

3 March 2017

Mr Chris Pattas
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3000

Email: VicGAAR2018-22@aer.gov.au

Dear Mr Pattas,

RE: SUBMISSION TO VICTORIAN GAS NETWORKS (AUSTRALIAN GAS NETWORKS AND AUSNET SERVICES) ACCESS ARRANGEMENT 2018-22

Thank you for the opportunity to comment on the Victorian Gas Network's (Australian Gas Networks and AusNet Services) Access Arrangements. This letter outlines ATCO Gas Australia's (AGA) support for the development of a suite of incentive mechanisms, particularly a capital expenditure sharing scheme (CESS) and network innovation scheme.

AGA considers the introduction of a CESS will provide a strong incentive to efficiently invest capital throughout an access arrangement period. Importantly, a CESS will balance the incentives already provided by the efficiency benefit sharing scheme (EBSS) and ensure the optimum mix of operating and capital expenditure is incurred.

A network innovation scheme would provide an incentive for efficient utilisation of gas networks, and would be an important catalyst for innovation and the adoption of new technology. AGA considers greater focus on innovation is vital to ensure a sustainable long-term natural gas supply, and will benefit customers by accelerating improvements in service, safety, efficiency, and environmental outcomes; ultimately promoting lower energy bills.

AGA believes Australian Gas Networks' (AGN) and AusNet Services' (AusNet) proposed suite of incentive mechanisms is an evenly balanced and well-designed incentive scheme. If adopted in its entirety, AGA considers the scheme will strengthen the incentives for gas distribution businesses to pursue prudent and efficient expenditure, while maintaining high levels of network safety, reliability and services.



Background

AGA is a wholly owned subsidiary of the ATCO Australia Group. The ATCO Australia Group is part of the world wide ATCO Group of companies with more than 8,000 employees and assets of approximately \$12 billion. ATCO's companies are engaged in utilities (natural gas and electricity transmission and distribution), energy (power generation, natural gas gathering, processing, storage and liquids extraction) and structures and logistics (manufacturing, logistics and noise abatement).

AGA owns and operates the vast majority of Western Australia's gas reticulation network, serving approximately 725,000 end users via the Mid-West and South-West Gas Distribution system. As a significant participant in Australia's energy sector, AGA is particularly interested in the development of mechanisms that enable network businesses to achieve efficiencies and deliver value to customers, while maintaining service levels and growing the network.

Detailed response

AGA supports the development of fit for purpose mechanisms that:

- balance the incentives to choose the most efficient mix of operating and capital expenditure;
- balance the incentives to reduce operating and capital expenditure against the incentives to maintain service quality;
- ensure there are sufficient incentives to invest in innovative technologies.

AGA supports introduction of a CESS, as proposed by AGN and AusNet, which delivers lower costs to consumers while encouraging network businesses to prudently reduce capital expenditure.

AGN and AusNet appear to have consulted extensively with industry peers and consumers on the design of the proposed incentive mechanisms. In particular, they have sought feedback on the proposed CESS to ensure that it is fit for purpose, delivers benefits to customers and would not compromise the quality of services. As evidenced in AGN and AusNet's submissions, stakeholders are satisfied with the current levels of performance, but are concerned with the potential deterioration in the quality of services if a CESS were to be introduced. AGA considers that this concern should be addressed through the asymmetric design of the proposed contingent CESS. Under this scheme, payment of CESS rewards are



contingent on the businesses meeting (and not exceeding) specified network performance targets.

The proposed approach should ensure that services are not compromised in the pursuit of capital efficiencies, while also ensuring that customers do not pay for service improvements they do not want. Further to the above, AGA recommends that the contingent CESS is applied on a case-by-case basis, ensuring that the specific circumstances of individual gas distribution networks are taken into account when selecting and setting performance targets.

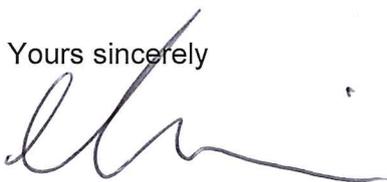
Regarding proposals to stimulate network innovation, the Australian energy market is currently undergoing rapid change, with renewable energy revolutionising the way networks operate. AGA believes gas networks have an important role to play in supporting the decarbonisation of the energy sector as well as offering a solution that balances environmental impacts, cost and security. Given the changing energy landscape, AGA supports the proposed network innovation scheme.

AGA does not believe that the current regulatory framework is adequately conducive to encourage regulated networks to invest in innovative technologies. AGA considers the proposed network innovation scheme should provide sufficient regulatory certainty to promote greater investment in innovation energy solutions. Further, the proposed transparency and innovation-led criteria of the scheme will provide a catalyst for technological improvements, and accelerate the pace of change in the gas sector.

Importantly, the proposed network innovation scheme requires that expenditure delivers benefits to both the network and consumers. The proposed mechanism also promotes collaboration between technology inventors, industry and consumers. Ultimately the successful adoption of these innovations will benefit all consumers through the continued use of installed network infrastructure, decarbonisation of natural gas supply, lowering of emissions and reducing the cost of energy.

Should you have any question relating to the matters raised in this submission please do not hesitate to contact Courtney Fitzsimmons or myself.

Yours sincerely



Matthew Cronin
General Manager Regulation



