

Attention: Mr Sebastian Roberts
General Manager
2012 Victorian Gas Access Arrangement Review
Australian Energy Regulator

By email: VicGAAR@aer.gov.au

18th December 2012

Dear Mr Roberts

RE: APA GasNet Access Arrangement Draft Decision 1 January 2013 to 31 December 2017, October 2012

Australian Power and Gas ("APG") welcomes the opportunity to provide comment on the APA GasNet Access Arrangement Draft Decision ("Draft Decision"). APG is a national retailer of gas, electricity and green electricity products to the energy market and has both gas and electricity licenses in Victoria, New South Wales, Queensland, ACT and South Australia. We currently have in excess of 300,000 customers in Victoria, New South Wales and Queensland. As a Market Participant on the Victorian Transmission System ("VTS") and as an active and growing retailer in Victoria, APG takes particular interest in ensuring this 4th Access Arrangement ("AA4") is fair, equitable and in the best interests of our customers.

We wish to address the following specific issues in the Draft Decision:

Forecast capital expenditure

We welcome the AERs decision that sees a prudent approach in assessing APA GasNet's required capex program, funded by a more modest requirement of \$166.8 million over the AA4 period. We regard the reduced requirement to be a more realistic level that could be fulfilled within the period and takes into account more probable demand and capacity requirements.

Treatment of AMDQ credit Certificates

APG maintains the view that AMDQ CC should be considered part of the Reference Service and welcomes the AERs recent endeavours to ensure that revenues received by APA GasNet for AMDQ CC are given greater scrutiny and regulatory oversight. We note that APA GasNet has argued against the view that AMDQ CC is a pipeline service and suggests that the "AMDQ CC is akin to a financial product"¹. We disagree with APA GasNet and question whether APA GasNet's assertion would translate to APA GasNet being akin to a financial service provider.

APG's view is that the AMDQ CC mechanism is essentially a supplement service for transmission, whereby the service is that of providing preferential rights (tie breaking and

¹ APA GasNet Revised Access Arrangement Access Arrangement Submission Nov 2012; page 13

curtailment), as well as allowing participants to manage the risks associated with uplift during times of congestion in the pipeline. The degree of contracting of ADMQ CC by participants is strong evidence that it is a *widely* used pipeline service.

We understand that the commencement time of the AEMC Rule Determination has meant that it is unlikely to impact this Access Arrangement. However we urge the AER to consider how the current rebates resulting from the 'volume effect' and purported to be made by APA GasNet can be dealt with in a more a transparent manner, until such time as there is true and effective regulation of ADMQ CC revenues.

Tariff Controls & Adjustments

Automatic mechanism for annual tariff adjustments

APG welcomes the AERs decision to reject the automatic adjustment mechanism proposed by APA GasNet whereby if an approval to a tariff adjustment is not forthcoming from the AER by 1 January, tariffs may be increased irrespective. We considered that it was unreasonable and impractical to have a potentially unresolved tariff increase passed through to customers.

Terms and Conditions

We understand that changes to terms and conditions have been made with the intention to reflect a consistent format of the Amadeus Access Arrangement. However, change has only been established for the sake of consistency, which as an argument is weakened with the uniqueness and differences in the operation of the DTS against that of contract carriage markets. APA GasNet has failed to explain how these changes are necessary and will bring greater consistency with the National Gas Objective. Rather, we believe the changes have deteriorated the position of participants, particularly with regards to prudential arrangements.

F.2 Billing & Payment

Recovery of additional amounts clause (c).

We note that the AER viewed clause (c) as allowing for erroneous payments and for rectification of errors. We agree with the AER that rectification of errors should be recognised, albeit with a time constraint for revision as we suggested into our last submission. However the reference to "additional amounts" which is undefined, we believe could expand the circumstance beyond that of invoice rectification for errors, and thus should be explicitly limited to revised amounts as issued by AEMO (as per the previous Access Arrangement).

F.4. Prudential Requirements

We maintain that provision of credit support should be commensurate with the level of risks associated with payment default and balanced to recognise the costs that the arrangements impose on participants.

We note that the AER considers that the prudential clause has the safeguard of "reasonableness" which APA GasNet should espouse in determining (at its sole discretion) the level and type of credit support to be provided by a participant. We are very concerned that



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participants, particularly smaller retailers, are in a difficult negotiating position when it comes to establishing credit support arrangements with monopoly suppliers and subjective measures such as “reasonableness” offer weak protection at best.

It is still our opinion that the clause as worded may produce an arrangement that is unfair, risks being discriminatory against smaller unrated participants and is susceptible to over-provision. We urge the AER to consider whether a compelling argument for moving to the proposed new wording has been established by APA GasNet; further, that wording of this credit support clause can promote a framework of flexibility to smaller participants so that the level and type of credit support can be fairly negotiated and which is not at the sole discretion of APA GasNet. We would be happy to discuss our concerns further with the AER on this matter.

If you have any queries in relation to our comments or issues we have raised, please contact Libby Hawker, Market Development Manager on 03 8621 3709.

Shelley Reed
General Manager Wholesale Gas & Carbon