that commented on the network prices we proposed in our Final Plan (see Table 1.1).

We have factored in all stakeholder feedback into this Revised Final Plan. In July, we discussed our proposed Revised Final Plan with our Reference Groups. These discussions including options on potential price paths, feedback from these meetings as been incorporated into our Revised Final Plan.

Table 1.1: Consideration of Stakeholder Feedback on our Prices

Stakeholder Feedback on the Final Plan	Our Response to Feedback on the Final Plan
Several stakeholders welcomed our proposed price reduction from 1 January 2018, including Origin Energy, Red Energy and Lumo Energy.	Consistent with our Final Plan, this Revised Final Plan also includes upfront price reductions (see Attachment 12.1).
Red Energy and Lumo Energy, in their submission to the AER, expressed concerns over the potential customer impacts of AGN's proposal to increase the rebalancing constraint from Consumer Price Index (CPI) +2% to CPI +5%. <sup>7</sup>	The concerns expressed by Red Energy and Lumo Energy were also shared by the AER. We have accepted the preferred position of the AER, Red Energy and Lumo Energy, and have maintained the rebalancing constraint at CPI +2% in this Revised Final Plan.

Note: In this 'traffic light' table, green shading represents no change from the Final Plan, orange represents a modification of the position outlined in the Final Plan and red shading represents a change from the Final Plan.

<sup>7</sup> Red Energy & Lumo Energy, *Australian Gas Networks Access Arrangement*, 6 March 2017, page 3.

### 1.3 AER Draft Decision

The AER was satisfied that the proposed reference tariff structure complies with the requirements of the National Gas Rules (NGR) but specified that reference tariffs must be updated to reflect the revised revenue allowance. Table 1.2 below summarises the AER's Draft Decision on various aspects of our proposed network prices to apply over the next AA period.

Table 1.2: Summary of AER's Draft Decision on our Prices

	AER Draft Decision	AER Comment
Annual haulage reference tariff variation formula	Modify	The AER has made minor modifications to AGN's proposed formula to be consistent with the formulas applied by the other gas distributors. <sup>2</sup>
Annual ancillary reference tariff variation formula	Modify	The AER changed the definition of the CPI to be consistent with that applied in the annual reference tariff variation formula.
Introduction of new tariffs and prices during the access arrangement period	Accept	The AER accepted AGN's proposal to introduce new tariffs and prices during the access arrangement period.
Maintenance of a Weighted Average Price Cap formula	Accept	The AER accepted AGN's proposal to maintain a weighted average price cap formula.
Rebalancing control formula	Modify	The AER did not approve AGN's proposal to increase the rebalancing constraint from CPI +2% to CPI +5% as it could lead to increased price volatility and potential price shocks.
Service Standard Event, Tax Change Event, Terrorism Event, Insurer Credit Risk Event, Insurance Cap Event and Natural Disaster Event	Accept	The AER accepted these Events and the proposed definitions. <sup>3</sup>
Regulatory Change Event	Modify	The AER accepted the inclusion of a Regulatory Change Event with a minor amendment to ensure consistency with the definition approved by the AER in more recent decisions. <sup>4</sup>
Network User Failure Event	Modify	The AER replaced our existing Network User Failure Event with a "Retailer Insolvency Event". The AER's intent was to place AGN in a similar position to gas distributors in NECF jurisdictions for dealing with retailer insolvency. <sup>5</sup>

<sup>2</sup> AER, Attachment 11 – Reference tariff variation mechanism / Draft decision - AGN Victoria and Albury gas access arrangement 2018–22, July 2017, page-11-5.

<sup>3</sup> *Ibid*, page-11-20.

<sup>4</sup> *Ibid*.

<sup>5</sup> *Ibid*, page 11-26.

National Energy Customer Framework (NECF) Event	Reject	The AER did not approve our existing NECF Event as they did not consider there is an ongoing need given the Regulatory Change Event and the Service Standard Event. <sup>6</sup>
Materiality threshold	Modify	The AER made minor amendments to clarify how the materiality threshold for pass through events is to be calculated. <sup>7</sup>

Note: In this ‘traffic light’ table, green shading represents the AER’s acceptance of AGN’s Final Plan, orange represents the AER’s modification of AGN’s Final Plan and red shading represents the AER’s rejection of AGN’s Final Plan.

## 1.4 AGN Response to the Draft Decision

We have accepted the AER’s Draft Decision on the basis that it is consistent with our pricing proposal in our Final Plan (see Table 1.3).

Table 1.3: Summary of AGN’s Response to the AER’s Draft Decision on our Prices

	AER Draft Decision	AGN Response	AGN Comment
Annual haulage reference tariff variation formula	Modify	Accept	We have accepted the AER’s Draft Decision.
Annual ancillary reference tariff variation formula	Modify	Accept	We have accepted the AER’s Draft Decision.
Introduction of new tariffs and prices during the access arrangement period	Accept	Accept	We have accepted the AER’s Draft Decision.
Maintenance of a Weighted Average Price Cap formula	Accept	Accept	We have accepted the AER’s Draft Decision.
Rebalancing control formula	Modify	Accept	We have accepted the AER’s Draft Decision.
Service Standard Event, Tax Change Event, Terrorism Event, Insurer Credit Risk Event, Insurance Cap Event and Natural Disaster Event	Accept	Accept	We have accepted the AER’s Draft Decision.
Regulatory Change Event	Modify	Accept	We have accepted the AER’s Draft Decision. AGN has amended the definition of “ <i>Regulatory Change Event</i> ” in the manner required by the AER.
Network User Failure Event	Modify	Modify	We have renamed the “ <i>Network User Failure Event</i> ” to “ <i>Retailer Insolvency Event</i> ” as required by the AER’s Draft Decision and amended the definition (See below for further details).

<sup>6</sup> *Ibid*, page-11-20.

<sup>7</sup> *Ibid*, page-11-20.

National Energy Customer Framework (NECF) Event	Reject	Accept	We have accepted the AER's Draft Decision.
Materiality threshold	Modify	Accept	We have accepted the AER's Draft Decision. AGN has amended the definition of " <i>Materiality threshold</i> " in the manner required by the AER.

Note: In this 'traffic light' table, green shading represents the acceptance, orange represents a modification and red shading represents a rejection.

We agree with the AER's decision to modify our existing Network User Failure Event to the Retailer Insolvency Event. This will place us in a similar position to other gas distributors in NECF jurisdictions for dealing with retailer insolvency. We support the consistent treatment of Cost Pass Through Events across jurisdictions.

The three Victorian gas distribution businesses have worked together with the AER to suggest improvements to the definition of a Retailer Insolvency Event. These improvements incorporate references to the Gas Industry Act 2001 (Vic) and permitting recovery of unpaid distribution service charges and other costs associated with a retailer insolvency event. These changes thereby align the definition more closely with the NGR.

The definition we are proposing is modelled on the corresponding event the AER recently approved in the 2016 Victorian electricity distributor determinations as outlined below:

*Until such time as the National Energy Retail Law set out in the Schedule to the National Energy Retail Law (South Australia) Act 2011 of South Australia is applied as a law of Victoria, retailer insolvency event has the meaning set out in the National Gas Rules as in force from time to time, except that:*

*(a) where used in the definition of 'retailer insolvency event' in the National Gas Rules, the term 'retailer' means the holder of a licence to sell gas under the Gas Industry Act 2001 (Vic); and*

*(b) other terms used in the definition of retailer insolvency event in the Rules as a consequence of amendments made to that definition from time to time, which would otherwise take their meaning by reference to provisions of the National Gas Law, National Gas Rules or National Energy Retail Law not in force in Victoria, take their ordinary meaning and natural meaning, or their technical meaning (as the case may be).*

*Note: This retailer insolvency event will cease to apply as a Cost Pass Through Event on commencement of the National Energy Retail Law in Victoria.*

## 1.5 Customer Impact

We are proposing an 8% average price cut (before inflation) on 1 January 2018 across all customers, meaning that all customers will receive, on average, an 8% reduction in their distribution charge.

The average fall in distribution charges on 1 January 2018 for each tariff zone is outlined in Table 14.4. The weighted average decrease for our residential, commercial and industrial gas distribution charges is \$30, \$110, and \$2,274 respectively. Our AA Document sets out the proposed prices to apply from 1 January 2018.<sup>8</sup>

Table 1.4: Average Decrease in the Annual Charge to Customers from 1 January 2018

Average Customer Saving	2017 Average Annual Charge (\$)	2018 Average Annual Charge (\$)	Saving (\$)	Saving (%)
<b>Residential</b>				
Central	364.4	333.5	30.9	8.5%
Northern	319.7	292.6	27.1	8.5%
Murray Valley	286.9	262.6	24.3	8.5%
Bairnsdale	468.5	428.8	39.7	8.5%
Albury	293.0	268.2	24.8	8.5%
<b>Commercial</b>				
Central	1,350.7	1,236.2	114.5	8.5%
Northern	1,005.4	920.1	85.3	8.5%
Murray Valley	932.6	853.5	79.1	8.5%
Bairnsdale	3,759.5	3,440.7	318.8	8.5%
Albury	1,005.3	920.1	85.2	8.5%
<b>Industrial</b>				
Central	23,243.6	21,272.5	1,971.1	8.5%
Northern	30,387.9	27,811.0	2,576.9	8.5%
Murray Valley	49,038.7	44,880.2	4,158.5	8.5%
Bairnsdale	18,922.2	17,317.6	1,604.6	8.5%
Albury	39,316.9	35,982.8	3,334.1	8.5%

<sup>8</sup> These annual charges have been calculated based on the average annual consumption in 2015 for each of the tariff zones and classes. More specifically the average consumption for residential commercial and industrial customers (MHQ) respectively are Central: 51GJ, 335GJ and 20GJ; Northern: 47GJ, 253GJ and 28GJ; Murray Valley: 37GJ, 199GJ and 40GJ; Bairnsdale: 30GJ, 813GJ and 8GJ; and Albury: 45GJ, 302GJ and 45GJ.

## 1.6 Proposed Prices for Ancillary Reference Services

We propose to maintain the number, structure and level (in real terms) of the prices in respect of Ancillary Reference Services (ARS) (see Table 1.5).

Table 1.5: Forecast Tariffs for Ancillary Reference Services (\$nominal)

Ancillary Reference Service	Tariff
Disconnection	\$71.0
Reconnection	\$82.0
Meter Gas and Installation Test	\$214.0
Meter Removal	\$100.0
Meter Reinstallation	\$100.0
Special Meter Read – Metropolitan	\$9.0
Special Meter Read – Non Metropolitan	\$12.3